

HD **China** takes new route on **ore**
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Three deals in three months has boosted **China**'s footprint in Western Australia's **iron ore** industry and positioned it to become a significant threat to the sector's Australian leaders - BHP Billiton, Rio Tinto and Fortescue Metals Group.

The latest move is the \$1.4 **billion** joint bid by Baosteel and Aurizon for control of Perth-based Aquila Resources, the **company** planning to export **ore** through a new port at Anketell Point, adjacent to Rio Tinto's port at Cape Lambert.

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It follows a move by **China**'s Ansteel to snatch control of the Karara project near Geraldton, along with Gindalbie Metals, the Australian **company** that launched Karara, and the possible entry of one of **China**'s biggest industrial conglomerates - Citic Pacific - into the stalled Oakajee rail and port project.

Viewed individually, each deal appears to be a separate corporate event with **Chinese** government influence somewhere in the background.

Taken together, however, and a clear pattern emerges of **China**, perhaps from the very highest level of its government, seeing an opportunity to carve out a slice of WA's **iron ore** business; a move that would give its steel mills greater control over the price paid for **ore**, as well as helping break the BHP Billiton, Rio Tinto and FMG oligopoly.

The generous price of the Baosteel and Aurizon bid for Aquila is a sign of how keen **China** is to create a meaningful foothold in WA **iron ore** after two miserably unsuccessful earlier efforts - the grossly over budget and behind schedule Sino **iron** project, and the slightly less unsuccessful Karara project of Gindalbie Metals.

Both Sino **iron** and Karara are based on processing low-grade magnetite **ore** using high-cost gas as a fuel, with the end result being a premium blast furnace feed - when the process works.

The move on Aquila is different. It is an attempt by **China** to gain access to a high-quality haematite project based on what is more commonly called direct-shipping **ore** (DSO), which is in itself an admission by **China** that its magnetite plans have been an expensive flop.

Despite the high price of the bid it is probably just the first shot in what will be a complex process unlocking a multi-layered corporate structure, which has different owners at different stages of what is officially called the West Pilbara **Iron Ore** Project (WPIO).

For starters, Aquila only has a 50 per cent **stake** in the WPIO. The other 50 per cent is owned by the Australian Premium **Iron** joint venture which is half owned by South Korean steel maker, Posco, and half by a **coal** trading **company** (American Metal & **Coal** International) - with AMCI, in turn, half-owned by two rich but old American investors.

Just to make things a little more interesting, the ownership rights to the **ore** is split between Australian Premium **Iron** and a small Perth **company**, Red Hill **Iron**, which is controlled by **mining** entrepreneurs Neil Tompkinson and Joshua Pitt.

Cutting through the intricacies of the structure will take time and money, with the financial factor already obvious in the way Baosteel and Aurizon opened bidding with a \$3.40 offer for every Aquila

share - a price 38.8 per cent higher than the previous closing price of the target and 52.7 per cent above the 12-month average price.

But for keen observers the manoeuvres required at a corporate level, and in satisfying the personal egos of the key players in Aquila and AMCI, will be of secondary importance to the much bigger game being played by **China** as it launches a second wave assault on WA **iron ore**.

The first wave, under which \$10 **billion** was sunk into the financially struggling Sino **iron** and Karara magnetite projects, was ill conceived, poorly executed and in the wrong **ore** type.

This latest wave will be better planned, as can be seen in the involvement of a railway specialist, Aurizon, in joint venture with Baosteel for the raid on Aquila.

Success in acquiring Aquila, followed by control of the WPIO project, will be causing concern at BHP Billiton, Rio Tinto and FMG as they face increased **Chinese** competition in their backyard - just as Gina Rinehart launches her Roy Hill mine with Taiwanese and South Korean involvement.

Whatever the outcome, the clear message for WA is that the **iron ore** industry, thanks to **Chinese** craving for its own sources of raw materials, is about to enter another exciting period of expansion.

Hit and miss

Tempting as it is to see Andrew Forrest's \$12 **million** punt on **uranium** via the **acquisition** of a 27 per cent **stake** in **Energy** and Minerals Australia as a pointer to a brighter future for the nuclear fuel, reality could be quite different.

Firstly, the world is not short of **uranium**, and will probably not be short for decades thanks to the ease with which production can be lifted at existing mines in parts of Asia and Africa, not to mentioned Canada and Australia.

Secondly, Mr Forrest has a habit of backing lots of seemingly bright ideas only to see a handful of them germinate.

His **iron ore** business, FMG, is obviously a screaming success and his **stake** in the **company** represents the lion's share of his \$5 **billion** fortune.

On the other side of the Forrest ledger, however, there is the marginally successful Minara nickel mine, an ill-timed investment in nickel via Poseidon, and an interesting diversion into alpaca farming - and that's before considering his unsuccessful efforts to create jobs for unemployed Aborigines, his attempt to re-design the beachfront at Cottesloe, and his adventure in beef farming through the **acquisition** of Harvey Beef.

In a way, Mr Forrest is a one-man investment bank, operating on the principal of backing 10 projects in the hope that one or two pay off, while the rest either fade away, or collapse and are forgotten.

Hail the champs

Citibank's recently published list of 50 stocks it regards as world champions was interesting for its focus on technology and pharmaceutical companies, and the total absence of miners or **oil** producers.

The companies closest to the resources sector on the list were **oil**-service providers Schlumberger and Seadrill.

Three Australian companies did make the list - CSL, Computershare, and Seek, but they slide in under the technology and pharmaceutical banner.

BHP Billiton and Rio Tinto must be wondering what they have to do to be regarded as champions.

CO	ambol : Fortescue Metals Group Ltd gingol : Gindalbie Metals Ltd skfdev : CITIC Pacific Limited aques : Aquila Resources Ltd. bkhlp : BHP Billiton Ltd craaus : Rio Tinto Ltd dorval : Aurizon Mines Ltd rtz : Rio Tinto PLC bltplc : BHP Billiton PLC hclamn : Hecla Mining Co
IN	i211 : Metal Ore Mining i22 : Primary Metals i221 : Iron/Steel/Ferroalloys ibasicm : Basic Materials/Resources imet : Mining/Quarrying i2112 : Gold Ore/Silver Ore Mining i8396 : Diversified Holding Companies ibcs : Business/Consumer Services
RE	china : China austr : Australia waustr : Western Australia apacz : Asia Pacific asiaz : Asia ausnz : Australia/Oceania bric : BRIC Countries chinaz : Greater China devgcoz : Emerging Market Countries dvpcoz : Developing Economies easiaz : Eastern Asia

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