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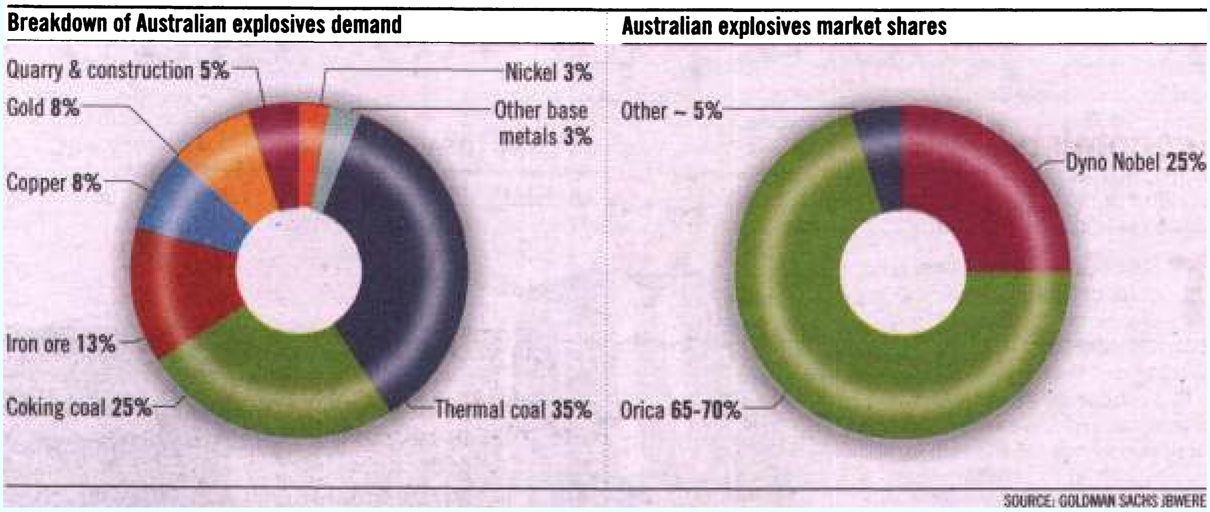

Burrup plant upsets market balance

As Orica mulls approaches for its $750 million Chemnet division (from private equity fund Pacific Equity Partners, among others), it faces the emergence of a new player upsetting the apple cart in the domestic ammonia nitrate market.

The looming float of Burrup Holdings comes with an announcement this week that the group had formed a memorandum of understanding with Norwegian fertiliser group Yara International to build a 350,000 tonne a year ammonium nitrate (AN) plant in the Pilbara region of Western Australia.

Goldman Sachs JBWere forecasts demand for AN to grow 7.6 per cent a year over the five years from 2005 as the mining sector buys it for use in explosives. On that basis, the market would have a shortfall of 270 tonnes a year by 2012, which creates room for a new plant such as that being proposed by Burrup. The problem is if Incitec Pivot/Dyno Nobel also proceed with the 330,000 tonne a year Moranbah plant in Queensland, total Australian AN capacity would rise to 2.25 million tonnes by 2012, well ahead of demand at 1.8 million tonnes. This excess supply would lead to prices falling as buyers such as Rio Tinto and BHP Billiton played suppliers off against one another.

GSJBW says the impact on Orica's earnings before interest and tax could be as much as $30 million to $45 million in the 2010 financial year.

Wesfarmers may be an even bigger loser from the Burrup plant as its CSBP operation supplies most of the WA market. CSBP manufactures AN in Kwinana, south of Perth, so Burrup would have a huge transport cost advantage in supplying to iron ore players in the Pilbara.