



Citic Pacific Signs Accords for \$4 Billion Ore Mine (Update3)

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By Jason Scott



Nov. 12 (Bloomberg) -- **Citic Pacific Ltd.**, an arm of China's biggest state-owned investment company, signed accords to sell as much as two-thirds of the **iron ore** from its \$4 billion Australian project to Chinese mills. Shares surged.

"We've identified the major steel works in China who have signed up preliminary sales agreements," **Barry Fitzgerald**, chief executive officer of the Hong Kong-based company's Australian unit, said in an interview. The balance of the output will be used by the company's own plants in China, he said.

China is expected to use more iron ore in the next five years than Australia, the biggest exporter, has produced in its history, Rio Tinto Group said this month. The Asian nation's economic growth may accelerate to 10.5 percent this quarter, according to a Bloomberg survey, as stimulus spending boosts demand for automobiles and fridges.

"China's appetite for iron ore will continue to be very strong," said **Michael Heffernan**, a client adviser with Austock Securities Ltd. "While the rest of the world has been floundering around looking for lifeboats, China just keeps on surfing. Its growth is improving again."

Citic Pacific jumped as much 10 percent, the most since July 31, to HK\$22.40 and traded up 9.6 percent to HK\$22.30 at 3:36 p.m. local time in Hong Kong, compared with a 0.8 percent drop in the benchmark Hang Seng index. The stock has more than doubled this year.

China has proposed 90 investments in Australia valued at about A\$34 billion (\$32 billion) in the past 18 months, the Canberra-based Foreign Investment Review Board said in September. Fox Resources Ltd., backed by China's Jinchuan Group Ltd., said yesterday it's in talks with a potential Chinese partner to help develop an iron ore project in Australia.

Three Mills

Of the mine's 28 million-metric-ton output, as much as 20 million tons may be sold to customers with the rest kept for Citic Pacific's own steel plants in China, Fitzgerald said. Citic Pacific also develops properties and runs toll roads.

"China demand will continue," Fitzgerald said in Perth yesterday, declining to name the mills who'd signed initial accords. "The stimulus package is a short-term issue. The long-term market will be there."

First output is scheduled in the fourth quarter next year from Citic Pacific Mining's **Sino Iron project** at Cape Preston, 100 kilometers (62 miles) southwest of Karratha in Western Australia's Pilbara region.

Capacity Increase?

Citic Pacific Mining may consider expanding the project, Fitzgerald said. The company "can either increase the length of our operation or increase the capacity," he said. "Once we are able to move our focus from delivering the start-up of production and adding the additional lines, I'm sure we'll need to review what the demand is and what the pricing points are."

The open pit mine will be one of the largest in the world, and over its estimated 25-year life span will be 5.5 kilometers long, 3 kilometers wide and 600 meters deep. After the material is mined, it will be transported to six grinding mills. The mills, being built in China, will shipped on site from January.

The strong Australian dollar is affecting construction costs, Fitzgerald said. "We sell our products in U.S. dollars and a lot of our costs are in Australian dollars," he said. "It's pretty well known that with any of the exporters out of Australia that any time you see that the Australian dollar goes up, the profit forecasts goes down."

The Australian dollar is trading at the highest in more than a year, boosted by economic growth in China, the South Pacific nation's biggest trading partner.

Pipeline, Port

Citic Pacific owns 80 percent of the Sino Iron project, which will mine magnetite iron ore, and the rest is held by China Metallurgical Group Corp.

A 25-kilometer slurry pipeline will transport the product from the mills to the port, which is being built specifically for the project. Water to the operations will be supplied by a custom-built 51-gigaliter desalination plant.

Citic Pacific is building a 450-megawatt on-site combined-cycle gas fire power station. That will be fueled by gas from the Reindeer natural gas field, a joint project between **Apache Corp.** and Santos Ltd.

The power plant's capacity is equivalent to the current energy needs of the entire Pilbara region, according to the company. The region includes 11 iron ore mines operated by Rio, seven by BHP Billiton Ltd., and other projects and towns.

To contact the reporter on this story: **Jason Scott** at jscott14@bloomberg.net

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