Optimising value – unlocking potential on the revenue side of the value equation

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ABSTRACT

During the China boom years, iron ore producers scrambled to increase capacity to capitalise on scarcity pricing in an undersupplied market. As the market rebalanced and iron ore prices fell, the industry focus shifted to include manpower and operating cost reductions, as producers looked to protect their margins in a more competitive environment. Today, volume and operating costs appear to remain the major focus of many producers, with relatively limited attention paid to the revenue side of the value equation. While this strategy may increase value in the short term, it can have longer term sub optimal value implications, particularly as the Chinese steel industry continues to evolve.

This presentation traces the continuing evolution of the global iron ore market and examines key aspects which can influence the revenue side of the value equation. Today, the global iron ore industry continues to adapt to the post China boom world where:

- Supply and demand are more balanced and customers once again have choice.
- The continuing rationalisation of China's steel industry and growing focus on productivity and environment has led to increased discounting of lower grade ores and elevated premiums for higher grade products.
- Despite the recent supply reductions and price increases resulting from the Vale capacity closures, the longer term outlook indicates slowing Chinese steel demand as their economy transitions from rapid industrialisation to being consumer driven.
- High extraction rates are resulting in shorter mine lives, requiring rapid delineation of new ore bodies and development of replacement mines just to sustain production levels.
- Head grades continue to decline as higher quality, easier to mine resources are exhausted, leading to increasing development of below water table and problematic ore types, often requiring wet processing and/or beneficiation.
- Major disruptions are occurring on both the supply (Samarco and Vale tailings related capacity closures) and demand sides (US-China trade wars) of the market.

These influences are examined in the Australian context and potential actions that iron ore producers could take to improve the revenue side of the value equation are identified, taking into consideration the processing and logistics challenges posed by their changing resource base over time. While resources in the ground cannot be changed, armed with the appropriate fundamental geo-metallurgical and process understanding of their orebodies, coupled with a sound technical knowledge of the market, there are decisions that producers can potentially make to improve long term value optimisation.