

HD Vast Copper Mine Marks A Shift in BHP Strategy

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OLYMPIC DAM, Australia -- BHP Billiton is making a bold bet on **China's** rising middle class, starting here in the red sand dunes of southern Australia.

Deep beneath the ground at Olympic Dam lies one of the biggest copper deposits in the world -- and central to a new investment strategy for the resources **company**.

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From Australia's Outback to the Andes, BHP is rethinking how it spends the vast earnings generated from supplying the world with raw materials used in everything from bridges to skyscrapers. Off the table are any major new investments in producing iron ore and coal, which have long been the **company's** cash cows.

Instead, BHP is turning more to copper and petroleum, while spinning off other businesses from aluminum to manganese into a new **company** that may be valued at as much as US\$18 billion.

Key to BHP's strategy is the belief that Asia's, and particularly **China's**, burgeoning middle class is about to ramp up spending on consumer goods such as air conditioners and refrigerators, which require a lot of copper and energy. That effectively is a bet that **China** is shifting to a consumer-driven economy. Household spending accounts for only around 35% of the **Chinese** economy versus nearly 70% in the U.S., according to the World Bank. In contrast, a long-running construction boom in **China** that has sustained demand for iron ore and metallurgical coal, which are ingredients in steel, appears to be losing steam as Beijing cracks down on real-**estate** speculation.

The new approach will come under scrutiny Thursday when BHP hosts its annual meeting with Australian shareholders, many of whom feel the **company** isn't doing enough to boost returns.

BHP Chief Executive Andrew Mackenzie also plans a strategy briefing for investors in Sydney four days later to flesh out plans to refocus more on copper.

"Copper demand is going to continue to grow for a really long time," said Mike Henry, BHP's marketing president. He predicted that the market would face a significant shortfall by 2018 and that, without new or expanded mines, global copper demand will outpace supply for at least a decade.

China will be the driving force for that demand, as it was with iron ore and coal. The country already buys 40% of global copper output and could consume more as incomes rise.

BHP also will look to shift new investment into petroleum. The Anglo-Australian **company**, which is mulling new projects from the Gulf of Mexico to Trinidad and Tobago, thinks energy demand will similarly rise as **China's** middle class balloons.

"Our confidence in that transition [to a consumer-driven economy in **China**] is as strong as it has ever been," Mr. Henry said.

But it is a risky bet.

China's transition to an economy driven by consumer spending is unlikely to be smooth. The world's second largest economy, behind that of the U.S., faces an aging population, mounting debt problems

and persistent corruption -- factors that could hobble an economy that has been an engine of global growth while the U.S. and Europe have sputtered.

Investors also are wary about mining companies preparing substantial bets on commodities after recent investments soured, especially in iron ore, for which prices have slumped to their lowest level since June 2009.

But BHP expects global copper demand to rise around 50% to 40 million tons by 2030, keeping prices high. Many analysts agree. Bank of America Merrill Lynch predicts copper prices will rise 20% to US\$8,245 a ton by 2017.

Even if **Chinese** demand proves disappointing, BHP thinks other countries will **buy** more copper. It estimates that 40% of Indian households will have air conditioners by 2030, compared with fewer than 10% now. Each unit will require about of copper.

Both the risks and potential rewards of BHP's new strategy can be seen in the Olympic Dam mine, one of a handful of vast copper mines that BHP operates around the world. Located near the tiny Australian town of Roxby Downs, where locals watch out for deadly king brown snakes and drivers dodge mobs of emus, the Olympic Dam mine is one of the world's biggest copper resources and among the largest deposits of uranium and gold.

Digging up its mineral riches is difficult and expensive. Most of the copper lies deep beneath the surface. BHP gains access to it through a labyrinth of tunnels some long, resembling a giant, underground, multistory parking lot. The tunnel system makes Olympic Dam Australia's biggest subterranean mine and home to the world's longest automated underground train.

The mine now produces about 185,000 tons of copper a year but could yield much more if BHP can get the metal out efficiently. In 2012, when Mr. Mackenzie headed the copper business, BHP's **board** abandoned a US\$30 billion plan to quadruple output by building a huge open pit, deeming it too expensive.

In Roxby Downs, in a testament to the fallout after the expansion plan was nixed, mining equipment sits idled and vacant shops line the main street.

Now, BHP is carrying out a big chemistry experiment hundreds of miles to the south, in South Australia's capital Adelaide, which the **company** hopes will help it produce more copper from Olympic Dam without such huge costs.

Dozens of columns stand in sheds on an industrial **estate** north of Adelaide, filled with rocks from the Olympic Dam **site** crushed to the width of a human thumb. BHP and scientists from Bureau Veritas, a mineral-testing organization, are pouring acid on the rocks to dissolve the copper and other minerals inside, then recovering the minerals from the liquid later.

Scientists say it will be years before BHP can do this on a large scale at Olympic Dam. And even then, it will be a lengthy process; copper extraction takes around a year to complete via this method.

That is bolstering expectations of a shortfall in global copper supply and higher prices, which could boost profits for big investments in new mines.

"If they are correct and copper is facing an extended period of deficit, then expansion [of existing copper operations] would be a no-brainer," said AMP Capital portfolio manager Andy Gardner.

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