Can we feed the Dragon?

Will China demand overwhelm supply?

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BHP Billiton

Macquarie Conference – Feeding the Dragon

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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

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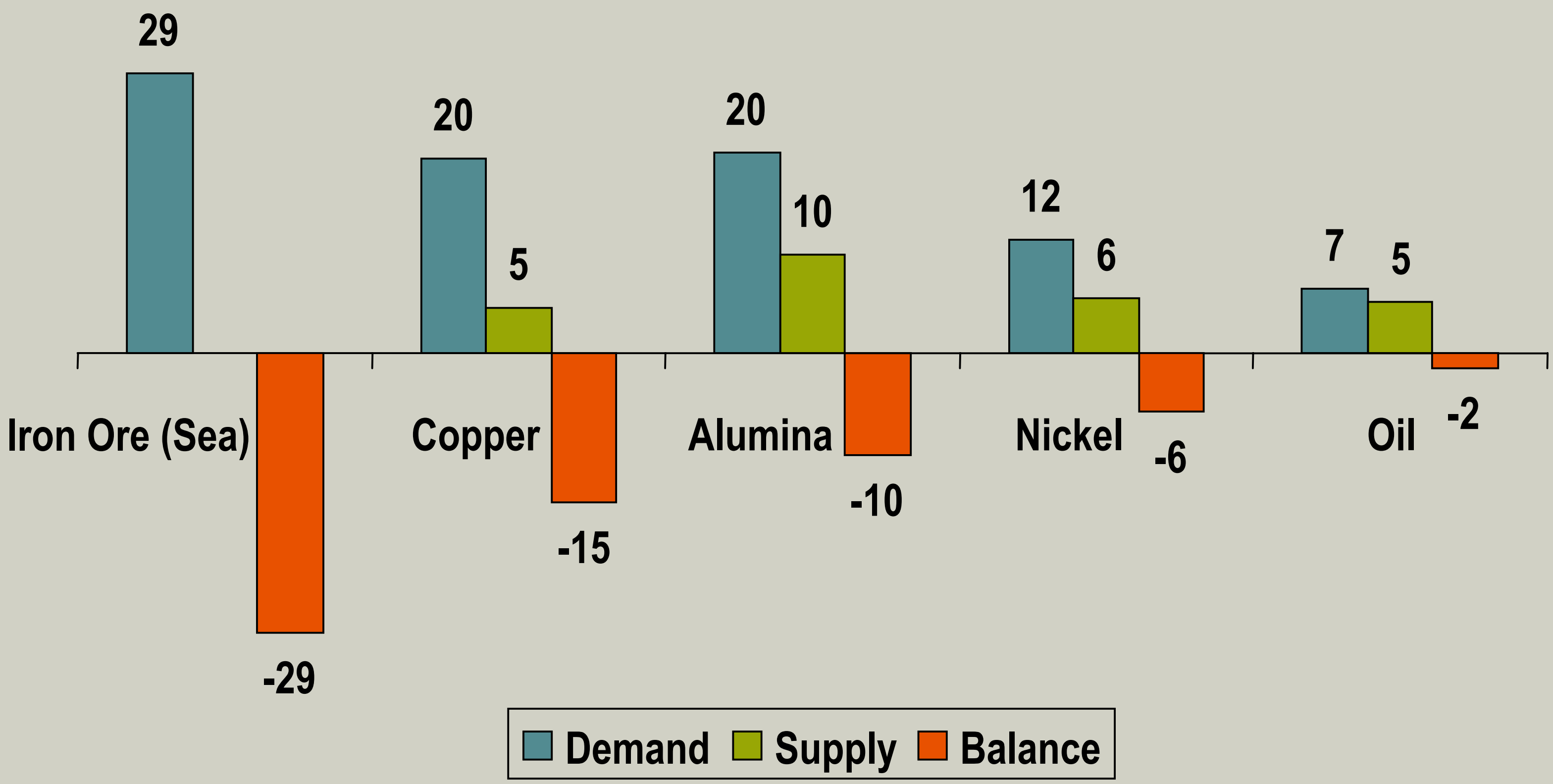
We expect China to be a large and sustainable consumer of imported raw materials

- 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

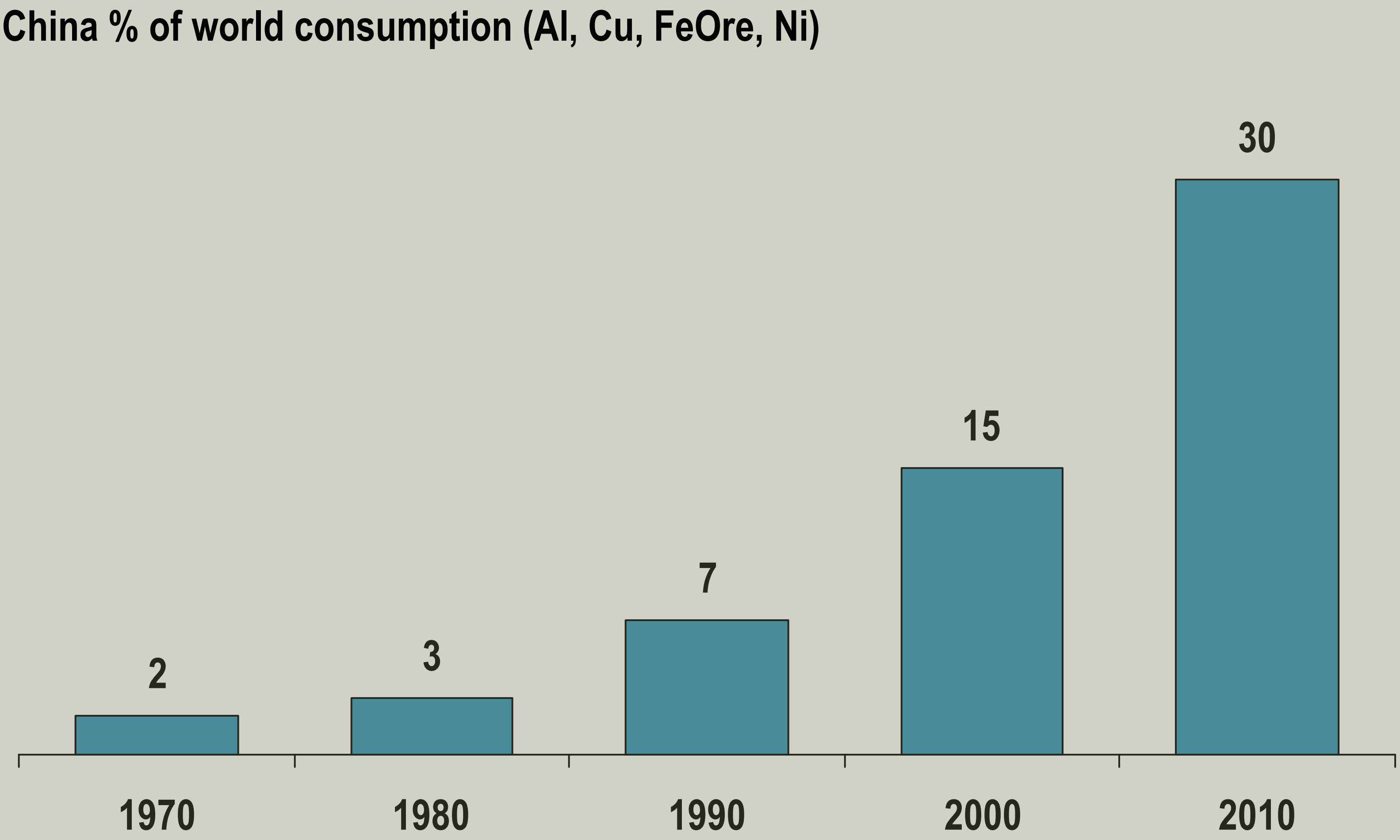
China is a large consumer but short of resources

China % of world production and consumption 2003



Source: CRU, IEA, BHP Billiton

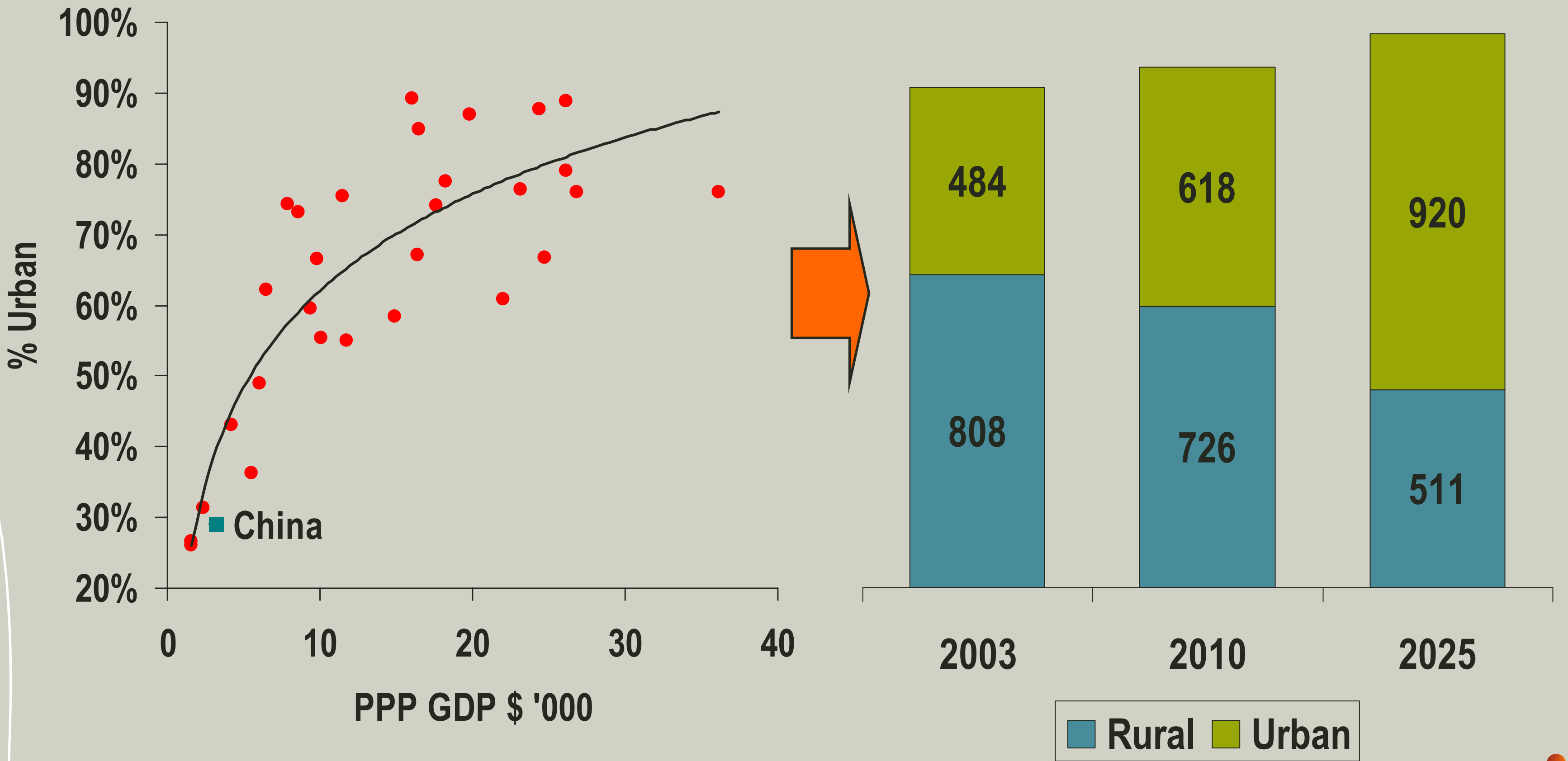
Consumption, as a % of the world total, doubles every decade



Source: Macquarie Research

Urbanisation and associated infrastructure are the key drivers of growth

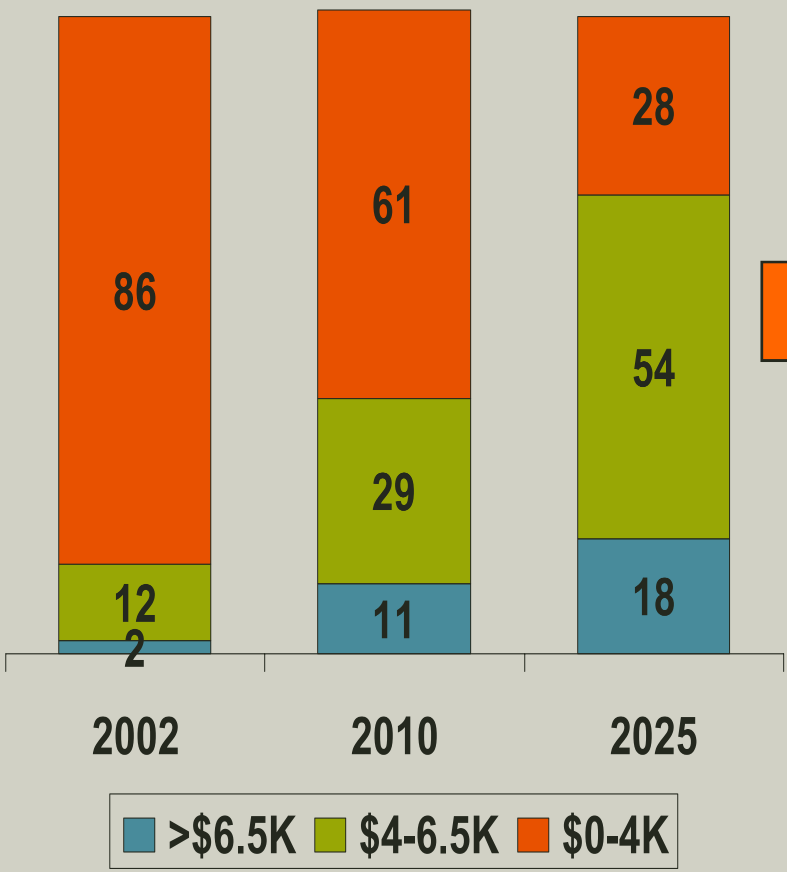
China urbanisation - %; population in millions



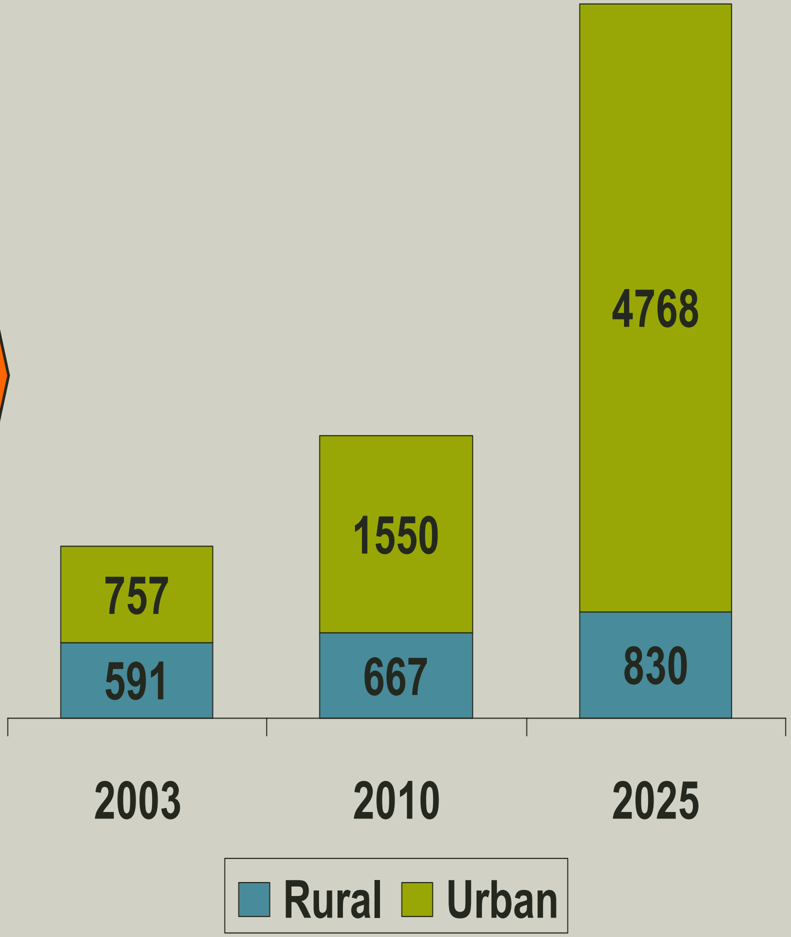
Source: China Statistics Year Book, BHP Billiton

Urbanisation and associated infrastructure are the key drivers of growth

Chinese urbanisation (%) per GDP/capita category



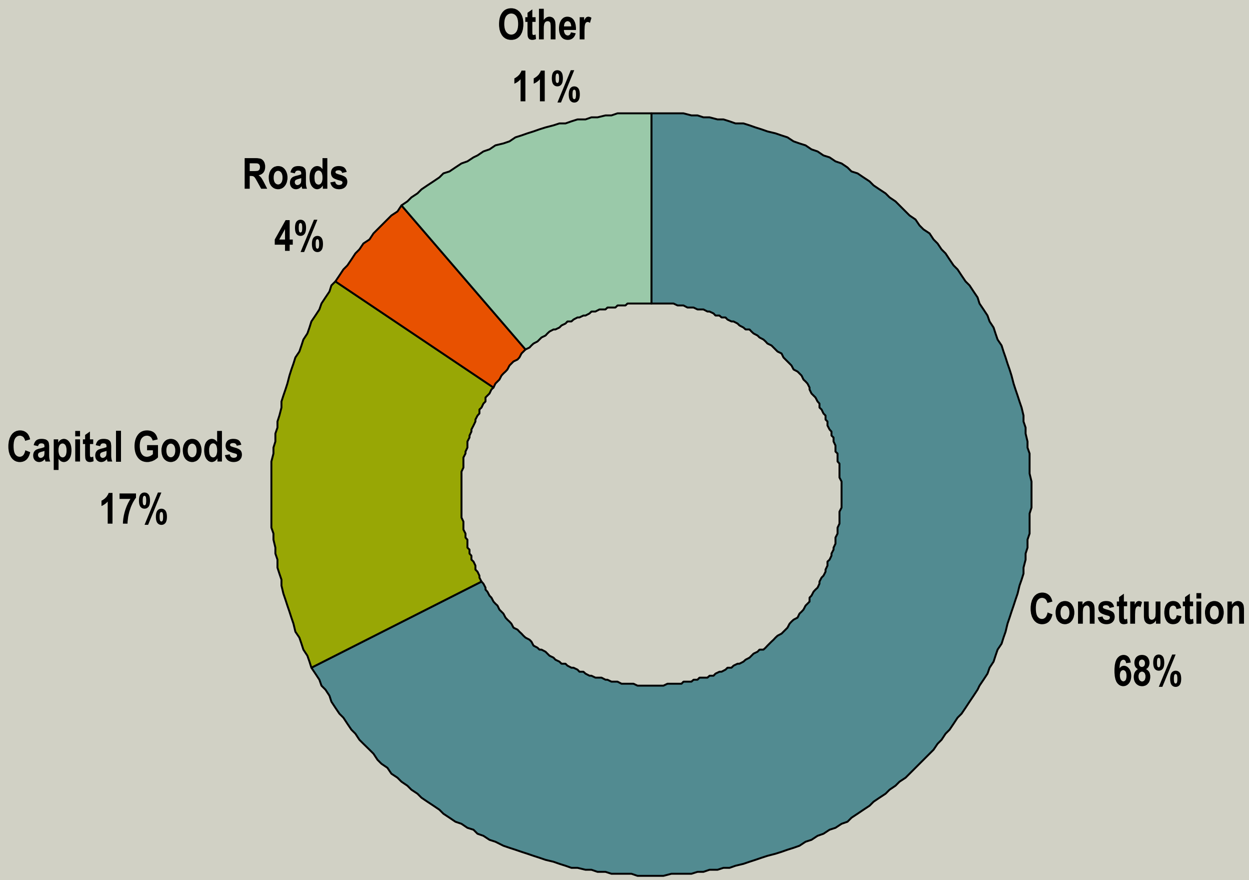
GDP (US$bn) breakdown



Source: China Statistics Year Book, BHP Billiton

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

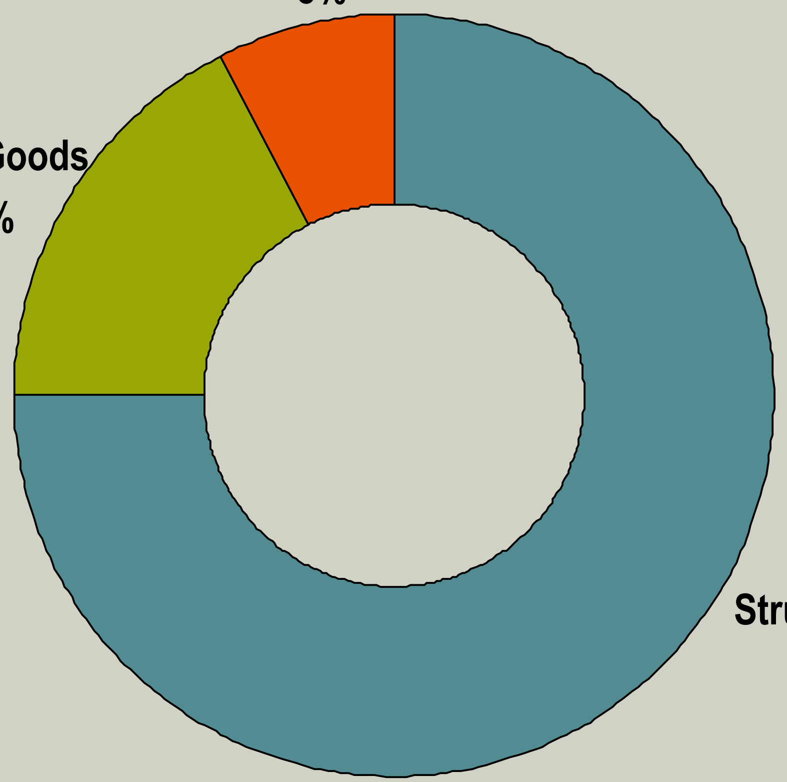
Chinese steel consumption by category 2003



Source: BHP Billiton

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

Chinese copper consumption by category 2003



Source: BHP Billiton

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 >>

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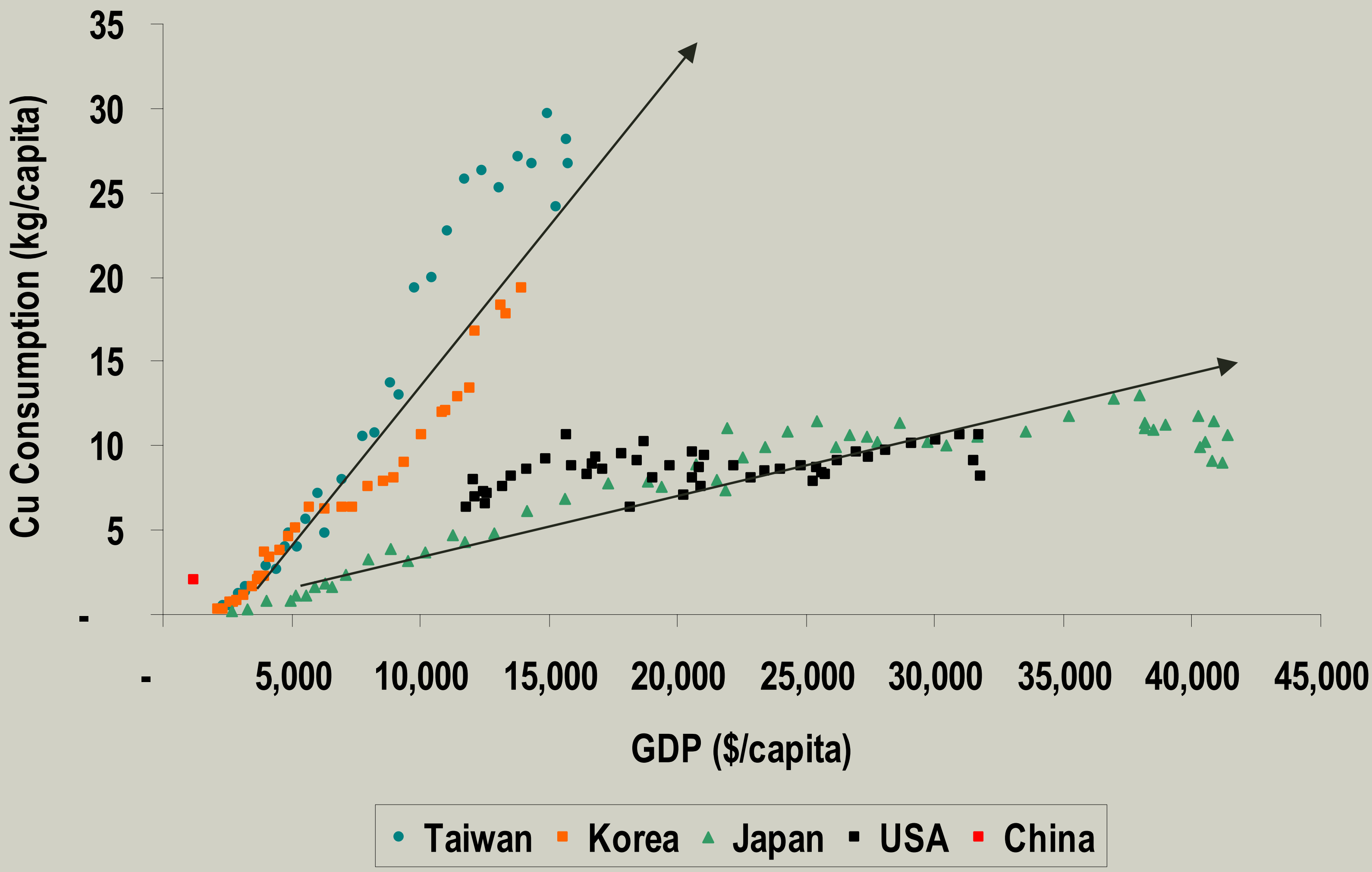
China's "continental maritime" growth model is sustainable and will strengthen over time

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



Source: Macquarie Research, CRU, ICSG

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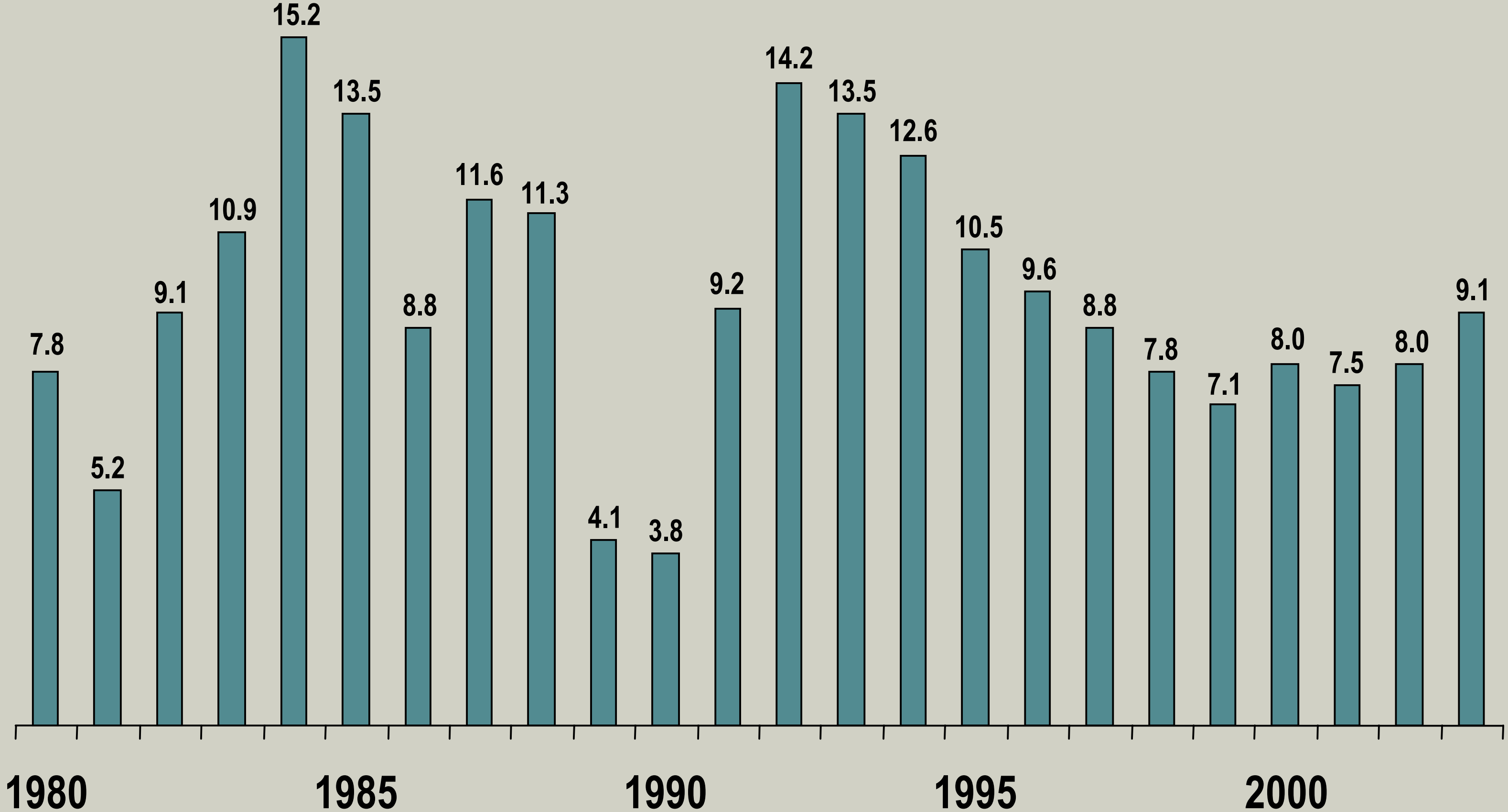
Let's not forget that China's growth is a long term phenomenon, not just a function of the last 2 years………

China GDP growth %

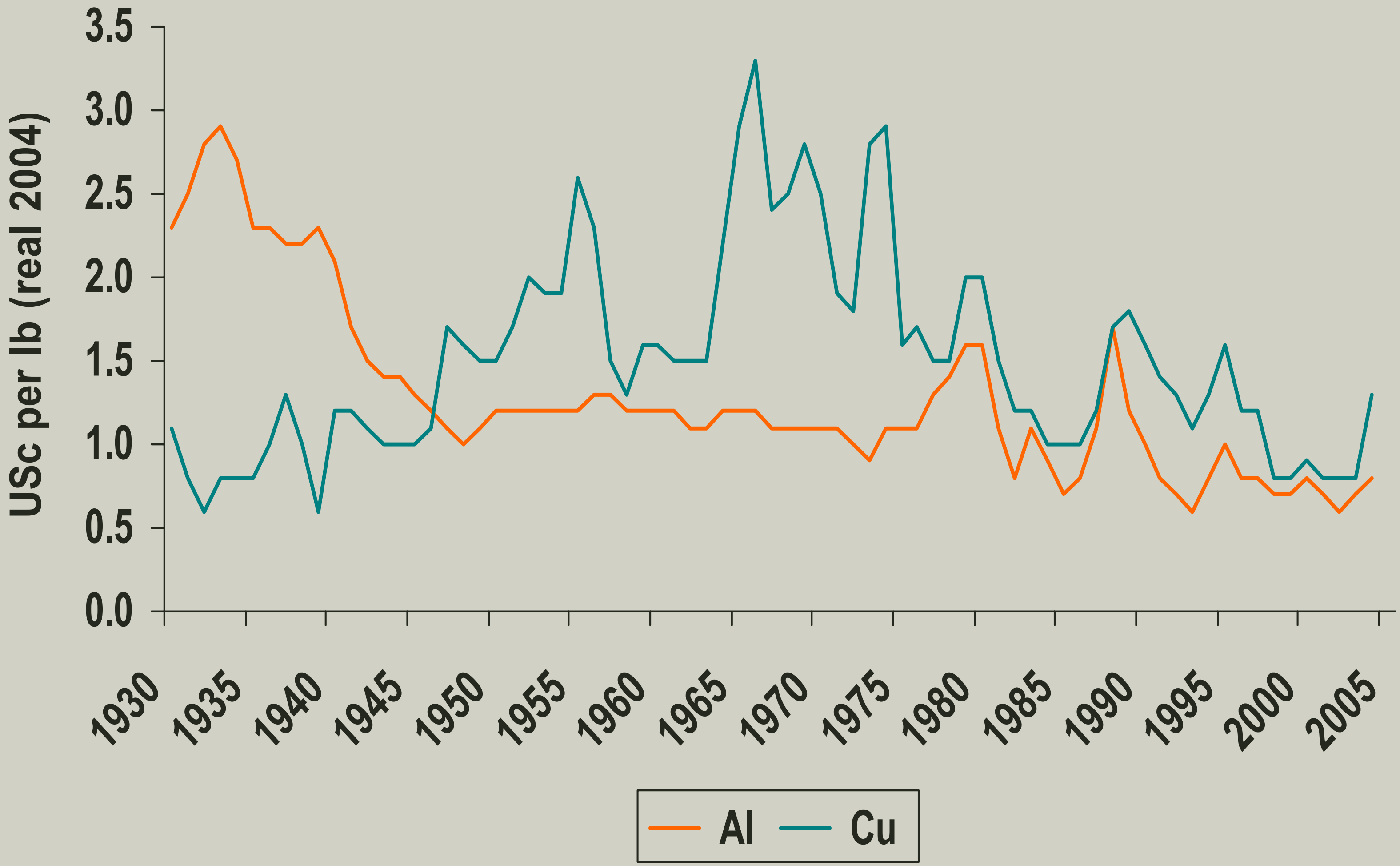


Source: Global Insight

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



Source: CRU, BHP Billiton

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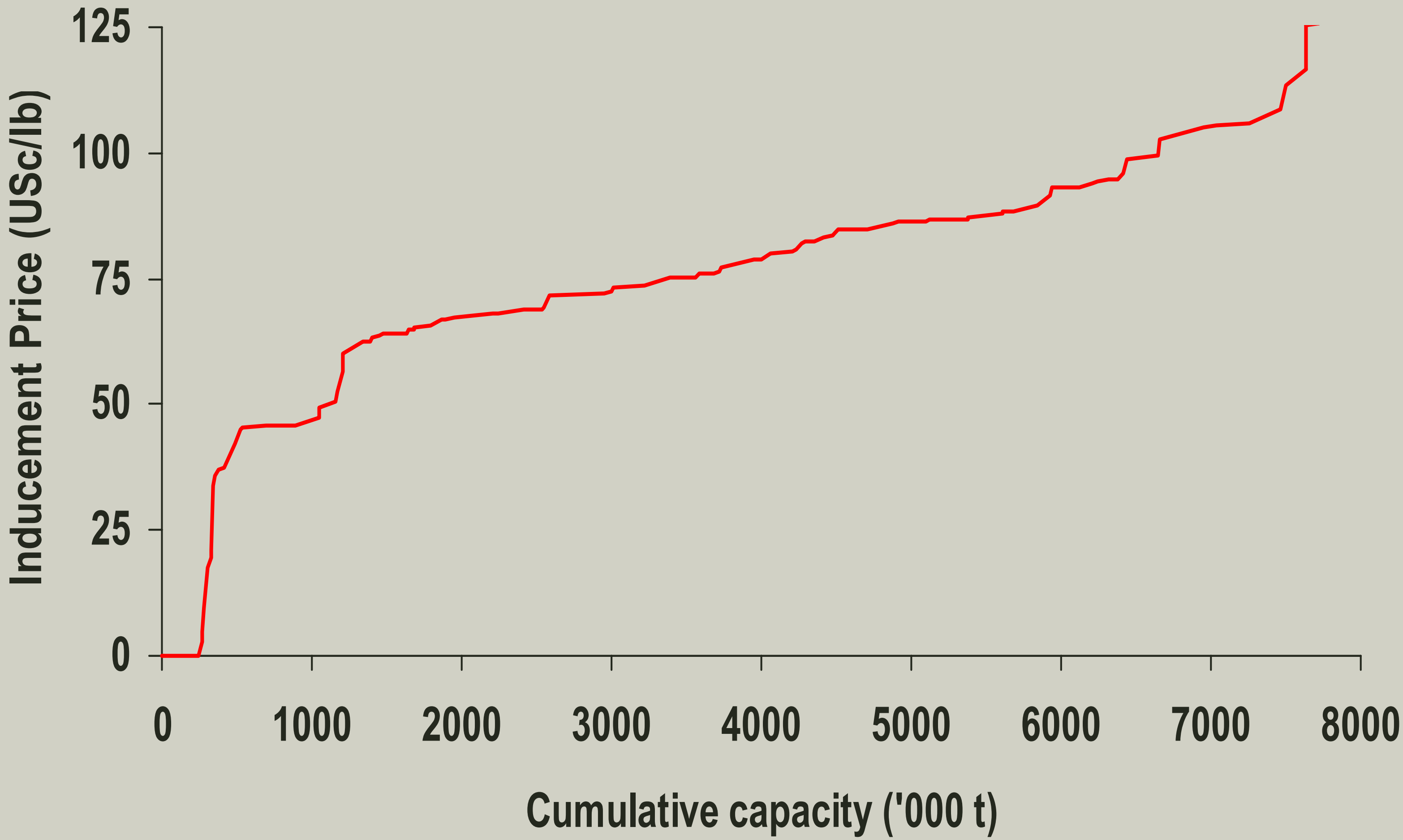
Prices are very powerful inducers of new capacity

Latent capacity - copper example

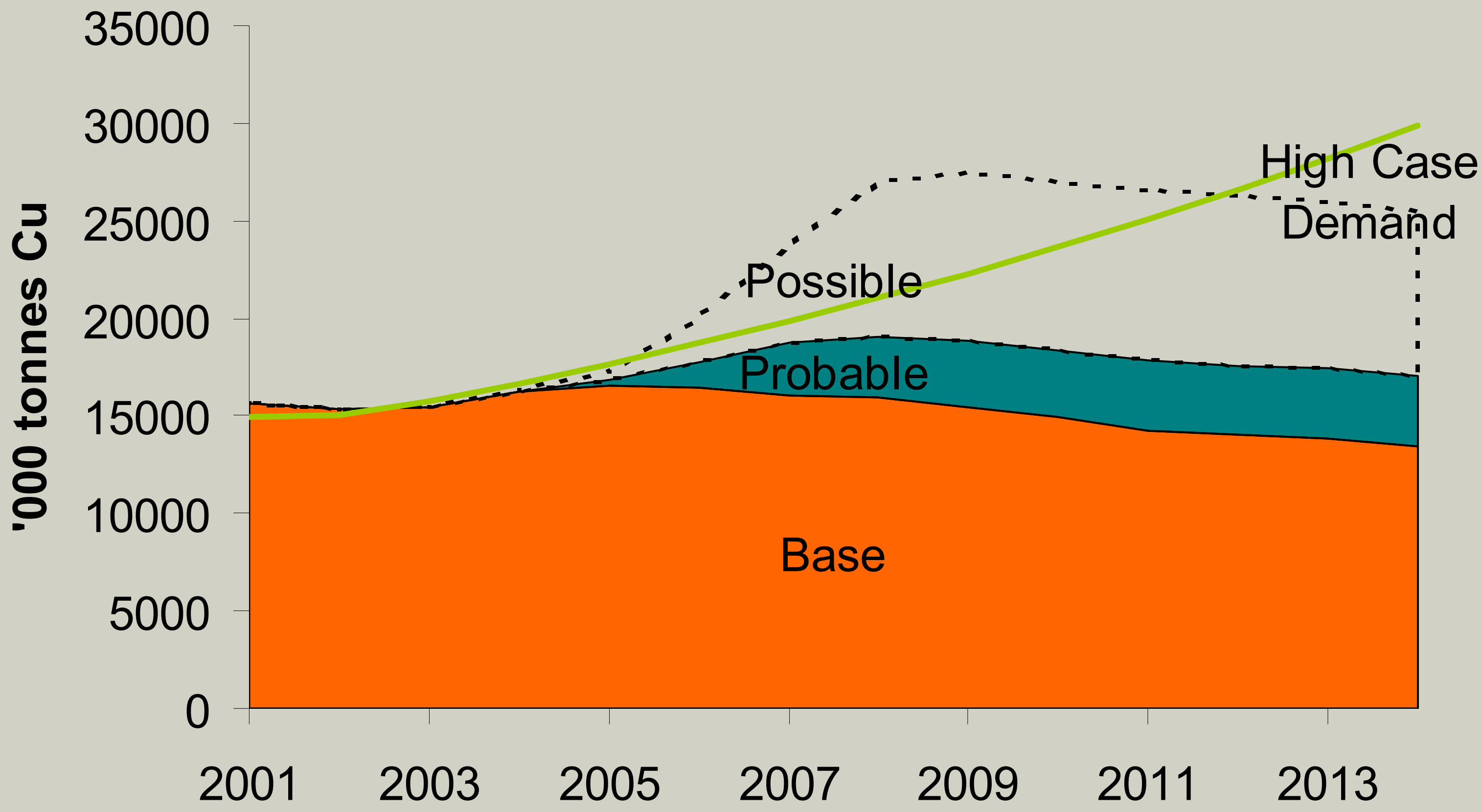


Source: Brook Hunt, BHP Billiton

Theoretical long run prices required to produce an 8% IRR

The gap between supply and demand will be filled

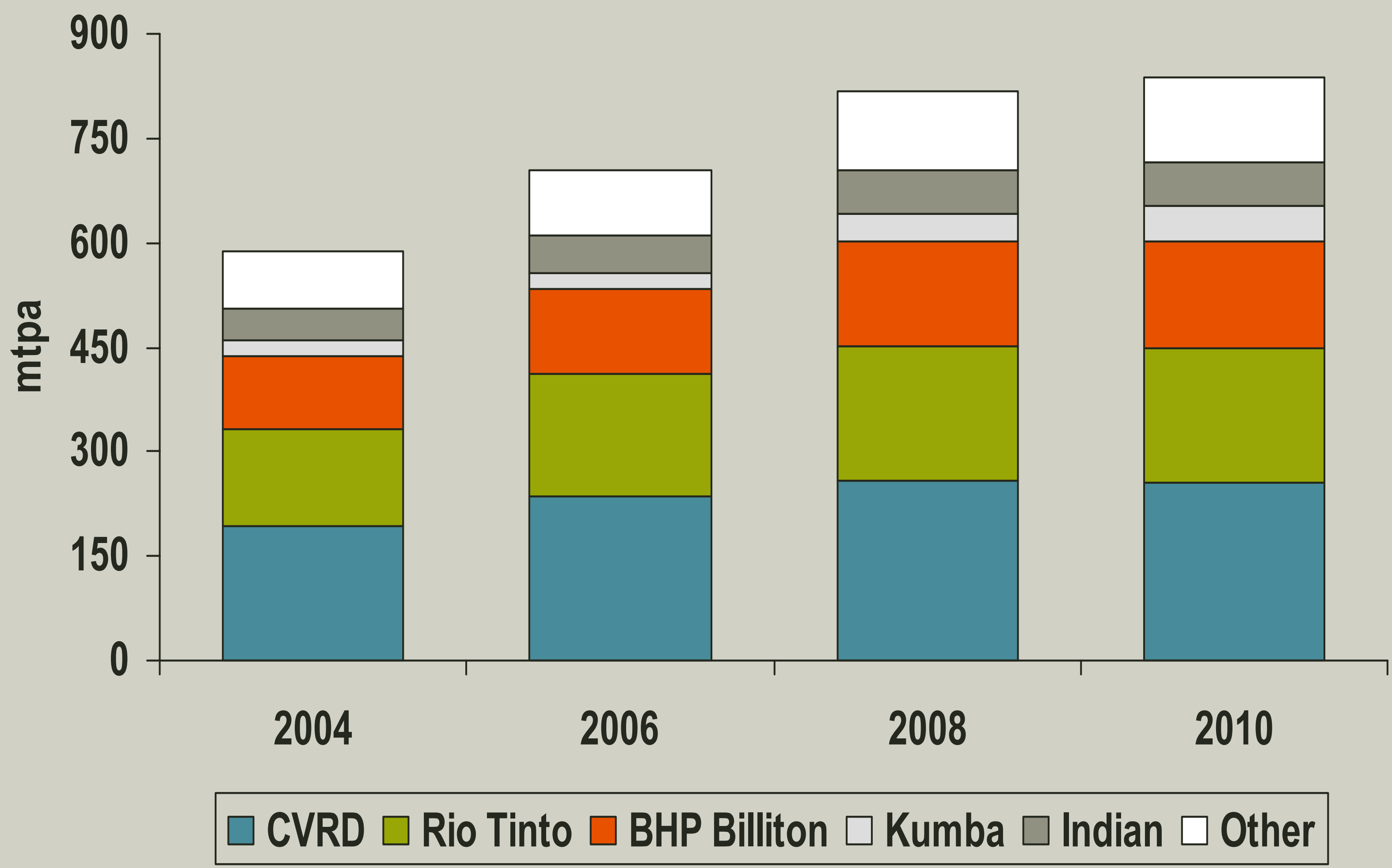
Latent capacity - copper example



Source: Brook Hunt, BHP Billiton

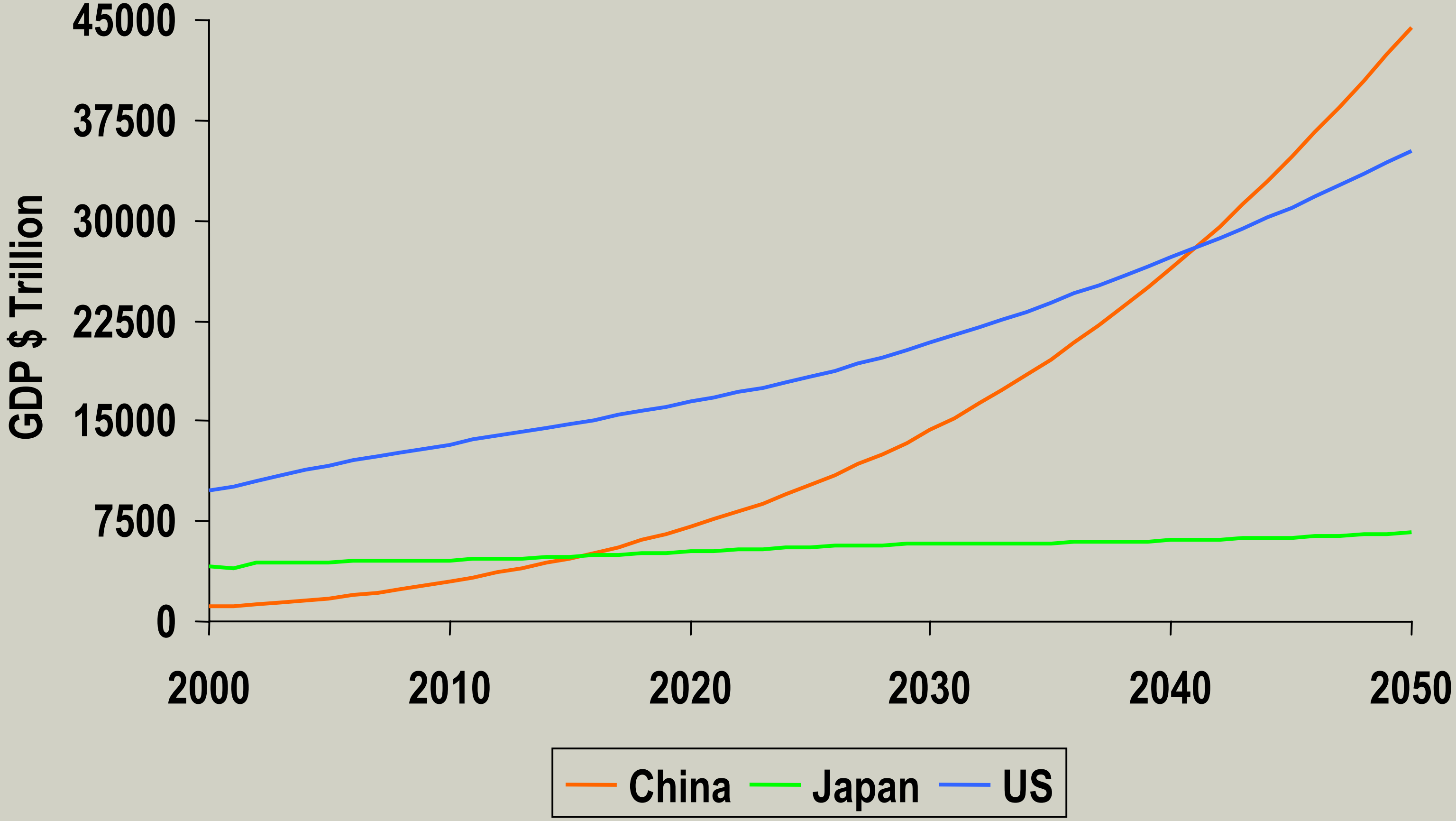
The gap between supply and demand will be filled

Latent capacity - iron ore example



Source: BHP Billiton

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



Source: Goldman Sachs Research

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

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