

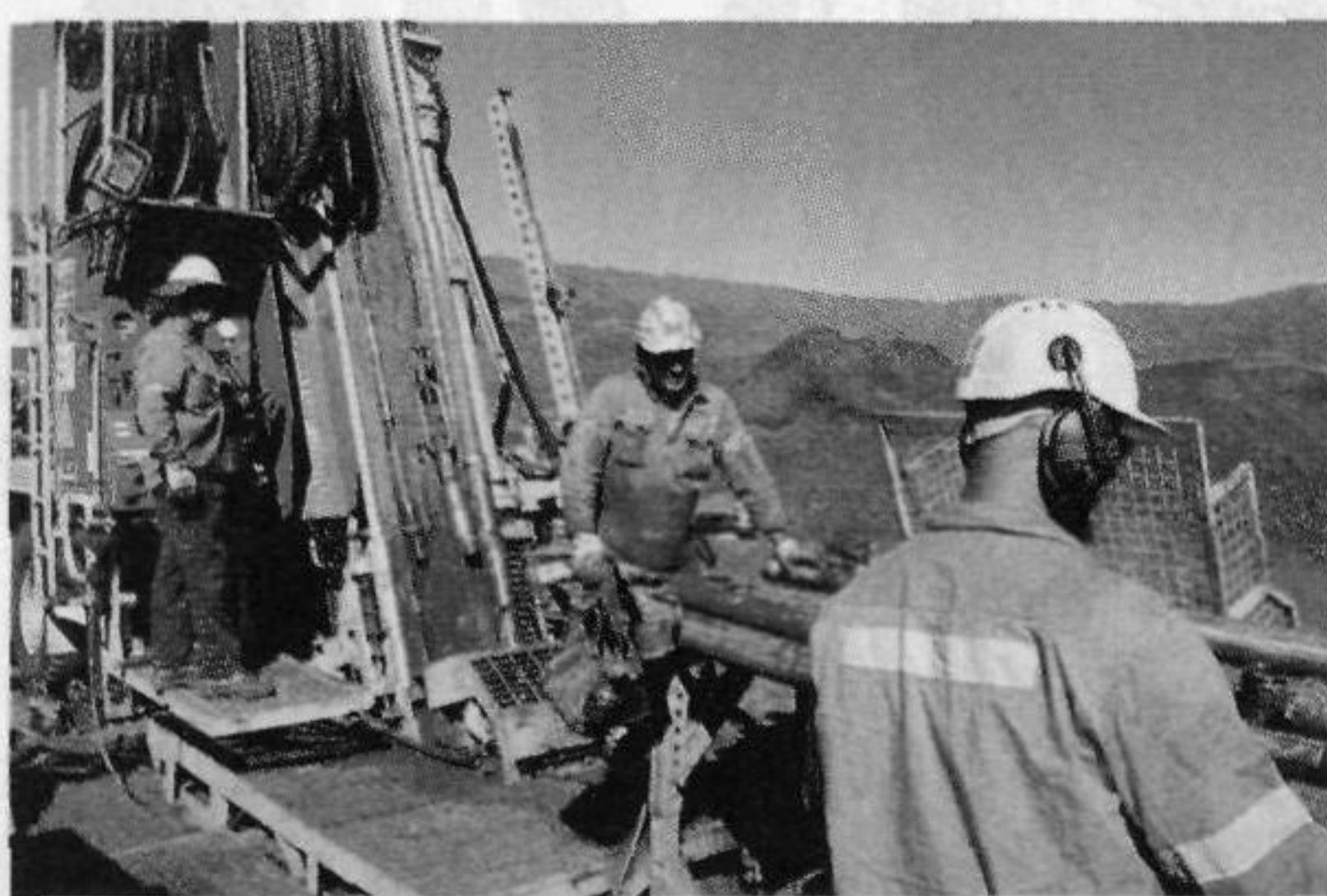
regularly this fall. Over the same time span the ASX index of mineral stocks has doubled that performance, returning 340%.

What's driving all this is a mining boom unlike anything this natural-resources-rich country has ever seen. Prices of all kinds of metals have been skyrocketing in recent years—in large part because of increasing demand from China. Australia is the world's second-largest producer of gold (up 150% in price in the past five years), zinc (up 250%), and uranium (up 750%). It's the third-largest producer of nickel (which has more than tripled in price) and the fifth-largest producer of copper (which has almost quadrupled). In short, it's a good time to be digging stuff out of the ground Down Under.

The Aussies are convinced that the party won't end anytime soon either. Everyone you speak to—from mining executives to government officials to miners themselves—believes that the massive economic growth of China and India will drive unprecedented demand for resources over the next two decades. If this superboom pans out, the biggest economic opportunity for Australia will probably be in mining a not-so-sexy yet economically crucial commodity: iron ore. The raw material in steel is mined and exported in far greater quantities than nickel and copper and the like. Global iron ore production reached 1.7 billion tons last year, up from one billion in 2000. Australia is the largest exporter of iron ore in the world, and China's insatiable demand for it—to build skyscrapers, cars, and washing machines—is growing faster than analysts can reset their estimates. The price of iron ore has more than doubled in the past three years, to a benchmark price of \$51 a ton, and is projected by analysts to rise 30% or more again next year. The country's two largest producers of the metal, Australian mining giant BHP Billiton (with a \$230 billion market capitalization) and Anglo-Australian powerhouse Rio Tinto (\$120 billion), have each pledged billions of dollars to increase production by two or three times over the next five years. (In fact, BHP is so confident about the broader boom that it initiated a takeover bid for Rio in early November.)

The iron rush is no longer confined to giants. A host of smaller companies—virtually all with soaring share prices—are racing to cash in on what has long been BHP and Rio's exclusive turf. Just a few years ago an independent, or "junior," iron ore miner was virtually unheard-of. Now some 50 companies have entered the iron ore business in Western Australia. Increasingly they are being financed by direct investments from Chinese companies eager to lock up new sources of

KALGOORLIE IS ONE OF THE FEW PLACES WHERE YOU MIGHT SEE A REAL-LIFE CROCODILE DUNDEE BELLY UP TO THE BAR.



supply. No less an eminence than Chinese President Hu Jintao stopped in Perth in September to tour an iron ore smelter and other facilities.

On the last day of Diggers, one of the prime beneficiaries of the euphoria flew in and took the town by storm. His name is Andrew Forrest, and he's a high-profile and controversial figure in the Australian resource world. He founded his iron ore company, Fortescue Metals Group, in 2003 and has become a billionaire several times over as his company's stock rocketed over the past year—despite the fact that he has yet to ship an ounce of ore to his customers in China. In front of a packed house that afternoon, he talked about Fortescue "upsetting the oligarchy" of

BHP and Rio and fended off skeptical questions from the press about his ambitious infrastructure-building schedule. At the gala wrap-up dinner, he received the Dealer of the Year award in recognition of the \$3 billion in financing he had secured—mostly from U.S. and European investors. And then, inevitably, he hit the Exchange for some celebratory pints with his wife and his executive team, staying out till 1:30 A.M. Not that Parekh was surprised. "Oh, yeah," he says. "Andrew's a good bloke."

That may be. But he's certainly a perfect example—actually, one of several I came across Down Under—of the potentially explosive benefits of being on the right side of a once-in-a-lifetime boom.

→ Building a Behemoth From Scratch

The following day I went to see Forrest at his office in Perth, the bustling capital of Western Australia. The coastal city combines the surfer sensibility and perfect weather of San Diego with the go-go feel of a boomtown. About two million people—or 10% of the country's population of 20 million—live in Western Australia, which is almost four times the size of Texas and produces about 60% of the country's exports. Perth, with about one million residents, is the only big city in this suddenly flush region.

The effects of economic expansion on the city are manifest. Luxury retailers such as Gucci and Hugo Boss have recently come to town. Sales of Lamborghinis, Ferraris, and Bentleys are spiking. Home prices have averaged a 33% annual gain over the past five years. Property expert Collier International recently declared Perth the tightest market for office space on the planet, with a vacancy rate of just 0.7%.

On the day of my visit to Fortescue's headquarters, on the second floor of the Hyatt Centre, there was a palpable sense of urgency inside—a reflection, perhaps, of the breakneck pace at which Forrest

REGION OF RICHES

ABOUT A THIRD OF THE WORLD'S EXPORTED IRON ORE IS PRODUCED IN AUSTRALIA'S PILBARA.

