



Enter the dragon

Having staked its claim on iron ore, China is now looking at other Australian minerals, especially uranium. **Mandi Zonneveldt reports**

CHINA'S rush on a rich uranium prospect in the Northern Territory has signalled the start of a second wave.

The NT Government confirmed this week that six Chinese companies were among more than 40 vying for a licence to explore the Pamela and Angela uranium prospects south of Alice Springs.

Chinese investment in Australian resources is by no means new. For 20 years, the Chinese have quietly staked their claim on Australia's iron ore reserves.

But a new vigour has emerged, marked by heightened activity at the junior end of the iron ore sector last year.

And uranium appears to be the next target in Australia's treasure trove of natural resources.

If any one of the Chinese companies is successful, Pamela and Angela will be the first uranium project in Australia wholly owned by the Chinese.

China first signalled its interest in Australia's vast uranium reserves last year, when SinoSteel Corporation — owned by the Chinese Government — paid \$40 million for a 60 per cent stake in two outback South Australian projects owned by PepinNini Minerals.

CITIC, another state-owned Chinese behemoth which is known to have considered a bid for WMC Resources and its Olympic Dam mine, has since built stakes in uranium explorers Marathon Resources and Southern Gold.

Marathon chief John Santich said Australia was the obvious place for China, which has plans to quadruple its nuclear power capacity by 2020, to look for uranium, and tips more activity this year.

"Australia is a beautiful, stable climate in which to find uranium," he said. "It's close, we have major uranium resources, a pretty good economy ... all of those make a difference."

The same arguments were applicable 20 years ago when China first came to Australia on the hunt for resources.

CITIC was the first Chinese company to invest here, taking a 10 per cent stake in the Portland Aluminium smelter in 1986.

China's Ministry of Metallurgical Industry (now SinoSteel) followed in 1987 with the \$420 million Channar iron ore joint venture.

Melbourne lawyer Robin Chambers, former general counsel for CRA (now Rio Tinto), represented the Chinese Government in the negotiations with Hamersley Iron, which have set the stage for the new wave of investment.

He said a key issue in the protracted negotiations was whether to just have a long-term contract or form a joint venture.

In the end, the joint venture won out and the Channar agreement established a model for future investment here.

Mr Chambers said the model was based on the assumption that if the Chinese were to agree to guarantee the market by providing long-term off-take contracts, then they would also require equity participation.

He said joint ventures had given the Chinese security of supply as well as a share in the profits.

The success of the Channar model is evident in the financial results of Chinese companies operating in Australia.

SinoSteel Channar made \$53.8 million from its 40 per cent stake in the Channar iron ore mine in 2005, the most recent figures available.

Baosteel, which developed the Eastern Range mine near Paraburdoo with Rio Tinto, made \$18.3 million in 2005 from its 46 per cent stake in the project.

CITIC turned a \$17.9 million profit from its stake in the Portland smelter (now 22.5 per cent). The company also made \$12 million from its direct stake in Macarthur Coal's Coppabella mine.

Yancoal, a subsidiary of China's largest coal miner Yanzhou Coal, is expected to turn a profit this year following its revival of the Southland colliery in the Hunter Valley — a wholly owned venture.

Chinese oil giant CNOOC will also start reaping rewards this year from its 25 per cent stake in the China LNG joint venture, formed as part of a \$25 billion deal to sell gas from the North West Shelf to China.

China has since lodged a bid to develop a \$3 billion bauxite mine on the Cape York Peninsula in Queensland.

Chinese companies have also agreed to invest more than \$2 billion in ore projects, mostly in Western Australia.

Last year saw deals or agreements between AnSteel and Gindalbie Metals; SinoSteel and Jupiter Mines; China Kingdom and Western Plains Resources; SinoSteel and Cape Lambert Iron Ore; China Metallurgical Group Corp and Australasian Resources; Mt Gibson Iron and Shougang Group; and CITIC Pacific and WA businessman Clive Palmer.

Chinese companies were also front and centre in the drawn-out takeover of iron ore junior Aztec Resources by Mt Gibson.

China's ambassador to Australia, Fu Ying, has predicted that in the next five years the country will only be able to meet its own needs for 11 of 45 key minerals.

"In the next five to 10 years, China would need to import more than half of its need for iron ore, copper, nickel, aluminium and zinc," she said.

Leading Shanghai-based commodities trader Penfolds has observed investment in copper, nickel and bauxite already.

THE company's Brian Goldstein said China was looking for counter-weights in negotiations where oligopolies dominated supplies.

"They are also getting savvier in the need for stable, long-term feed supply as ever-larger expansions make it more difficult to buy enough spot tonnage and arrange corresponding logistics," he said.

Mr Chambers predicts Australia will see investment from China in base metals, including copper, nickel, lead and zinc, as well as vanadium and heavy metals.

He said the Chinese were more willing to take on exploration risk than in the past, when they would only look at projects that had achieved the feasibility stage.

Finding the projects is the problem now.

"The biggest problem is that there are not enough available new projects for investment in Australia," he said.

"There are more Chinese enterprises looking for projects than there are projects available."

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Figures on the extent of Chinese investment in Australia are hard to come by.

In 2004-05, the Foreign Investment Review Board approved 39 applications from China to invest in the mineral exploration and development industries.

That number is expected to have climbed dramatically, but FIRB has not yet published figures for 2005-06.

At December 31, 2004, Chinese investment in Australia totalled \$1.98 billion, but the Australian Bureau of Statistics no longer releases figures on Chinese direct investment "for confidentiality reasons".

Mr Chambers said the Chinese Government had adopted a policy encouraging Chinese companies to secure supplies of raw materials, with Australia the principal focus.

But dramatic increases in the price of iron ore have also stimulated investment.

"(China) is trying to diversify its sources of iron ore away from the big three producers — CVRD, BHP Billiton and Rio Tinto," he said.

With big rises in the price of base metals in the past 12 months, China is also tipped to look for investment opportunities beyond iron ore and uranium this year.