

Mining giant Xstrata may quit Mt Isa over Rudd super profit tax

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HAVING put a major part of its development plans in north-west Queensland on hold in the face of the proposed resource super profits tax, there is now speculation international mining giant Xstrata might abandon Mount Isa altogether.

The suggestion is, RSPT or not, that Xstrata has other places where it could better deploy its capital given a number of issues facing it in the Mount Isa district, particularly in its copper operations.

Xstrata's 2003 takeover of MIM Holdings, just as the Chinese-inspired resources boom took off, set the scene for Anglo-Swiss Xstrata to turn itself into a major diversified multinational group.

It ranks only a tier below the world's top three mining companies of BHP Billiton, Vale of Brazil and Rio Tinto.

The MIM takeover gave Xstrata an entry to Queensland coal and a major stake in MIM's Alumbrera copper operation in South America, as well as control of its Mount Isa copper and silver, lead and zinc operations and the associated Ernest Henry copper mine near Cloncurry.

More importantly, Xstrata was able to leverage the rising value of MIM's assets, and its other Australian coal operations, to go on an acquisition spree which included the purchase of Canadian nickel major Falconbridge, for \$US21 billion (\$A24.6 billion) in 2006.

But has Mount Isa outlived its usefulness for Xstrata?

Veteran mining analyst Gavin Wendt of MineLife reckons that may be the case. Queensland Resources Council chief executive Michael Roche told the CEDA function in Brisbane last week that the acquisition of MIM by Xstrata - then all but unknown in Australia - was "treated with some fear and loathing, particularly in Mount Isa".

But "the first thing Xstrata did", Mr Roche said, "was invest \$3 billion in new projects, expansions and upgrades, essentially re-energising the company - and just as importantly the city of Mount Isa."

Mount Isa hasn't been easy, however, with a deficit of power, an ageing rail link to Townsville where MIM refines its copper output, and a depleting Ernest Henry mine - which Xstrata was about to push underground until its decision to put that development on hold in the face of the RSPT.

Ernest Henry supplements Mount Isa's copper production, which is becoming increasingly difficult and expensive, with underground operation at some 1900m, the deepest in Australia.

Mr Wendt said given these factors, Xstrata's board, with a number of other options to maintain Xstrata's position in the copper market, would almost certainly be regularly assessing whether Mount Isa remained a core asset.

"Xstrata has a number of other projects (it could devote money to)," Mr Wendt said. "Its Tampakan project in the Philippines contains one of the biggest copper ore bodies in the Asia-Pacific region. A company like Xstrata (with a worldwide asset portfolio) has competing calls on its capital.

"Xstrata's takeover of MIM was perhaps the greatest deal ever done. But operators like Xstrata want projects at the lower end of the cost curve, which will survive cyclical price downturns," Mr Wendt said.

The implication was that Mount Isa, particularly if the Ernest Henry expansion - designed to extend optimum use of Mount Isa's processing plant for years to come - was curtailed, would look less and less attractive on a cost-curve basis.

Xstrata Copper could not be contacted yesterday.

But Mr Wendt said if Xstrata was to keep the operation, and Ernest Henry could not keep up optimum supply to the Mount Isa plant, it would have to look to other potential suppliers in the region, from Exco to, perhaps, Cudoco - having made one mistake when it took over MIM by closing down the group's exploration arm.

While the Mount Isa operations are getting harder, they are saleable at the right price, with one regional player, who didn't want to be named, telling The Courier-Mail he'd love to buy them. "But to find a buyer they'd probably need a cast-iron indemnity from the Queensland Government to protect a purchaser from 'legacy' environmental issues," he said.

Ron Kitching's Remarks:

"We want a successful and prosperous mining industry in the future." So said Comrade Rudd. Judging by the intentions and actions of one of the world's most efficient Miners, The Kremlin has made an error of judgment.