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HD Massive losses cloud future

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Shanghai | The substantial shadow of Clive Palmer will follow Treasurer Joe Hockey to Beijing this week, amid acrimony over the nearly \$30 billion in investment losses suffered by Chinese companies in Australia over the last decade. As Mr Palmer begins negotiations with the government over the passage of its budget, it will be his troubled Sino Iron project which is being discussed in China.

Mr Hockey will meet with officials from China's top economic planning agency on Tuesday, in a bid to attract the next wave of Chinese investment into Australian infrastructure and agricultural projects.

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But his pitch will be clouded by the protracted dispute and heavy losses suffered by state-backed Citi Pacific in Mr Palmer's Sino Iron project in Western Australia.

"It's certainly been a difficult learning experience for them [the Chinese]," said Stephen Joske, the senior manager for Asia at AustralianSuper in Beijing.

"I think you might see a quiet period for **Chinese** investment in Australia for a couple of years, due to the cyclical downturn in **China** and their investment experience in Australia."

Mr Hockey won't be raising the Citic dispute during his meetings in Beijing, according to a spokesperson, but it may be brought up by those sitting opposite.

"It is very likely they will," said Mei Xinyu, a researcher attached to the Ministry of Commerce in Beijing.

The most logical forum would be during Tuesday's half-day dialogue with the National Development and Reform Commission. It is **China**'s top economic planning agency, which is also responsible for outbound investment the damage may have already been done

Even if Citic is not raised with Mr Hockey, others like West Australian Premier Colin Barnett believe the damage may have already been done.

"Clive has damaged our relationship with China," Mr Barnett told reporters last month. "I spend a lot of my time as Premier ensuring that that damage is kept to an absolute minimum."Queensland's deputy premier Jeff Seeney agreed with these comments and went a step further, saying Mr Palmer was a national "embarrassment".

Accounting **firm** KMPG said Australia lost its position as the number one destination for **Chinese** investment in 2013, after flows declined 10 per cent to \$US9.1 **billion** (\$9.6 **billion**.) The US is now **China**'s favoured destination.

This was despite overall outbound investment from **China** growing by nearly 17 per cent to \$US90 billion.

In this more competitive environment for **Chinese** capital, Mr Palmer's ongoing stoush with Citic is seen as a big negative. He has been accused by the **Chinese company** of using \$12 million of its money to bankroll last year's election campaign.

The businessman-turned-politician denies the allegations.

He is also in dispute with Citic over the port at his **iron ore** mine and the timing of royalty payments.

But these issues are dwarfed by the financial pain suffered by Citic. It has invested between \$US10 billion and \$US 12 billion in the iron ore project, but is looking at sizeable write-downs.

"This is hands down the worst mining investment of the past decade in Australia," said Tim Murray, the managing partner of J Capital Research. He is forecasting the project will eventually be closed, forcing Citic to write off its entire \$US12 billion investment.

But its total losses will be even higher as Citic lost \$US2 billion attempting to hedge its Australian dollar exposure before construction began.

Another **Chinese** state-owned **firm**, **Chinalco**, has also suffered big losses in Australia. It is down \$A9.6 **billion** from its 9.8 per cent **stake** in **mining** giant Rio Tinto. This investment has fallen 50 per cent in value since it was purchased in February 2008, just before the global financial crisis.

At the time, Rio's London listed shares were trading at around double their current price.

A subsequent deal which would have allowed **Chinalco** to increase its **stake** in Rio to 18 per cent, at a far lower valuation, collapsed in June 2009.

Chinese state-owned miner Yancoal has also lost around \$3.5 billion on its investments in Australia, after buying Felix Resources and taking control of Gloucester Coal.

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