



## Submission No 31

### **Inquiry into Australia's Relations with the Republic of Korea; and Developments on the Korean Peninsula**

**Organisation: Rio Tinto - Australia**

**Contact Person: Mr Charlie Lenegan  
Managing Director**

**Address: GPO Box 384D  
Melbourne Victoria 3001**

# RIO TINTO

Charlie Lenegan  
Managing Director  
Rio Tinto - Australia

17 August 2005

Mr John Carter  
Secretary  
Foreign Affairs Sub-Committee  
Joint Standing Committee on Foreign Affairs, Defence and Trade  
Parliament House  
CANBERRA ACT 2600

Dear Mr Carter,

## **Inquiry into Australia's relationship with the Republic of Korea; and developments on the Korean peninsula**

Rio Tinto is pleased to make this submission to the Foreign Affairs Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's relations with Korea. In this submission we review Rio Tinto's commercial relationship with Korea and address the terms of reference pertaining to the economic and trade aspects of the bilateral relationship.

### **Rio Tinto Group in Australia**

Rio Tinto is a world leader in finding, mining and processing the earth's mineral resources. In 2004, Rio Tinto's Australian investments in iron ore, coal, aluminium, diamonds, uranium, gold and salt totalled A\$13 billion. These investments employ over 10,000 Australians. Rio Tinto is the largest iron ore producer in Australia, exporting 127 million tonnes in 2004. Rio Tinto is a large investor in the coal industry - Australia's biggest export earner and an important source of international comparative advantage. Rio Tinto is also a large investor in bauxite production, alumina refining and aluminium smelting in Australia. This industry sector represents Australia's second largest export earner.

## **Iron Ore**

Rio Tinto enjoys a healthy trading relationship with Korea. Hamersley Iron, a member of the Rio Tinto group, has always had a long and mutually beneficial relationship with Korea's premier steel maker, POSCO. From Hamersley Iron's initial agreement to supply 130,000 tonnes of ore in 1973, its relationship has grown such that POSCO is now Hamersley Iron's single biggest customer. To date Hamersley Iron has supplied POSCO with in excess of 170 million tonnes as POSCO have grown to become the one of the world's largest steel makers.

Hamersley Iron's marketing philosophy is that it needs to be close to the customer to fully understand customer needs. Hamersley thus established a representative office in Seoul in 1998, which is charged with the responsibility of managing Hamersley's supply relationship with POSCO.

In terms of the future, POSCO has recently announced plans to increase production capacity in Korea from 28 million tonnes to 32 million tonnes per annum by 2008 with a further 10 million tonne capacity steel works to be developed in India. This will result in POSCO's total steel making capacity increasing to 42 million tonnes per annum within this decade.

Hamersley Iron has not been idle in responding to POSCO's and indeed the world's increasing appetite for iron ore. In December 2003, Hamersley announced plans to spend US\$920 million to expand the capacity of its port operations to 116 million tonnes, increase capacity at its Yandicoogina mine to 36 million tonnes per annum, acquire additional rail assets and undertake further feasibility studies. The 42 million tonne increase in capacity at the Dampier port will ensure that Hamersley Iron has sufficient port capacity available to meet steel makers future needs for iron ore. In April, Rio Tinto committed a further US\$290 million to expand Hamersley mines, which is expected to add 15 million tonnes per annum to capacity.

Rio Tinto's other iron ore subsidiary, Robe River, also enjoys a strong long-term supply relationship with POSCO. Robe currently supplies just under three million tonnes of a combination of pisolite ore from the Mesa J and marra mamba ore from West Angelas under long term contracts. Expansion work at West Angelas to increase capacity to 25 million tonnes per annum has been completed at a cost of US\$105 million. A further US\$245 million is currently being spent on rail duplication and improving power capacity and reliability.

Robe participates in and hosts regular commercial and technical visits between both companies - to head offices, the mines and steel works. In March 2004, a technical forum was held to continue the strong cooperation on product issues.

Both Robe and Hamersley Iron cooperate with POSCO on freight, sharing long-term contracts for shipments in three capesize vessels owned and operated by Keoyang Shipping.

### **Bauxite, alumina and aluminium**

Rio Tinto also enjoys a healthy trade with Korea in bauxite. Rio Tinto's subsidiary, Comalco, has had a significant and long-standing relationship with the Korean Chemical Corporation (KC Corporation), a producer of chemical grade hydrate and alumina, supplying it with bauxite from its 100% owned Weipa Mine in northern Queensland for over 10 years

During the early 1990s, Comalco worked with KC Corporation's predecessor company to assist in designing its refining plant, which was designed specifically for Weipa bauxite. Over the years this relationship has expanded to include significant technical exchange, with KC Corporation technical people based at Weipa from time to time for training in bauxite sampling and analysis techniques. More recently a technical exchange has developed between personnel at the new Comalco Alumina Refinery (CAR) at Gladstone, Queensland, and the KC Corporation plant in Korea, as both use the modern "tube digestion" technique of bauxite refining. KC Corporation and CAR are two of only three commercial plants in the world that use this recently developed method.

In 2004 Comalco delivered over 280,000 tonnes of bauxite to KC Corporation, which is on track to increase to greater than 300,000 tonnes this year. KC Corporation has indicated its desire to increase plant capacity to nearly 500,000 tonnes of bauxite over the next three years. This increased delivery capacity will be met by Comalco's recent A\$230 million expansion of the Weipa plant.

Comalco is also a significant supplier of aluminium products to Korea from its two Australian smelters, at Gladstone in Queensland and Bell Bay in Tasmania. Metal sales in 2004 were 89,000 tonnes to seven customers. Product sold was in the form of block, billet, EC ingot and standard commodity ingot.

Although sales of billet were not large in the past, they have fallen in 2005 as a result of a 3% import tariff on billet compared with only 1% on commodity ingot. This has led to imported billet being less competitive than Korean domestic billet, which is produced by remelt producers using imported ingot from China.

Novelis Korea Limited is both Comalco's largest Korean and world-wide single customer for aluminium. Novelis purchased approximately 79,000 tonnes of aluminium block and standard ingot in 2004 and sales in 2005 are expected to be 95,000 tonnes. Comalco has been supplying the Novelis plants since 1990 and has established a strong relationship that continues to grow. The current contracts are due for renewal in 2007 and a new contract for additional block for the next three years is expected to be finalised in July 2005.

### **Coking Coal**

Rio Tinto Coal Australia (RTCA) has a long term relationship with POSCO through the Mount Thorley Joint Venture (80% Coal & Allied, 20% POSCO). Since 1981 Coal & Allied Industries Limited (CNA) has supplied semi soft coking coal to POSCO for use in its coke blend, as pulverised coal injection and for POSCO's Finex technology. In recent years CNA has supplied approx 1.6 million tonnes to POSCO. RTCA also supplies coking coal from its Kestrel and Hail Creek mines under long term (five year) contracts. Total RTCA contract volume to POSCO in FY05 is 2.15 million tonnes and

this is expected to increase in 2007 when POSCO's new Finex plant comes on stream. Through the Mount Thorley Joint Venture, RTCA and POSCO have established a "partnership" approach, above and beyond the traditional seller/buyer relationship.

### **Thermal Coal**

In 2001 the Government owned Korea Electric Power Corporation (KEPCO) restructured and split its generating plants into five separate companies. KOSEP, KOMIPO, KOWEPO, KOSPO and KEWESPO (the Gencos) were allocated their own power plants and dedicated vessels. The Gencos compete against each other for the mantle of most cost competitive. This objective heavily influences their coal purchasing strategy i.e. they are extremely price driven. The Gencos have a history of poor contract performance, most recently demonstrated in 2002 when they defaulted on Australian contracts in favour of lower priced Chinese coal. During 2005 RTCA has implemented a strategy to rebalance its thermal coal customer portfolio towards customers who value the RTCA package (reliability of supply, quality control, technical support). As such, tonnage placed with the Gencos has decreased from three million tonnes in recent years to just over one million tonnes in 2005. The Korean thermal coal market has been, and continues to be suited to trading companies.

<b>Korea (Mmt)</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Coking	1.9	2.0	1.6	1.5	2.1
Thermal	2.9	2.8	3.1	3.2	2.4

### **Uranium**

Rio Tinto continues to enjoy a long-standing relationship with Korea in uranium. Energy Resources of Australia (ERA), Rio Tinto's 68.4% uranium business, has been supplying uranium to the Korean market since 1983 for the purpose of nuclear power generation. As one of ERA's first customers, Korea Electric Company (later known as Korea Electric Power Corporation or KEPCO) has long maintained a significant presence in ERA's contract portfolio.

When KEPCO's generation sector was separated into six power generation subsidiaries in 2001, ERA's supply commitments continued with Korea Hydro & Nuclear Power Company (KHNP), which provides some 40% of all the electricity consumed in Korea.

KHNP is currently the world's sixth largest generator of nuclear power. In 2004, KHNP was one of ERA's biggest buyers by quantity, purchasing nearly 800 tonnes of uranium (about 17% of total sales) contained in uranium oxide. With 19 operating nuclear units (over 16,700 MW in total installed capacity) producing nearly all of KHNP's power and a further five units under construction, which will be added to the grid by 2011, KHNP continues to be a strategically important customer to ERA.

### **Salt**

Rio Tinto subsidiary, Dampier Salt, has for many years supplied the Korean chlor-alkali industry with high quality salt. Sales are some one million tonnes a year.

**In summary**

Rio Tinto's iron ore, aluminium, bauxite, coal, uranium and salt trade with the Republic of Korea has been very successful for many years and Rio Tinto has excellent relations with the Republic of Korea.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Seegan". The signature is written in a cursive style with a large initial 'S'.