FINANCIAL REVIEW

SE Companies and Markets

HD **Rio scales new heights in Guinea**

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WC 1,363 words
PD 7 February 2014
SN The Australian Financial Review
SC AFNR
ED First
PG 28
LA English

LP

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Rio Tinto has confirmed plans to outsource the $US6 billion ($6.7 billion) engineering nightmare that will be the construction of the railway and port needed to link its iron ore riches in Guinea's Toura Mountains to the steelmakers of the world. Rio has also confirmed efforts to broaden the investment gene pool for the $US20 billion Simandou mine, rail and port project with soundings being taken among the state-owned investment agencies of the Middle Eastern Emirates.

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Back in 2010, Rio earned itself $US1.35 billion by introducing its Chinese imbedded Chinalco as a partner in the occasionally controversial and oft-delayed Simandou development.

That deal left Chinalco with a 47 per cent interest in Rio's 95 per cent share of the project and has subsequently opened doors to continuing funding discussions with a host of China's most powerful lending institutions including China Development Bank, China Investment Corporation and the daddy of them all, ICBC. Now, according to reports from Cape Town by the Financial Times, Rio is in talks with Abu Dhabi's state-owned Mubadala investment fund and with the sovereign wealth funds of Kuwait and Qatar.

The FT reported that Rio's Alan Davies is looking for about $US3 billion of new equity to underpin the construction of Simandou's rail and port infrastructure, with expectations that would be at least matched in debt funding. The coincidence of those reports and a speech in Cape Town on Wednesday by Davies is compelling. Davies is the quietly spoken Australian who runs Rio's largely African-based mineral sands business and has been charged with delivering on Simandou's mighty promise.

In an address aimed at promoting investment alliances and joint ventures as solutions to the challenges and risks of big-ticket investment in Africa, Davies identified Rio's plans for Simandou as classic case in point.

"With our partners, including the people of Guinea, work is under way to develop a world-class mine that will produce 100mtpa a year. That is over a third of the size of Rio Tinto's production from the Pilbara.

"The contribution of the mine to the Guinean economy will be significant," he continued. "Current estimates suggest that it will more than double its size, fundamentally raising the country's economic trajectory. While transformations of this scale have on occasion been seen in the oil industry, they have seldom been triggered by a single mining project." With that Davies went on to say that "the size and scale" of the plan "requires an innovative approach to bringing new partners to the table in order to fund the investment required and share the risk".

"A consortium partnership approach is being considered, to allow new investors and infrastructure owners to be mobilised to raise a portion of the required capital," he said. "We are even open to investors taking a leading role in the infrastructure," he finished. Of course, generating a sense of progress on Simandou continues to be a priority for Davies and Rio given the Guinean government's expressed frustration over the apparently stuttering progress on what is potentially a nation-changing project.

To some degree, Rio is the father of its own problems there given the expectations that were seeded during the **company**'s defence of BHP Billiton's takeover offer back in 2007-08. At that time Rio reckoned Simandou could enter production as early at 2014.

Needless to say, that is not going to happen. Indeed, if everything goes well from here, Rio and Guinea might just get around to signing the project-critical investment framework by year's end. That framework is a collection of documents that will define and govern the relationships, commercial and otherwise, between government and project investors.

Its effect will be to translate previous agreements into a transparent and legal form stout enough to support the quantum of funding needed to make Simandou happen. Outside of its size, complexity and exotic (occasionally dangerous) location, what makes Simandou really important is that it is such a high-profile litmus test of Rio's differentiating strategy to persist with the risk of investment on **mining**'s emerging frontiers.

Like Rio's more recently acquired Mongolian **copper** play, Simandou is proving a test of corporate patience, preparation and diplomacy as this distinctly first-world miner attempts to cope with the profound and unpredictable challenges of generating wealth in (and for) the third world.

Stanwell Corporation is not alone in pondering an **energy** price arbitrage that makes it more sensible to resuscitate a mothballed, **coal**-fired generator so it sells the gas that would have been burned in a more modern and carbon-friendly gas-fired facility.

This sort of input and capacity swapping in the face of increasing dynamic **energy** markets is common in the US and will likely become more routine here as regional Asian gas prices are imported into the east coast Australian market through Gladstone's troika of liquefied natural gas export plants. And the fact that locally delivered thermal **coal** prices seem stuck at long-term cyclical lows only adds currency to the dilemma.

Only recently we had a chat to a major aluminium operator who speaks for smelters globally. He noted that one of the cost and revenue mitigating strategies being contemplated should the current aluminium glut force further capacity closures was the opportunistic re-**sale** of power that is converted to metal in his plants.

Stanwell's informed opportunism is all the more instructive because its arrives as the anti-**coal** lobby's growing momentum starts to generate real concern and reflection within and without the **mining** sector.

But this input-shifting shows how, for all that the clicktivists might wish it otherwise, **coal**'s immediate underlying economics remain irresistible to the world's power producers. The facts of **coal** remain compelling. About 75 per cent of Australia's power is the product of burning **coal** and a whole lot of the options that generate the rest, from **wind** to **solar** and now gas, only increase the retail price of electricity.

Meanwhile the latest emissions figures for Australia released on Wednesday show emissions from **coal mining** are increasing because production here is expanding.

Why is that? Well, because the world wants to buy the stuff. The International **Energy** Agency says **China**'s **coal** consumption will grow by 13.5 per cent between 2011 and 2020 by which time demand will exceed the rest of the world put together.

Indian demand for **coal** doubled between the turn of the century and 2011; the IEA expects demand to double again by 2035. That will put it in front of the US as the second-largest **coal** consumer. At the same time the 10 ASEAN economies will walk the same path to **coal** dependence given expectations their collective electricity demand will double by 2035.

One of the fundamental flaws of the Fair Work Act is the protected industrial action that it offers so easily to unions can take so many and varied forms. Take a look at the ballot being run by the good folk working for UGL that are represented by the WA branch of the AMWU.

UGL is a specialist contractor and in WA its biggest client seems to be BHP Billiton's offshore petroleum **operations**. On Wednesday the AMWU filed a ballot application with the Perth office of the Fair Work Commission. The union is asking for permission to run the usual list of stoppages ranging from hours to full 12-hours shifts. But it is also seeking approval for options that are clearly aimed at ensuring the employer carries the cost of a workforce delicately constrained from actually doing their jobs.

The union wants to be able to ban working "in confined spaces for an indefinite period of time" and the use of **company** vehicles similarly.

More remarkably for people that might be working on an offshore rig, it has also asked to be able to enforce bans "on the performance of work at heights greater than three hundred millimetres for an indefinite period of time".

CO almcor : Aluminium Corporation of China Limited | chinvm : China Investment Corp. Ltd. | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group | craaus : Rio Tinto Ltd

IN i5020017 : Harbor Construction | i211 : Metal Ore Mining | imet : Mining/Quarrying | i502 : Heavy Construction | ibasicm : Basic Materials/Resources | iconst : Construction | icre : Real Estate/Construction | i22 : Primary Metals | i224 : Non-ferrous Metals | i2245 : Aluminum | i81502 : Trusts/Funds/Financial Vehicles | ifinal : Financial Services | iinv : Investing/Securities | isover : Sovereign Wealth Fund

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AN Document AFNR000020140206ea270005i

