

Keen pursuit of minerals

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China is digging deep to secure what it needs for its growth engines

OFFICIAL figures show Chinese investment in our resources industry for the first six months of this year at about \$1.5 billion but that tells only part of the story. That sum covers direct investment; it does not include off-take contracts, where Chinese companies sign deals to put their foot on all or part of a mine's output, often with loan financing as a quid pro quo. Nor does it include several large deals announced since June 30.

Conquest Mining, to take one example, recently received a detailed proposal from a Chinese smelter for off-take of 30,000 tonnes a year of high-grade gold, silver and copper concentrate from its yet underdeveloped Silver Hill project.

Most companies regard it as a triumph to get Chinese investors on board. It usually solves the problem of raising large capital requirements and usually also solves the problem of finding buyers.

Australia is part of a worldwide search by China to secure control of a large portion of the world's mineral and energy resources to ensure the industrial powerhouse has assured supplies in the decades ahead.

The thrust has been the most aggressive in Africa. The Democratic Republic of Congo was given \$US9bn (\$10.7bn) for infrastructure in return Chinese access to minerals. China takes 30 per cent of Angola's oil output and has sustained the regime in Khartoum so it has access to Sudan's resources. Zhonghui Mining is spending \$US3.6bn in Zambia and China has taken control of Gabon's largest iron ore resource.

The pathway, though, has not always been smooth. Chinese efforts to buy a large US oil company and Canada's oil sands met with powerful opposition. In Australia, Minmetals was not allowed to have the Prominent Hill copper mine for security reasons (it was in Woomera prohibited area) and, most famously, Rio Tinto pulled the plug on a deal with Chinalco.

At present, too, we have the Foreign Investment Review Board delaying a decision to hand over control of Mt Weld rare earths mine. These minerals are vital to many hi-tech industries and there is growing fear in the West about China controlling 95 per cent of the world production. Australia's second rare earths project, Nolans in the Northern Territory, is owned by Arafura Resources, which recently welcomed East China Exploration as a 25 per cent stakeholder in the explorer.

In fact, Beijing has been taking a special interest in what are known as strategic metals, specialist ones that have a large role to play in new technologies such as renewable energy, electronics and hybrid and electric vehicles. This explains a decision by Chinese investment house Great Group to finance a lithium project in Western Australia owned by Galaxy Resources and its planned lithium carbonate

production plant in Jiangsu. The Chinese company will take a 19.9 per cent stake in Galaxy and lend it \$130m to develop the project. Lithium is the key to batteries used in hybrid and electric cars.

The deals are coming fast and furious. They began with small investments and off-take agreements. Now Chinese companies, many with direct links to the Beijing or provincial governments, are increasingly swallowing Australian companies whole.

Sinosteel was the first big one; it brought Midwest Corp and its iron ore in WA. (Sinosteel also is bankrolling PepinNini Minerals in its search for uranium in South Australia.)

Minmetals took most of the stricken OZ Minerals, the Century zinc mine in Queensland, the Golden Grove copper-zinc mine in WA and the Rosebery zinc mine in Tasmania. And money is no object; the new Chinese owners almost immediately announced plans to spend \$26m at Rosebery to upgrade the mine.

More recently, Yanzhou Coal Mining made a \$3.5bn all-cash takeover bid for Hunter Valley coalminer Felix Resources. It is not just the coal that is the lure; Felix has an advanced clean technology being researched at Cessnock, NSW.

Diversified resources group RMA Energy is another company about to fall to a takeover from the north. China Railway Resources Group, which holds 11.2 per cent of the company, is making a cash offer for the rest of RMA, an explorer with uranium, coal and tin projects.

Speaking of tin, China's largest producer -Yunnan Tin – recently brought 60 per cent of the Renison and Mt Bischoff tin mines in Tasmania from their local owner, Metals X. Yunnan Tin also has its own vehicle on the Australian Securities Exchange. YTC Resources, based in Orange, NSW, is exploring for tin and copper-projects in that state. Other China-controlled companies also have listed here, a trend that may develop. There's China Yunnan Copper Australia, in which China Yunnan Copper Industry is the largest shareholder, and which has a Queensland exploration portfolio. Another local play is Dragon Energy, in which Shandong Taishan Sunlight Group is the cornerstone investor; it has just begun drilling at its Big Toby phosphate project in the Queensland section of the Georgina Basin.

China has placed high priority on acquiring fertiliser feedstocks, so it is targeting phosphate and potash projects around the world in the knowledge that it is going to have to lift food production.

And the deals just keep coming.

Centrex Metals, which is developing an iron ore project on SA's Eyre Peninsula, is allied with Baotou Iron & Steel; Emergent Resources is working with China Metallurgical on a magnetite deposit in the same region; Meridian Minerals has welcomed Northwest Mining & Geology Group on to its register and \$10.5 million for its Lennard Shelf lead-zinc hopes; and WA's Bauxite Resources is doing deals with two Chinese entities, one of them owned by Shandong's provincial government.