Rio Tinto

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QA transcript

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Question:
Jacynthe, I heard you mentioned Western China and obviously the demand profile that you expect there. I did note last week with interest that Chinalco mentioned that they saw the threat of new power emanating from Western China, cheaper power, and certainly a significant development of aluminium smelting capacity in that region coming off that cheap power. What sort of work has Rio done on that thematic and do you see it as a threat or do you think the distance, if you like, from the markets really sort of means it's almost an enclosed or isolated system?

Jacynthe Côté:
MS. JACYNTHE CÔTÉ (Chief Executive, Rio Tinto Alcan): Obviously, the electricity market in China is something we track very closely. More than 50 per cent of the production rate now comes from Central and Eastern China, so the electricity price paid is around $50 a megawatt, often about $65.

What is being developed in the Western part from what we've seen, when they buy from the grid it still into a fairly high price sector. But the trend from more information that is coming, is people are going fully integrated, so energy companies are moving into aluminium. It's something we are tracking closely, but when we look at the full economic cost of these, on average they are still in the mid-40s.

What we need to look into and what we're still assessing is that the logistics to bring bauxite, bring alumina and to come out with the metal is not simple. In the long run, the local population will still want electricity - so the tension will still remain. This is something we are tracking very closely, but that's not changing significantly our views about the shape of the cost curve in the coming years.

Tom Albanese:
Thank you.

Question:
Just a couple of questions. Firstly, could you provide a little bit more 'colour' on the $2.5 billion that you are going to spend next year maybe by asset or by division. Where it is going to go?

And then secondly, carbon emissions you touched on it, Tom. I think from memory, it's either today or imminently you need to provide to the Australian Government your emissions for your businesses. I agree with you that the piecemeal approach with the Australian Government going early is going to be damaging, particularly for you and for your peers. Can you run us through a little bit how that is going to impact your business? Have you quantified the impact in terms of (1) your emissions and (2) the cost to the business? Thanks.

Tom Albanese:
Thank you. I'll maybe provide a little bit of 'colour' on the $2.5 billion, but I would like Guy, if you want cover it in more detail too. But I think one of the things, that you would have heard, is we talked about stepping up the expansions in the iron ore business.

I think it is quite important to recognise that we still have some mine expansions, as Sam noted, to get to a stable 220 million tonne per year rate and then bringing it up in the increments that we talked about. And then, of course, before we actually push the button on a 320 decision - or a 330 decision now - we have quite a bit of engineering to do and we would expect that to take up some of that money during the course of next year.

I would focus on some of the projects that we have said this year we would continue on. We will have Yarwun II continuing through the course of 2010. Of course, Clermont will be wrapping up during the early/middle part of 2010, but Kestrel will continue to be something that we will be funding through the course of the year. So we are going to keep those Queensland coal projects going and, again, look at other opportunities as we see some de-bottlenecking in Hunter Valley take place.

In the Copper business, we have a few projects that we will be looking around the Group, as I have described. We also have the moly auto clave project – I think those who would have visited the KUC mine during the North American Investor visit would have seen that opportunity – and a few other incremental copper projects around the Group. Then of course, as we have talked about, I would like to see Oyu Tolgoi continuing now that we have got that investment agreement under our belt.

In the area of aluminium, as Jacynthe said, I think what we will be doing is focusing on Yarwun II. I think that at the Kitimat modernisation and AP50 we will be doing some work, albeit at modest levels until we see some broader strengths in the fundamentals for the aluminium sector.

But, Guy, if there is anything else you want to add to that?

Guy Elliott:
I think you have given a pretty comprehensive list there, Tom. $2.5 billion was the sustaining capital level, approximately. You can sort of see the other $2.5 billion as being some of the growth projects which Tom has listed and which I listed also in my discussion. I don't think there is anything more to add really to that.

Tom Albanese:
I think moving on to carbon emissions - there are two parts to your question. The first was carbon emission reporting, and we have been making those submissions. I notice some recent press about the challenges that will be on Corporate Australia. But we recognised that this was going to be an important part of the overall planning for Australia's move into carbon emission planning and so we have been doing that work and quite a bit of resource is going into that particular area.

We have also put quite a bit of resource in engaging with the Australian Government on the emission scheme. Actually, it has been making quite a bit of progress over the past year-and-a-half compared to some of the original discussions that were in the Green Paper.

We are going to be watchful and mindful of the effect particular in alumina refining, aluminium smelting and again in coal mining, particularly the methane emissions from gassy operations. That will have different effects on different coal producers and certainly we are very mindful and watching for that. And that could have the effect of allocating capital depending on the particular nature of the individual mines - its methane content - but we'll just again study that as we go forward.

From my own perspective, I think that Australia is doing the right things by setting the stage. But, as we have said, it is quite important that the trajectory of the approach and how it's put in place so Australia does not disadvantage itself from other regional players - particularly for, as I said, the aluminium, the coal, the other energy-intensive export sectors.

Question:
I have two questions for Sam on iron ore. The first one is with respect to your expansion to 330 million tonnes per annum. You mentioned that this will be achieved through the development or expansion of six mines. I understand you aren't conducting a pre-feasibility study on the expansion of Hope Downs. But why doesn't the expansion of 330 million tonnes per annum include an expansion of Hope Downs and is this reliance on the iron ore JV proceeding? That's the first question.

Sam Walsh:
Okay. As I mentioned, we are in the throes of completing our pre-feasibility study for 330 and will move into feasibility study at the end of first quarter next year, which will enable us to conclude that work by the end of next year. We are in fact still going through the determination of which mines will actually be in those expansions.

Hope Downs 4 is in fact part of the options that we are looking at there and under our original Hope Downs agreement we physically have an obligation to study Hope Downs 4 and come to a conclusion on that by June 30 next year. We will in fact complete our feasibility study on Hope 4 later this year, so that is one of the options we are studying.

In relation to the question as to how does this all relate to the iron ore joint venture, clearly as I mentioned, we have 14 work-streams looking at various integration and planning activities. At this stage we can look at system and processes, particularly in the computer areas of bringing together our accounting systems and our HR and other critical systems for Day 1.

But a lot of the work and particular the work that relates to cost relating to expansions and what-have-you, we are not able to get into those areas at all until we have regulatory approval and obviously a full-binding definitive agreement.

Having said that, clearly we look over the fence and clearly we can see that BHP Billiton is working on their Rapid Growth 6 Project at the same that we're working on 330. If I were a betting man I would say that both projects will actually go forward - but that's a call for the Boards of both companies and obviously the Owners' Committee.

When you look at the timing of those projects and the timing that Tom mentioned for completion of the joint venture meshes pretty well in terms of being able to give us a good decision point on those projects.

Question:

Okay. Thanks, Sam. The second question was on the potential synergies associated with the iron ore JV. I understand you can't quantify them at this stage, but I do have a question. The obvious ones are combining the resources and infrastructure optimisation, but can you expand on some of the less obvious synergies, perhaps on some other projects?

Sam Walsh:

Yes, there's obviously a number of synergies and, as I have just mentioned, at this point in time we are not allowed to bring those two together. As it turns out both BHP Billiton and ourselves have independently assessed synergies and come up with similar numbers. I suspect that the breakdown is not exact, but there certainly would be a lot of commonality there.

With the 14 work-streams, we have been using a consultant to ensure that the way we are collecting and analysing data. When we actually bring it together and mesh it, it will be in the same format with the same discipline and rigour so that we can 'hit the ground running' with that work.

Synergies, as I mentioned, sort of cover a range of operational and development activities. Perhaps a significant one that's not immediately obvious relates to resource and reserve optimisation. I mentioned in the presentation that we are looking at moving to a blend, in fact become a super Pilbara blend for want of a better word. I think you know at the time that we moved to the Pilbara blend in 2007, we were able to write back in 350 million tonnes of resource that otherwise would not have been mineable.

Those sorts of synergies are not immediately obvious but there will be substantial benefits there. I guess I was hinting very strongly in relation to the advantages that the operation centre is going to bring - and, as it turns out, there is room for the BHP Billiton mines as part of the facility when we built that. I believe that when you are controlling 18 mines instead of 11 mines, when you are controlling the 2 railways and controlling the ports at Dampier, Cape Lambert and Port Hedland that there would be substantial benefit there.

Clearly in terms of railways, the two railways will be linked. Clearly, there are operating efficiencies there in terms of the Eastern Pilbara is closer to Hedland than to Dampier and the Western Pilbara mines are closer to Dampier and Cape Lambert, so there are some physical advantages there.

As part of the joint venture, we'll be moving to best practice across each of our operating practices and at this point in time we have not physically been able to share that data. But things like the fact that we (Rio Tinto) 'owner operate' versus the use of contractors, I think there will be significant advantage there. Quite clearly with the strong capability of our mine management team, we will be able to use that in terms of transferring the BHP's operations over time to 'owner operate'.

Sometimes you think, well, that's a very easy transfer; it's actually not! I would describe it, it's like when your children see you driving your car and it comes their turn to drive and they think, well that's looks pretty easy; it's actually not. Sitting and watching is a lot different to actually doing! But we've got the mine management teams that will be able to help us make that transfer much easier.

Another area obviously relates to the combining of the Head Office activities and the procurement and general overhead areas. So there is a range of items. As I said, I suspect that when we able to drop the fence and we are able to look at the synergies they have been tracking and developing versus the ones that we have been developing, they will attract the greater opportunity than we originally thought.

Tom Albanese:

I would just add one other point to that. That is, as Jacynthe described with the Rio Tinto Alcan synergies, we've developed pretty rigorous systems and quite thorough processes. I would see the experiences from that will be directly applicable.

Question:

My question is to Tom, and that is looking at Rio Tinto's latest submission to the carbon disclosure project. It looks like you've committed upwards of a billion dollars to carbon capture and storage projects in the next decade - part of the commitment I gather is to Future Gen which seems to be going nowhere. Can you tell me what else it's achieving and also why the investment is being directed there as opposed to technologies that are already up and running, given that CCS seems like it may not be the Holy Grail we'd all like it to be?

Tom Albanese:

First of all, Future Gen has been on and off over the past 5 years, and we were an early sponsor of that project. Most of the funds were coming from the US Federal Government. It was a project in Illinois during the last Presidential Election – funny, but a project in Texas seemed like the more attractive than the one in Illinois so it tended to go by the wayside. Until again we had a new President and then, by the way, it was more attractive in Illinois, so it is coming back to the front! But politics are involved with these in the US, just like the politics would be in any other country.

We have followed a different path with CCS, in addition to the Future Gen, and that with our joint venture with British Petroleum. We had a number of CCS projects around the world. We have chosen to concentrate our efforts in the one at Bakersfield, California, which would be using both natural gas, coal and petroleum coke to create hydrogen for electricity generation and CO2 in an old mature oilfield for residual oil extraction.

It was the first project to get monies from the Obama Administration for CCS projects. And again the individual technologies for CCS are actually known technologies, but the know-how for putting these known technologies together and making it work has not yet been included. Our work is generally focused on pre-combustion technology, for which we do believe the science is further along, although we recognise that to refit existing facilities you are going to have to move to post-combustion.

In terms of the spending we would be putting in there, it would decidedly modest compared to the total funds on these because again we would be looking for a variety of governments to be involved with this. But we would be putting in our technology, our know-how, and from my own personal perspective I would want to be seeing as much of this technology available for others to use.

Because I think if we are going to see coal as being part of the future economy - and I am not talking about what going to happen in the next 5 or 10 years but we need to be thinking about what's going to happen in the next 10, 20, 30 and 40 years, which by the way is within the time horizon of our coal operations - that we have got to come up with some way of converting coal to electricity with less of a carbon output.

If we are going to get anywhere a 450 ppm target for CO2 by the end of 2050 - which again is within the planning horizon of many of our mines - we have got to do quite a bit. I think carbon capture and sequestrations are one piece of that. But again in terms of the monies we put into it, they would be seen to be part of industry's efforts but it would be very modest in the context of our total capital spend.

Question:

Two questions, the first one for Tom and Sam. On the iron ore joint venture, you both said you're committed to seeing that through. Are you still committed to seeing it through in its current format? Is there any scope as you are signing the definitive agreement for any renegotiation of the terms of the joint venture?

And then the second question for Jacynthe. You told us you are moving long bauxite in the portfolio, or you prefer to be long on bauxite. I wonder if you can talk a little bit more about that in terms of why that's good? And particularly I'm interested in your thoughts around the value in the aluminium chain. What sort of return on capital are you generating as you move from bauxite to alumina to aluminium - in other words, where is the value for you in your portfolio created?

Tom Albanese:

I will first talk about the iron ore joint venture. And actually I would like Guy - because Guy has been leading the work-stream on the commercial side - if he feel he wants to add any comments on the definitive agreement itself?

The iron ore joint venture has the opportunity to deliver synergies that are without peer in the mining sector. There is $10 billion of NPV as the prize out there that either we are going to get, or not. I think we should get it, so I'm committed to getting this iron ore joint venture done.

Now we have a lot of regulatory issues to go through, but we know that. We know exactly what they are and we have been through a whole cycle of what the issues are with the regulators. We will go through that cycle with the knowledge that we'll have two independent producers selling two chunks of iron ore from the same efficient operating business.

This is simply the creation of a single operating business as efficiently as we can make it with all of our systems, with our capabilities, with our capital, with all our resources. We each get a chunk of tonnes and we will still compete head to head each of us with that chunk of tonnes. We have got to take that through the regulatory process, and that's what it's for.

We are going to go through that on a progressive, very professional, manner and the teams are very committed to it. I have to say the goodwill between the organisations - at all levels of the respective organisations! - is quite high to getting this done.

But, Guy, if you want to make any additional comments?

Guy Elliott:

Well, I think the first point to make is that the principles which govern the negotiation that is being carried out were settled after quite a long haggle. We went into quite a bit of detail in getting those principles right from the viewpoint of both sides. So that's was all done during the course of May, and we signed the principles in June and announced them at that time.

Since that time, we have been working on turning those principles into implementation agreements and other detailed agreements. Now, of course, not all the details are yet settled but, as Tom said, the two sides are working very diligently through this, very thoroughly. It's a very complicated process.

This is an agreement which has got to last many, many decades. It has got to cater for all sorts of eventualities that we can't think of right now. We are trying to do that as well as we can. I think the intent is to indeed honour the principles that we reached back in June and so that is all in train and should be completed by the end of the year.

Tom Albanese:

Thank you. On iron ore, Sam, do you want to add anything on that from your view or we can go straight to Jacynthe?

Sam Walsh:
No, nothing to add.

Tom Albanese:
Okay, Jacynthe, maybe you'll cover the bauxite and alumina!

Jacynthe Côté:
Yes. Obviously briefly, the need of being long bauxite and alumina. If I take a rough order of magnitude of price of alumina under normal conditions - if we look at the last few years, let's say $300 a tonne just for the sake of comparison. If you are long into a long market that may drop to $200 a tonne spot price, but if you are short into a short market you are going to see spikes of $600 a tonne. So there is a clear asymmetric price risk and we want to be on the long side – and it is also supporting our growth clearly.

Now in total the value chain, it is clearly driven by the quality of the asset. If you have got a tier one asset, that's what makes the difference. If I look into our value chain - that's the bauxite, the alumina and the smelting - it's the quality of the assets that you own that makes a difference.

I don't know if you remember the slide that was shown on how you capture the value - the EBIDTA of the industry - Q1/Q2 alumina capture over 70 per cent of the value of the industry; the same for smelting. What really makes a difference is the quality of the assets you own.

Tom Albanese:
Thank you. I think I will take a call from the phone line if I can. Is there anyone on the phone?

Operator:
Please go ahead, sir!

Question:
Good morning, Tom. I just would like to explore a little bit in coal, and you touched on it through your presentation. You said firstly that you may look at opportunities in coal as they arise. I am just wondering, do those opportunities extend to places like Mongolia?

And secondly, would you look at coal in the same way as iron ore and maybe look at doing a joint venture? I notice that your coal volumes out of Newcastle are still well below your capacity. I am just wondering if that's a method by which you would be able to lift those volumes up and get right up to capacity again?

Tom Albanese:
Well, thank you. I will start with the New South Wales question and then talk a bit about other areas for coal. The reason that our production has been running at less than our capacity has been as simple as logistics.

As you know, we have been leading the way in terms of working toward getting a Newcastle solution and notably moving toward a longer term take-or-pay arrangement - which I am very pleased to see we have in place now, so that we can begin to create more commitments in terms of what we want to do going forward. That provides for some continued improvement in the port loading capacity and with that I think, hopefully, we'll see the real loading capacity. That should create us opportunities to bring up overall capacity and we will certainly do so in a way that will maximise the value.

Doug Ritchie as the new Product Group Chief Executive of Rio Tinto Energy knows the coal chain quite well; he knows the issues. He knows that particularly within the Hunter Valley there is a range of joint ventures; there is a range of equity interests; there is a range of different companies that are involved. He is going to be committed to maximising the value to what is a world-class asset that we have in the Hunter Valley.

And the same type of question will come through in Queensland. At a point we have to see the missing Northern link; all these get themselves put into place so that we can take full advantage of a larger infrastructure position so we can basically allow ourselves to build up our coal capacity in Queensland.

Now we should remind ourselves that Australia is not the only source of supply for the Asian seaborne market - so that if the coal chain does not pick up others will find their way to that market. I have been to many of the coal resources in Mongolia and there are coal horizons that are 300 metres or more in thickness. A friend of mine is the CEO of an energy company. When he went there he described it as a “religious experience” - and, by the way, he has assets in Australia!

Coal from Mongolia to China is happening. It is expanding, probably doubling every two years. Will that coal get to the seaborne markets? I suspect it will.

Will it get to the seaborne markets at a lower delivered cost than Australian coal? I suspect it will too. So from my perspective this is a place we need to be investing.

And it should remind us in Australia that it is quite important to get the coal chain infrastructure fixed, because if it doesn't someone else is going to be there with the supply!

Question:
Tom, just in part then, you said it is somewhere that you should be looking. So is this going to be via your stake in Ivanhoe or is this going to be done independently?

Tom Albanese:
We have coal interests through our stake in Ivanhoe, but we also have coal interests on our own in Mongolia via Rio Tinto Exploration. So I would see the full range of opportunities, as you would expect we would.

Question:
Thank you very much, Tom.

Tom Albanese:
Thank you. Any more from the phones?

Operator:
Your next question. Please go ahead!

Question:
I just want to get some clarification over whether the EC will be viewing this iron ore JV as a full merger or will it look at it from Section 81 review point?

Tom Albanese:
Well, I think that's up to the regulators. So we will, as you would imagine, have our dialogue with the regulators jointly, which we have been doing - but I wouldn't want to prescribe how they would come to their conclusion.

Question:
Okay. Does Rio Tinto have a preference on which way to go?

Tom Albanese:
We will see how the regulatory process goes on its own.

Question:
Okay. And just sticking with the anti-trust theme, can you give us an update on how the process is going with regard to the Packaging asset sale to Amcor?

Tom Albanese:
Guy, would you take on that question please?

Guy Elliott:
Sure! Look, all the various Packaging assets - and for that matter the other asset sales that we are dealing with - are going through the normal regulatory processes. In the case of these two Packaging sales – I think you are focusing on the Amcor one – but there are actually two big asset sales. They are both very large businesses and, in the case of the

one that is being sold to Amcor, it covers very numerous jurisdictions and therefore is subject to quite a number of anti-trust investigations.

I don't think there is anything untoward that has happened. We have moved into a second phase in the United States and I think we always expected that there would be quite a level of investigation here, but I don't think anything is untoward. So what we can say is that all these processes are proceeding. And we originally said that in the Amcor case that this would take 6 months or so, we thought. So these are all underway.

Question:
Okay. With regards to the JV, are we still on track for signing a binding agreement before 5th of December or could there be some slippage towards the end of the year?

Tom Albanese:
Yes, we are on track to sign it on the schedule that was laid out in June.

Question:
Okay. Thanks.

Operator:
There are no further questions, sir.

Tom Albanese:
Okay. Any other in the room here? Yes!

Question:
Maybe a question for Sam? Just in regards to Orissa, it is clearly a project that has been around for a while. I don't know whether you can elaborate any more in terms of the timing or any scale of any project there? And also can you actually get export pricing for that iron ore? If it's mainly going to the domestic market, how do you weigh up spending capital there versus in the Pilbara?

Sam Walsh:
The work with the Orissa State Government really has progressed, particularly in the past 6 months. I am somewhat more optimistic about completing agreement with them in the near term - which would enable us to take over the existing operations which are running at about a million tonnes a year - and then commence studies on a project that could take us to 15 million tonnes per year as a first step.

Clearly the issues - domestic market, export pricing - are significant issues for us. We believe that we will be able to have robust projects with the Orissa project and comparing those with the Pilbara they will be attractive for us.

What we believe, as Tom mentioned, is that India is a very prospective market. We expect that with the rate of projects coming onstream there that they won't actually be able to meet their needs completely. I have always said with the Orissa project that it will happen when India realises that they need to bring on ore urgently and that's really the window that we are in right now. So I think that iron ore will be tight in India and that will provide quite an opportunity for us.

Question:
Your outlook commentary talked a lot about the very long term and maybe the next 12 months. Can you maybe talk a little bit more about the very short term? We have seen Chinese steel production increase very materially; we have seen Chinese domestic steel inventories increase, and then the Chinese steel price fall. Have you seen any weakness in demand for the raw materials in the short term? Can you give us a bit of a view as to what you think is going to happen over, say, the next 3 to 6 months?

Tom Albanese:
I'll talk more from a macro standpoint and maybe, Sam, if you want to speak a bit about what you are seeing in your specific markets and maybe, Jacynthe, if you want to speak, what you see in your specific markets too?

I think that we have all been surprised on the upside by the demand growth for our commodities in China over the past 9 months. We knew that the stimulus package was going to lead to an improvement in the second half. It was only 6 months ago people at the top end would have said GDP growth in China would have been 7 per cent this year, and we are looking at probably something in the plus 8 per cent now.

So I would say from our perspective that's why we focus - and I focused on in my comments - for our sector this has been a China story this year. It has been almost entirely driven by a stronger set of market performances in China. The demand for everything, whether it's iron ore, whether it's aluminium - and you saw the numbers from Jacynthe - and certainly copper in the copper cathodes stockpiling that's going on. Now some of this is going to be a restocking, but I think there are also some strategic stocks being built. We never really like stockpiling because that material can come back into the market at any time, but it clearly has had a positive effect on our sector this year.

But that has been offset by a stagnant demand picture in OECD countries. Just over the past few days we first of all saw some euphoria last Thursday with a 3½ per cent GDP growth, and followed by depression on Friday, and followed by lower consumer spending.

I get back to the US from time to time - meeting with investors, meeting with businesses there - and it is a glum place. Expectations are for higher unemployment and that's leading to higher levels of savings rates. You are just seeing consumers not going in to buy things unless they are being induced like the "cash for clunkers" programmes in the third quarter to do so. I don't necessarily see that changing in the next few months. That's why from our own perspective we will be cautious, at least through the first part of 2010.

Japan: Sam and I get to Japan all the time – Sam was just there last week, I was just three 3 weeks ago. There is a sense of glumness in Japan - a combination of what the new Government means to the corporates, a combination of demographics. While there has been some pick-up in some of the business because they are exporting into the Chinese market, as we speak now you are not seeing necessarily the fundamental step-up in expansion in their thinking.

And in Europe, it's a mixed bag. The UK is being supported by the pick-up in the financial sector, of course, but we are now in another quarter of negative GDP growth. Some of the export businesses in Germany, that's been helpful because they have been selling into China, but in general the OECD we have to treat in a circumspect manner.

And that's to some extent why we have given you a range of capital for next year. Because we have got to watch – we all have to watch! – on a quarterly by quarterly basis when will the OECD come back and play their part in the world economy, because they really need to start playing their part in the world economy and balancing out the really strong strength that we would expect to continue all through 2010 from China.

But maybe just talk on a sector by sector basis, because I think they have got a sort of unique lense. What we try to do is we try to take these unique lenses that we see in our iron ore business or our alumina business or our copper business or industrial minerals businesses. We try to make sense of it all as we go through our overall planning for what types of spending and what types of planning we'd want in the coming year. Sam!

Sam Walsh:

Thanks Tom. The iron ore market right now is tight. We saw a low point, as I mentioned in my comments earlier, a low point in October. Really from February onwards, notwithstanding the weather impact, we really been running flat out since then. As you saw in our third quarter production report, we are running at very heavy rates and at or close to our 220 million tonne per annum capacity. Short term demand is very strong. Our sales department have turned back to the 'allocation' department, because we can't actually meet the full demand that's coming through.

There has been an increase in steel stocks held at the 23 largest traders - that has increased from in May when it was around 9 million tonnes - it is currently sitting at 12 million tonnes. In terms of relativity, it seems a big increase but you need to also recall that the mills are actually running at a rate of 617 million tonnes of steel per annum. So in terms of that, yes, it has increased but it is still relatively modest. In recent times we have seen some improvement in steel prices in the vicinity of 3-5 per cent.

If you look at iron ore stocks - and this includes the landed at the ports and the floating stocks, we have seen that starting to reduce really from September. I think that is an element of people recognising the fact that we, and I suspect other majors, just can't actually meet the total demand that's there.

If you look at the steel figures, as they have been reported, they are under-estimating the amount of steel that is actually being used in the western regions of China. There seems to be a lag in term of the data that is physically coming through from there. So we are still seeing a very robust market in China.

In Japan, as Tom mentioned, there are some issues with sentiment and uncertainty regarding the new Government. But notwithstanding that, we are seeing schedules strengthened, as we are seeing in Korea and Taiwan.

In Europe, and particularly in Germany and France, we are seeing strengthening schedules there. We supply the majority of that through Iron Ore Company of Canada. With the reduction in pellet price, we are now seeing that steel mills are seeing that it's more advantageous to run pellet than actually run sinter plants, and we've heard of one steel plant that's actually temporarily idled, a sinter plant, while they can run pellet.

In terms of the spot price for iron ore - which we all watch sort of daily or hourly - there is strength in that. We are seeing that the spot price has risen from sort of lows at around $60 a tonne mid-year to prices at sort of just around $90 a tonne. That also is an indication of how strong the market for iron ore and that's also obviously a positive outlook for price negotiations for next year.

So the market is showing quite a bit of strength currently. We expect that will flow through into next year. There are a number of projects that have been deferred and that will mean that there will be a continued tight market. And we have also seen, as I mentioned in my commentary, that we have seen Chinese domestic demand come off at the current level of prices where it's just not attractive for them to produce. All of this are good omens for next year's negotiations. Thanks Tom.

Tom Albanese:
Jacynthe!

Jacynthe Côté:
In any upturn, we obviously watch the regions where some of the elements of stimuli packages start to feed out. And the unemployment rate, there is always a lag time in unemployment level. We don't think that we have reached stabilisation of unemployment – it should still go up in the coming months – so this is something we are watching very closely.

We have seen positive trends in all our markets. In fact, taking them one by one - the Asian markets including Japan, Korea and China have all been significantly improving. If I look at the orders we are getting from customers, they are fairly solid right now.

If I look to Europe, that had a slow start I would say. In the last 2-3 months, we really seen positive trends and it's still trending positively today as we speak.

The North American market was probably an earlier mover than other markets. If I compare it to Europe and if I compare it to Japan, the "cash for clunkers" was a very significant booster for the demand. It did stop in August. We have seen some slowdown. Depending on the market condition, it's a mixed bag - some are trending up again, some are stable. So North America is probably the one where we are watching most right now. I would say it is still trending positively but not as strong as what we have seen in the previous quarter - so that's the one again we are tracking very closely.

So we are cautious, but we do still see in all our markets positive trends.

Tom Albanese:
Guy, I wonder if you could make a few comments in this area? It is an important question and you have seen of course the world economy in a whole different set of lenses - one of many being the businesses of the downstream aluminium businesses as more we go through the sales, but also the effect on capital markets etc.

Guy Elliott:
Yes, I think it is worth looking at the very different experience that there has been in those parts of our business which face particularly the North American and European markets - particularly those that are associated with housing and with automobiles and for that matter the retail market too. Just dealing with those, they have had of course very much less influence from Asia.

So if we look for example at the Industry Minerals businesses, which feed chiefly into those two sectors - housing and autos - they have been hit pretty hard. We saw in the first half, for example, how Borates had seen demand falls of about 40 per cent half on half.

We saw similar levels of falling also in the Engineered Products business - in fact, in some areas of its market much more severe falls even than that - and that feeds again into the automobile sector, into beverage cans. What we are seeing in the later stages of the year is that Aerospace is beginning also to be affected, which wasn't so prominent earlier on in the year.

I think if you look at Diamonds, again this is a very special market but one which basically depends on the US consumer. That has really been 'on strike' for most of this year - although it has recently shown some signs of improvement, as we said in the presentation, but that really is quite recent.

So you have seen therefore that things that are focused predominantly on North America and Europe are still having a pretty tough time of it and especially that is the case if they are in any way linked to housing. Autos has had some kind of stimulus of course applied through "cash for clunkers" and similar kinds of idea in other parts of the world - but apart from that it's still pretty tough in those markets.

Liquidity I suppose ought to also be mentioned. That is of course relevant to the consumer and it is relevant also to capital investment by industrial businesses. We have seen, of course, liquidity returning to markets and that will be perhaps some offsetting kind of factor of benefit.

Tom Albanese:
Thank you, Guy. Can we see if there is anything on the phone lines first?

Operator:
There are no questions on the phone.

Tom Albanese:
Okay.

Question:
Just a question back on iron ore for Sam. It is interesting to see that things are improving for next year's negotiations. I would just be interested in your thoughts with your major customers in China. We really don't have a negotiated price and a firm pricing mechanism in place at the moment. There's an interim agreement that's covering that business unit. What your strategy heading into 2010, are we going to move to spot pricing or are you going to try and negotiate a contract or some type of blend?

Sam Walsh:
Well, a lot will actually depend on what customers themselves want and what they are trending towards. Certainly in relation to China, we have not established contract prices for this year - neither has BHP Billiton nor Vale. In that case, we are running with provisional prices based on the settlement in Japan and basically that is a quasi-settlement, for want of a better word. That clearly will be the starting point in terms of negotiations for next year.

We are hearing varied messages out of China. We have not yet commenced any negotiations there. They normally start after a couple of major conferences - one is the Qingdao Conference in China and the other is the Australia-Japan Iron Ore Conference, which actually took place last Thursday and Friday in Tokyo.

But we have heard rumours of a one-price level for China, except in relation to the Chinese domestic ore which will be a different price. We have heard of prices starting

January rather than April. We have heard a range of things - that the number of traders will be reduced and so on. What we need to hear directly from Baosteel and CISA as to exactly what is their view in relation to prices - and certainly if there is any tinge of unfairness in relation to what is being structured, it would make benchmark negotiations very difficult.

In Japan - and as Tom mentioned I have just been there - they are very keen to continue benchmark negotiations. I expect that they will be active in negotiations. Korea, Taiwan and Europe also see a great reliance placed on it.

So it is a situation that's evolving. Any number of scenarios could relate to an outcome in 2010, with one scenario being a different pricing mechanism in China to the rest of the world.

Tom Albanese:
Thank you.

Question:
Another question on marketing of iron ore. Sam, in the first half 09 BHP Billiton realised $9 a tonne more per tonne of product sold than Rio did. It looks like this gap will widen in the second half. It is a multi-billion value leakage for shareholders of Rio Tinto. What initiatives does Rio plan to implement to sort of bridge that gap going forward?

Sam Walsh:
Yes, I saw some market commentary in relation to that. When we actually went and analysed it we found that there were a couple of things that weren't quite accurate in relation to the calculations. What it certainly didn't take into account was the difference in the mix in relation to the product between ourselves and BHP Billiton: obviously and specifically in relation to lump fines ratio; obviously and specifically into iron content in our product, but also in relation to Robe River's Mesa J product which BHP doesn't have a direct equivalent to that. So those aspects need to be taken into account.

I think to get to the numb of your question. Really it is going back to point that was raised earlier in relation to what's our strategy in relation to spot? That is something that is evolving. You saw in 2008 that we were quite aggressive in relation to the spot market where we declared minus 10 per cent options against our long term contracts in China, and that enabled us to reap that benefit.

Clearly those sorts of things are options for us going forward, but importantly we need to look at the total market impact. We need to ensure that for a volume basis - and we are a volume-driven basis, volume is very, very important to us - that we need to ensure that we keep the tonnes rolling.

I suspect that when you see the final outcome of 2009, you will see that Vale and BHP Billiton have been under the same sort of pressure that we have in relation to long term contract shipments.

Tom Albanese:
Okay. Thank you. There is probably time for one or maybe two more questions? (A pause)

Well I know, Guy it is one o'clock in the morning your time so while we have our lunch you can get a few zzz's! So thank you very much and we will be moving over to the other room for lunch. Thank you very much.