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HD **BHP ready to take out the trash**

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From the moment new boss Andrew Mackenzie started speaking of BHP Billiton as a business of four pillars, it has been clear enough that he had more than productivity in its sights.

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So the idea that, as the **company** confirmed on Tuesday, BHP is reflecting long, hard and with reforming purpose on its most appropriate structure should not surprise. And, given the Mackenzie narrative, and management rhetoric through the last year of his predecessor's reign, it is not hard to draw up a list of the assets that no longer have a natural commercial home within the BHP family.

Mackenzie, after all, has made it clear enough what is going to stay. His ideal BHP is a business sustained by tier one, long-life resource basins that offer product and geographic operational and market diversity.

That means he likes the Pilbara's **iron ore**, the **copper** basins of the Chilean and Peruvian Andes, the petroleum basins of the southern reaches of the US and Queensland's Bowen Basin **coal** in all its varieties.

Of course there are assets of size and quality that sit outside of those regions that will ever retain a place in the portfolio. Bass Strait, for example, is a sticky asset, as is BHP's share of the North West Shelf and the fleet of gas finds it commands to the north.

Mackenzie has also made it clear he is up for building a fifth pillar from BHP's best-in-class potash resources in Canada's Saskatchewan and that he feels a great responsibility to extract the full value of Olympic Dam's Herculean but complex **copper** and **uranium** resource.Matrix of logics

So what goes? Well, there is a matrix of logics that will herd the under-performers into their exit package. For mine, the first out the door will be the businesses that take BHP in processing, such as nickel and aluminium. Then there will be the perfectly formed but non-growth assets, such as manganese and Cannington Zinc. And then, depending on whether or not pre-empts are triggered, there might be BHP's share of any number of joint ventures.

In the end, the first place to look is the package of assets that arrived with the Billiton merger in 2001 and then those that came with the $9.2 **billion** WMC **acquisition**.

In a note published in October last year that advocated demerger as the solution to BHP's earnings disconnect, Commbank analyst Andrew Hines noted that Billiton assets currently generated about 6 per cent of core earnings. Those assets include BHP's South African outposts in nickel and **energy coal** and the brilliant but earnings-volatile manganese business on Groote Eylandt.

Glencore's Ivan Glasenberg has already made it clear that BHP has invited interest in the old WMC nickel business that is now known as Nickel West. Whether that is a fair dinkum process or one aimed at providing a live market footing to internal valuations is hard to assess.

What we do know is that nickel is losing money and that it will ever lose the race for new capital while it lives inside BHP. And the same can be said for every other asset that sits on the Project River's list of possibilities.Race for capital

Mackenzie keeps telling us that the race for capital at BHP is tight and getting much tighter. He has publicly declared that Queensland **coal** cannot expect anything but sustaining capital until it rebuilds its profitability through productivity gains. And, let me tell you, the Bowen Basin asset is a far more critical business to BHP's future than is nickel, aluminium, manganese or zinc.

To some degree this process of reflection began at early in 2012 with a cost-cutting exercise called Project Reset.

Run by former **iron ore** and **coal** head honcho, Marcus Randolph, Reset was a massive cost-cutting exercise that saw every external supply and service contract reviewed, pruned, replaced or internalised.

Project Reset was driven by BHP's appreciation that, while demand would continue to rise, the prices of the bulk commodities that feed steelmaking were likely to return to long-run trading bands.

Which meant only that the best way to sustain a sector-leading margin position was to produce a whole lot more from a whole lot less.

Demerger is a course charted twice before by BHP. In October 2000 shareholders were delivered equivalent positions in OneSteel, the entity created to own BHP's Whyalla-based long products steel business. And less than two years later the Port Kembla flat products business was packaged up into BlueScope Steel.

It would be fair to say that, after auspicious starts, both the listed sons of BHP Steel have struggled to make a living through the cost and income crush created by the **China**-fed resources boom.

But the point is that each has been able to make decisions structural and strategic and secure the capital necessary to make sustaining plans reality. And the reason that could happen was that each was transparently judged against its industry peers rather than against bigger, stronger businesses within a conglomerate structure.

Ultimately, the idea that BHP can allow assets worth say $US20 **billion** to simply sit and run for cash over the longer haul is not sustainable.

At is core, this is the logic driving Project River. To best protect the value of these assets, BHP needs to deliver them to a vehicle that is better able to support them.

April Fools' press releaseIt was with surprise that Metgasco boss Peter Henderson read in a press release on Tuesday morning that his gas business had ended its appraisal of the potential of the **coal** seams around Casino in northern NSW.

As far as Henderson knew, the occasionally controversial quest to understand the economics of the Clarence Moreton Basin remains well and truly the name of Metgasco's current exploration game.

As it turns out, the press release was an April Fools' joke perpetrated by net-savvy, politically active and informed students at a regional high school. "It was supposed to be an April Fools' Day joke," Henderson said. "Some joke. Ha ha," a frustrated Henderson continued.

What was fun for some plays out more seriously for a **company** that has regulated obligations to inform its shareholders of any material events. Any moves to surrender its **coal** seam future would be materials to Metgasco's owners. As a result, Henderson was forced to make an explanation to the ASX.

"Metgasco Limited has been made aware of a hoax media release suggesting Metgasco will cease conducting unconventional gas activities in the Clarence Moreton Basin," an authentic announcement declared.

"There is no substance to the hoax press release," it continued. "Metgasco intends to continue its conventional and unconventional gas exploration and development activities."

Casino and its surround has been a focus of some of the most vibrant and bitter protests against the **coal** seam gas industry generally and Metgasco specifically. On other occasions the right to free speech and protest has crossed the line in the region with at least one farmer who has co-operated with the gas drillers being subject to harassment and vandalism by the anti-gas campaigners.

Asked whether the April Fools' joke is as innocent as the students want to pretend, Henderson said only: "There are a number of people up there who have a very concerted campaign to stop the industry – they don't respect the government, the law, the landholders or our **company**."

We hear that feisty Fortescue is keeping an aggressive eye on the threat of strike action by the deck hands that man Port Hedland's 14-strong tug boat fleet.

The fleet is owned by BHP and the deck hands, who work just more than four months a year, seem to be readying to strike in the name of an 11.9 per cent pay rise.

We hear that Fortescue is right behind BHP's resistance of this absurdity. And we hear too that the Pilbara's Third Force is arming its lawyers to defend its interests should the threat of strike become reality. One point of attack there could be to seek the third-party protections available under the Fair Work Act. The numbers say Fortescue would have little problem proving the economic harm necessary to warrant protective orders.

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