

December 12, 2007 04:01pm AEDT

China Inc plots to get banquet seat

Rowan Callick, China correspondent | November 14, 2007

THE leaders of China Mining Inc have decided not to try to resist a BHP-Rio mega-merger.

Instead, they appear to have decided to try to exploit the possible deal as an opportunity to build their interests in Australian resource assets, calculating they will not be blocked by foreign investment restrictions during a period of industry consolidation.

They met on Monday in Beijing's Great Hall of the People, three days after they learned of BHP's rebuffed approach.

Focusing on this issue at a meeting previously arranged to coincide with a broader resources conference, the chairmen and presidents of China's top mining corporations appear to have decided that they had two options.

One was to try to work their interests into some sort of position in the merged entity, and the other was to buy related assets. A mixture of both options is not ruled out.

"They are obviously very determined not to let the opportunity slip to acquire an involvement" in the deal, one observer said.

Participating in the BHP-Rio realignment may offer a rare opportunity to obtain a stake in substantial assets already producing ore, or close to doing so.

The Bank of China, the Ministry of Land and Resources and the China Mining Association co-ordinated the meeting, from which the consensus emerged that they had about three months in which to act if they wanted to transform China's situation from a net minus - a price-taker from a new monolith - to a net plus.

As ever, the meeting, which freed an unusual amount of time for open debate among the 100 participants, concluded with a banquet.

The two-and-a-half hour business summit provides the best evidence yet that China Inc, which has become this decade the world's biggest consumer of most minerals, is intent on developing a powerful response to President Hu Jintao's instruction to "go global".

The leading corporations began assessing their options three weeks ago, when rumours became insistent that BHP would move.

Most delegates accepted there was a strong likelihood that the bid would eventually succeed.

The Government continues to control the entire resources industry in China, and its planners - who would have played a role in putting the summit together - invited chiefly the leaders of the non-ferrous sector (including aluminium giant Chalco, which is set to develop the Aurukun resource in north Queensland) but not the steel mills.

The Bank of China appears to have been assigned a key role in pulling together companies with potential to participate in large-scale mergers and acquisitions, and picking off promising assets.

Liquidity is not a problem. Most of Monday's participants have substantial cash reserves.

One of the major concerns at the summit was the likely role of the Australian government. The troubling example of the Unocal takeover bid was raised more than once. China National Offshore Oil Corp (CNOOC) bid \$21 billion for Californian oil company Unocal in 2005, only to have to withdraw it in the face of fierce political opposition, including the federal Congress. Melbourne resources lawyer Robin Chambers, the only Australian invited to attend the meeting, told the participants he believed the federal government would not place any major obstacle in the way of greater Chinese participation in the mining industry.

The mining leaders made it clear they were aware that Labor leader Kevin Rudd was a Mandarin speaker,

and some believed his becoming prime minister could smooth the path for acquisitions.

BHP and Rio have three large iron ore joint ventures with Chinese companies.

Copyright 2007 News Limited. All times AEDT (GMT +11).