

FINANCIAL REVIEW

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HD **Ports are Pilbara's other treasure**
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Resources

Aquila bid reveals infrastructure is highly coveted, and vital for junior miners.

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It was only natural that Baosteel and Aurizon's \$1.42 **billion** strategic play to wrest control of the next big greenfields Pilbara port project through a joint bid for Aquila Resources took the market by surprise this week.

With the **iron ore** price on the slide amid concerns of oversupply, many investors and rivals were left asking why the stalled \$7.4 **billion** West Pilbara **Iron Ore** project was suddenly of interest.

As an infrastructure play, some of the attraction is obvious. The project is underpinned by the proposed deepwater Anketell port and rail development, near Dampier, which would allow **billions** of tonnes of stranded Western Pilbara **ore** to be mined and shipped.

And there are suggestions that the very dip in the **iron ore** price – down 23 per cent since January – that has spooked investors spurred the two industry giants to lob their bid now.

Others say the timing was driven by **China** Inc's frustration at having been an Aquila shareholder since 2009 without seeing progress on the Perth junior's flagship project. Sources suggested **China's** desire to resolve its Aquila dilemma was the main reason for plucking the West Pilbara from a suite of other projects in WA that have been crying out for capital.

But what the play for Anketell has done is thrust into the spotlight just how coveted infrastructure in the Pilbara is. It's a familiar tale in **mining** – having the valuable resources but being unable to get them to market.

With the exception of the Cape Preston port built for CITIC Pacific's troubled project, Anketell would be the first major port built in the Pilbara since Rio Tinto's Cape Lambert in 1972.

Another port option was the planned outer harbour development at Port Hedland but that has been put on ice indefinitely by BHP Billiton.

The three **iron ore** majors, Rio, BHP and Fortescue Metals Group have an infrastructure stranglehold in the Pilbara. That is an unusual dynamic given infrastructure globally is not usually the domain of miners.

Aurizon has made it clear Anketell and an accompanying 432 kilometres of heavy haul rail would be a "multi-user" in a world where to date, the majors have avoided allowing others to run trains down their rail lines.

The fact one of Rio and BHP's biggest customers in Baosteel is looking to diversify beyond them has been welcomed by **iron ore** juniors, who are languishing without access to port and rail.

Atlas **Iron** chief Ken Brinsden said a new entrant was "healthy to diversify and facilitate alternative sources of supply".

But delivering a greenfields project is always fraught with difficulties.

Aurizon and Baosteel are aiming to ship **ore** from Anketell by 2017 at a rate of about 40 **million** tonnes a year. But the aim is to ultimately expand the port capacity to 350 **million** tonnes.

Rio boss Sam Walsh, among others, has expressed scepticism about the project coming to fruition.

"Bringing on projects is getting far more complex and far more difficult," Walsh said, saying the **lead** time on greenfields had blown out from an average of 10 years to 27 years.

He also said the West Pilbara project's grades were too low to compete against Rio.

But Aurizon chief Lance Hockridge is staring down the critics, pointing to the rail giant's track record of delivering its vast Queensland rail projects on time and on budget, since privatisation. Hockridge said a "critical mass" of tonnes was needed to underpin the Anketell development but the West Pilbara project's **iron ore** resource of about 2.2 **billion** tonnes could support it alone.

The Utah Point facility at Port Hedland is the only multi-user facility on the Pilbara coast. One of the juniors who could tap Anketell, Brockman **Mining**, said a change in ownership of the project would likely encourage it to increase exploration.

Brockman chief executive Russell Tipper said it made more sense for a specialist infrastructure provider such as Aurizon to own rail and port assets than miners. Brockman is challenging Fortescue for third-party access to its Pilbara rail network for a different tenement - its Marillana **iron ore** deposit.

Other juniors who could tap the rail line include Flinders Mines, **Iron Ore** Holdings, BC **Iron** and Dragon **Energy**.

And then there is Fortescue's western hub. Fortescue has 625 **million** tonnes of resources in the western Pilbara. The miner is continuing to explore the area, but chief Nev Power said it would need "substantially more" to justify tapping Anketell to export. Power did not rule out taking a minority **stake** in the project, but said "there is no suggestion we will co-invest".

"It's not essential to own infrastructure – it depends on us getting the right deal," he said. "Anketell is one of our options for development of that region. Investment by Baosteel and Aurizon could help that development."

Fortescue fought Aquila in 2011 over the rights to build an expanded port at Anketell but lost the challenge.

Aquila owns the West Pilbara project with private **equity** house AMCI and Korean steel giant POSCO, who each hold 25 per cent. POSCO – which was a willing seller before the bid – has remained tight-lipped on its plans. But it is understood it has shelved any plans to sell, pending a final investment decision by Aurizon.

CO	aqres : Aquila Resources Ltd. bkhlp : BHP Billiton Ltd dorval : Aurizon Mines Ltd bltpc : BHP Billiton PLC hclamn : Hecla Mining Co
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