HD With Glencore lurking, Rio Tintostake gives Chinalco global clout

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MELBOURNE/HONG KONG, Oct 16 (Reuters) - A seat on the board, a bigger role in the world's largest mining company, a copper project in Peru or full control of an iron ore project in Guinea.

Those are the sort of prizes Chinese aluminium firmChinalco, the top shareholder in Rio Tinto, is likely to be looking for as trading giant Glencore weighs up a fresh takeover approach for the Anglo-Australian miner, people familiar with Chinalco's strategy said.

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Rio Tinto rebuffed an approach from Glencore in August that would have created a $160 billion mining goliath, and while the Swiss firm said last week it was no longer actively considering a bid, it did not rule out another attempt next year.

Glencore CEO Ivan Glasenberg's audacious plan gives Chinalco a bargaining chip to achieve goals thwarted five years ago when Rio Tinto scrapped a $19.5 billion plan that would have nearly doubled the state-owned Chinese firm's stake in the group to 18 percent and given it two board seats, direct stakes in some of its aluminium, copper and iron ore assets and alliances in those businesses.

"My view is that Glencore could probably persuade a rather aggrieved Chinalco of the merits of a merger and being a shareholder in a much larger entity," said a banker familiar with Chinalco's thinking.

"Glasenberg can sit down with the Chinese parties and say, 'You're not getting much representation at the table at the moment with your investments. We can give you that. We can give you prospective interests in large projects'," the banker said.

Chinalco, the short name for Aluminum Corp of China , spent $14 billion for its existing 9.8 percent stake to help the miner fend off a bid from BHP Billiton in 2008, as China fretted about the power a merged group would have over commodities.

"The rationale for Chinalco to buy the initial stake still holds," said another person familiar with Chinalco's strategy, noting that iron ore mining is becoming increasingly concentrated in the hands of the big three producers.

Bankers who have spoken to Chinalco say the state giant has not hired an adviser to discuss future options for its Rio Tintostake.

Chinalco and Rio Tinto declined to comment for this story.

TOP SPOT IN CHINA

Chinalco could be open to talking to a Rio suitor or seeking more out of its current holding for many reasons. Not only was it rebuffed in 2009, but its holding in Rio, bought for 60 pounds a share, has lost half its value.

Compounding its wounds, Chinalco failed this year to win a bid to buy the Las Bambas copper mine in Peru, which was bought for $7 billion with Beijing's blessing by MMG, the offshore arm of its fiercest state-owned rival, Minmetals.

"They lost out on Las Bambas to Minmetals. They're looking for top spot again," the first banker said.

Las Bambas was put up for **sale** by Glencore to secure approval from **China** for its takeover of Xstrata last year.

If Glencore were to **merge** with Rio to become the world's biggest **copper** miner, **China** would probably require it to sell more **copper** assets, like Rio's La Granja project in Peru or Oyu Tolgoi in Mongolia, juicy targets for **Chinalco**, bankers said.

"A **Chinalco** deal will have many aspects to it. They'll be able to swap things. They have strategic ambitions that are quite different from each other," said Lawrence Grech, senior resources analyst at PhillipCapital.

Rio has put effort into repairing ties with **China**, including forming an exploration joint venture and selling nearly half the huge Simandou **iron ore** project in Guinea to **Chinalco**.

But Simandou has become a sore point. The $20 **billion** project is stuck on the drawing board, as port and rail plans have yet to be sorted out, while Rio has massively expanded its Australian output, hammering **iron ore** prices and making it tough to justify other new projects.

Rio's latest production report on Wednesday showed Australian **iron ore** sales are up 20 pct so far this year, and further big output increases are on track.

"The relationship therefore is strained because Rio's focus is elsewhere in the world and **Chinalco** desperately wants to get this thing up and running," the first banker said. (Additional reporting by Polly Yam in **HONG KONG**; Editing by Richard Pullin and Ed Davies)

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CO almcor : Aluminium Corporation of China Limited | march : Glencore PLC | rtz : Rio Tinto PLC | rtzcra : Rio Tinto Group | craaus : Rio Tinto Ltd

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