Australia's iron ore future is different, not dead

Australian Financial Review
August 29, 2024 Thursday
Print & First Editions

Section: COMPANIES AND MARKETS; Pg. 28

Length: 729 words

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Body

As our two biggest iron ore exporters dress themselves up as future-facing copper companies, third force ***Fortescue*** has nowhere to hide. In fact, it does not even want to.

Fortescue's future is firmly Pilbara iron ore. It will spend $US4 billion ($5.9 billion) this year developing hubs and mines, exploration and trying to decarbonise its operations, mostly focused on iron ore. Energy - the hydrogen part - is slated to get only $US500 million of it.

That's not to say ***Fortescue*** wants to keep doing what it has always done. It knows China is changing - as is what it wants from Australia and the miners that sell it 1 billion tonnes of red dirt a year.

For 60 years, China has bought that red dirt and burnt it with metallurgical coal (mostly from Queensland) to make steel. It got more hungry as its property and infrastructure construction stepped up, sending the price of iron ore to more than $US100 a tonne, where it has mostly stayed.

But China's growth has slowed, including in the all-important property sector, its steel mills have dropped production and even bulls such as ***Fortescue*** co-CEO Dino Otranto see the difference.

"We're in the middle of China changing," he says.

What China wants, Otranto says, is higher grade and cleaner products to help decarbonise its own industries, including those steel mills. There are ongoing talks about how this will play out inside China and ***Fortescue*** is trying to deal itself into the discussions; executive chairman Andrew Forrest was in China for such talks yesterday and Otranto will be there next week, he says.

Fortescue's plan is to sell China what it is calling "green metal" - made in Australia, using that same red dirt from the Pilbara. It would dig up the dirt, and use hydrogen (not coal) to make a product that looks like a granule and export it to China (via its railway and port infrastructure).

The steelmaking bit would still happen in China - that is important - but without the need to burn coal, and without the pollution that would usually spill into the air and hang over major cities including Beijing and Shanghai.

"Up until now, it hasn't been economic to do it," Otranto says. "We are on a mission to make it economic."

To make it economic, ***Fortescue*** probably needs China's (and Australia's) help. It would need Chinese equipment, capital and skills at its production sites, the first of which is a small green energy hub at its Christmas Creek mine in the Pilbara. ***Fortescue*** hopes it can produce 1500 tonnes of green iron metal a year with first production in 2025.

To get from there to 100 million tonnes or even the whole 191.6 million tonnes shipped in FY24 would be a huge task, requiring huge investment. It cannot happen overnight. There are plenty of sceptics - as there have always been around ***Fortescue***'s ambitious plans - as Otranto acknowledges. "Some of the sceptics still say it is not economic and 'you're wasting your time'. We don't agree with that."

To make it work, Otranto says ***Fortescue*** (and Australia) need to attract China's capital, which is looking to replace the big blast furnaces that have burnt Australia's iron ore and coal to make steel. He says that money is making its way into Brazilian, African and Saudi technology. "That's why we need to muscle our way back in and say 'no, our ores have a future'," he says.

The key to it all is bringing the capital cost down - which in Saudi Arabia, for example, means concessions, approvals for land access and the like. Otranto says the Australian government needs to think similarly here - China has always wanted our commodities, and the next ones are sun and wind.

It's interesting to hear Otranto talk so passionately about it on results day. Our three big miners are dealing with China's slowdown in different ways, with BHP and Rio Tinto spending a lot of time talking up electrification and their copper portfolios. The word "copper" appeared 78 times in BHP's results presentation on Tuesday, as James Thomson wrote, while "iron ore" featured just 14 times.

Copper does not get a mention at all at ***Fortescue***. Its buzzword is "green" - which can be green metal, green hydrogen, green energy and even "green pioneer".

Fortescue shares dropped 1 per cent to $18.44 on Wednesday, following its result. UBS said earnings fell slightly short of expectations, but the 89¢ a share final dividend was better than expected.

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Load-Date: August 31, 2024
