Pilbara iron ore venture may hit second tier

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THE PILBARA iron ore joint venture announced last year by BHP Billiton and Rio Tinto will lift the productivity of the operations of both companies but may also block access by second tier iron ore players to the State’s north west rail and port networks.

With the growth rate of China’s economy forecast to approach 10 per cent in the year ahead, Australia’s iron ore exports are likely to hit record levels, straining the capacities of the Pilbara’s rail and port facilities.

BHP and Rio’s Robe River Mining and Hamersley Iron have built and operated their own extensive rail networks to transport iron ore from their mines, in the Hamersley Ranges in the southern Pilbara and in the eastern Pilbara, across hundreds of kilometres to the ports of Port Hedland and Cape Lambert.

The two mining giants have argued that allowing third-party access will reduce the efficiency of their rail networks and act as a disincentive to further investment in new and existing rail infrastructure.

In a letter to the Senate Standing Committee on Economics submitted on December 22, 2009, Rio Tinto Australia managing director David Peever also argued that its Pilbara rail network was most efficiently utilised as a single-user facility, noting that “…in multi-user systems, interested parties focus more on shifting slices of the pie than on ensuring that the pie expands”.

The BHP-Rio iron ore joint-venture arrangements will no doubt have a major influence on the tribunal’s ruling on third-party rail access, which is expected to be handed down in mid-to-late 2010. This decision will precede the approval of the joint venture by the European Union’s competition regulator, considered a major hurdle to implementation of the joint-venture arrangements.

The joint venture has been strongly opposed by Eurofer, the European Steel Confederation.

In a further move, BHP has also announced preliminary discussions with ArcelorMittal about potentially combining the two companies’ iron ore interests in Liberia and Guinea into a single joint venture. It is anticipated that combining their interests in the region will provide economies of scale and scope, providing a platform on which to build a world-class iron ore business in West Africa.

BHP is currently working with the Liberian and Guinean governments to seek their support for the proposed joint venture. Rio is the world’s second largest iron ore producer, while BHP is the third biggest. If the joint venture in the Pilbara goes ahead and their operations were combined, they would overtake Brazil’s Vale do Rio Doce to become the world’s biggest iron ore producer.

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