

FINANCIAL REVIEW

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HD	Ellis: merger was right
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Former BHP chairman Jerry Ellis, who led the miner during one of its darkest periods in the late 1990s before it pursued a merger with South Africa's Billiton, says the company is performing well and maintains the 2001 merger was a good move.

Mr Ellis says BHP needed its cash flows strengthened at the time, but the situation had now changed and the "cycle has moved on".

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He was chairman of BHP from 1997 to 1999 after joining the board in 1991. He was also a former boss of the BHP Minerals division and an active promoter of a decision by BHP to pay \$3.2 billion for Magma Copper in the United States in 1996.

It ultimately proved to be a disastrous purchase when copper prices slumped dramatically and heavy writedowns were needed. Many analysts blame that acquisition for weakening the company to a point where it needed to pursue a merger.

"I'm a shareholder and very pleased with the way the company is travelling," he said on Wednesday.

BHP Billiton on Tuesday officially confirmed a \$14 billion demerger plan where it is spinning off many of the assets Billiton brought to the table in the 2001 merger.

"I think [former chairman] Don Argus summed it up very well. At the time BHP needed the cash flow from the Billiton assets," Mr Ellis said.

Mr Ellis was referring to the rationale previously outlined by Mr Argus, who was chairman of BHP Billiton from 1999 to 2010 and who oversaw the merger between BHP and Billiton. "The cycle has moved on," Mr Ellis said.

In the past few years the BHP Billiton assets at the core of the company had grown much faster and were strong producers with lower costs and had outpaced some of the Billiton assets.

"So some of the Billiton assets are less attractive," he said. But he emphasised that he doesn't keep in close contact with the current BHP Billiton management or board.

"I don't believe old-timers should hang around," he said.

John Prescott, the former chief executive of BHP from 1991 to 1998, said on Wednesday he didn't want to talk about BHP Billiton's spin-off proposal for non-core assets.

"It's been 16 years and I'm not going to answer questions about them. I've made a practice of not talking about them since I left and that continues," he said referring to a strict policy of steering clear of commenting on BHP Billiton matters.

Mr Prescott's seven years at the helm were marred by a difficult time after the **company** splashed out \$3.2 **billion** to buy Magma **Copper** and hit strife with a hot briquetted **iron** plant in Western Australia, which caused a sharp share price plunge.

Mr Prescott is currently the chairman of Australia's largest rail freight operator, Aurizon.

Mr Ellis is a director of **Iron** Road, an ASX-listed **company** with ambitious plans to develop a \$4 **billion iron ore** project near Wudinna on South Australia's Eyre Peninsula. Mr Ellis is also a former Chancellor of Monash University in Victoria.

Former federal resources minister Martin Ferguson said on Wednesday he still believed that BHP Billiton did the right thing in making a merger approach in 2007 to rival Rio Tinto, to make itself even larger. But circumstances had now changed.

Mr Ferguson was Federal Resources Minister from December, 2007 until March 2013 and in the early part of that stint the merger proposal was pursued vigorously until it was scrapped in November, 2008 in the wake of the global financial crisis.

He said: "It was absolutely appropriate for BHP to make the approach."

He said it would have been good for Australia if BHP Billiton and Rio Tinto had joined forces, given the enormous appetite for **iron ore** and other minerals from **China** and other Asian countries.

But he understood the decision officially announced by BHP Billiton on Tuesday that it is spinning off a range of assets and shrinking, because market conditions had shifted.

"It's happening right across the sector. From time to time companies have to make decisions about demergers and selling assets as the cycle changes."

He said BHP Billiton's strong growth through the last decade had brought substantial benefits.

"BHP Billiton has been good for Australia, but Australia's been very good to BHP Billiton shareholders," Mr Ferguson said.

Mr Ferguson, who is the current chairman of University College London's Australian campus and a director of British Gas, said the Australian resources industry still needed to make improvements to lift productivity but was an attractive investment destination.

"The challenge to us is improving our competitiveness," he said.

Don Argus told Fairfax Media last Friday, when BHP Billiton announced to the ASX it was likely to pursue a demerger, that the original merger of BHP and Billiton happened 13 years ago "and all the comments made then have been validated".

Those comments by Mr Argus implied that the original reasons for the 2001 merger, the need for greater size and critical mass because customers were also consolidating, had all come to fruition.

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