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HD **Japan's Mitsui sees light at end of iron ore, coal downturn**

BY EXCLUSIVE: RICK WALLACE, RESOURCES

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Mitsui sees light at end of downturn JAPANESE trading house Mitsui is firmly backing the expansion of high-quality iron ore and coal projects in Australia despite the gloom sweeping the industry amid alarming price falls.

Mitsui Australia — which has equity stakes in some of BHP and Rio Tinto's blue-chip mineral assets — has told The Australian that price falls were more about excess supply than waning demand and the market would correct within five years or so as uncompetitive suppliers exited the market.

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"The downturn will not continue forever," Mitsui Australia chairman and chief executive Yasushi Takahashi said, flagging a rebound in prices around 2018.

He said Mitsui, which has invested $14 billion in Australian coal and iron ore ventures over the past 10 years, was strongly backing the expansion of brownfield operations with partners Rio Tinto and BHP Billiton in the Pilbara. He said expansions at Cape Lambert and Jimblebar were "examples of our eagerness in mining investment here even in this period".

His comments come as iron ore this week hit a five-year low, falling below $US80 a tonne, while coal prices have halved since 2011.

Mr Takahashi urged Australian miners to focus on productivity gains to boost their competitiveness with operations in Africa and other emerging regions. "It is inconvenient but a truth that Australia's high wages are not supported by equally high productivity,'' he said.

Mr Takahashi said the cost of labour per tonne of coal produced was more than 20 per cent in Australia compared with 10 per cent in competing producer nations.

He said miners could drive productivity by expanding their fleets of Komatsu driverless trucks — currently in operation on Rio Tinto's mines — and using local gas instead of imported diesel in locomotive and vehicle fleets and for power generation.

"The mining industry here is Australia is one of the biggest diesel consumers and diesel prices here are not necessarily competitive,'' he said.

"If we change to a cheaper or more competitive fuel source, like gas, we may be able to have a great cost reduction process.

"In my opinion we (Mitsui) are the in the closest position to enhance that because we have a gas generation project here, we have mining interests and we are the 40 per cent owner of Komatsu (Australia) and we have gas pipeline technology." Mr Takahashi said wage growth in mining in Australia had moderated and he was not concerned about wage levels if productivity was high.

"I don't basically care about the level of the wage itself,'' he said. "The only concern is that if we are going to receive a high wage it has to be justified with identically high productivity.

“As long as we can enjoy double productivity, compared to the competing countries, we can enjoy receiving double pay — that’s fine.” Mr Takahashi — who was recently made a member of Trade Minister Andrew Robb’s trade and investment advisory committee — urged people to take a long-term view saying cycles in **mining** were long and investors needed to roll with the punches. “Mitsui always takes a long-term view,’’ he said.

“We cannot change philosophy very frequently — in the range of one, or two or five years. It is too short.” He remains confident in the industry’s longer-term future saying demand from **China** would remain strong. “I don’t think the price drop trend will last forever. What we can do is to enhance the competitiveness and strength of the mine **operations** we are involved in together with our trustworthy operator partners,’’ he said.

“Even in this depressed price period competitive suppliers of **iron ore** and **coal** are still receiving further demand.

“Probably some point in the latter half of the 2010s — 2018, 2017 … maybe 2020 — some rebalancing of the supply demand situation will happen.” He said steel consumption per capita in **China** would track GDP per capita right up to $15,000 or $20,000 and **China** was currently at about $7000 per capita GDP.

“The peak period in the per capita consumption of steel is when that country reaches the level of a developed country,” he said. “They have much more room to go. “Until **China** is a developed country they will keep consuming steel in a very intensive manner.”Mr Takahashi, who spoke yesterday at the IMARC international **mining** conference in Melbourne, said the **company** was actively eyeing new **equity** stakes or investments in grain exports eyeing a surge in shipments to ASEAN nations and to Japan.

CO craaus : Rio Tinto Ltd | mtsui : Mitsui & Co Ltd | rtz : Rio Tinto PLC

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