

Time to open up the MidWest



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In line with Chinese Government policy to cut emissions, increasing demand from steel mills for less polluting magnetite iron ore will boost Western Australia's magnetite production. Geraldton Port and the planned Oakajee are ideally placed to ship this product.

I am delighted to be sharing the podium today with the likes of Nev Power from FMG, Sun Xiaoxuan from Sinosteel, Lu Yongfeng from CNOOC and Phil Edmands from Gilbert + Tobin at the Australia China Business Cooperation Forum organised to AIACF to host a visiting Chinese delegation from the Belt & Road Initiative.

I set out below an address prepared for the conference on the opportunities for Western Australia from Belt and Road.

ADDRESS

In May this year, President Xi Jinping aptly labelled the Belt and Road Initiative as: “*The project of the century*” that “*will benefit people across the world*”. We need to make sure that Australia does not waste this historic opportunity.

In this session I will describe to you a large, exciting infrastructure project. It is a project that is ideally suited to become a flagship project for Sino Australian collaboration under China's open and inclusive Belt and Road initiative.

I am talking about the port, rail, pipeline and downstream processing economic infrastructure project that will open up the Mid West Region of Western Australia.

This is a project under the name OAKAJEE that is well known to Chinese Government and to Chinese mining and construction companies. Indeed,

CREC, who are sitting alongside me on the panel have known about this project for some ten years.

It is a project that has suffered and been delayed as a result of bad decision making in the past.

But now is the time to present a China led solution to take advantage of prevailing favourable conditions for the construction of major projects.

Today I will briefly touch on:

- Why the Mid West matters to China
- The importance of magnetite iron ore
- The innovative infrastructure solutions that could open up the Mid West
- Why China's involvement is of fundamental importance

Why the Mid West matters to China

So why is it important to Australia and important to China to open up the Mid West Region of Western Australia?

The MidWest Region, which used to be known as the Murchison, is one of nine regions in Western Australia. It has a total area of almost 500,000 square kilometres. That makes the MidWest larger in size than each of Japan, Korea and Germany. It is a massive region.

From the Australian perspective, the region is underdeveloped and is hindered by the lack of a deepwater port.

From the Chinese perspective, the region is a potentially huge resources province within which China can play a leading role.

The importance of magnetite iron ore

Here in Australia there is a commonly held perception that the iron ore story is all about hematite iron ore.

That is a story that has been told and told well by Rio Tinto and BHP Billiton over several decades. The story is borne out by hematite ore dominating Australian iron ore production.

However it has created the impression, the false impression, that magnetite iron ore is a new, risky industry with the development and processing costs representing an insurmountable hurdle. The inference is, of course, that investors should steer away from magnetite projects.

In addition, the challenges of China's initial foray into magnetite projects in Western Australia have been well documented, but lessons have been learned and the underlying benefits and appeal of magnetite remain intact.

Negative perceptions concerning magnetite are unfortunate because magnetite iron ore has many advantages over hematite ore and those benefits are ever increasing. There are good reasons why there are strong magnetite industries in the US, Russia, China and the Middle East.

It is important to note that there are many huge scale magnetite projects awaiting development, whereas the large hematite projects to be developed are largely located in countries with high levels of sovereign risk.

Magnetite ore is generally found in large quantities with a low iron grade in the range of 30-40% Fe. In Western Australia it is mainly found in the form of Banded Iron Formations or BIFs. The ore is however easy to upgrade to a high Fe content, greater than 68%.

Upgraded magnetite (typically in the form of fines, concentrates or pellets) is much higher grade than hematite ores and, consequently contains lower levels of contaminant such as silica, phosphorus, aluminium, sulphur and even asbestos.

This lower level of contaminants is reflected in significantly improved performance in the furnaces of steel makers with reduced slag volumes and reduced coal/coke usage. This means reduced CO₂ emissions and much lower levels of pollution.

The importance of this to the Chinese Government cannot be overstated, with the Government mandating reductions in pollution by steel producers and promoting quality over quantity. This would suggest that the restructure of iron ore pricing that has emerged over the last couple of years is structural and long-lasting.

The importance of this higher grade product is reflected in the premium price that is paid by the Chinese steel mills for magnetite products, both to

recognise the higher iron content and to reward the improved performance in the furnace as a result of the lower level of contaminants.

Magnetite iron can achieve prices more than 200% higher than lower grade iron ore that is being produced by a number of Australian operators.

The much higher price that is achievable for magnetite concentrates translates into magnetite producers being able to support a significantly higher capital and operating cost than DSO operations.

The innovative infrastructure solutions that could open up the Mid West

In the past, Chinese mine developers in the MidWest have only been offered one solution. That was the solution proposed by the Japanese company Mitsubishi that had been, unfortunately, awarded the right to construct both port and rail in the MidWest.

The Japan solution was not only politically unappealing to Chinese companies but also economically not feasible given:

1. China's perception that Mitsubishi sought to subsidise its problematic Jack Hills mine
2. The port and rail design was seen to be over-engineered and unnecessarily costly
3. Mitsubishi sought to recover its proposed costs and a significant profit margin solely off foundation customer supply contracts on onerous terms.

There are many potential solutions that could significantly reduce capital costs. These could include:

1. A jetty rather than a break water and dredging programme
2. Transshipment, potentially to a moving, floatable, harbour
3. A network of large slurry pipelines, initially to the east to major deposits like the Cashmere Downs project and Boolyagoo
4. Rail network collaboration
5. Power and Desalination plant at Geraldton
6. Construction in part on the Oakajee Industrial Estate land rather than on sand dunes.

Why China's involvement is of fundamental importance

There are many reasons why China is important to any solution in the MidWest and why companies like Aust Sino Resources Group are seeking to be a catalyst to promote the development of port and rail infrastructure. These are some of the main reasons:

1. China has already invested massively in mining projects in the Midwest including in large projects like SinoSteel's Weld Range project and AnSteel's Karara project.
2. China is the end customer for the vast majority of the expected production of magnetite products from the opening up of the region
3. China has the financial capacity to fund the necessary port, rail and/or slurry pipeline project costs that will take the capital expenditure burden off the mining projects so they can focus on mine investment
4. China has already conducted extensive studies into the development of economic infrastructure solutions for the region
5. China has massive experience in major infrastructure projects through companies like CREC and CCCC and possesses the construction muscle that is essential.

There is a need for new perspectives, new insights and new energy to open up the Mid West. Together we can make it happen.

Conclusion

Thank you for your kind attention.

I hope that you agree that the Mid West Region will be a flagship win-win project for Belt and Road collaboration between the two great countries of China and Australia.

Whilst our political masters here may be dragging their feet more than we would like in endorsing Belt and Road, the opportunity for Australian business to step up and lead the way in unlocking the attractive trade and investment opportunities afforded by Belt and Road is very clear.