MEDIA MONITORS

back


Time not on Mid-West's side

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Paydirt
September, 2008
Page: 16
General News
Region: National
Circulation: 4429
Type: Magazines Trade
Size: 299.89 sq.cms
Monthly

IRON ORE

Time not on Mid-West's side

Now that the trench warfare for shipping rights to Australia's next iron ore province is over – thank goodness – the real battle begins. Does the Mid-West stack up as an iron ore province and how long has it got to prove itself?

The hype over the Mid-West has seen companies being arguably overvalued proportional to their resources, particularly because of the interest generated by foreign investment, which culminated in Sinosteel Corp's hostile takeover of Midwest Corporation – the first unilateral takeover of a local company by China.

But now the State Government has handed the building rights for a deepwater port to Murchison Metals Ltd and Mitsubishi Corp's infrastructure JV Oakajee Port & Rail (OPR), the race is on to get the port up before other iron ore provinces beat the Mid-West to the punch.

The jury is still out on who is to construct the associated rail line, with OPR competing again with port tender rival Yilgarn Infrastructure Ltd whose future, in the Mid-West at least, now depends on winning the contract. Babcock & Brown Ltd's WestNet Rail is also vying for it.

The Mid-West's biggest issue is its hematite grade. Many of the planned projects have average grades sub-60% iron. Selling it isn't a problem – many juniors have secured major offtake agreements – the main difficulty lies in economies of scale, and whether the grade is economic enough to transport the ore by rail to the coast.

Planning Minister Alannah MacTiernan has not hidden her scepticism of the region's potential, stressing that giving out the port tender does not necessarily mean a port should be built.

MacTiernan said more than a decade after Oakajee Port was first proposed by Kingstream Steel – "despite much more favourable conditions – the region's output was still only 4.43 mtpa, insufficient to justify a deepwater port.

"While the region's iron ore output has grown impressively and attracted major investment, and despite dramatically improved ore prices, the industry is still to demonstrate an iron ore resource necessary to justify a $1 billion plus Mid-West port and rail infrastructure investment".

The Geraldton Iron Ore Alliance said the figure was closer to 6 mtpa and was likely to double within 12-18 months, hitting 45 mtpa within two to three years.

But Alliance spokesperson Rob Jefferies did say some Mid-West projects hinged on the port coming onstream sooner rather than later.

"We've got a strategic advantage of having strong relationships with international partners, but if prices were to drop too far there could be an intersection of the rising costs in construction and labour.

"There are huge start-up costs, and that's why it's important to leverage off the good prices now to overcome those infrastructure costs."

OPR chief executive Chris Eves has given tacit support to the idea of grade-blending at the new port to overcome project grade deficiencies, a strategy introduced into the Pilbara by Rio Tinto plc last year, and Jefferies said blending was practically a certainty.

Currently, OPR says it will export ore from Oakajee by 2012. But there are hurdles to clear in all directions to achieve that best-case scenario.

The mining companies have to prove up reserves and get mining approvals. OPR has also got to get environmental approvals, finalise design and planning and call tenders in a skills shortage climate. It also has to raise the $1.5 billion to build the port, though Mitsubishi has expressed confidence in doing so.

Finally, the State Government needs to make sure the Geraldton Port and Southern Transport Corridor are upgraded to handle the inevitably increased bottlenecks as efficiently as possible. And companies should get in now if they wish to clear the Government's onerous approvals process, which has already caused much grief in the region.

The sector's window of opportunity is looking dangerously more like the eye of a needle. The mainly Chinese offtake agreements – and Sinosteel's recent takeover of Mt Gibson – gives some surety to projects that they will be able to capitalise on the current unprecedented iron price before a slowdown.

Resources analyst Peter Ellery said it was expected iron prices would plateau in about four years, when the current explosion of new iron projects around the world begins to catch up with global demand led by China and India.

But "while prices will fall, they will still come down to a level unthinkable 10 years ago", Ellery said.

However, what if the Mid-West projects only stand up now because of the obscene price increases driven by BHP Billiton Ltd and Rio Tinto? Projects that have a strong base case in 2008 may be looking more marginal post-2012, when Oakajee becomes operational.

Jefferies said although a global economy slowdown is tipped, the impact on the Mid-West sector would not be cataclysmic.

"There's no reason to think we won't achieve our timelines and have a viable industry. We know we face a cycle of prices, that's why we need to get (the projects) into a positive cashflow as soon as possible so they're better insulated in the down times.

"There is no room for complacency."

Ellery said the Mid-West would "undoubtedly" be home to a major iron ore industry within the next few years.

"But there will be consolidation, there will be some projects that don't make the grade and some that even have to be closed down.

"You will probably see what we saw in the Pilbara. A huge amount of projects started in boom times, and as time went on smaller operators fell behind and were taken over. It's the natural development of things."

Andrew Pascoe