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IT is not a question of if, but when BHP Billiton sells its aluminium **operations** — in the process, effectively sloughing off the 'Billiton bit.' The even more important question is how it sells.

BHPB CEO Andrew Mackenzie arguably would not have been too upset by the speculation yesterday which prompted BHPB's 'we couldn't possibly comment on that' all-but explicit confirmation in response.

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Why? Because the best way for BHPB to sell its aluminium business is to put it together with the much bigger aluminium business of its archrival Rio Tinto, to construct a somewhat more appealing and sellable package, that would benefit both of them.

The speculation and BHPB's 'no comment confirmation' would have sent a less than subtle signal to Rio Tinto: the clock is ticking, if you want to dance before the band goes home, you'll have to do it soon.

As I wrote last August, the underperforming aluminium business was already an oddity in the BHPB of its last CEO Marius Kloppers. Even though both had come as a package from Billiton.

But aluminium really stood out like a sore and somewhat embarrassing thumb in the BHPB of new CEO Andrew Mackenzie. It offends against everything he has projected for 'his BHPB.' This was spelt out pretty emphatically in BHPB's 'no comment confirmation' yesterday.

Instead of saying, essentially, we don't comment on speculation, the BHPB statement kicked off by noting "recent speculation about the group's portfolio," and then explicitly spelt out two things.

First, that simplification of the portfolio was a "priority." And secondly, that when it talked about an optimum portfolio, that was "**iron ore, copper, coal** and petroleum" — no room for aluminium (and nickel) in that list.

Indeed, it went further to note potash was a potential fifth pillar of its portfolio. Again, there was no room even in the extended list for aluminium and nickel.

The BHPB statement really was impressive — an exercise in all-but confirming the coming **sale** of those two businesses, without at any point actually naming them!

With the last sentence an all-but explicit invitation to Rio: any course of action remained subject to detailed review and an "assessment of alternatives." Now Rio has of course been actively trying to sell its aluminium business almost from the point at which it spent around \$US40 **billion** 'bulking it up' by so disastrously buying Canada's Alcan.

Both BHPB and Rio have long had their own aluminium businesses. But they really dipped their corporate toes in the potline, so to speak, when Rio bought Alcan after BHP merged with the collection of second and third-rate mostly **energy** and aluminium assets known as Billiton.

Last year BHPB's aluminium, manganese and nickel division generated an impressive \$9 billion of revenue. It generated though, all of \$164 million of EBIT (earnings before interest and tax).

Compare that with its iron ore operation. From roughly double revenue of \$20 billion, BHPB's iron ore generated 67 times as much EBIT, some \$11.1 billion.

The contrast was similar if even more dramatic at Rio. In its 2013 year, it generated \$17 billion of EBIT from \$28 billion of revenue in iron ore; just \$800 million of EBIT from \$13.5 billion of revenue in aluminium.

The reason why both BHPB and Rio destroyed quite literally tens of billions of dollars of their shareholder capital in a mad dash deep into aluminium comes down to believing in irresistible theory over practical reality.

They believed first, accurately, that as China prospered, it would consume more aluminium. That's exactly what happened in the developed countries, and it's exactly what has happened in China.

Although China's consumption, and even more its production, of more basic steel grew at a faster pace. It also involved much bigger tonnage.

Thankfully that it did, for BHPB and Rio — that enabled the duo to 'luck out' getting rich on iron ore; rich enough to soak up their individual aluminium blunders.

But they also believed, inaccurately, that China would do the rational thing and shut down its (really) dirty and grossly inefficient local aluminium smelters. So they'd be selling more and more aluminium to China at higher prices.

Didn't turn out that way. China kept pumping out aluminium and (real) pollution. But it can now.

BHPB and Rio have essentially two choices. Either together or separately they can float off their aluminium businesses into new companies. The simplest is of course, simply, to make an issue of 'Newco' to existing shareholders.

The more interesting, the cleverer, course would be to sell their aluminium businesses to — China. That would give the Middle Kingdom the cost effective aluminium production it requires. It would also enable — persuade — it to close its existing inefficient plants.

It would be a clear win-win. Rio and BHPB would get rid of businesses which are never going to be profitable, so long as China keeps its own plants open. But they would become very profitable, once sold to, and only to, China.

This scenario does raise some challenges. BHPB and Rio would have to deal with various competition regulators. They would also have to persuade our politicians — and Canada's, for Rio — to accept Chinese ownership of major resource assets. But it makes huge sense. If only BHPB and Rio can find that dancefloor.

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