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HD **Mining wages too high, says Mitsui**

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Japanese trading giant Mitsui has warned Australia's lagging productivity fails to justify its high mining wages, while tipping a modest rebound in heavily depressed iron ore and coal prices by the end of the year.

Mitsui, which has ploughed $14 billion into investments in Australia in the past decade, also forecast the huge iron ore supply glut would likely correct by the end of the decade, possibly as early as 2017.

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Mitsui Australia boss Yasushi Takahashi stressed the importance of executing deeper cost cuts at Mitsui's Australian operations, which include iron ore, coal, and liquefied natural gas.

"It's an inconvenient truth but Australia's high wages are not supported by an equally high productivity," Mr Takahashi said. "The biggest subject we are tackling right now with our joint venture partners is to improve productivity to match up with high costs."

He pointed to prohibitive labour costs at Australia's coal mines.

Labor made up about 25 per cent of on-site coal mine costs in Australia, compared to 10 to 15 per cent in other key mining exporters, like China, the United States, South Africa and Indonesia.

Australia's average mining wage was $US122,000 ($138,000), more than double that of the US.

"That is a good thing we are seeing high wages in the most liveable country in the world," he said.

"If that's sustainable that's fine. But one concern is, is it really sustainable?"

Mitsui is in long-running iron ore joint ventures with both BHP Billiton and Rio Tinto in the Pilbara region of Western Australia.

The Japanese company said the 40 per cent decline in iron ore spot prices to about $US80 a tonne this year and dramatic falls in coal prices were sharper than expected. At the end of the year, the two bulk commodities would start to regain some of the ground lost, he said.

And the huge iron ore supply glut would likely correct by the end of the decade, possibly as early as 2017.

A "fundamental basic estimate" held by Mitsui is that there will be a "more balanced, tighter supply-demand situation" in iron ore, later this decade.

Mitsui has also been building intelligence on the Chinese scrap market, which it tips will mature in the mid-2020s. The company had carved a large presence in scrap to "prepare for the era of scrap", which would eat into China's demand for iron ore.

Within a decade, China would "become a big supplier of steel scrap, it will become one of the great sources of their steel production", he said.

Mitsui is the biggest shareholder in the world's biggest scrap metal company, Sims Group, with a holding of 17 per cent.

Mitsui was one of the foundation partners in the Pilbara, and owns 7 per cent in four BHP mines - Yandi, Mt Newman, Jimblebar and Mt Goldsworthy.

The Japanese giant also owns 33 per cent of Rio's Robe River operations in the region.

"The short to medium term focus for us in iron ore is brownfields projects," he says. "We will keep investing in them."

It also has a stake of about 7 per cent in the Woodside-led Browse LNG project, also in Western Australia, and is in a suite of coal operations with BHP on the east coast.

Mitsui is tipping that by mid next decade, China's wealth per capita will have ballooned from current levels of about $7000 to $8000 to between $15,000 and $20,000.

And with that will come exponential demand for food.

Mr Takahashi said Mitsui was eyeing acquisitions in local wheat and other grain collection and handling companies.

Mitsui is the biggest wheat importer in Japan, and the sixth biggest wheat exporter in Australia.

CO bkhlp : BHP Billiton Ltd | mtsui : Mitsui & Co Ltd | bltplc : BHP Billiton PLC

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