Channar helped forge the world's industrial superpower

Mutual trust was the bedrock of this landmark JV

ROWAN CALLICK
CHINA CORRESPONDENT
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China has always played a key role in Australia's resource industry, since the gold rush era when, in 1852, fearless young men from Guangdong in the country's south sailed here, via Hong Kong, to seek their fortunes.
Thousands followed. Some returned, many remained, and as "new Australians"contributing hugely to the country's development.

The relationship between the two countries has deepened and intensified; however, resources has remained at its heart, with Australia becoming a crucial supplier to fuel what has evolved rapidly in modern times into the world's greatest industrial power.
In 2015, Australia — led by Rio Tinto — supplied China with $39 billion iron ore, 48 per cent of total merchandise exports to China.
Nothing comes near that figure, nor can it for years ahead.
Rio, initially via its Hamersley Iron subsidiary, has been exporting ore to Chinese steel mills for 43 years, starting in 1973, just seven years after the company began producing ore in the Pilbara.
Hamersley's then parent, CRA, started contemplating sales to China in 1970, before Canberra even recognised the People's Republic diplomatically.

CRA had built a strong relationship with Japan as it emerged as an industrial powerhouse, and was following suit with South Korea. China was the obvious next step.

The company was attracting senior staff with Asian language skills and began to develop a greater capacity for Asian analysis.

Ken Hamilton, then marketing general manager for Hamersley, and Tom Barlow, the general manager for marketing and development, were invited to attend China's great annual trading encounter with the world, the Canton Fair, in 1973, while the Cultural Revolution was still under way, massively complicating China's international relationships.

They first flew to Canberra to inform government representatives. Although Australia's ban on exporting iron ore had been lifted a decade earlier, permission to export was still required.

When the pair arrived at their hotel in Hong Kong, through which they had to travel to reach Guangzhou/Canton, a telex was awaiting them from Canberra forbidding them from undertaking negotiations in China. "We thought, 'bugger this, we're not going back'," Hamilton said.

They travelled by the train to the border, picked up their bags and crossed the bridge into a then highly unpredictable China. They proved to be historic steps.

After several days of discussions in Guangzhou with the Ministry of Metallurgical Industry, then the owner and regulator of all the country's large steel mills, they were invited to return. The Great Leap Forward under Mao Zedong had failed to achieve the industrial breakthrough Mao had sought, and as the Cultural Revolution began to ebb, technological experts with ambitions for a more soundly based Chinese take off slowly began to emerge in key roles in such ministries.

"They talked of themselves as end-users," Hamilton said. "We talked of pelletising and using the ore. It was not clear at first if they were interested in what we were offering, or how much."

But in subsequent contacts it became clear the two were speaking the same technical language, if through an interpreter. Hamersley provided a technical memorandum. "They wanted more and more after that," Hamilton recalls. "They were very insistent."
He and Barlow returned a few months later with technical experts. Despite the Canberra misgivings, agreement was reached to supply ore for a Chinese mill on a trial basis. Barlow said the Chinese priorities appeared to be that "they wanted a higher grade ore" than they could obtain from their own, increasingly worked-out, mines, and newer technologies."
The initial shipment in September 1973, a modest 20,000 tonnes, almost proved a disaster when the ore was loaded too rapidly onto the vessel, hired by the Chinese. The vessel was unable to deballast fast enough, and almost sank, along with the relationship.
But Hamersley had taken calculated risks by seeking to cement such a potentially key partnership and by letting an unknown vessel dock at its port. The ship survived and reached China safely, where the ore was used successfully.

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CHANG LUNGKAI
FORMER HEAD OF CHINA'S MMI FOREIGN AFFAIRS DEPARTMENT

A five to 10-year contract for 2 to 3 million tonnes a year was signed in May 1974. Senior Chinese officials followed up by visiting Australia, where they met the CRA chairman Sir Roderick Carnegie and Sir Russel Madigan, then managing director of Hamersley — who were both vital supporters of the development of the China relationship.
The party then flew to the Pilbara in Western Australia, in the company's Grumman Gulfstream corporate jet. During the flight

the pilot received a radio call from Hamersley's administrative manager Chas White that a rumour had started that "commos" were coming, and that a demonstration was afoot to meet them at the port of Dampier. So instead they flew directly to the mine site at Paraburdoo and watched ore being mined and loaded onto trains.

In 1977 Sir Rod spent a few weeks travelling in China, talking, listening and observing, and coming to the conclusion that "if our future depended on the steel industry," it would be fruitful to build with that industry "a partnership for some new developments."

The leadership at the China Metallurgical Import and Export Corporation (CMIEC, the predecessor of Sinosteel), chosen by Beijing to be the potential Chinese partner, was thinking the same thoughts, recalls Barlow. Following the customary preliminary political statement, the CMIEC team leader added the remarkable words: "We might be able to have a joint venture with you in iron ore."

But there was no follow-up until Deng Xiaoping entrenched his position as China's new paramount leader and launched the country's "reform and opening" era in December 1978.

China tapped CRA for help to train mining staff and exchanges began. Chang Lungkai, then head of the MMI's Foreign Affairs Department, said: "China is a big country with abundant resources but short of iron ore. To develop our metallurgical industry, we had to win greater access to ore.

"We were talking also with India, South Africa and Brazil for the supply of ore. But the best country for us was Australia, because it is very near to China. And the then chairman of CRA (Sir Rod) was very friendly to China, giving us good signals."

CRA chose the undeveloped Channar resource in the Pilbara as the project at the heart of the hoped-for joint venture, chiefly because it could provide ore similar to what Hamersley was already selling to Chinese mills.

Chang listed the Chinese leaders important for the crucial pioneering joint venture as Zhao Ziyang, Hu Yaobang and Li Peng.

“Zhao was a very good friend of (then prime minister) Bob Hawke.

“They attached a lot of importance to it because Channar was China’s largest overseas invesment. To invest abroad was a risk, because China had no experience at all of doing so. We asked many questions, all aimed at making sure we would get our money back,” Chang said.

“I was trying to convince the Australians to have confidence in China, and China to have confidence in Australia. Personal trust between the top leaders was therefore very important.”

Crucially, he said, “Deng Xiaoping was aware of the negotiations and approved the deal. I was involved many times in meetings about Channar with Deng,” for whom he also worked as English translator. “Deng was the architect of what we were engaged in.”

Australian ambassador Ross Garnaut also played a crucial role as talks, which spanned four years, reached their final stages towards a deal on the joint venture, as did Ian Bauert for Hamersley.

Robin Chambers, who was then general counsel for CRA, has since been a longstanding adviser to Sinosteel, which he represents on the policy committee of the joint venture. He said the Chinese always described the deal as “the model joint venture.”

Chang visited Channar many times before construction began. “It was a very bare place,” he recalls. “It made me recall a line of Wordsworth: ‘The beauty of the morning; silent, bare’ — that’s what it was like.”

A growing list of Chinese leaders visited the Pilbara — which was rapidly becoming crucial for much of their economic ambitions — at first, hosted often by Hawke.

Garnaut accompanied Hu Yaobang, then general secretary of the ruling communist party during his visit to Australia in 1985. They stood, with Hawke, on top of the greenfield ore resource. “It was a big feature of the visit,” said Garnaut. “Whenever I met him after that, he would refer to the time Bob Hawke handed him a rock on Mount Channar."

The agreement was provisionally signed in July 1987, "helping give the Chinese confidence in the internationalisation of their steel industry and giving Australia the inside running," Garnaut said, to build its role as a key supplier as China's economy began to boom.

"The market for Australia grew more rapidly than anyone foresaw at the time."

As CRA evolved into Rio Tinto, these links consolidated, with extensive staff exchanges and technical co-operation between Rio and its core Chinese customers.

Rio remains the biggest exporter of ore from Australia to China, but BHP Billiton a close second. The latter has also developed joint venture relationships with key Chinese buyers at Wheelarra. Both companies' joint ventures have been used to enhance mutual understanding on both technical and human levels.

"From the start the joint venture was strongly reliant on personal relationships," said former Rio Tinto CEO Sam Walsh. "As you move forward, you have to develop a relationship of mutual trust. And this business keeps evolving."

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Rowan Callick is the author of "Channar: A Landmark Venture In Iron Ore," published in English and Chinese