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HD **Steel king's bid a signal moment**

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Baosteel's $1.42 billion pitch to join the mainstream of Australian iron ore and coal producers is as laden with complication and uncertainty as it is with potential.

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Whatever happens to the Sino-Australian bid for control of Tony Poli's Aquila Resources, the hostile takeover pitch represents a signal moment in Western Australia's drive to connect long-stranded iron ore deposits to global markets.

For a couple of years, Queensland's national rail company Aurizon has loomed as a potential game-changer on the opposite flank of the country. It tried and failed to buy Fortescue's rail and port network, and has talked about providing infrastructure to the pair of prospective miners that make up the state government's North West Alliance.

The former was as much a quick fix to the Aurizon mission as the latter was long-dated. By aligning itself with China's biggest steel producer, Aurizon has generated an option that could see it running trains through the Pilbara by 2018.

Baosteel and Aurizon are looking for control of Aquila Resources, with the train company taking a 15 per cent stake and China's steel king advancing its 20 per cent position to whatever the market is prepared to give it.

To that end, the $3.40 share price off-market offer looks generous, representing a near 39 per cent premium over Friday's close and a 32 per cent premium over the three month value-weighted average price.

The prospect of control but not full ownership has to be entertained because Aquila is 40 per cent owned by its founders, the resolute Poli and Charles Bass. As things stand, the free float sits at around 27 per cent, with M&G and Vanguard speaking for about 13 per cent.

The normally loquacious executive chairman Poli was not saying a whole lot on Monday. He did not return our calls. We are guessing he is not exactly enamoured of the proposition or its rush to the market.

Baosteel and Aurizon approached Poli on Friday with an invitation to spend the weekend discussing their offer. The letter arrived with the hope that the board could deliver a recommendation ahead of a market announcement on Monday morning.

No one with an appreciation of Poli's personality could imagine this invitation was put with anything but the expectation it would be rejected. In the end, Poli could not find the time for a chat and instead offered his imminent assailants a meeting with his advisors Goldman Sachs.

That didn't happen and Baosteel became only the second Chinese company to go hostile in the Australian market.

By my reckoning, China's only other aggressive bid here has been Sinosteel's bruising, and so far pretty fruitless, $1.36 billion takeover in 2008 of another iron ore aspirant called Midwest Corporation. Everyone at Baosteel and Aurizon must hope this deal turns out slightly better than that.A perfect match

In many ways, Aquila is a perfect fit for both suitors. It sits on the cusp of transition in iron ore in the Pilbara and in coking coal in Queensland. But it has been thus throughout the mining boom and Poli's plans have been consistently constrained by forces in, and out of, his control.

Aurizon is Queensland's biggest coal freighter and has plain ambitions for Pilbara growth. And Baosteel, well, it would be the world's single biggest customer for both of the things Aquila wants to dig up and sell.

Given the deal requires Foreign Investment Review Board approval, Baosteel's motivation is worth understanding. The state-owned Chinese steel maker aims to produce 40 million tonnes a year from Aquila's project, to market that product and use most of it in Baosteel's own mills.

Baosteel was pivotal to the great shift in iron ore markets away from long-term contract pricing to short-term index price sets. It says the iron ore market will continue in oversupply over the long term.

Given Chinese product costs more than anything imported, the likelihood is that its Pilbara output would replace Chinese rather than Australian supply. As the highest-cost Chinese material is bounced out of the system, the replacement cost that has driven iron ore pricing since China opened its doors to imports will drift lower for longer, which might have some wondering if it is a good idea that a major customer for Australian iron ore like China Inc should be a major producer.

Poli's problems in the West orbit around his partners in a project that has so far sucked up $460 million but seems no closer to a final investment decision than it did when Baosteel arrived on the Aquila register in 2009.

The issue is that Poli and his partners in Pilbara West don't see anything like eye to eye. Aquila owns half of the project while Hans Mende's ACMI speaks for the other half. Mende's almost equal partner in that half share is Korea's steel prince Posco.

It is clear Poli would like to get on with Pilbara West but the AMCI crew is dragging the chain. There is a view that ACMI doesn't have the readies to support progress. Whatever the reason, the result is that nothing much has happened at Pilbara West for two years.

To a significant degree, the only thing standing between the cashed-up Aquila and Pilbara production is the lack of 282 kilometres of railway and an export port at Anketell, a state-mandated development site which sits just to the east of Rio Tinto's legendary Cape Lambert.

Aurizon puts the cost of building this export artery at better than $6 billion. It would be financed from an equity base of around $1.5 billion and all going to plan, its trains would be running by 2018.

Given Baosteel and Aurizon secure control and AMCI's confidence, the plan is to divide Aquila into its functional parts. Baosteel would emerge with control of the mining bit while Aurizon would get control of the rail and port development.

Critically, Aurizon would operate the network as a multi-user system and that, folks, will be music to the ears of a fleet of junior iron ore players in south-western Pilbara whose progress from discovery to production has been thwarted by the lack of infrastructure.

Before we finish with matters iron ore and trains, we note that Andrew Forrest has just pumped $12 million of his family bounty into a uranium play run by a former Fortescue executive, Julian Tapp.

Tapp made something of name for himself for nearly a decade running, and occasionally winning, Fortescue's third-party access case against the Pilbara incumbents Rio Tinto and BHP Billiton.

Now he is running something called Energy and Minerals Australia, and his chairman there is good old Mike Young.

The founding managing director of BC Iron, it was Young who fabricated the Pilbara's first (and only) third-party access deal. While the price was high given service provider Fortescue ended up with half of the BCI action, the result was a little cash machine of a business and a still fruitful friendship with Forrest.

Young and Tapp now speak for Energy and Minerals Australia and its Mulga Rock uranium project. And, pending shareholder approval, the pair has introduced Forrest as a 27.8 per cent owner while convincing two creditors of long standing, Accorn and Macquarie, to convert their share of $24.5 **million** of convertible and promissory notes into **equity**.

Meanwhile, back on the Forrest home front, Fortescue's contest with Brockman **Mining** over rail access enters formal mediation on Thursday.

Brockman has, rather famously, turned the third-party access tables on Fortescue, applying for the right to introduce Aurizon-driven trains onto the Third Force's wholly owned rail network.

Having invested a fair bit of time and reputation resisting this application, Fortescue recently surprised Team Brockman by inviting them into mediation under the direction of the WA Supreme Court.

No one is too sure what that means but the very last thing we expect mediation to generate is a deal welcoming Brockman to the capacity Fortescue has insisted it needs.

CO aqures : Aquila Resources Ltd. | dorval : Aurizon Mines Ltd | hclamn : Hecla Mining Co

IN i211 : Metal Ore Mining | imet : Mining/Quarrying | ibasicm : Basic Materials/Resources | i2112 : Gold Ore/Silver Ore Mining

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