

Can we feed the Dragon?

Will China demand overwhelm supply?

Clinton Dines

BHP Billiton

Macquarie Conference – Feeding the Dragon

London July 1st 2004



bhpbilliton

必和必拓

This document contains certain forecasts and forward-looking information. Such forecasts and information are not a guarantee of future performance and involve unknown risks and uncertainties, as well as other factors, many of which are beyond the control of BHP Billiton. Actual results may differ materially from those expressed in this document.

China – will demand overwhelm supply?

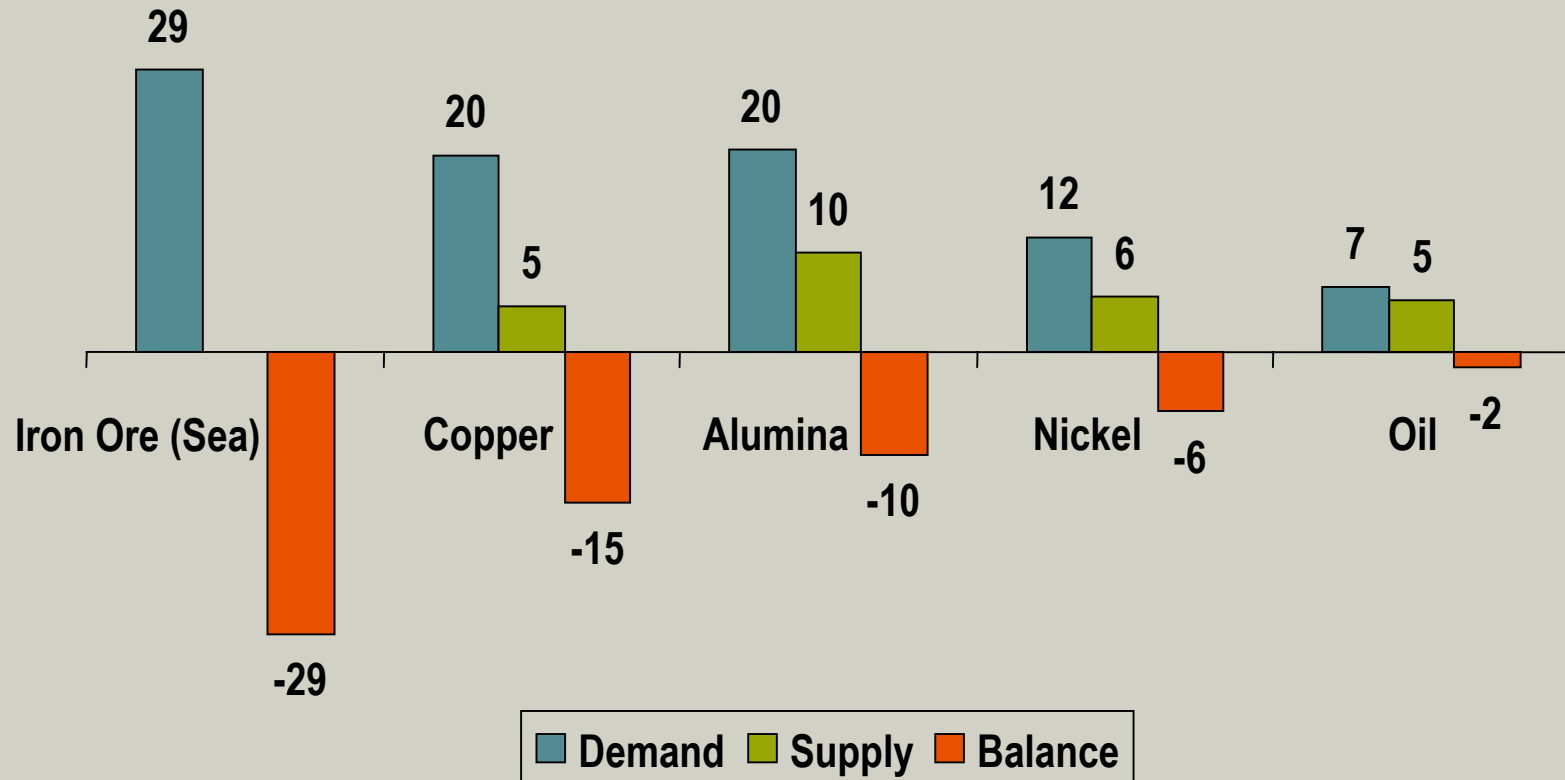
- We expect China to be a large and sustainable consumer of imported raw materials
- Given the suddenness of China's emergence as a notable discontinuity in the markets, we believe that short term price volatility will characterize the market in the short term
- We do expect supply to grow to meet demand
- We believe that the implications of the longer term global power shift towards China should not be ignored when thinking about raw materials consumption

We expect China to be a large and sustainable consumer of imported raw materials

- China is a large consumer but short of resources
- China's consumption as a % of the world total doubles every decade and is accelerating
- Urbanisation and associated infrastructure are the key drivers
- China's resource intensity will be a function of the emergence of a version of the "continental maritime" model with 'Chinese characteristics', *not* of an "export", "Asian Tiger" or "insular" economic development model
- China's growth is not a recent or short term phenomenon

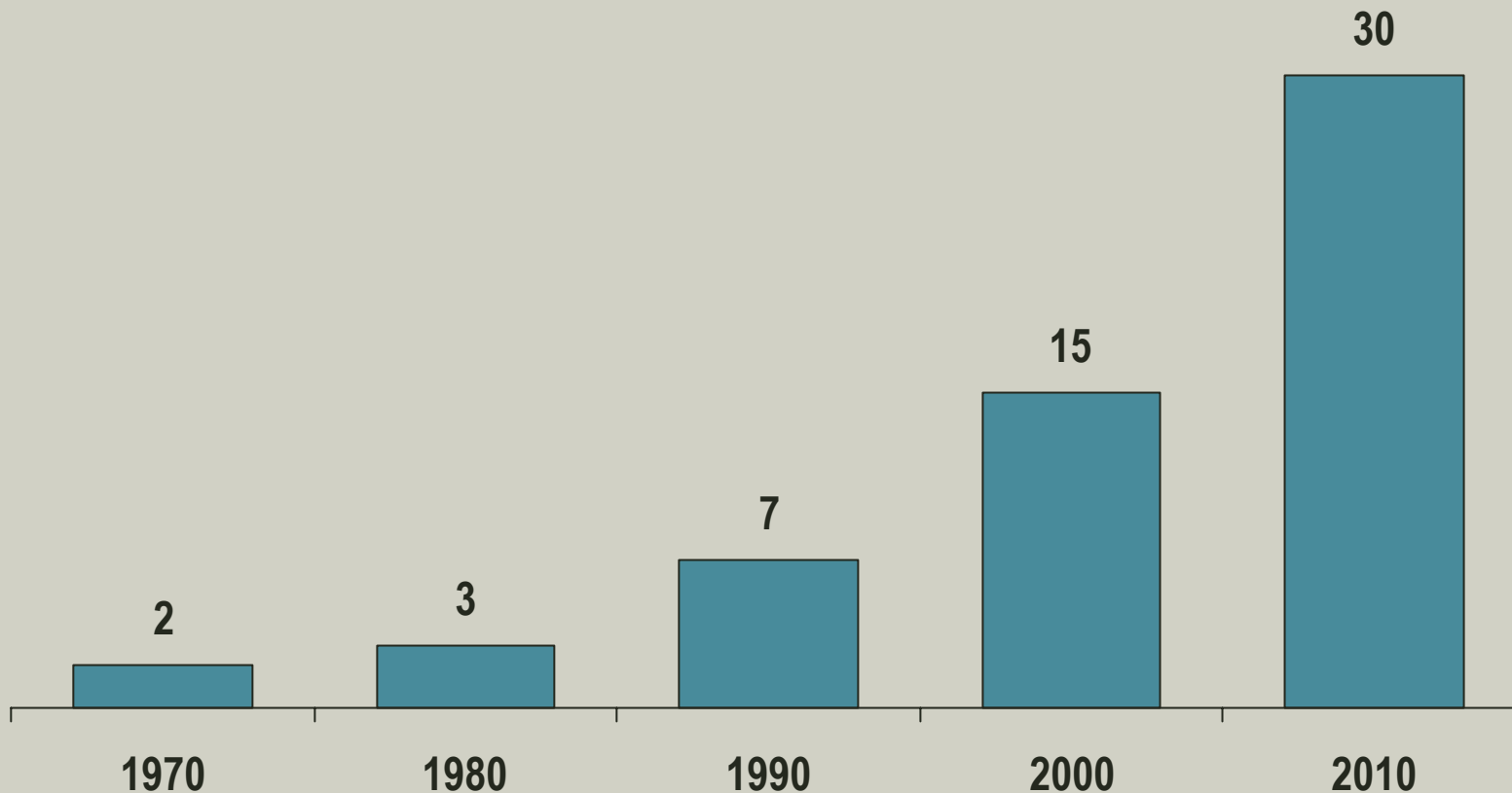
China is a large consumer but short of resources

China % of world production and consumption 2003



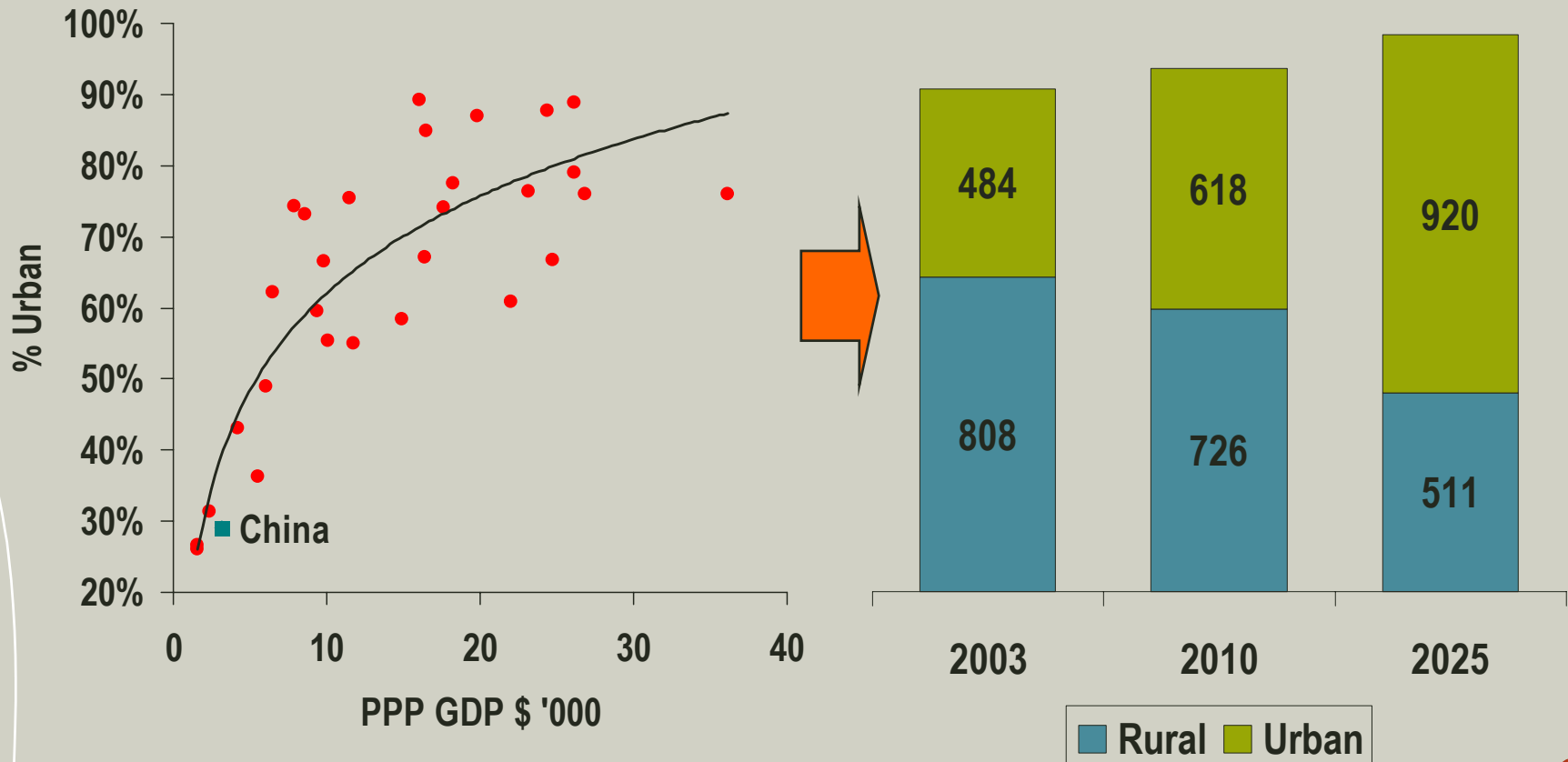
Consumption, as a % of the world total, doubles every decade

China % of world consumption (Al, Cu, FeOre, Ni)



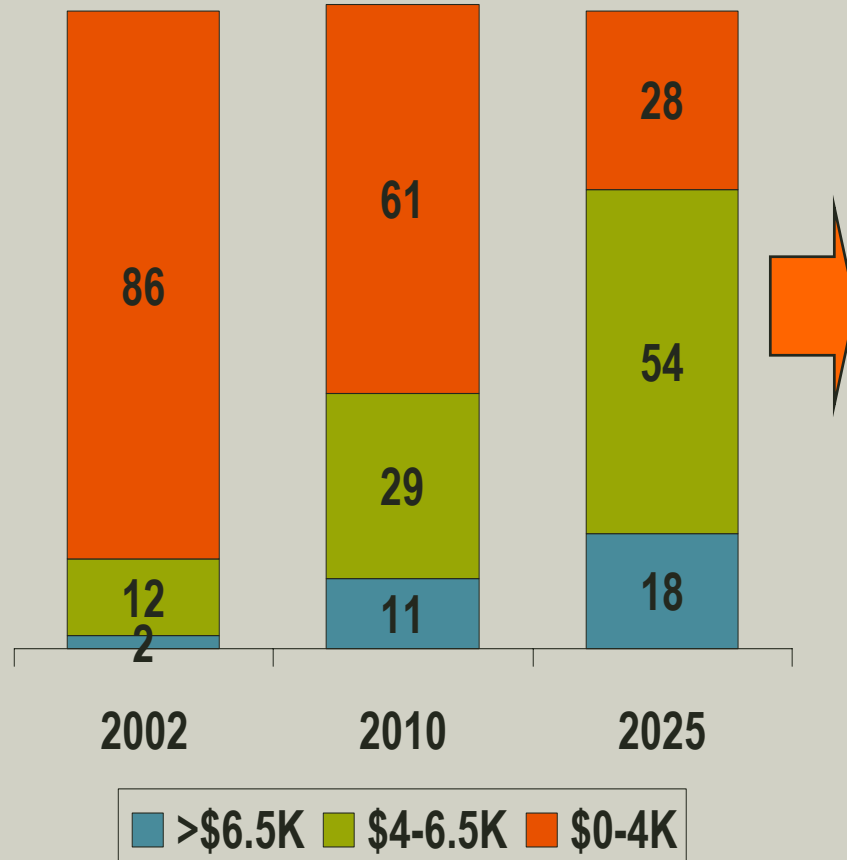
Urbanisation and associated infrastructure are the key drivers of growth

China urbanisation - %; population in millions

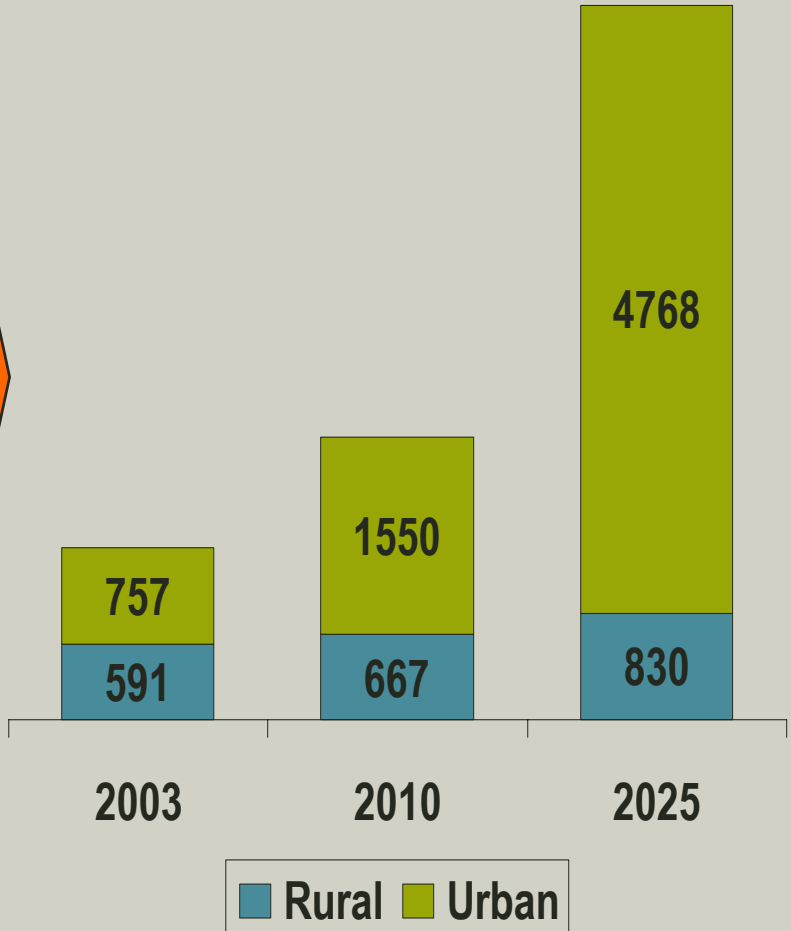


Urbanisation and associated infrastructure are the key drivers of growth

Chinese urbanisation (%) per GDP/capita category

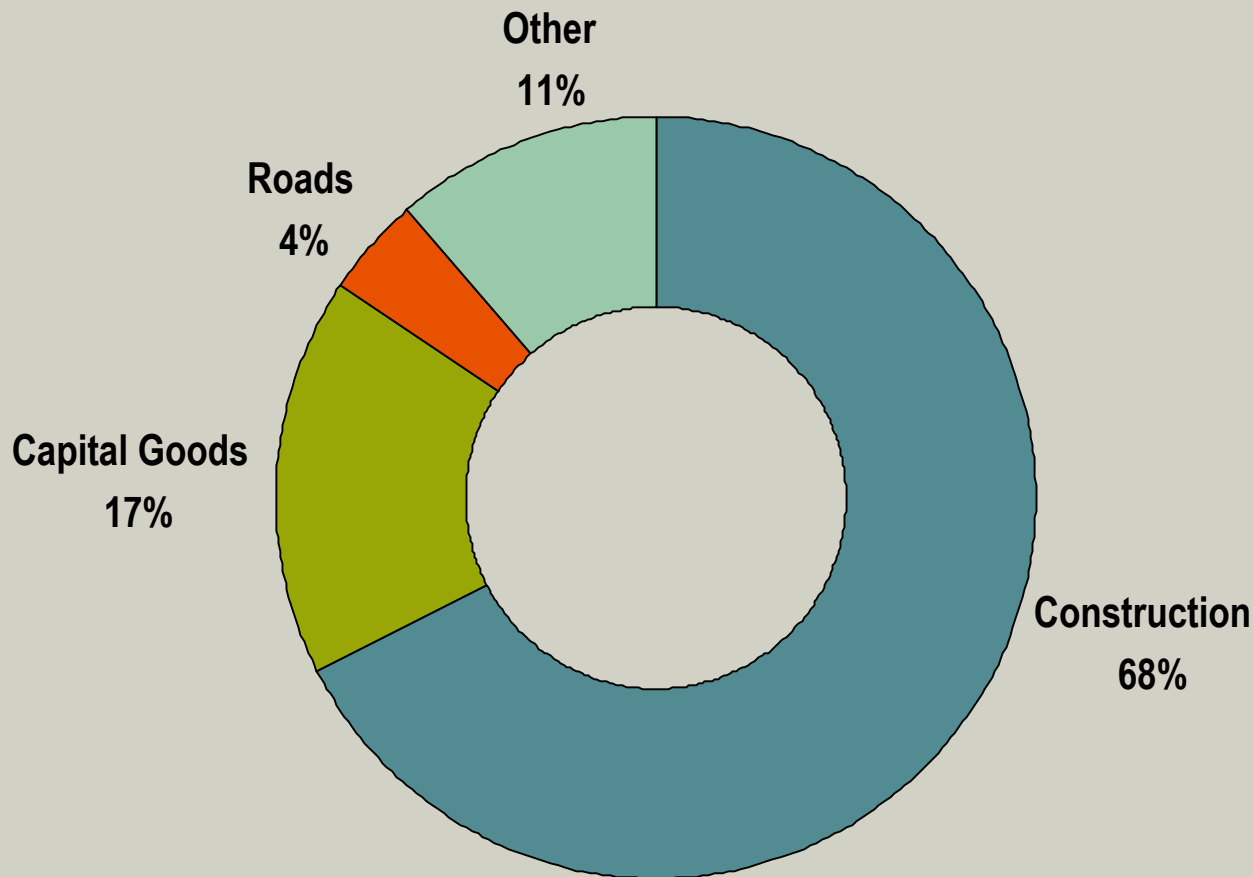


GDP (US\$bn) breakdown



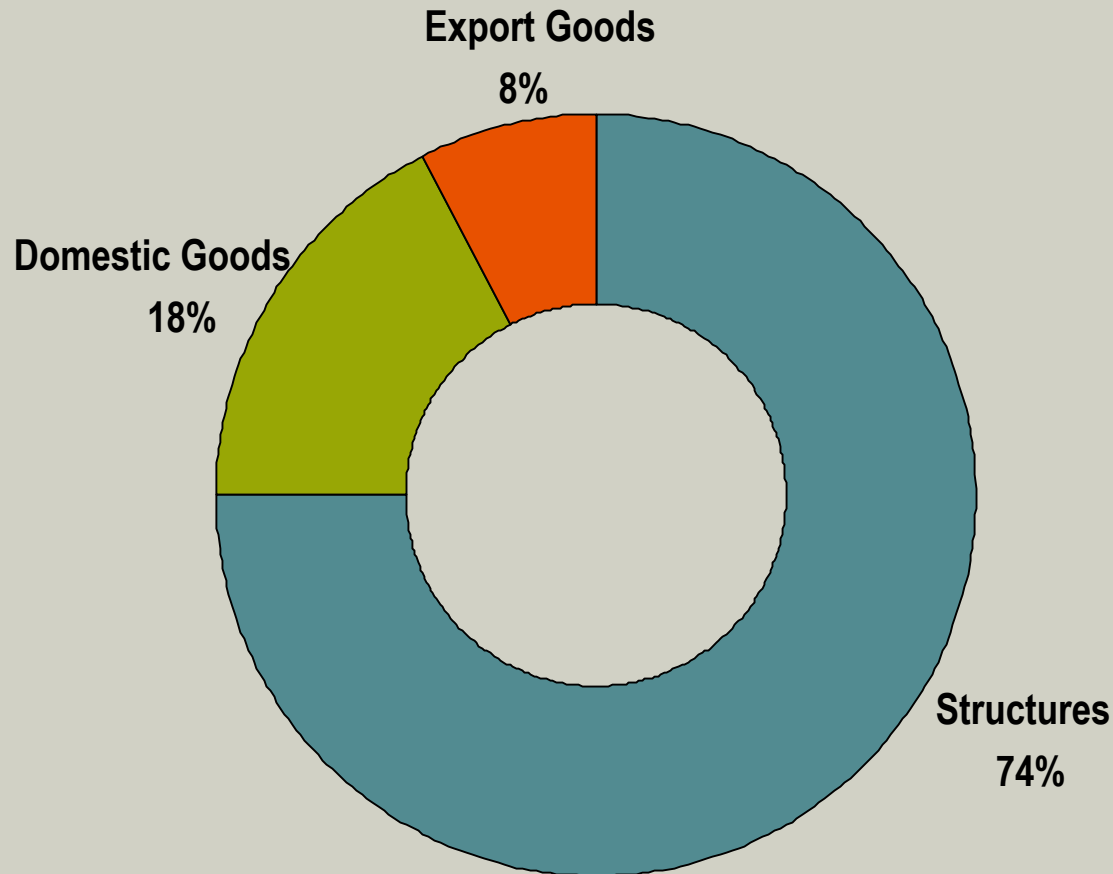
China's resource intensity will be a function of a Chinese "continental maritime" model

Chinese steel consumption by category 2003



China's resource intensity will be a function of a Chinese "continental maritime" model

Chinese copper consumption by category 2003



China's "continental maritime" growth model is sustainable and will strengthen over time

China's economic resilience is attributable to:

- An exceptionally high domestic savings rate
- Rapid urbanisation & development of 2nd & 3rd Tier cities away from the coast
- Strong domestic investment from a range of sources
- A sustained government commitment to achieving strong growth
- "Overheating" being manageable and confined within a few participants in a narrow range of industries and regions
- an increasingly sophisticated and economically literate leadership

Growth >> Reform >> Stability >> Growth >> Reform >> Stability >>

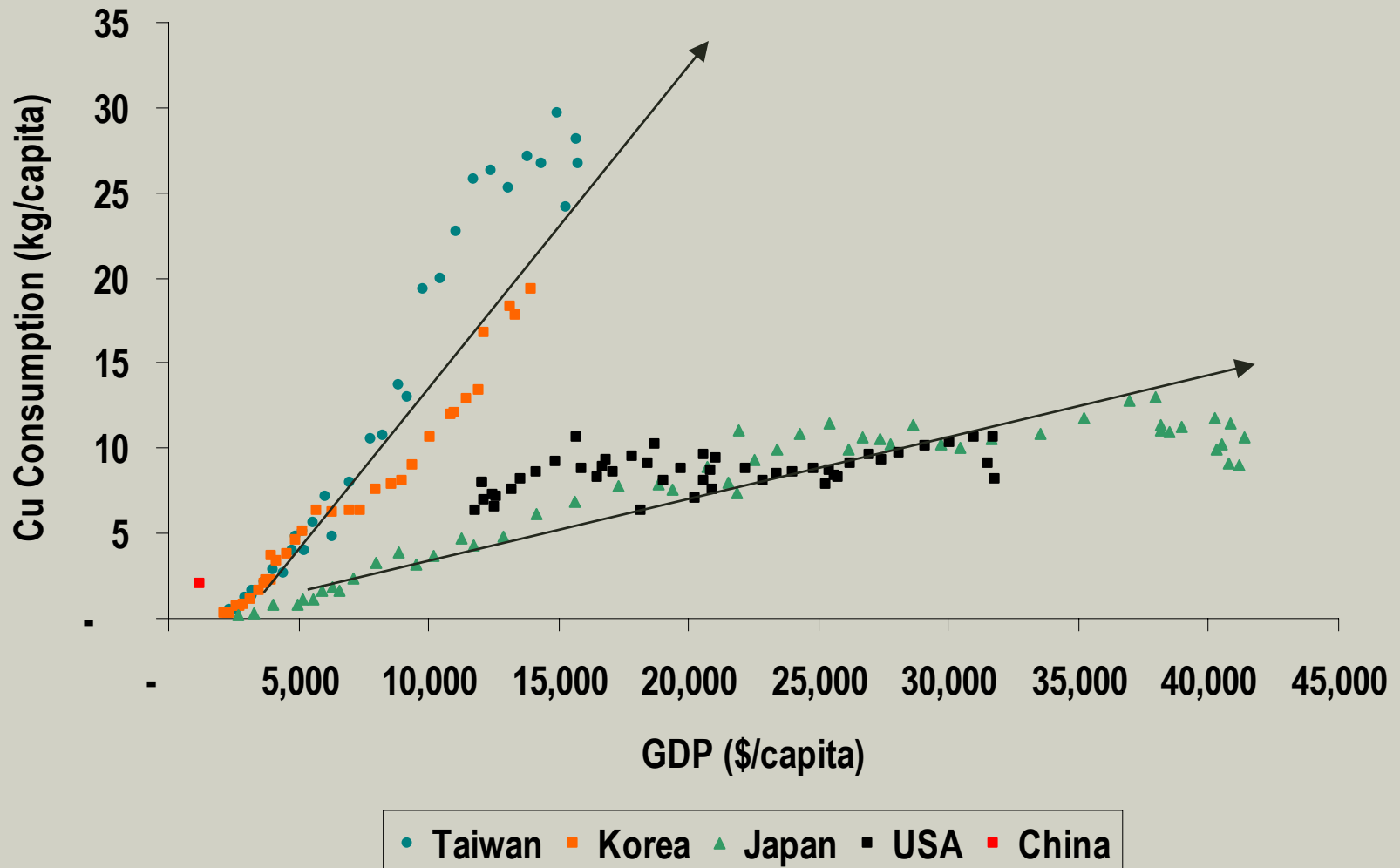
China's "continental maritime" growth model is sustainable and will strengthen over time

China's sustainability is underpinned by;

- Huge productivity improvements over time
- Significant and sustainable factor cost advantages
- Very rapid improvements in infrastructure
- Declining dependence on exports to drive growth (*not* a Tiger economy)
- the Government and Party has increasing confidence from successful policy implementation to date
- the Government and Party cannot turn back

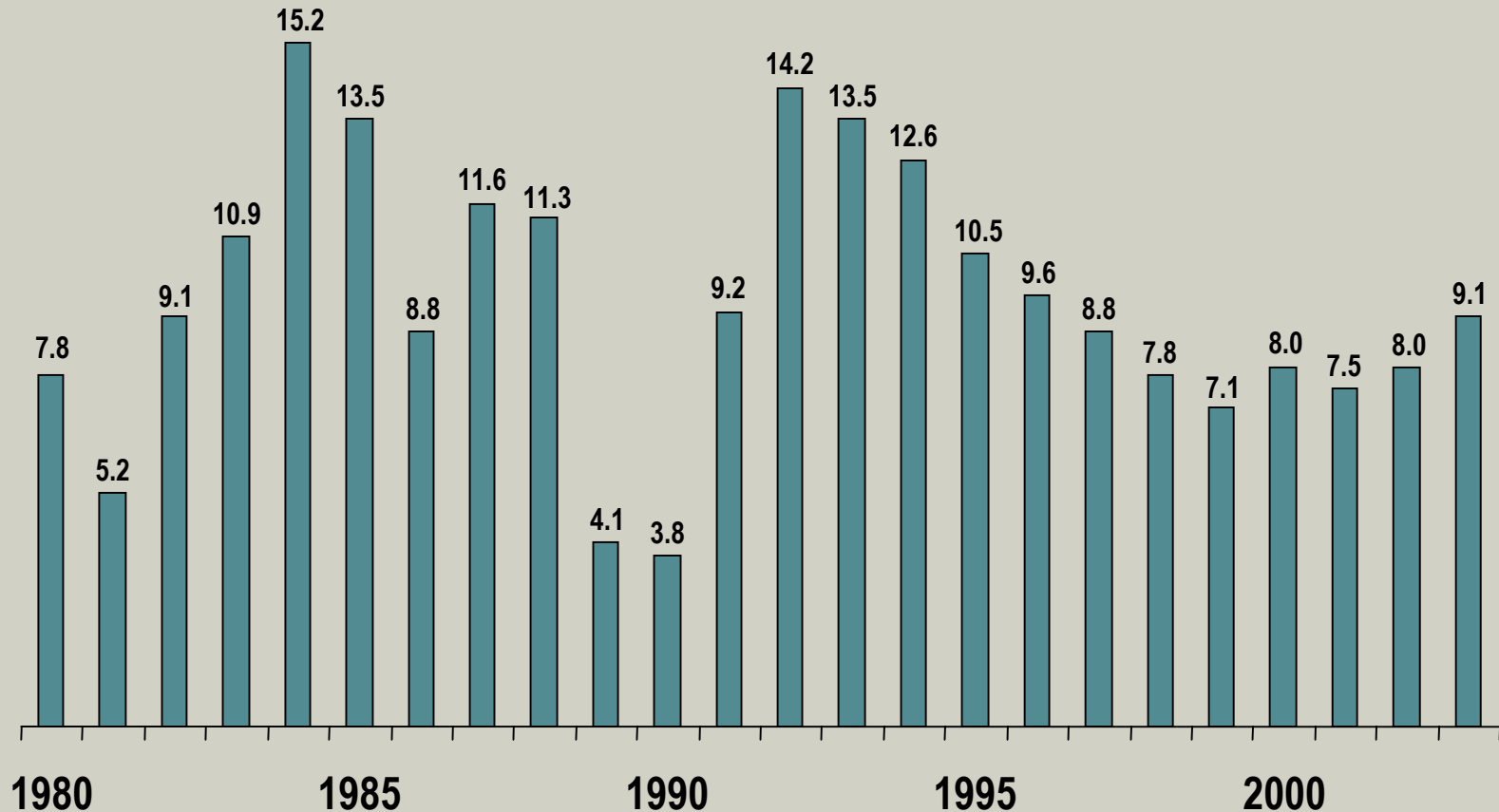
Growth >> Reform >> Stability >> Growth >> Reform >> Stability >>

But China's exact version of the "continental maritime" model is yet to be clearly identified



Let's not forget that China's growth is a long term phenomenon, not just a function of the last 2 years.....

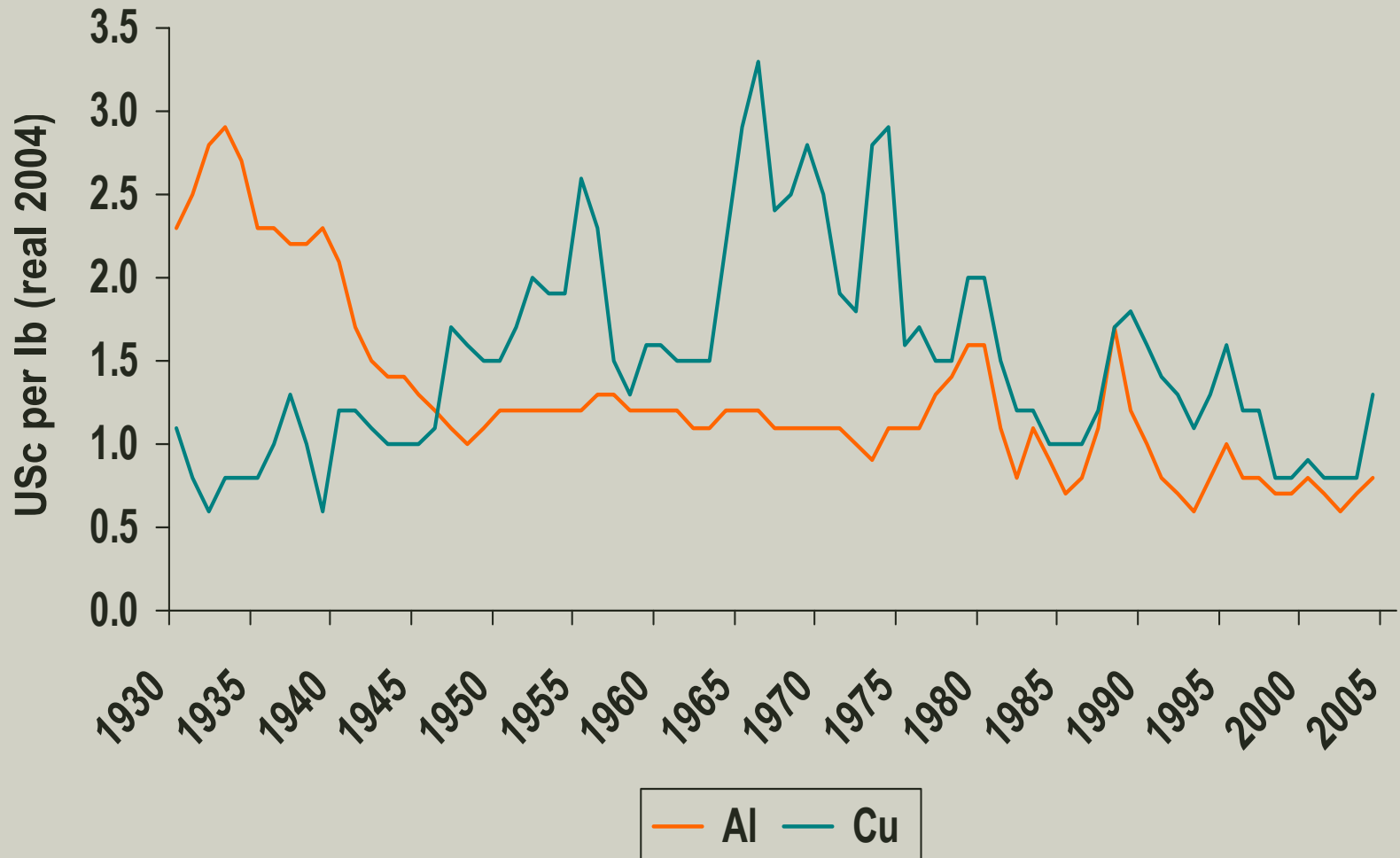
China GDP growth %



There will be short term spikes and cycles but we expect no major disruptions to supply

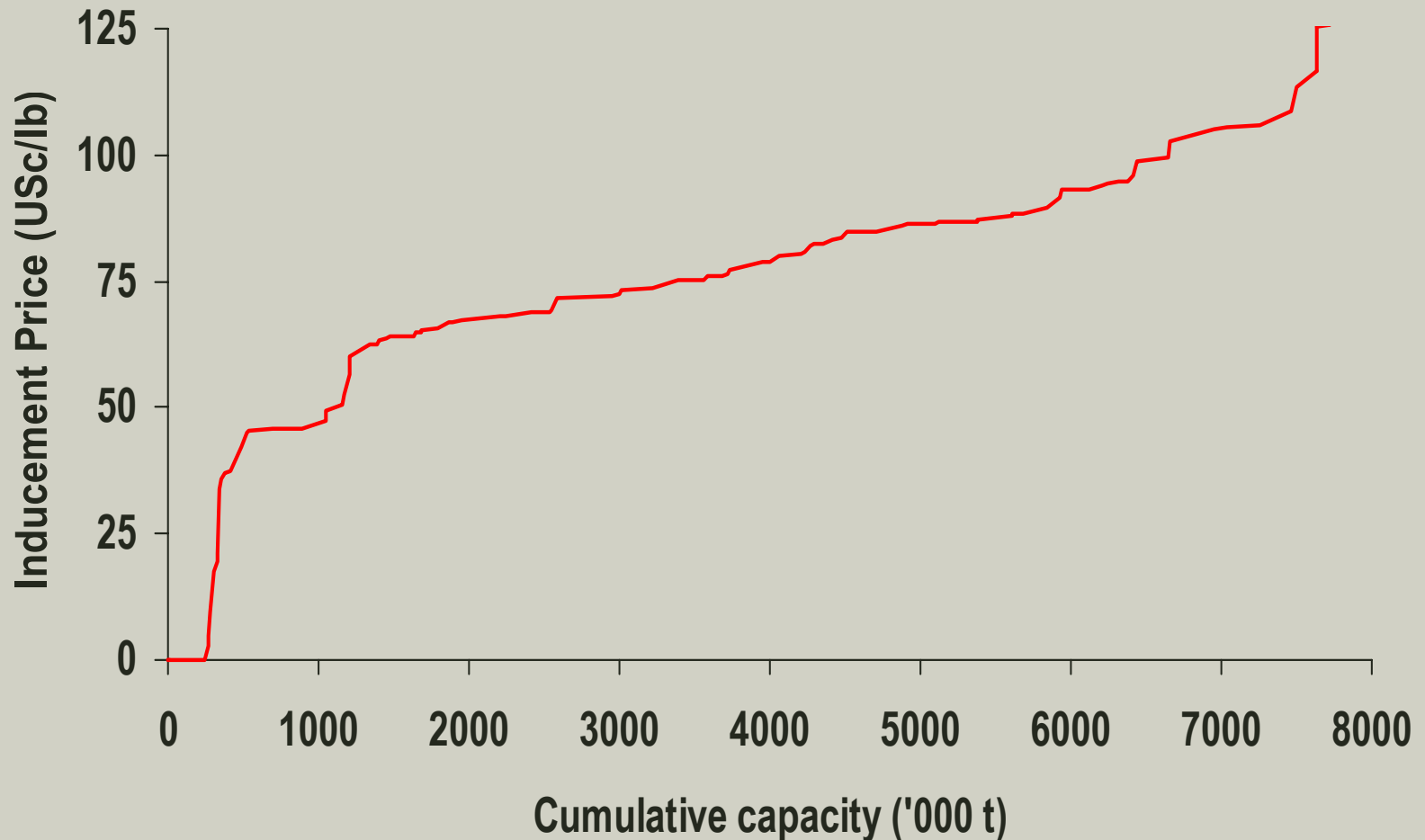
- Price development will be different for each commodity
- Prices are very powerful inducers of new capacity
- The gap between supply and demand will be filled

Price development will be different for each commodity



Prices are very powerful inducers of new capacity

Latent capacity - copper example

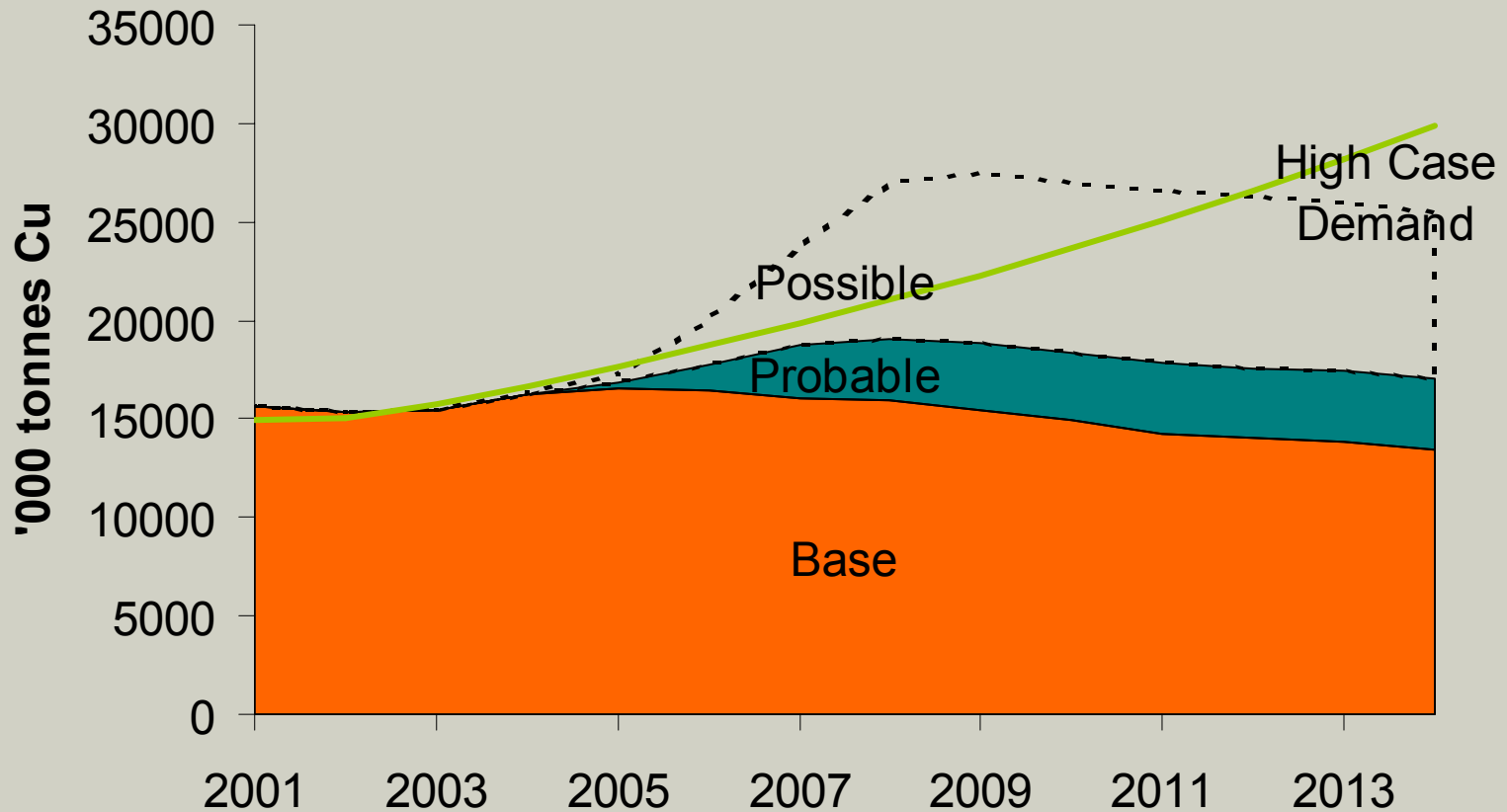


Source: Brook Hunt, BHP Billiton

Theoretical long run prices required to produce an 8% IRR

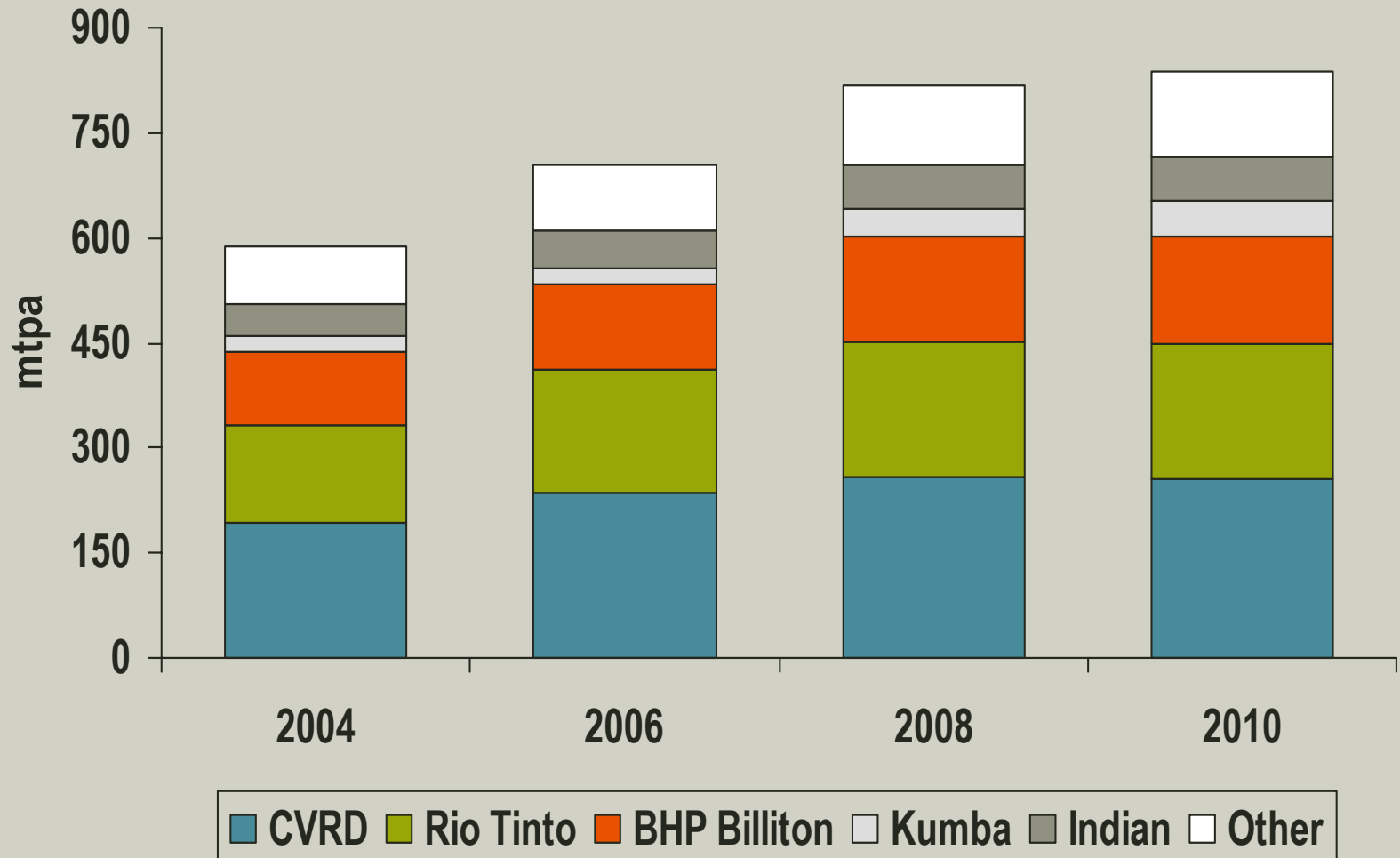
The gap between supply and demand will be filled

Latent capacity - copper example



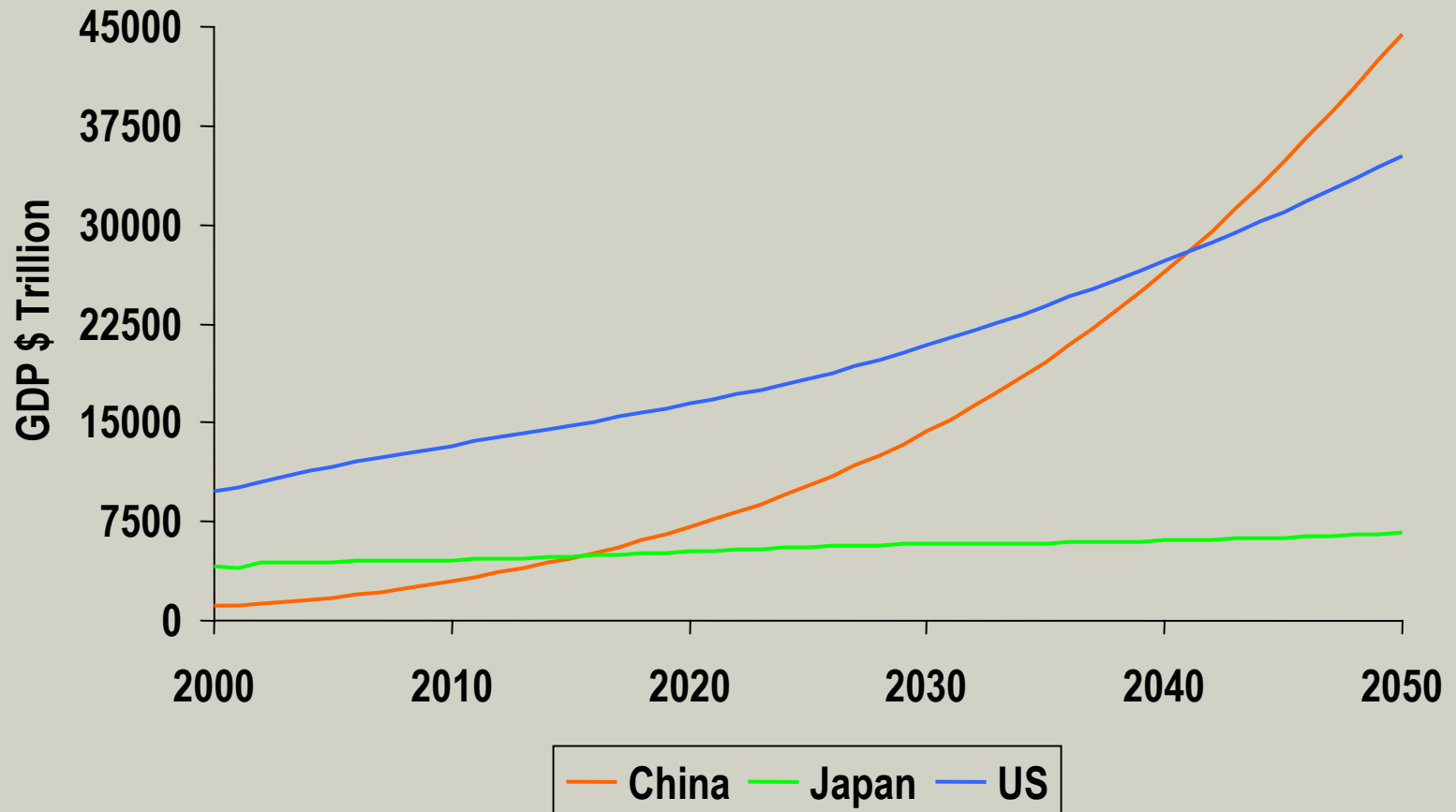
The gap between supply and demand will be filled

Latent capacity - iron ore example



■ CVRD ■ Rio Tinto ■ BHP Billiton ■ Kumba ■ Indian ■ Other

The implications of this longer term global power shift should not be ignored when thinking about Chinese raw materials consumption



Conclusions

- Chinese growth is not a short-term phenomenon but rather has strong long-term structural underpinnings – so-called “over-heating” has been confined to certain parts of some industry sectors and regions
- We expect China to continue to be a large and sustainable consumer of imported raw materials
- Supply expansions are already underway to match this increased demand
- BHP Billiton is actively positioning to understand China’s needs and play a major role in supplying China’s raw materials



bhpbilliton

必和必拓