

Fortescue's Iron Bridge woes could top \$1 billion, review finds

By Nick Toscano
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Fortescue, one of the nation's largest mining companies, is suffering further setbacks developing a key growth project in Western Australia as cost blow-outs risk running higher than \$1 billion.

The Andrew "Twiggy" Forrest-backed miner on Friday said it had completed a full-scale review into the troubled Iron Bridge magnetite project and warned investors it could now cost as much as \$US3.5 billion (\$4.5 billion) – up from a \$US3 billion estimate given in February and \$US2.6 billion in 2019.



Andrew Forrest and Fortescue chief executive Elizabeth Gaines.

Fortescue's Iron Bridge project is considered central to its plan to meet Chinese demand for higher-grade iron ore – the steel-making raw ingredient that ranks as Australia's single biggest export. But the development has faced delays and is now expected to begin production in 2022.

Problems at the project have already cost the jobs of three senior Fortescue executives, including chief operating officer Greg Lilleyman, who resigned from the business in March.

The mining giant on Friday attributed the increase in expected cost blow-outs to WA's constrained labour market, the strong Australian dollar and "project-specific" factors.

"Iron Bridge represents a strategic investment with compelling returns," Fortescue chief executive Elizabeth Gaines said.

“Completion of the technical and commercial assessment of the Iron Bridge project has confirmed the optimal transportation solution, while also addressing contractor and logistical constraints, managing capital costs and confirming first production by December 2022.”

It comes as the price of iron ore, Australia’s biggest export, surged to an all-time high of \$US230 a tonne in recent weeks as aggressive, infrastructure-focused stimulus programs in China fuel booming demand for steel.

Iron ore is combined with coking coal in huge blast furnaces, heated at more than 1000 degrees, to churn out liquid steel. China accounts for roughly half of the world’s steel demand, while Australia is the world’s largest iron ore producer and biggest shipper of the commodity to China.

The second largest iron ore producer, Brazil, has been experiencing prolonged supply disruptions following mine dam collapses and, more recently, outbreaks of coronavirus infections among mining workforces.

Although still trading at historically high levels, the price of iron ore has eased this week as China stepped up rhetoric around curbing output and carbon dioxide emissions in one of its heaviest-polluting industries.

Kaan Peker, a Sydney-based analyst with the Royal Bank of Canada, on Friday said Iron Bridge’s ramp-up to 22 million was expected to take up to one year longer than Fortescue’s management was forecasting.

“We assume it takes 2.5 years for Iron Bridge to sustainably produce around 22 million tonnes per annum,” he said.