Steel and brass

Marius Kloppers, the boss of the world's biggest mining firm, gets his way in the end.

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BHP BILLITON and Rio Tinto, two of the world's biggest mining firms, run some of the longest trains on earth. Six locomotives are hitched to 300 freight cars in a chain that stretches for three kilometres. Each train hauls as much as 26,000 tonnes of iron ore 400km across the Pilbara region of north-western Australia, from the mineral ridges of the interior to the scrubby coastal plain. They run around the clock, day in, day out, down dedicated railway lines from mines such as Mount Tom Price and Mount Newman to the ports of Cape Lambert, Dampier and Port Hedland. There, a bewildering network of cranes and conveyors tips the ore out of the railroad cars, mixes it into blends of varying purity and loads it into ships bound for China, Japan and Korea. More vessels queue up outside the harbours waiting for a free berth. Mining on this scale is nothing to do with shafts, lifts and tunnels; it is about moving mountains, endlessly, to the sea. It calls for detailed planning and precise timing to keep the ore flowing steadily and smoothly.

Being boss of a mining company, by comparison, has been an unpredictable, lurching rollercoaster ride of late. No one knows this better than Marius Kloppers, the South African who became chief executive of BHP Billiton in October 2007 and almost immediately plunged the global mining business into turmoil by launching a $190 billion bid for Rio Tinto. Months of uncertainty about Rio's fate ensued—only to be resolved, much as Mr Kloppers had originally planned, this month.

Mining bosses used to be geologists who had worked their way up from the rock face to the boardroom. No longer: Mr Kloppers is typical of the new breed, as happy hunting for riches in the canyons of Wall Street as along the escarpments of the Pilbara. He rounded off degrees in chemical engineering (from the University of Pretoria) and materials science (from the Massachusetts Institute of Technology) with an MBA from INSEAD, arguably Europe's best business school, and several years as a management consultant at McKinsey. His clipped South African accent, intense gaze and meticulous vegetarian diet all suggest focus and determination. He is sharp-witted, but with more than a hint of brawn: a South African contemporary recalls him flattening several opponents in the opening minutes of a 1980s school rugby championship in Johannesburg.

A generation later he was equally quick off the mark. He made his audacious bid for Rio Tinto barely six weeks after becoming BHP's boss. It would have been one of the biggest mergers ever. At the time iron ore prices were defying gravity thanks to the rapid growth of the

Chinese and Indian economies. But the price of mining was rising too, thanks to a shortage of workers and equipment, which was causing acute problems for both BHP and Rio at their remote mines in the Pilbara. The logical response was to merge their operations there, to save on procurement and rationalise their overlapping infrastructure.

When in a hole

But Rio argued that Mr Kloppers's offer undervalued its assets in the Pilbara in particular. And Rio's boss, Tom Albanese, had saddled Rio with $40 billion in debt from the purchase of Alcan, a Canadian aluminium firm it secured after a bidding war with America's Alcoa. As the credit crunch set in, that burden began to look unbearable both to Rio and to Mr Kloppers. Worse, the commodities bubble burst: metals prices fell by over half between March and November 2008. Mining groups' share prices tumbled too. The offer of three BHP shares for one Rio share was worth only $66 billion by November. There was also concern that Europe's competition authorities might balk at a deal which would put the combined entity in control of roughly 40% of the world's international trade in iron ore, and force it to sell some assets at a time when it would be difficult to get a good price. So Mr Kloppers eventually stopped digging and dropped the bid, at considerable cost to BHP and to his own reputation.

The industry's attention soon turned to another transaction. Rio was seeking to shore up its finances (and fend off any future bids) by bringing in Chinalco, a state-owned Chinese firm, as a big shareholder. Mr Albanese championed a deal in which Chinalco would double its stake in Rio to 18% and buy shares in some prize assets (including iron-ore mines in the Pilbara). Mr Kloppers was worried about the Chinese government muscling in on the iron-ore business, since China's state-owned steelmakers are among his biggest customers. He lobbied the Australian government to block the deal. But it was objections from Rio's shareholders, and a recovery in commodities prices which lifted mining firms' share prices and made the proposed deal with Chinalco look too generous, that ultimately scuppered the plan.

Mr Kloppers was waiting in the wings. BHP and Rio immediately announced the outlines of an agreement to pool their iron-ore business in the Pilbara. BHP will pay Rio $5.8 billion to bring its interest in the venture up to 50%. The two firms' mines will supply iron ore in equal volumes to the ships of both companies, to be delivered to their respective customers. The pair say the tie-up will yield cumulative savings of $10 billion. The biggest gain will come from melding their rail operations, providing shorter routes to the sea from some mines and thus cheaper ways to achieve the blend of ores required by certain customers.

Crucially, Mr Kloppers gets to extract much of the value he saw in his planned merger, but without the risk of increased debt. There will be many more bumps ahead: European, Chinese and Korean steelmakers are objecting to the joint venture, which they say will concentrate too much power in the hands of a single firm. The premier of Western Australia, the state where the Pilbara is located, is muttering about increasing royalties. But the steely Mr Kloppers, his reputation restored, looks likely to press on as persistently as the trains rumbling across the Pilbara.

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