Reality bites for Forrest's dream

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Body

Andrew Forrest insists his green hydrogen dream is not over. Far from it.

But in the biggest shake-up of ***Fortescue***'s structure and strategy in several years, Forrest has put ***Fortescue***'s long-held target of 15 million tonnes of green hydrogen by 2030 on the backburner, and "de-prioritised" several green hydrogen projects in the $70 billion giant's pipeline.

In a series of moves that will be welcomed by investors, but provide more evidence of how the global energy transition is spluttering, ***Fortescue*** will also slash 700 jobs by bringing its mining and energy divisions under one roof, eliminating duplication of corporate functions, and some layers of management.

Forrest will not countenance the idea that this is some sort of retreat or even a pivot; his determination to turn ***Fortescue*** into what he calls the world's go-to company for green solutions - green metals, green energy and green technology - remains as strong as ever.

But the changes announced yesterday speak to both the reality of an energy transition that has been stalled by cost-of-living worries and rising energy prices caused by Russia's invasion of Ukraine, the conflict in the Middle East, and caution among some ***Fortescue*** investors about the prospective returns from the company's green energy strategy.

In June, US fund manager Capital Group sold more than $1.4 billion of ***Fortescue*** shares, ceasing to be a substantial shareholder in a move some read as a reaction to ***Fortescue***'s strategic shift.

Forrest insists that the 15 million-tonne green hydrogen target remains a big part of ***Fortescue***'s ultimate plan, and he's personally disappointed that the rest of the world - particularly the "weenies" in the traditional energy sector - are "not seeing as clearly what I am seeing, which is that the world must turn away from fossil fuels".

But in what will be music to the ears of the market, Forrest says the company is determined to maintain financial discipline.

"We are not going to swim against the tide," he says. "The tide is the Australian government, every government, every leader, every president, every energy minister I've met around the world in the last three years saying 'we've got to get energy prices down'.

"Now, in that environment, you're not going to bring on major sources of green hydrogen, which relies on cheap energy prices.

"We're going to stay where we know we can win, and that's green electricity. We'll be producing 15 million tonnes [of green hydrogen] and more. But to get there, we're going to make sure that the supply chain's right."

The pressure on the global green hydrogen sector is building. On Tuesday night, the European Court of Auditors released a report that found despite the European Union pumping (EURO)18.8 billion ($30.45 billion) into the sector, its target of importing 10 million tonnes of green hydrogen by 2030 was unrealistic and "not really founded upon the capacity at hand".

Forrest remains a believer in the ability of green hydrogen to replace fossil fuel, but says ***Fortescue*** will not "put the horse behind the cart" by pushing ahead with green hydrogen projects where the economics don't stack up due to persistently high electricity prices.

Green hydrogen projects on ***Fortescue***'s books, including in the US, Canada, the Democratic Republic of Congo and South Australia, will now be put on hold while the company pushes ahead with five key projects. Three of these - a $US550 million ($817 billion) liquefied green hydrogen facility in Arizona; its $US150 million Queensland plant at Gladstone, which is aiming to produce green hydrogen next year; and its $US50 million green iron project at Christmas Creek in the Pilbara, which seeks to produce 1500 tonnes of green iron from green hydrogen - have already been approved by the board and are under way.

Two more - a green hydrogen project in Norway and another in Brazil - are in the feasibility phase, but have now been prioritised because both countries have access to abundant, cheap, renewable energy.

No changes to ***Fortescue***'s capital expenditure forecasts were announced yesterday.

The announcement of 700 jobs cuts will not make for a very happy birthday for some at the company, which celebrates the 21st anniversary of its founding today.

But Forrest, who says no management team ever likes announcing job losses, is adamant the redundancies do not reflect pressure on iron ore prices or the spluttering energy transition, but are instead part of an evolution of the group.

It was necessary, he says, to originally set ***Fortescue*** Energy up as a sort of internal start-up, with its own infrastructure and teams. This was, in part, because the miner was "fat and happy" and some inside the company could not see the need to shake up its highly successful mining business.

But with the two sides of the business now working closely together - particularly on the push to decarbonise ***Fortescue***'s existing iron ore operations by 2030, a target Forrest clearly hopes to beat - he says the need for two silos is gone.

"This is not to jam operating costs down, it's to streamline this organisation and keep the genius of simplicity," he says.

Despite the embrace of a "one ***Fortescue***" model, Forrest will continue with two chief executives: metals boss Dino Otranto, and energy boss Mark Hutchinson.

Forrest says the leaders will be able to access resources as needed from a reshuffled corporate team led by chief financial officer Apple Paget (who moves into the role permanently after acting in the position since last August); chief operating officer Shelley Robertson (who has been promoted from chief corporate officer); and Mona Gill, who assumes the role of company secretary from Phil McKeiver.

McKeiver will retain the role of general counsel, but only after offering to resign following revelations that a law firm employed by ***Fortescue*** had hired private investigators to follow former ***Fortescue*** executives and their families as part of an ugly legal spat with a rival start-up called Element Zero.

Forrest says the ***Fortescue*** board was not aware of the tactic and had struggled to see how it aligned with the company's values, but he is proud of McKeiver for taking responsibility. Forrest says ***Fortescue*** will continue to pursue the legal action.

The ***Fortescue*** restructure takes place against the backdrop of pressure on iron ore prices, which have fallen more than 30 per cent since the start of the year as China's economy continues to struggle.

But Forrest says ***Fortescue*** is struggling to keep up with what he says are full order books. And while the industry frets about the arrival of new iron ore production from the Simandou mine in the African nation of Guinea, Forrest remains sanguine, arguing that ***Fortescue***'s prospective project in Gabon gives it the ability to tap a deposit of better quality and scale.

But the company's ultimate trump card could be green iron; this is where low-carbon solutions such as green hydrogen and solar energy are used to remove waste elements from iron ore, leaving behind a product that is almost pure iron.

Indeed, Forrest is so bullish on the plan that he declares he's getting out of iron ore and into green iron.

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