

Mining projects may not be viable

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(Phys.org)—According to research from Murdoch University's Asia Research Centre, iron ore prices could drop dramatically by 2015, making planned projects in Australia potentially unviable.

Dr Jeffrey Wilson said this drop was a result of Chinese resource security strategies aimed at ending a pattern of soaring iron ore price which began in 2005.

"From 2001 to 2011, iron ore prices increased nine-fold. After a 71 per cent spike in price in 2005, the Chinese government undertook two strategies: aggressive investment in new entrants to the Asian iron ore market, and the creation of a Chinese importers' cartel to improve their bargaining power with the Big-3 miners—BHP, [Rio Tinto](#) and Vale," Dr Wilson said.

"While cartelisation has been effectively nullified by the Big-3 demanding a move to a quarterly pricing system following the Stern Hu Affair, the effects of Chinese investment in new iron ore suppliers are about to come into play."

Collectively, 30 new Chinese-sponsored iron ore juniors plan to add 425 million tonnes per annum (mtpa) of iron ore to the regional market over the

next three to five years. Meanwhile, the Big-3 are ramping up their production by 450 mtpa for 2015.

Dr Wilson said he expected this convergence to break the longstanding pattern of extremely tight supply, leading to an iron ore price drop that would make many planned West Australian projects unviable.

"In comparison to the Big-3, many of the new Chinese-backed entrants to the WA iron ore sector are quite small, such as Mt Gibson and Aquila. In the scale-reliant iron ore industry, it is unlikely that these firms will be to compete with the Big-3 under conditions of price competition," Dr Wilson said.

"If iron ore prices do begin to fall rapidly, the recent shelving of Sinosteel Midwest project may only be the tip of the iceberg in terms of [iron ore](#) cancellations in our state."

More information: Dr Wilson's paper 'Chinese resource security policies and the restructuring of the Asia-Pacific iron ore market' is forthcoming in the leading industry journal *Resources Policy*.

Provided by Murdoch University

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