HD **China's Global Mining Play Is Failing to Pan Out**

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A $10 billion iron-ore mine that has taken more than eight years to develop near this remote Australian port is a glaring example of how much has gone wrong with China's decadelong push to buy up raw materials around the world. Citic Pacific's Sino Iron mine cost roughly four times its initial budget, and analysts who track the project say it likely will lose hundreds of millions of dollars in 2014, its first full year of production. Citic Pacific, a Hong Kong-listed subsidiary of Chinese state-owned behemoth Citic Group, and its contractors made a series of blunders, from thinking they could import workers at Chinese pay levels to a botched bet on currencies that forced the company to seek a $1.5 billion bailout from its parent. And while Sino Iron is at last shipping ore, it remains locked in a legal battle with its local partner, Clive Palmer, a property mogul turned politician who has accused Citic Pacific of taking Australian resources without fully paying for them.

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It was a painful learning process, said Zhang Jijing, who spent 16 years running Citic Group's Australian business before being appointed in late 2009 president and executive director of subsidiary Citic Pacific, which recently changed its name to Citic Ltd. Today I look back and I did not realize it would be so difficult. Over the past decade, China rushed to buy up global commodities as its economy boomed-both to feed its factories and to ensure it wasn't reliant on Western powers for raw materials. China's overseas investments in resources soared to $53.3 billion last year, from $8.2 billion in 2005, according to an investment database compiled by the American Enterprise Institute and the Heritage Foundation. Now it is becoming clear that China's shopping spree yielded numerous bad investments. Many big-ticket deals are losing money, running into unexpected costs or generating significantly less output than expected. Some Chinese investors are moving away from resources-a shift that could mean less Chinese money for countries in places like Africa, Latin America and the Middle East. The reasons for China's struggles vary. China came late to the global resources boom and often overpaid for assets Western companies had passed over or wanted to sell. China typically paid one-fifth more for oil-and-gas assets than the industry average, estimates Scott Darling, Asian regional head of oil-and-gas research at J.P. Morgan Chase & Co. China Petroleum & Chemical Corp. 600028.SH +0.18% , also known as Sinopec, paid $4.65 billion in 2010 for ConocoPhillips 's COP +0.04% stake in Canadian oil-sands companySyncrude Canada Ltd. The price was a 10% premium to the asset's market value at the time, gauged by the market valuation of its largest shareholder, Canadian Oil Sands Ltd. COS.T -0.69% The project subsequently was dogged by rising costs and falling production, according to financial disclosures by Canadian Oil Sands. Sinopec said the Syncrude project was the only oil-sands project of its scale available at the time and that the price was reasonable. Syncrude's production and profitability were stable until recently, Sinopec said, and Sinopec expects the project to produce for 60 years. So the project could still be considered as a qualified profitable one in the long term, it said. Cnooc Ltd. 0883.HK -2.66% paid $15.1 billion in 2012 for Canadian energy producer Nexen Inc., whose net profits are now less than one-fifth what they were in 2010. The company has suffered from lower natural-gas prices, declining output from some key fields and other problems. Cnooc said that Nexen's performance since the merger was in line with its expectations and its assets were operating smoothly. In April, Iran canceled a $2.5 billion deal with China National Petroleum Corp. to develop an onshore oil field called South Azadegan after Iranian officials alleged China was overcharging for drilling equipment and services and causing projects to be delayed. A month earlier, Iran's deputy petroleum minister, Mansour Moazzami, said CNPC was at risk of losing its $4.7 billion contract to develop the giant South Pars gas field because it had failed to make sufficient progress. CNPC didn't respond to requests for comment. Mining and energy projects are difficult by nature, and Western resource companies often run into troubles of their own. Some analysts say China is simply waking up to the hard realities that Western companies have long confronted in such projects. The world is littered with projects that have had massive cost overruns, said Megan Anwyl, executive director of the Magnetite Network, a mining-industry lobbying group in Perth. Some of China's bad deals could still pay off if global commodity supplies become tight and prices rise. A few of China's major deals, including Sinopec's $3.5 billion purchase of oil assets from Russia's OAO Rosneft in 2006, appear to be either profitable or close to breaking even, according to company disclosures and news reports. Big new Chinese deals are still being done. In April, a unit of China Minmetals Corp. led a consortium to purchase a Peruvian copper mine from Glencore Xstrata GLNCY +0.30% PLC for $5.85 billion. But Chinese officials acknowledge difficulties. Last year, the head of China's mining association estimated that 80% of all overseas mining deals had failed, though he didn't elaborate, according to state media. China's National Audit Office in June blamed mismanagement for losses on at least 10 foreign investments by China Investment Corp., the $600 billion sovereign-wealth fund that bought tens of billions of dollars in resource-related holdings between 2009 and 2012. The office didn't specify which deals. CIC has begun shifting away from energy investments and into other sectors, according to people familiar with the fund. Energy and metals deals fell to two-thirds of China's offshore investments in 2013, from 80% in 2005, according to the American Enterprise Institute and Heritage Foundation data, and China's $53.3 billion in resource investments last year was below the record $57.5 billion in 2011. China's Ministry of Commerce said it had stepped up efforts to vet overseas investments and make companies more aware of the risks and responsibilities they face abroad. The government said from now on this 'buy any resource at any price' is finished, said Por Yiang-liang, an analyst at BNP Paribas BNP.FR +0.98% in Hong Kong. It's a complete reversal of the past decade. Citic Pacific's misadventures in northwestern Australia suggest why China is changing course. Citic Pacific signed its deal with Mr. Palmer, a property tycoon who owned rights to mine iron ore around Cape Preston, in March 2006. Citic Pacific wanted to feed three steel mills it operates in China. Iron-ore prices were soaring at the time, and Beijing was eager to break the dominance of BHP Billiton Ltd. BHP.AU -0.75% , Rio Tinto RIO.LN -0.28% PLC and Vale SA VALE5.BR -0.60% of Brazil, which together controlled more than 70% of the world's seaborne iron-ore trade. Citic Pacific paid Mr. Palmer's company, Mineralogy Pty. Ltd., an initial $415 million and agreed to invest $2.5 billion to build the project and a port, with production slated to begin by 2009. It also agreed to pay Mineralogy royalties on every ton of ore it produced, and a penalty if by 2013 it wasn't producing at least 6 million tons a year. Miners in the area had long focused on iron-ore deposits called hematite that could be shipped without processing. Cape Preston's ore is poorer-quality magnetite, which must be concentrated before it is sold. Citic Pacific would have to build six processing plants, which also would require a power plant and desalination facility for water needed to run the operation. Within six months of winning Australian government approval for its investment, Citic Pacific gave a $1.75 billion contract to build the project to Metallurgical Corp. of China, or MCC. I don't know why everything was pushed in such a hurry in the beginning, said Mr. Zhang, the Citic executive. Preparing such a big project, he said, would normally take two years. Australian consultants had said a project half the size would take $5 billion and five years to complete. China's MCC said it could do it for $2.5 billion in just three. Officials at MCC didn't respond to requests for comment. In its 2012 annual report, the company said that preparatory works from both sides were insufficient and that the project was commenced hastily without full understanding of the Australia laws, among other issues. Sino Iron was bigger than anything MCC had built in China, Mr. Zhang said. The mine uses seven-story crushers in the pit and a mile-long conveyor belt to carry rock to processing lines. The area's magnetite turned out to be much harder than magnetite in China and wore out equipment. The ore also is riddled with asbestos, according to Citic Pacific financial disclosures, so the company had to invest in airtight vehicles to prevent workers from breathing the carcinogenic fibers. Officials at MCC wanted to import inexpensive Chinese workers but faced obstacles, Mr. Zhang said. Australia only gives workers visas if they speak English and pass Australian qualification exams. Those that pass have to be paid no less than an equally qualified Australian, with standard benefits such as a week off for every three on site and flights to and from Perth. In the end, MCC was only able to bring in a few hundred Chinese. Each of the 1,000 miners working at Sino Iron, Mr. Zhang said, costs the company more than $200,000 a year, including benefits and other expenses. Complying with Australia's environmental and cultural regulations was another headache. Sino Iron, for example, worked with Aboriginal communities to protect or move sacred sites. The costs were in

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