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Treasurer: no panic on growth

Jacob Greber
AFR correspondent

Washington | Treasurer Josh Frydenberg has left Washington upbeat about challenges facing the global and domestic economies, including a "more positive" outlook for a US-China trade fix, even as the IMF warned Australia must tackle tax reform and that next year's budget may need to tap some of the surplus to stimulate growth.

Mr Frydenberg said his message was "there's no need to panic" and that the global economy "remains sound", after three days of intense talks with counterparts from around the world, including US Treasury Secretary Steven Mnuchin, UK Chancellor of the Exchequer Sajid Javid and India's Nirmala Sitharaman.

"Despite the challenges facing the global economy I found that people were more optimistic than not about the ability of the economy to get back on track," he told *The Australian Financial Review* before boarding his flight home.

Washington's economic managers were "pretty upbeat about their economy", he said, and "the language from the Americans and Chinese was more positive than I've heard previously; about their ability to resolve some of these differences".

China's top trade negotiator, Vice-Premier Liu He, said over the weekend that the US and China had made "substantial progress in many aspects" as they work towards a partial trade agreement, again raising hopes for some kind of partial breakthrough in the bruising two-year dispute.

Earlier this month, US President Donald Trump said China would buy as much as $US50 billion ($73 billion) in US agricultural goods in exchange for an end to additional tariffs, but many investors questioned how solid that agreement was amid near silence from Beijing on the details. "The protagonists need to resolve some of these issues like trade tensions that are contributing to global uncertainty," Mr Frydenberg said in the interview on Saturday (Sunday AEDT).

The Treasurer's upbeat message came after the International Monetary Fund effectively endorsed the government's strategy not to rush into a pre-Christmas budget stimulus, even amid the IMF's slashing of Australia's economic growth outlook.

And it follows Reserve Bank of Australia governor Philip Lowe telling an IMF forum on Friday that the Australian economy was likely to return to near-trend growth over the next year, meaning that further official interest rate cuts should not be assumed.

Mr Frydenberg's optimism was echoed by one of the world's most powerful Australian executives, Morgan Stanley chief executive James Gorman, who told a finance forum in Washington that US consumer balance sheets were "in very strong shape".

"The risk has been all the headline risk, the endless geopolitical discussions," Mr Gorman said at the Institute of International Finance annual meeting on Friday.

"The actual reality of the damage, geopolitically ... relative to the last six decades, is pretty modest. We've had real big wars in the last 100 years, real geopolitical turmoil. We're not in that phase right now ... it's not that bad right now."

In his interview, Mr Frydenberg pushed back at the gloomy interpretation some took in Australia to last week's downgrade by the International

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Clearing the air

■ Prime Minister Scott Morrison has new "clarity" on the relationship with China after a meeting with Chinese Vice-President Wang Qishan in Jakarta that ran twice as long as scheduled. "I came out of the discussion pleased that there is a very clear understanding of where Australia is coming from," he said.

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▶ China's Pacific lending is worrying: Lowy **p11**

China launches $10b push for Oakajee iron ore

Exclusive

Peter Ker

A Chinese state-owned entity will seek to revive a $9.7 billion mining rail and port project in Western Australia, in a move that could unlock the nation's next iron ore export province.

Sinosteel has acquired Japanese giant Mitsubishi's interests in the long-stalled Oakajee Port and Rail project, in a deal that comes in the strongest year for iron ore prices since 2014.

The acquisition effectively resolves a dispute over port tariffs that was the major wrecker of attempts to develop Oakajee during the heady peaks of the iron ore boom in 2011, and when combined with Sinosteel's existing assets nearby, makes the Chinese company the dominant force in the mid-west region of Western Australia.

Attempts to develop Oakajee and unlock an iron ore province to rival the Pilbara region have been made for 46 years, but it rose to national prominence around 2011 after becoming a pet project of Colin Barnett's Liberal state government.

Sinosteel's $2 billion Weld Range iron ore project was set to be a major customer of Oakajee, but cost blowouts on the port and rail forced up the proposed port tariffs, prompting Sinosteel to halt work on Weld Range in June 2011.

According to internal emails leaked from Sinosteel in 2011, the Chinese company believed that port tariffs proposed by Oakajee Port and Rail Pty Ltd would have rendered the Weld Range project "economically unviable".

Royalty fight
Street Talk | Iluka Resources is under pressure to unlock $2b for shareholders. p16

Mitsubishi loomed as the project's saviour when it paid $325 million for the 50 per cent of Oakajee that it did not already own in November 2011.

But iron ore prices had begun their long retreat by then, and the confluence of factors meant Oakajee wasn't built.

Last week's deal means Sinosteel will control the port tariffs as well as the Weld Range mine, plus other iron ore assets in the region, if Oakajee's port and rail assets are ever built.

Sinosteel confirmed the acquisition when approached by *The Australian Financial Review*, but has not revealed any plans to construct the deep-water port at Oakajee, or the 570-kilometre network of railways that was meant to connect it to the iron ore mines.

The *Financial Review* revealed in July 2018 that Mitsubishi was close to selling the assets, and documents filed with the Australian Securities and Investments Commission last week show that two Sinosteel subsidiaries are the buyers.

The documents suggest the subsidiaries paid the peppercorn price of $3 each for their respective 50 per cent stakes in Oakajee Port and Rail, the company that owns the studies and intellectual property for the Oakajee

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▶ **News** More energy uncertainty **p5**
▶ **Companies** Junior miners shrink **p22**

Young Rich List 2019

■ **Head in the clouds** Neel Khokhani flies in the face of assumptions that the wealthiest self-made people aged 40 and under all work in tech, digital marketing or making people look beautiful on Instagram. Mr Khokhani, 30, who debuts on the Financial Review Young Rich List, made his fortune in an industry that's existed for more than a century. News p4

■ AFR Magazine's Young Rich and Design issue out Friday PHOTO: JOSH ROBENSTONE

Johnson in bid to revive Brexit vote

Hans van Leeuwen
AFR correspondent

London | A defiant British Prime Minister Boris Johnson will look to shrug off his weekend parliamentary defeat and renew his push to get his Brexit deal voted through as soon as today, as European Union leaders consider their response to the request to delay Brexit that he was forced to send them yesterday.

Boris Johnson: EU is watching events.

European Council president Donald Tusk said he would canvass European leaders over the course of Sunday (into Monday AEDT) over what delay, if any, to offer.

The Europeans don't have to offer the anticipated three months. If they sense Mr Johnson is close to a deal, they may offer only a short extension, or wait to see what happens in coming days.

Mr Johnson's leader in the House of Commons, Jacob Rees-Mogg, said the government would try to revive the torpedoed weekend vote on his Brexit deal as soon as today, although an expected procedural wrangle could push this back.

Parliament had been supposed to have a decisive vote on Saturday, but it was blown up by former Conservative minister Oliver Letwin.

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Insolvencies tipped to lift in mining ranks


The number of small Australian exploration companies has shrunk again as tough times take their toll.

Peter Ker

Australia's junior mining ranks have shrunk to the lowest level in four years and accounting firm BDO believes insolvencies are likely to rise on the back of a two-year high in the number of companies close to exhausting their cash reserves.

The pain is extending to landlords, restaurants and airlines, with analysis finding the junior resources sector spent about 22 per cent less on "administration costs" in the first half of 2019 compared to the same period of 2018.

The evidence of tough times at the small end of the resources sector was revealed in analysis of Australia's junior mining ranks by accounting and audit firm BDO.

The ASX requires explorers to file a quarterly cash-flow statement, better known as an "Appendix 5B", and BDO said 666 companies lodged an Appendix 5B in the three months to June 30. That was down from 680 in the first three months of the year, more than 700 a year ago, and was the lowest number since BDO started tracking Appendix 5B's in 2015.

While a range of factors played into the decline, BDO noted that tough times in the sector saw 10 companies delisted and three suspended during the period. Two further junior resources companies were acquired by companies with no connection to the resources sector, and the change of business model means they will no longer need to publish an Appendix 5B every three months.

The average cash balance held by Australian exploration companies declined from $5.62 million to $5.39 million in the three months to June 30. The number of companies with less than $1 million of cash on hand rose to the highest level since 2017, with 41 per cent of companies in such dire straits. In June 2018 that proportion stood at 31 per cent. More than 16 per cent of companies had less than $500,000 on hand at June 30.

"Based on current operating expenditure, the proportion of companies that will burn through their cash reserves in (three months) or less, increased from 22 per cent in the March quarter to 28 per cent in the June quarter of 2019," BDO said.

"This increase was likely caused by the declining cash reserves of smaller explorers, which leads BDO to believe that insolvencies and mergers and acquisition activity within the sector will increase in the coming quarters."

In a positive sign for investors, companies appear to have their priorities right; exploration spending increased in the three months to June, while administration costs declined.

Juniors spent $435 million on exploration in the June quarter, which was a 20 per cent improvement on the two-year low of $363 million in the first three months of 2019.

But exploration spending was still lower than in the September and December quarters of 2018, and the median exploration spend by company also declined slightly compared to the first three months of 2019.

BDO said that, and other findings of its survey pointed to a two-speed market for small resources companies.

"The increased exploration activity came from the larger end of the market," the firm said. "BDO is seeing continuation of a two-speed market, where (big) explorers like Gold Road Resources, which had favourable commodities and projects nearing production, are finding it easier to raise capital.

"Smaller explorers are continuing to struggle to raise capital through the sharemarket, which is partly being overcome by some explorers seeking funding from larger mining companies in exchange for farm-in agreements."

BDO said administration costs – which typically includes executive wages, head office costs, networking and the cost of travelling around the world to spruik projects at conferences – had declined noticeably.

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China launches $10b push for Oakajee

railway network and deepwater port.

One of the Sinosteel subsidiaries was also transferred all shares in Crosslands Resources, the company that had tenure over the nearby $3.7 billion Jack Hills iron ore project.

Crosslands is reliant on Oakajee Port and Rail building $6 billion worth of port and rail infrastructure to get its product to market.

ASIC documents say Crosslands was sold for $0.

It is understood the transaction has been through a lengthy process with the Australian government's Foreign Investment Review Board.

Chinese state-owned companies controlling port infrastructure in Western Australia were the target of negative and nationalistic advertising campaigns by Clive Palmer's United Australia Party during this year's federal election campaign, while Chinese company Landbridge's 99-year lease on the Port of Darwin has also raised controversy.

Aside from Weld Range, Sinosteel owns the Blue Hills iron ore mine in the mid-west, which operated for two years before being shuttered in May 2015.

While some high-grade iron ore exists in the mid-west, much of the resources in the region have iron content below the 62 per cent level that has became the industry benchmark.

A significant amount of iron ore in the mid-west is lower grade magnetite, which requires expensive processing to be turned into a saleable concentrate with iron grades of between 65 per cent and 70 per cent.

The energy intensive processing stage has made magnetite concentrate largely unviable in WA over the past decade, but there are signs that might be changing, particularly given the trend for Chinese steel mills to seek higher grade, higher quality raw materials.


Western Australia's Oakajee Port is key to the region's iron ore shipments.

Fortescue committed $US1.84 billion in April towards the Iron Bridge magnetite joint venture with China's Baowu and Taiwan's Formosa, which will build a $US2.6 billion magnetite concentrate project in WA's Pilbara region.

Iron Bridge's concentrate will have iron grades of 67 per cent, and Fortescue expects to be shipping the first concentrate from Iron Bridge before June 30, 2022.

Asked earlier this month why she believed Fortescue could profitably make magnetite concentrate in WA given rivals such as Ansteel and Citic had struggled to be profitable for much of the past decade, Fortescue boss Elizabeth Gaines said Iron Bridge would be "far more energy efficient" than its predecessors.

"We have applied different innovation to magnetite processing and we have been able to prove it by spending $500 million on a full-scale pilot and demonstration plant," she said on October 10 on the sidelines of the Melbourne Mining Club.

"I think the other projects that were developed, I don't have their specifics, but they didn't go down the path of doing a stage one, full-scale pilot plant and demonstration plant.

"We have actually proven the technology, we know it is more energy efficient and we have applied some innovation to the processing, and so we have a high degree of confidence that it will be successful and profitable."

Ms Gaines said Fortescue had not finalised its plans for how Iron Bridge's energy needs would be met.

"It is less about the source of generation. It is the absolute amount of energy, it is a 220-megawatt energy requirement. That compares to a similar project in Western Australia which is 450 megawatts, so that is the energy efficiency," she said.

Once fully ramped up, Iron Bridge is expected to produce 22 million wet tonnes of iron ore a year, which is the equivalent of about 20 million tonnes of conventional iron ore exports.

Sinosteel has not floated any magnetite concentrate plans for Oakajee, and in the immediate future the company is expected to focus on its existing iron ore mines in the region, which are conventional "direct shipping ore" mines extracting hematite iron ore.