



VIDEO-CONFERENCE: INFRASTRUCTURE, ENERGY AND RESOURCES OPPORTUNITIES BETWEEN AUSTRALIA AND KOREA (26 JUNE 2017)

BACKGROUND

The Australia-Korea Business Council hosted a videoconference on infrastructure, energy and resources opportunities with Korea on 26 June 2017 across 6 locations including Melbourne, Sydney, Brisbane, Adelaide, Perth and Seoul. The videoconference outlined practical business perspectives on some of the opportunities and challenges for Australian and Korean firms in the infrastructure, energy and resources industry. The session was moderated by Peter Cleary, Executive Committee member of the Australia-Korea Business Council. A summary of the insights provided by the three expert panellists are outlined below.



Sungwon Yoon, Managing Director of POSCO Australia Pty Ltd

- POSCO is the 5th largest steelmaking company worldwide, producing 41.6 million tonnes of steel in 2016.
- POSCO makes up half of the Korean steel market in terms of production capacity. POSCO is one of the single largest clients in the Australian iron ore and metallurgical coal markets. POSCO contributes greatly to Australia's mining industry, and to strengthen this relationship and secure its supply of raw materials, POSCO founded its Australian subsidiary POSA in 1981.
- Australia is the most important resource sourcing nation for POSCO. In 2016 alone, POSCO imported 40 million tonnes of iron ore and a further 14 million tonnes of coal from Australia, accounting for 77% and 54% of POSCO's annual requirements respectively.
- Over 36 years, POSCO Australia have invested in several mining assets (approximately USD \$2.5 billion on an accumulated basis). Currently, POSCO Australia has equity in eight different Australian mining assets including coal and iron ore assets. One of these investments is the Hume Coal Project, which is 100% owned by POSCO. The Hume Coal Project is currently undergoing the approvals process, with POSCO recently submitting the EIS. Apart from those 8, there are another two iron ore assets in WA directly managed by POSCO headquarters.
- POSCO has two other subsidiaries with offices in Australia; it's engineering and construction branch (POSCO E&C) is actively participating in mining construction and infrastructure of coal assets and POSCO Daewoo is active in commodities trading and mining investment.
- POSCO is currently restructuring their assets to minimise financial losses amid sluggish commodity prices and are cautiously looking at Australian investment opportunities in coking coal and low volatile PCI (pulverised coal injection) assets. POSCO hope to continue investing in the local economy through highly profitable asset management and active investment in commercially viable mine assets.
- POSCO is committed to Australia's economy and is open to diverse collaboration opportunities which contribute towards further prosperity and advancement in the steel and mining industry between our two countries.



Dongjin Kim, Managing Director, GS E&C Australia

- GS E&C is the construction arm of the parent GS Group which achieved revenue of approximately USD \$60 billion last year from oil and gas, construction, retail and international trading businesses. GS is the 7th largest conglomerate in Korea.
- The engineering and construction arm of the GS group, GS E&C was founded in 1969, and recorded revenue of \$10 billion in 2016 from civil infrastructure, housing, power and building projects. GS E&C was ranked 22nd by ENR on the 2016 ENR Top 250 International Contractors list.



VIDEO-CONFERENCE: INFRASTRUCTURE, ENERGY AND RESOURCES OPPORTUNITIES BETWEEN AUSTRALIA AND KOREA (26 JUNE 2017)

- GS E&C Australia was established in March 2016 and is looking for opportunities in the local transport infrastructure sector, in particular with respect to rail, road, tunnelling, and bridges. They have extensive experience working in Asia and Middle East which will position them well for projects in Australia. Further, they have experience in Singapore which has some similar business characteristics to Australia, including strict safety regulations.
- The recently released budgets by the Australian Federal and State Governments demonstrates the priority of infrastructure by both governments through investment and funding. The implementation of these budgets will require many resources and experienced and qualified contractors such as GS E&C.
- While there is strong opportunity in the Australian market, there are also challenges that GS E&C face. For example, local market saturation can make it difficult for international companies to secure projects and high bidding costs and the requirement for detailed proposals are in some cases prohibitive. International contractors may therefore need to focus on opportunities relating to complex projects where they can showcase their high-tech construction methodology, as the market is less crowded.
- Kim believes that a Joint Venture with an Australian partner, which utilises each party's strengths, is crucial to succeeding in the Australian market. Also essential is understanding local business practices and minimising risk factors.



Daewon Yu, Project Development Manager, Hanwha Energy

- Hanwha Group is a Korean conglomerate which comprises solar, defence, petrochemical and life insurance businesses. Hanwha Group has two solar energy related businesses including Hanwha Q-Cells and Hanwha Energy.
- In 2010, Hanwha Group acquired a Chinese solar manufacturer called Solarfun and following a number of mergers, in 2014 was renamed Hanwha Q-Cells, which is now a leading solar manufacturing with 5.7 GW annual cell production capacity. Hanwha Q-Cells has a significant EPC track record, mainly in Europe and US.
- Hanwha Energy is an independent power producer and specialises in the development, acquisition and operation of large scale solar farms. Hanwha Energy has operating assets in Korea, Japan, US, India and Australia. In 2016, Hanwha Energy, together with KDB KIAMCO acquired the 25 MW Barcaldine Solar Farm in Queensland. The land conditions in Queensland and the local support during the construction phase have been positive.
- Although Hanwha Energy are looking at another acquisition opportunity, their core strategy going forward in Australia is to develop their own sites with a view to sell equity stakes prior to or upon financial close. Currently they have two co-development partnerships with local developers on four sites. Hanwha Energy are looking to set up an Australian office which will allow them to focus on securing offtake agreements from retailers or upcoming state government auctions.
- After the 2015 bipartisan agreement on renewable energy targets, the market immediately responded with an enormous increase in project pipeline and a decrease in large scale solar EPC pricing. Yu reflected that Australia's market is booming, with the main uncertainty being policy over the long-term. Challenges such as the cost of financing would be eased by long-term stable policies and contribute to a further decrease in the cost of renewable electricity generation.
- There have been encouraging responses at the State Government level, namely Queensland's 400 MW tender and the Victorian Government's VRET scheme. Looking at the Australian environment overall and considering factors such as the public's strong understanding of renewable energy, experienced industry players, interest from international investors and strong appetite from large Australian corporates such as Telstra and Coles, Yu believes that Australia is an emerging and important market for Hanwha Energy. Accordingly, Hanwha Energy has a target to build 300-400 MW solar plants in Australia over the next two years.



VIDEO-CONFERENCE:

INFRASTRUCTURE, ENERGY AND RESOURCES OPPORTUNITIES BETWEEN AUSTRALIA AND KOREA (26 JUNE 2017)

Conclusion

- Recently released Federal and State government budgets as well as the bipartisan support of the renewable energy target indicate significant opportunities for Korean firms to participate in the Australian infrastructure and renewable energy sectors.
- Australia is a key source market for POSCO, the world's fifth largest steel producer, with Australia supplying over 50% of POSCO's iron ore and coal requirements. POSCO will continue to seek strategic investment opportunities in Australia to ensure it has sufficient supply of raw materials.
- Although Korean firms face some challenges in the Australian market such as the uncertainty of government policy and lack of detailed local market understanding, there are extensive opportunities for Australian and Korean firms to collaborate in the infrastructure, energy and resources sectors.

Background reading: Nation Building: Leveraging Australian and Korean engineering, procurement and construction expertise.

[READ HERE](#)