

Like Forrest, Palmer has signed multibillion-dollar deals with Chinese steelmakers in the past year—but he is operating with a different business model altogether. For starters, he has no intention of building or managing a public company with thousands of employees. His private company, Mineralogy, employs just over a dozen, and he's not spending a penny to build a mine or a port. Instead he negotiated a deal with his Chinese investors to build the infrastructure: Hong Kong-based Citic Pacific and Beijing's Shougang Steel are investing more than \$4 billion. Mineralogy's haul: more than \$400 million upfront in the past year, plus annual royalty payments that should be worth hundreds of millions more down the road.

Despite his passive role, Palmer, 52, is hardly a modest, retiring type. He dropped out of college at age 20 to sell land and "retired" eight years later after building a \$40 million fortune. A few years ago he taught some business classes at Deakin University near Melbourne, and ever since he's been calling himself "professor." After collecting his payments from the Chinese, he bought himself two Boeing MD-80 jets and a DC-9, which come in handy for shuttling workers and visitors to the Pilbara.

Following his deals last winter, Palmer made his debut on an Australian magazine's list of the continent's richest people, with an estimated worth of around \$1 billion. But he claims that is greatly understating his wealth, sort of like "undercooking a steak." If you factor in the royalty payments, he thinks he should probably be worth about \$5 billion. But of course the deals he has completed so far give his Chinese partners the rights to only three billion tons of ore. All told, Palmer claims his land has about 160 billion tons of ore—or more than Rio Tinto and BHP combined. "It's a funny story, isn't it?" he says. "Because you could multiple that out, and we'd be the richest people in the world."

Palmer stumbled into the world of Pilbara iron ore in 1985, when he decided to un-retire and get back into the business world. After reading that the Soviet

## A TYPICAL ORE-HAULING TRAIN HAS ABOUT 300 CARS PULLED BY SIX 4,000-HORSEPOWER LOCOMOTIVES.

unorthodox barter offer. In exchange for the claims, the Russians offered to give him \$3 billion worth of cinnamon. "Apparently Chairman Stalin had ordered them to stockpile cinnamon after a shortage in the '50s, and nobody ever countermanded the order, so they had quite a lot," he says. Palmer turned down the Soviets, thinking that he'd develop the land himself and not realizing that it would take him more than 20 years to finally get a deal done.

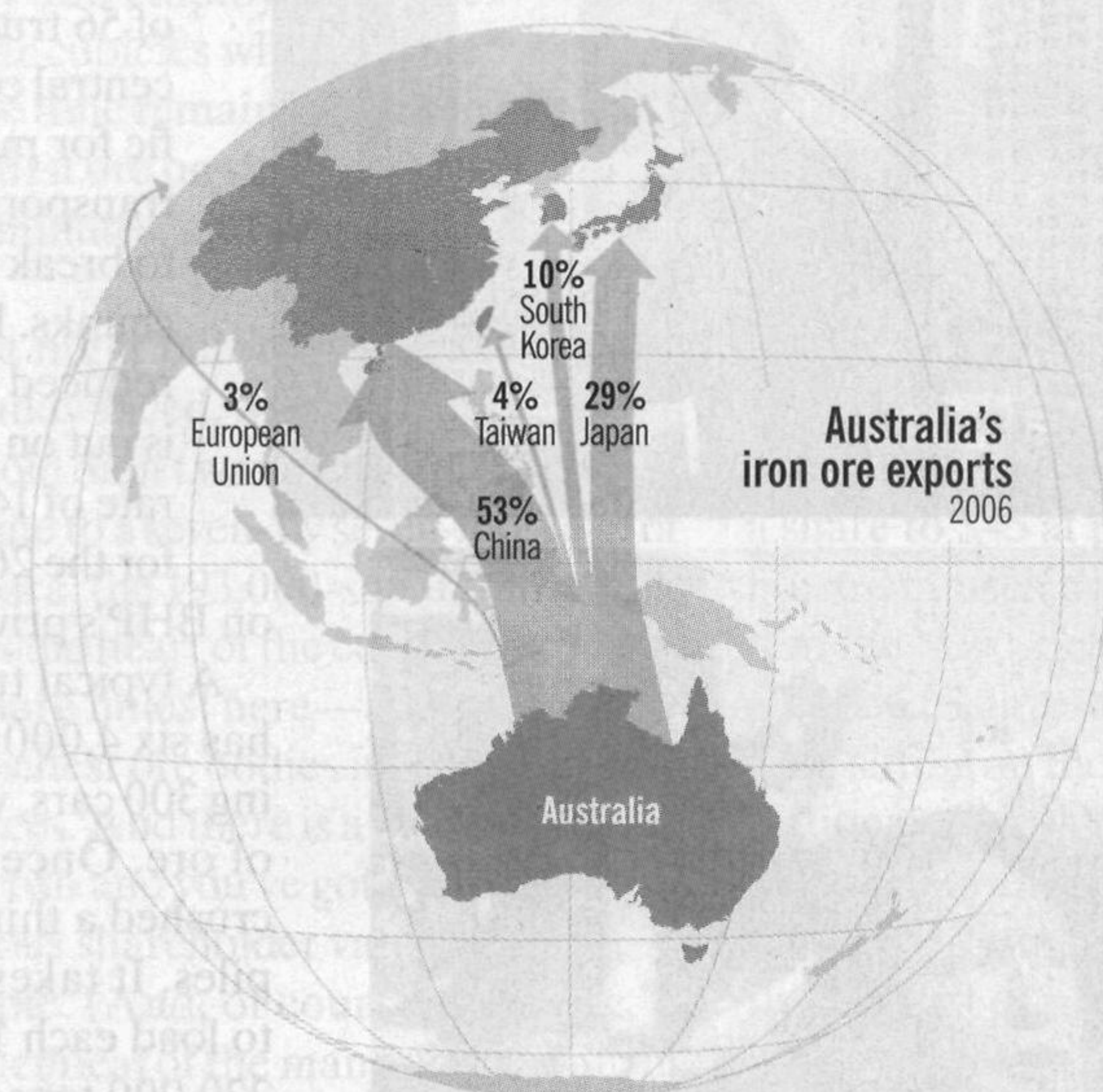
Early on, a lack of power plants in the Pilbara was a problem, but recent discoveries of natural-gas reserves have solved that. There's also the fact that Palmer's ore is magnetite, which means that it comes out of the ground only about 30% iron and must go through a costly concentration process before it can become steel. All of a sudden, however, a lot of things that didn't appear economically viable a few years ago make a lot of sense at today's ore prices.

### → Birth of a New Port

To see Palmer's Pilbara property up close, I board a jet from Perth with Andrew Caruso, managing director of Australasian Resources, a public company to which Palmer recently sold a stake in his mine project in exchange for 70% of the company's equity, and Palmer's longtime right-hand man, Vimal Sharma, whom Palmer met in Fiji while trying to develop a casino project back in the mid-1980s. After a two-hour flight to Karratha on the northwestern coast, we jump into a four-seat helicopter that takes us to Preston Island, a speck of rocky land about a half-mile offshore. Soon it will be connected to the mainland by a jetty that will define the man-made harbor. Just above us a single osprey sets its wings to hover in the wind, sliding ever so slightly to its left. "This is where professor Palmer's port will be," says Sharma, and with a sweeping motion of his right arm he summons a vision of conveyor belts loading the ore onto ships for a quick departure out to sea. Citic Pacific is shouldering the cost of construction, and it has hired one of the largest contractors in China, MCC, to build it. When the port is completed in 2009, the stockpile area will hold up to five million tons and the facility will be able to load 150,000 tons a day onto ships,

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IRON'S BOOM IS FUELED PRIMARILY BY DEMAND FROM CHINA, WHICH AIMS TO LOCK IN A SUPPLY FOR THE LONG TERM.



### Top five iron ore producers

MILLIONS OF METRIC TONS



SOURCES: DEPARTMENT OF FOREIGN AFFAIRS AND TRADE; USGS