AMID IRON ORE WOES, BHP POSTS STRONG FY24 RESULTS BUT DECARBONISATION FAIL

Must keep eyes on the green iron prize

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30 August 2024

This month, the chairman of China Baowu Group, the largest steelmaker in the world by far, warned China's steel sector will enter a 'harsh winter' that will be 'longer, colder, more difficult to endure than expected', and more challenging than major downturns experienced in 2008 and 2015, as China's construction slump and steel glut bite.

Over 80% of Australia's iron ore exports are to China. The benchmark iron ore price has fallen below US$100/tonne, while prices for coking coal have dropped by a third to US$202/t in just 2 months, with widespread concerns about the impact of falling prices on the Federal budget. Australia's iron ore majors are well positioned to ride the downturn in the global steel market, and highly capitalised from low operating costs and strong balance sheets on the back of five years of exceptional iron ore prices. However, this slump is a stark reminder of the influence of China's domestic steel industry and market power on the global iron and steel value chain.

Meantime, China continues to grow its steel exports, and is likely to export more than 100Mt in 2024 (more than Japan's entire crude steel production in 2023) to jurisdictions that are implementing carbon pricing mechanisms, including the EU's carbon border adjustment mechanism (CBAM), which penalise high carbon products. At the same time there is increasing supply of iron ore from high-grade, low impurities jurisdictions in Africa and South America.

These global resource dynamics create an urgent imperative for Australia, as the world's largest iron ore exporter, to recognise that its future prosperity lies in providing higher iron content products with low embodied carbon.

To avoid increasing strategic challenges as the world's steel industry accelerates decarbonisation efforts and looks to new markets, Australia's corporate leaders must keep their eye on the prize: they must step up their investment into value-adding and decarbonisation. This requires them to deploy renewable energy and common user infrastructure in the global iron ore hotspot of WA's Pilbara at speed and scale, to enable a pivot to Australia's #1 future-facing export opportunity – green iron, processed using renewable energy. Fortescue is a case in point.

Iron ore giant BHP is another story. This week it reported a very strong set of FY2024 results, underpinned by an exceptional 61% return on capital employed in its Pilbara iron ore division. In contrast, its Climate Transition Plan 2024 shows a total lack of climate and decarbonisation ambition. It forecasts its global operating emissions (scope 1 and 2) will rise 3% from FY2023 to FY2030. *Up is not down!* BHP seems to think it can divest its way out of the responsibility of investing in decarbonisation. Waiting until the entire current board has retired is the opposite of leadership. A total fail.

Collective investment in electrification, decarbonisation and green iron processing to position Australia to capture value in the green iron supply chain and help our key trade partners drive their steel sector decarbonisation is key. Deferring the hard efforts until next decade is a punt Australia and its key resources corporates simply can't afford to take.

The opportunity cost of inaction to Australia's economy, which currently relies to a significant degree on iron ore exports, is untenable. Strategic national-interest policy action is required. As CEF has previously written, we urge the Australian government to collaborate with our key trade partners to encourage the formation of an Asian CBAM to extend and leverage the EU CBAM. This would provide the necessary price signal in global commodity markets to commercially underpin the >$100bn investment Australia needs to make near-term into accelerating our green iron capacities.

A $10bn green iron production tax credit (PTC) and a capping at $50m pa of the diesel fuel rebate (leveraged mostly by resources majors, locking them into dependency on an expensive, imported polluting fossil fuel to power operations), are two principal Federal Budget interventions we recommend. These initiatives would incentivise electrification, decarbonisation and technological innovation in our value-added green iron sector, before our global competitors steal the Pilbara's massive current iron ore 'rivers of gold'.

The clock is ticking. The government has a time-critical opportunity in the forthcoming MYEFO to put in place these critical policy measures and catalyse investment into this potential export behemoth at speed and scale.