SE Drilling Down Under; Blog

HD **More Australian iron ore mines face being 'stranded' as price pain continues**

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As the price of iron ore continues its unrelenting descent, an increasing number of Australian deposits will become stranded because of the lack of infrastructure and high costs of production.

The benchmark price has fallen below US$82 per tonne, marking a more-than-40% loss so far in 2014, and there is no indication that the downward trend is slowing.

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The continued price pressure has seen IMX Resources Ltd. exit the iron ore sector altogether with the A$3.7 million sale of its Mount Woods project in South Australia.

The company had previously also held a 51% stake in the Cairn Hill mine, also in South Australia, until administrators were appointed to operator Termite Resources NL and IMX was left with a A$3 million debt to Flinders Ports Pty. Ltd.

IMX Resources Chairman Derek Fisher told SNL Metals & Mining that Cairn Hill was a difficult mine to manage in recent times because of the falling iron ore price and the time it takes between mining the ore and getting paid.

"Your price was set on assay in China and that could be four months later, and in a falling iron ore price environment and uncertainty with respect to [the foreign exchange rate], it was difficult," he said.

However, the administration of Termite Resources was not a key factor in IMX's decision to sell its only other iron ore project, according to Fisher.

Both Cairn Hill and Mount Woods are magnetite mines, which is very different from direct shipping ore because it requires processing prior to export.

"Magnetite works if you are close to a mill," Fisher said. "When you've got to crush and grind and process it before you ship it, and probably agglomerate it, it becomes quite an expensive product."

He pointed to Gindalbie Metals Ltd.'s Karara project and Sinosteel Corp.'s Weld Range DSO project, both located in Western Australia, as examples of struggling magnetite projects.

Gindalbie announced recently that it expects to book an impairment of about A$640 million on its investment in operator Karara Mining Ltd. for the 2014 financial year, attributing the write-down to lower-than-forecast production levels, a falling iron ore price and a higher Australian dollar exchange rate.

Meanwhile, Sinosteel's A$2 billion Weld Range project has been on hold since June 2011 due to the shelving of the A$6 billion Oakajee port and rail project, which Weld Range depends on to be economically viable to start production.

Infrastructure battle

Mount Woods faces a very similar problem to Weld Range, with the mine's development affected by a lack of access to port infrastructure.

Fisher said the deposit is a long distance from the coast, there is no port solution and access through the Whyalla port is not available.

"To make it work you would need a port solution, and Adelaide is not the port solution, it is too far from it," he said. "So it is a classic stranded iron ore deposit, which we suffer so badly from in this country."

A scoping study completed by IMX in June 2013 for Mount Woods assessed a base case of 2.5 million tonnes per annum exported through Port Adelaide, which was found to be economically feasible when iron ore prices were higher.

The study also indicated the potential to improve returns by shipping ore through a proposed multiuser port facility at Port Pirie, an option IMX had planned to investigate further.

"It was a very creative solution that [IMX] put together, but it was a high-cost solution and in a falling price environment, when you're approaching marginal prices with respect to your operation it's difficult to manage," Fisher said.

Prior to the planned sale of Mount Woods, IMX had been searching for a joint venture partner to assist in the development of the project.

While the company did attract interest from potential partners, the tumbling iron ore price made it difficult to lock in a deal.

"We did receive interest, but it kind of waned when the iron ore price kept falling, and to get anyone to take it on was not easy," Fisher said.

IMX ended up attracting a couple of buyers for the project and following some negotiation, agreed on a sale price.

Fisher said the company is happy with the A$3.7 million sum it received, but it is much lower than what the project could have fetched in a favorable iron ore price environment.

IMX's sole focus will now be on the Nachingwea project in Tanzania, which is prospective for graphite, nickel and gold.

Prices to remain below US$100 per tonne

While some are hopeful of a recovery to above US$100 per tonne, Fisher is not so sure. "We took a view that long-term iron ore prices don't look good and we decided to exit the scene," he told SNL.

Although typically pressure on iron ore prices around this time of year has been attributed to seasonal weakness, this latest plunge has been further compounded by the flood of new production by the majors as well as China's slowing economy.

Gavin Wendt, senior resource analyst at MineLife, is also more bearish than bullish on the prospects for iron ore and believes the return to the market by China will not have as significant an impact as hoped.

"I would imagine that you'll probably see the Chinese coming back into the market and accumulating at these sorts of low price levels and restocking and taking advantage of current market conditions," he told SNL earlier in September.

"As to the impact that's going to have on the iron ore price … I don't think it's going to push it up above [US]$100 per tonne again, but what I think it will do is it will probably limit the downside pressure on iron ore prices."

The return of the Chinese to the market is expected to put a floor under the price and stabilize it at between US$90 and US$100 per tonne.

Call for less red tape

Hancock Prospecting Pty. Ltd. Chairperson Gina Rinehart has challenged the Australian government to alleviate "bureaucratic burdens" as miners continue to struggle with falling commodity prices and increasing costs.

She told The Australian that miners in the country are forced to compete with those in other jurisdictions that do not have the same environment of heavy government-imposed bureaucratic procedures, approvals and compliance costs.

"Each one of these adds costs and makes it harder to compete successfully, risking Australian jobs and revenue," she said.

"The government needs to better recognize this and world conditions, including various falling commodity prices and the contraction in jobs in Australia's **mining** and related industries — and urgently cut bureaucratic burdens."

Hancock Prospecting is expecting first shipments of **iron ore** from its 70%-owned Roy Hill project in Western Australia's Pilbara region in September 2015, earlier than first planned.

The A$10 **billion** Roy Hill development is the largest single mainland construction project in Australia, with the mine set to produce 55 **million** tonnes per annum on completion.

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