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HD **RPT-INTERVIEW-Australian nickel processor eyes Indonesian ore piles**

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* Indonesia's ore ban driving nickel prices higher

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* Direct Nickel chief says stockpiles of ore are growing

* Says local miners like Antam hungry for new way to export

By James Regan

PERTH, March 18 (Reuters) - At a small plant on the outskirts of Perth, metallurgists have been turning raw ore shipped from top Indonesian nickel miner PT Aneka Tambang (Antam) into a concentrate to meet the country's new export guidelines.

After a year of tests, Australia's Direct Nickel says it has now entered into a joint venture with Antam for a feasibility study on building a full-scale plant on Indonesia's Halmahera **island** using its new nitric acid-based technology.

The agreement comes as Antam struggles to meet Indonesia's tough new export rules, which prevent the **company** from shipping raw mineral ore to **Chinese** nickel pig iron producers and instead demand it processes the ore before export.

"We could not have asked for a better time to start planning our first **commercial** plant in Indonesia," said Direct Nickel Chief Executive Russell Debney.

Antam has warned its nickel ore production could fall by as much as 87 percent this year as sales to **China** dry up due to the ban.

"What they want now is cheaper alternatives to enable them to apply to the government for concessions to keep exporting," Debney said. "We are looking at building a 20,000 tonnes per year plant, possibly in two 10,000 tonne components."

The catch will be the cost.

Direct Nickel needs $500-$700 million to build the first full-sized plant, although Debney said it is looking jointly with Antam for investment funding and notes that a conventional smelter could cost four or five times as much.

POOR RECORD

Nickel mining has a poor record of delivering on promises, with cost blowouts and delays commonplace among companies introducing untried technologies, leaving investors wary.

It took 14 years and a change in ownership to Glencore Xstrata before Australia's Murrin Murrin mine, employing pioneering high-pressure ore leaching technology to extract nickel, was able to meet production targets.

In New Caledonia, Vale is still struggling to get to grips with the technology at its Goro mine. Last year's production of 16,300 tonnes of nickel was the best yet after three years, but still far from a 58,000 tonnes per year target.

Back in Australia, the Avebury nickel mine owned by the **Hong Kong**-listed offshore arm of **China** Minmetals Corp was opened August 2008 at a cost of $880 million only to be shut down in December 2008.

Direct Nickel's technology is based on leaching ores with nitric acid, which is then recycled into the plant and used again, reducing replacement and environmental costs.

This would allow nickel to be extracted for as little as $2-$3 per pound ($4,410-$6,615 a tonne), half that of some established producers, according to Debney.

Designed to force miners in Indonesia to add more value to mineral exports, the export ban has slashed shipments, pushing nickel prices up some 15 percent since taking effect on Jan. 12.

On Tuesday, London Metal Exchange nickel was quoted at $16,165 a tonne, already exceeding Goldman Sachs' forecast 2014 price of $14,800.

Unlike other minerals, such as copper and bauxite, which are readily sourced worldwide, steelmakers in **China** rely largely on rich Indonesian nickel ores to make pig iron. This in turn is used to manufacture low-cost stainless steel.

Debney said many of Indonesia's miners have until now enjoyed good cash flows from simply shipping out ores, which are now being stockipled rather than **sold**.

"There are growing numbers of stranded resources," he said.

(Editing by Richard Pullin)

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