



HD Moody's: Australia-China FTA is credit positive for some rated mining corporates, but no ratings impact

WC 1,582 words

PD 18 November 2014

SN Moody's Investors Service Press Release

SC MOODPR

LA English

CY (c) 2014

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Moody's Investors Service says that the signing of a free trade agreement (FTA) between Australia (Aaa stable) and China (Aa3 stable) will prove credit positive for rated metals and mining companies that export to China.

But for now, the implications of the agreement do not affect their ratings.

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"China is the largest market for Australian exports of resources, and we see the agreement as positively influencing the credit profiles of certain rated mining corporates which stand to benefit from the removal of current tariffs", says Terry Fanous, Head of Australia's Corporate and Infrastructure Finance Group.

"But, at the same time, the agreement will not in itself impact ratings because the benefits will not be sufficiently large to strengthen credit profiles beyond our current rating expectations, particularly given the weak price outlook for most of these products," Fanous says, adding "Also, some of the tariffs will be phased out over time, rather than being removed on day one".

On 17 November 2014, Australia and China announced the conclusion of decade-long talks for a China-Australia Free Trade Agreement (ChAFTA), and the Australian Trade and Investment Minister and the Chinese Commerce Minister signed a Declaration of Intent.

The ChAFTA will remove tariffs on coking coal (subject to a 3% tariff in China) once the agreement comes into force and on thermal coal (6%) through phases over the first two years.

The ChAFTA will also mean the removal of tariffs on certain mining products, including refined copper and alloys; alumina; nickel mattes and oxides; unwrought zinc; aluminium; nickel; and copper waste and scrap. These products are currently subject to tariffs in China ranging from 1% to 8%.

The agreement does not impact iron ore exporters such as BHP Billiton Limited (A1 stable) and Fortescue Metals Group Ltd (CFR Ba1 stable), because iron ore is not subject to tariff in China.

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AN Document MOODPR0020141118eabi000xd