

**TREASURY EXECUTIVE MINUTE**

Minute No. 20121249

16 May 2012

Deputy Prime Minister and Treasurer

**BR12/214 – MEETING WITH BHP BILLITON**

**Timing:** Wednesday, 23 May 2012 at 10.00 am.

**Recommendation:** That you note that

- you are meeting with Dr Marius Kloppers, Chief Executive Officer, and Mr Christian Bennett, Vice President Government Relations, of BHP Billiton; and
- BHP has indicated that Mr Kloppers is proposing to speak about BHP's forward strategy.

**Noted**

Signature: ...../...../2012

**KEY POINTS**

- BHP Billiton is the world's largest diversified natural resources company; and is among the world's largest producers of major commodities including aluminium, copper, thermal coal, iron ore, manganese, metallurgical coal, nickel, silver, titanium and uranium. It also has substantial interests in oil and gas.
  - Dr Kloppers was appointed Chief Executive Officer on 1 October 2007, having previously held executive positions at various BHP Billiton subsidiary businesses.
  - Mr Bennett has been Vice President Government Relations at BHP since October 2011. Previously he held executive positions at Santos, following a senior public service career at DFAT and PM&C.
- You previously met with Dr Kloppers on 28 March 2012 (refer EM2012/0729).
- Please find attached talking points and background briefing on the following topics:
  - BHP's forward strategy (Attachment A);
  - the MRRT and PRRT (Attachment B);
  - BHP's recent and prospective Australian projects (Attachment C);
  - commodity prices (Attachment D);
  - BHP's financial performance (Attachment E);
  - fly-in fly-out community concerns (Attachment F); and
  - BHP's industrial dispute in Queensland (Attachment G).
- Section 47C

- The following areas have been consulted in the preparation of this minute: IG20D; FITPD; ITD; IEDD; SPD; DED; and the Department of Resources, Energy & Tourism.

Manager  
Industry Policy Unit

Contact Officer:

Ext:

## BHP'S FORWARD STRATEGY

### Talking Points

- *I understand BHP has for over a decade maintained a strategy based on diversity and asset quality, and being well-positioned to supply resources to emerging economies.*
- *The Government similarly recognises the potential of these emerging economies and has commissioned a White Paper on Australia in the Asian Century in order to better position the country to respond to the resultant opportunities and challenges.*

### Background

- BHP articulates its strategy as “to own and operate large, long-life, low-cost, expandable, upstream assets diversified by commodity, geography and market.” The company states that this strategy has remained unchanged for over a decade and has enabled it to deliver superior margins throughout economic and commodity cycles for many years.
  - Further, the company asserts that its diversified, low-cost, tier one asset base enhances the resilience of its cash flow by reducing exposure to any one commodity or currency and provides for more predictable and robust financial performance. It enables investment and growth throughout economic cycles in order to deliver superior long-term value to shareholders.
- In its latest half-year results (to December 2011, released in January) and quarterly production report (to March, released in April), BHP reaffirmed its commitment to this strategy and noted that investment decisions are prioritised according to these asset criteria.
- BHP considers that the longer term structural drivers of industrialisation and urbanisation in the developing world, particularly China, remain intact, and that commodities demand will evolve as these economies transition from construction to consumption based growth.
  - As a diversified miner, BHP considers itself well positioned for this transition.
- The Australian Government similarly recognises these structural changes, particularly that dramatic economic growth in a succession of Asian economies has seen an increase in their global economic and strategic weight.
  - Accordingly, on 28 September 2011, the Prime Minister commissioned a White Paper on Australia in the Asian Century to identify what action Australia should take to seize the opportunities and meet the challenges arising from the Asian Century.
  - The White Paper is currently being drafted and is scheduled for release mid-year.

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**ATTACHMENT B****THE MINERALS RESOURCE RENT TAX (MRRT)  
AND PETROLEUM RESOURCE RENT TAX (PRRT)****Talking Points**

- *I note that BHP has publicly stated they are in the process of determining the potential impact of the MRRT.*
  - *Can you provide further details on the likely impact of the MRRT?*
- **Section 47C**

**Background**

- The MRRT and PRRT Bills were passed by the House of Representatives on 22 November 2011 and by the Senate on 19 March 2012. They received Royal Assent on 29 March 2012.
- The fundamental design of both the MRRT and PRRT extension reflect the parameters outlined in the 2010 Heads of Agreement between the Government and BHP, Rio Tinto and Xstrata. The MRRT revenue forecasts in the Budgets were partly based on BHP's estimate of its MRRT obligations.
- Technical MRRT amendments, including some identified by industry, were introduced on 21 March 2012 as part of the second Taxation Law Amendment Bill and passed the House on 9 May 2012.
  - Further required technical amendments have been identified in relation to the MRRT and the PRRT. These are expected to be progressed as part of a technical amendments Bill in the Spring sittings.
- In February 2012, the Full Federal Court in *Esso v Tax Commissioner* indicated that expenditures incurred only partially in relation to a petroleum project cannot be apportioned and deducted against PRRT revenues. **Section 47C**
  - **Section 47C**

**BHP comments regarding the MRRT and PRRT**

- BHP have been active members of Resource Tax Implementation Group and were represented by their manager of taxation, Mr Brian Purdy. Many of BHP's concerns with the MRRT were raised through the submissions of the Minerals Council of Australia (MCA).

- On 20 March 2012 the MCA was quoted as stating: ‘Revenue forecasts or projections are necessarily and solely the domain of the Treasury and the government. At no point did the MCA, industry or other representative bodies agree to revenue outcomes or projections tied to the design of the MRRT... At every stage, the government relied on Treasury modelling of MRRT revenue.’
- On 21 March 2012 *The Australian* reported that BHP’s iron ore executive, Mr Ian Ashby, said he was unable to estimate the potential impact of the minerals resources rent tax.
  - Mr Ashby said BHP was ‘working our way through the numbers’ and attempting to answer key questions – ‘What’s the tax base? What are the deductions?’ he said.
  - The comments follow those in Rio Tinto’s annual report, released on 16 March 2012, that ‘given the complexity of the MRRT, quantification remains in progress.’

### Price Changes

	2 May 2010	30 June 2010	14 May 2012	Change since May 2010
<b>Iron ore</b> (US\$/tonne, CFR)	174	139	138	-21%
<b>Hard coking coal</b> (US\$/tonne, FOB)	230	202	224	-3%
<b>Thermal coal</b> (US\$/tonne, FOB)	108	99	99	-8%

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## ATTACHMENT C

**BHP'S RECENT AND PROSPECTIVE AUSTRALIAN PROJECTS****Talking Points**

- *I understand BHP approved US\$12.9 billion worth of projects in 2010-11, with a further US\$4 billion in the six months to December 2011, most of which is in Australia.*
  - *But there are reports that Chairman Jacques Nasser has told investors that BHP is re-evaluating its spending plans as Chinese growth levels off.*
  - *Do you have any further details on changes to BHP's investment plans?*
- *Given the uncertain status of the TEMCO manganese plant in Tasmania, is there scope for BHP to absorb any potential job losses from this plant elsewhere in the company?*
- *Are there any other closures or downsizing expected at other BHP facilities?*

**Background**

- In 2010-11, BHP approved development of US\$12.9 billion (BHP's share) worth of projects, of which around US\$10.6 billion are in Australia, including (jobs figures are provided where available):
  - Macedon off-shore gas project, WA, US\$1 billion, 300 construction jobs.
  - Pilbara Jimblebar iron ore mine expansion, WA, US\$3.3 billion.
  - Port Hedland Inner Harbour expansion, WA, US\$1.9 billion, 200 jobs.
  - Port Hedland port blending and rail yard facilities, WA, US\$1.4 billion.
  - Bowen Basin Daunia mine development, QLD, US\$800 million, 450 construction and 500 operations jobs.
  - Bowen Basin Broadmeadow mine life extension, QLD, US\$450 million.
  - Bowen Basin Mackay Hay Point port expansion, QLD, US\$1.25 billion.
    - : News reports indicate that these three Bowen basin projects will together create 2,650 jobs.
  - Hunter Valley Mt Arthur (known as RX1) mine expansion project, NSW, US\$400 million, 300 jobs.
- In the six months to December 2011, BHP approved development of US\$4 billion (BHP's share) worth of projects, of which around US\$3.6 billion are in Australia, including:
  - North West Shelf LNG plant throughput maintenance, WA, US\$400 million.
  - Pilbara Orebody 24 iron ore mine maintenance, WA, US\$698 million.

- Bowen Basin Caval Ridge mine development, QLD, US\$2.1 billion, 1,200 construction and 500 operations jobs.
- Newcastle port expansion, QLD, US\$367 million.
- BHP is involved in the expansion of the Abbot Point coal port expansion in Queensland. In March 2012, Rio Tinto withdrew from the expansion, citing regulatory delays.
  - Minister Burke deferred his consideration under the EPBC Act of the Environmental Impact Statement (EIS) for the Multi Cargo Facility at the Port of Abbot Point from March 2012 until 31 December 2012 to enable him to consider additional information on effects on the Great Barrier Reef Marine Park.
    - : BHP Billiton and Hancock Coal Pty Ltd have been given preferred developer status by the North Queensland Bulk Ports Corporation (NQBPC) for expansion of Abbot Point. NQBPC submitted their original EIS for consideration in late 2010.
- BHP has a number of additional projects in prospect, particularly:
  - Olympic Dam copper/uranium/silver/gold mine expansion, SA, which is under its first phase and involves US\$1.2 billion of pre-commitment expenditure. The project would employ around 10,000 if it proceeds.
  - Port Headland Outer Harbour (new wharf, jetty and shipping channel) development, WA, which is also under its first phase with US\$779 million of pre-commitment expenditure.
- On 23 February 2012, BHP announced that it would temporarily suspend production at its manganese alloy facility, TEMCO, in Bell Bay, Tasmania, for a three-month review of the operation.
  - This facility produces ferro alloys which are used in steelmaking. Most of the facility's production is exported, but around a quarter is sold domestically (to BlueScope Steel).
  - There will be no change in the employment status of 300 permanent employees during the three-month review period, but 100 contractors will lose their jobs.
  - The high Australian dollar, low manganese prices and rising input costs have been cited as the reasons behind the suspension.
- On 20 March 2012, the *Australian Financial Review* reported that BHP Chairman Jacques Nasser had told select investors that the company is re-evaluating its spending plans as it reviews its projection that Chinese steel production will peak in 2020.
  - The article identifies the Pilbara mine and port expansions, the Olympic Dam expansion and potash projects in Canada as investments that may be under review.
  - BHP has not, to date, made any market announcements on these reports.
- On 9 May 2012, BHP announced that it would merge its underperforming stainless steel materials (ie nickel) and aluminium divisions, to be headquartered in Perth.

- Though some media reports suggested BHP would seek to divest some of these assets, the company has stated that the merger will bring scale to the businesses; as well as a commitment to commodities (such as nickel and aluminium) that may benefit from later phases of economic development in the emerging economies.
- This push for scale and quality with an eye for emerging economies is consistent with BHP's broader strategy (refer Attachment A).

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## ATTACHMENT D

## COMMODITY PRICES

## Talking Points

- *How has BHP's thinking regarding longer term commodity demand evolved recently?*
- *While longer term drivers may remain largely intact in China, how could any significant global event affect investment decisions regarding upcoming projects?*

## Background

- In recent weeks BHP has faced increasing pressure from shareholders to re-examine proposed large scale capital expenditure projects. This has occurred against the backdrop of increased global instability and some investor concerns around the long term demand outlook for commodities, particularly from China.
  - BHP has publically indicated that it is sensitive to shareholder concerns and will seek to maximise shareholder value while capturing current opportunities. To this end, it has openly talked about flexibility in its sequencing of investment opportunities through possibly phased developments or adjusting decisions in light of current and future commodity price movements.
- Despite these short-term sensitivities, BHP has publicly reaffirmed that the long-term demand outlook remains positive driven by continued urbanisation and growing steel usage in emerging countries, including China. The miner continues to expect underlying demand growth rates to remain robust, particularly for copper, iron ore and metallurgical coal.

## Treasury commodities update

- Commodity prices have weakened considerably over the past month, amid increasing concerns about global growth and resource demand.
  - Intensifying risks from the European sovereign debt crisis, coupled with weak economic indicators from the region, have caused markets to reassess the demand outlook for many commodities and may contribute to continued commodity price volatility in the near term.
  - As a result, the prices of many industrial commodities have weakened considerably, with the Reuters-Jefferies CRB commodity price index falling around 6 per cent since the start of May.
  - In addition, recent events relating to developments in Iran have highlighted the potential for an oil price shock, which, if realised, would pose a threat to the global economic recovery.
- Nevertheless, the outlook for the United States remains positive, while prospects for China also appear favourable, easing concerns about a global slowdown. **Iron ore** prices have declined in recent weeks, while **coal** prices have traded within a relatively narrow band.

- Iron ore prices have fallen around 4 per cent over the past week. The recent increase in global market instability combined with modest iron ore demand from China in the first quarter of 2012 have weighed on markets and contributed to recent falls.
  - The spot price of hard coking coal has risen around 1 per cent and thermal coal prices have remained unchanged since Budget. Recent data suggests that ongoing industrial disputes in BHP coal mines in the Bowen Basin has impacted on export volumes, with prices edging slightly higher due to the supply disruption despite the increase in the global market instability
  - There has been some minor disruptions to exports out of Queensland due to the closure of Norwich Park mine and ongoing industrial action across seven mines in the Bowen Basin.
  - However, these disruptions are not currently assessed as being economically significant or outside normal seasonal conditions.
- **Base metal** (copper, lead, nickel, zinc, aluminium and tin) prices rose towards the end of 2011 and into 2012, due to supply constraints for many base metals, coupled with a general improvement in global demand. However, some base metals have posted large falls in recent weeks, reflecting renewed concerns about the global economy, which has weakened demand expectations.
    - On 15 May 2012, the London Metals Exchange (LME) Index (a proxy for base metal prices) had fallen around 3 per cent since the release of Budget 2012 (8 May 2012) and was down 25 per cent since its 2011 peak (14 February 2011).
    - Copper prices have posted large falls in recent weeks, as signs of a recovery in the US were overshadowed by concerns about slowing growth in top copper consumer China and a deepening crisis in the euro area. On 15 May, copper prices had fallen around 8 per cent since the start of May. However, structural supply-side constraints are expected to limit the downside for copper prices in 2012.
- **Crude oil** prices strengthened toward the end of 2011 early 2012, due to improving sentiment over global economic prospects and ongoing tensions in the Middle East, most notably Iran. Prices have eased somewhat recently, in line with developments in Europe.
    - Iran’s threat to close the Strait of Hormuz, a key oil shipping channel in the Persian Gulf, and the European Union’s decision to impose an embargo on Iranian oil exports from July this year have highlighted the risk of an oil price shock to the global economic recovery in 2012.
    - Saudi Arabia has indicated that it is aiming to keep crude oil prices around US\$100 per barrel, reflecting its commitment to new public expenditure to limit social unrest following the Arab Spring.
    - At US\$95 per barrel on 14 May, the price of West Texas Intermediate has fallen around 11 per cent since the start of May but is around 26 per cent higher than its recent low of US\$75 in October 2011. The WTI futures curve suggests the price of oil is expected to rise modestly over the next six months.
  - After a strong start to 2012, the price of **gold** fell below US\$1,625 per ounce in early April, largely due to a fall in demand from India. On 15 May, gold was trading around

US\$1,555 per ounce, a 6 per cent fall from the start of May. Nevertheless, the gold price is likely to remain supported by investor demand for gold as a safe haven, due to the persistent uncertainty in Europe.

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**BHP'S FINANCIAL PERFORMANCE****Talking Points**

- *I note BHP's financial performance remains strong with profit around US\$10 billion in the six months to December 2011, despite persistent uncertainty in the global economy.*
- *Is BHP still experiencing the after-effects of the 2011 Queensland floods?*

**Background**

- On 8 February 2012, BHP released its financial report for the half year ended 31 December 2011.
- BHP's sales revenue for the six-month period increased on the equivalent prior year period by 9.7 per cent to US\$37.5 billion.
  - This was mainly due to record Western Australian Iron Ore production and stronger bulk commodity and petroleum products prices.
- BHP's after-tax profit over the same periods decreased by 5.5 per cent to US\$9.9 billion. The decrease was caused by a combination of:
  - temporary reduction in production at several of BHP's leading businesses (flooding effects at Queensland Coal; and industrial action and lower grade copper in Chile);
  - underlying cost pressures (especially increased labour and contractor costs); and
  - higher income taxation expenses in Australia.
- BHP's net debt increased by US\$15.6 billion (from 30 June 2011) to US\$21.5 billion following the successful acquisition of Petrohawk Energy Corporation in the United States.
- The following table summarises the company's performance in the period.

<b>Half year ended 31 December 2011</b>	<b>2011 US \$M</b>	<b>2010 US \$M</b>	<b>Change %</b>
Revenue	37,480	34,166	9.7%
Underlying EBITDA	18,743	17,304	8.3%
Underlying EBIT	15,689	14,829	5.8%
Attributable profit (ie., net income)	9,941	10,524	-5.5%
Attributable profit excluding exceptional items	9,941	10,700	-7.1%
Net operating cash flow	12,280	12,193	0.7%
Basic earnings per share (US cents)	186.8	192.4	-2.9%
Basic earnings per share – excluding exceptional items (US cents)	186.8	189.2	-1.3%
Dividend per share (US cents)	55.0	46.0	19.6%

Note: BHP reports in US dollars.

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**ATTACHMENT F****FLY-IN FLY-OUT COMMUNITY CONCERNS****Talking Points**

- *I appreciate BHP's leadership in maintaining good community relations and would welcome further engagement with Government initiatives, such as FIFO co-ordinators and the Parliamentary inquiry into FIFO workforce practices in regional Australia.*

**Background**

- BHP has policies in place to minimise the negative impacts and maximise the positive impacts of its business on local communities.
  - BHP's Community Investment Programs are designed to improve the provision of services, infrastructure and quality of life for those who live near where it operates.
  - This program and other partnerships are also designed to help integrate FIFO workers, reduce anti-social behaviour and provide opportunities for alternative activities.
- Despite such initiatives, BHP's plans for FIFO workers' camps in WA have raised community concerns.
  - BHP's initial plans for a 6,000-bed temporary workers' camp near Port Hedland airport to house construction workers for its Outer Harbour Development was rejected by the local council. BHP has since proposed a camp for an initial 2,000 workers with the option for an extra 2,000 if BHP progresses the harbour development. This was accepted by the Town of Port Hedland Council in March this year.
  - The WA Corruption and Crime Commission is conducting a preliminary investigation into the council's handling of the BHP proposal following allegations of misconduct.
- The BHP Billiton Mitsubishi Alliance (BMA) has sought conditional approval from the Bligh Government on a 100 per cent FIFO workforce for its planned \$4 billion Caval Ridge mine (CRM), near Moranbah. The prospect of a 100% FIFO workforce at the CRM raised some community concerns.
  - The Queensland Government has required that BMA facilitate the provision of permanent residential-style accommodation, in the Bowen Basin region, at the minimum rate of eight dwellings for every ten new operational workers required for the CRM.
  - BHP says it is having problems filling jobs and wants to source workers from Cairns and areas in southeast Queensland, including the Sunshine and Gold coasts.
  - Former Cairns Chamber of Commerce president Jeremy Blockey has been appointed Australia's first FIFO Co-ordinator in Cairns. The FIFO coordinators program is part of the Government's efforts to help connect suitable workers in regional areas with available mining and construction jobs in remote locations.

- The House Standing Committee on Regional Australia is conducting an inquiry into the use of FIFO workforce practices in regional Australia. BHP has not made a public submission to this inquiry.

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## ATTACHMENT G

## BHP'S INDUSTRIAL DISPUTE IN QUEENSLAND

## Talking Points

- *The Government believes that parties to an enterprise agreement are the ones who best understand their workplace and their business, and are the ones who should resolve workplace disputes.*
  - *Parties can seek Fair Work Australia's assistance (such as through mediation) in dealing with disputes that cannot otherwise be resolved.*

## Background

- BHP has been negotiating with unions (the Construction, Forestry, Mining and Energy Union (CFMEU), the Australian Manufacturing Workers Union (AMWU) and the Electrical Trades Union (ETU)) for a replacement enterprise agreement to cover 3,500 employees in seven mines across the Bowen Basin. The bargaining has been protracted, with significant industrial action occurring since mid 2011.
  - BHP employees are currently voting on an enterprise agreement that has been put directly to the workforce without the full support of unions. The ballot for the proposed agreement closes on 18 May 2012.
  - The unions claim unresolved matters relate to safety issues, but BHP insists they relate to union rights and the company's ability to manage the business.
  - A draft agreement put directly to the workforce (without the support of unions) in October 2011 was rejected by 92 per cent of staff in the ballot. The offer included a 5 per cent per annum wage increase and a \$15,000 bonus.
  - During the dispute BHP announced the closure of the Norwich Park mine. The unions successfully sought orders from Fair Work Australia that BHP consults about any redundancies at the mine.
- Marius Kloppers has been reported as stating that *'federal workplace laws make it more difficult to negotiate new enterprise agreements because unions can issue more claims to companies'*.
  - In late 2011, the Australian Government commissioned an independent panel to undertake an evidence based assessment of the operation of the *Fair Work Act 2009*, and the extent to which its effects have been consistent with the Government's objectives for the Act. The panel is to report to the Minister by 31 May 2012.
  - In its submission to the Review, BHP raised concerns over the content of agreements (being to matters beyond the employment relationship), and notes BHP's industrial relations philosophy includes management's retention of ultimate responsibility and right to run the business.

- The panel met with representatives from BHP on 13 March during the consultation phase of the Review.

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