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Byline: Jennifer Hewett

Body

A buoyant Western Australia might still be crucial to Anthony Albanese's election hopes, but the mood in the state's mining industry has changed considerably since 2022.

That goes well beyond the collapse in the global price of lithium and nickel, which has led to the shutdown of lithium and nickel mines and processing - from projects owned by BHP to the usual cast of WA resources billionaires.

Just a couple of years ago, optimism about Australia's future as a global supplier of critical minerals had created a surge of enthusiasm about the potential of domestic processing and manufacturing jobs.

Federal Labor politicians such as Albanese and state politicians like WA Premier Roger Cook, who was the then state resources minister, promoted Australia's potential in advanced chemical processing and "value-added" manufacturing, including batteries and other complex products, rather than just selling raw resources to China.

However, the complications and costs of critical minerals production coincided unhappily with falling prices for most of these products. The surging price of gold, along with the staple of iron ore, has helped WA compensate for the elusive nature of such options.

Yet traditional gold production, although highly lucrative, is different to the early 2020s vision of a green revolution and advanced technology creating an ever-expanding need for Australia's range of critical minerals, including rare earths.

The Morrison government was never quite so seduced by the lure of new manufacturing industries based on the energy transition, but it was still willing to place some sizeable bets on their progress.

The biggest - as one of its last acts - was a \$1.25 billion loan to Iluka Resources to build a rare earths refinery at Eneabba, north of Perth.

The project is now an object lesson in the pitfalls as well as the potential for Australia's ambitions in critical minerals.

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Unsurprisingly, the construction of the refinery has not gone to plan, budget or timetable. This created a protracted stalemate with the Albanese government over the need for additional funding to finish the building work.

This has been resolved - at least for the moment - with an agreement between the government and **Iluka** this month for a \$400 million loan from Export Finance Australia.

The additional money is contingent on **Iluka** selling its product to customers considered "satisfactory" by the government. That is polite cover for not selling to China.

That's because the primary reason for the government's interest is the attempt to create alternative sources of supply to what is effectively Chinese control of the rare earths industry, as part of that country's global dominance in critical minerals processing in general.

That's not just important to Australia, of course. There's a belated recognition by the US and the rest of the West that China has been far more strategic about building on its strengths in this area over decades.

Its competitive edge in technology, experience and funding has also included regularly suppressing prices by dramatically increasing supply to limit unwanted competition or to demonstrate an ability to punish opponents.

The bottom line for Australia is that critical minerals production - let alone processing - is becoming only more difficult given the sharply reduced prices compounding the high costs, the financial and technical complications and the delays in approvals for any project here.

US lithium giant Albemarle is curbing output from its new lithium hydroxide plant in WA not only because of the dramatic fall in lithium prices but also because it has more competitive options elsewhere.

Unlike Western Australia's major export commodity of iron ore, critical minerals cannot rely on huge scale and efficiency of production to deliver viable projects. The complexity of mining and processing, often of relatively small quantities, makes for a very different business case and style of operation.

The hope that Western companies or countries would be willing to pay a "green premium" is yet to be realised in practice. Despite frequent rhetoric about ensuring "security of supply" by creating an alternative supply to challenge China's stranglehold, there's also little evidence of the market's willingness to pay a "national security premium" either.

The rare earths industry is no exception to this reluctance to invest in projects that are at best marginal or more commonly loss-making at current prices. **Iluka Resources** has delayed the opening of the refinery until 2027. But most mining or processing projects in Australia are on an indefinite hold anyway, especially given the country's increasing hesitation about accepting any further Chinese investment.

Although Japan has been more willing to risk long-term capital, the replacement of Chinese investment with US and European money is extremely elusive.

That hesitation is despite China's obvious willingness to retaliate against US tariffs and trade bans by increasing restrictions on crucial supplies of critical minerals such as rare earths even before Donald Trump takes office.

After the Biden administration recently expanded export restrictions on chip-making equipment and sanctioned more Chinese companies from trading with companies from the US or its allies, the Chinese announced new measures on exports to the US with "dual use" civilian and military applications.

This included banning the export to the US of rare earth minerals such as gallium, germanium and antimony, all important for military, industrial and semiconductor production.

Backers of projects such as **Iluka Resources'** refinery, including the Australian government, can only rely on such tensions eventually leading to a commitment to pay higher prices or negotiate profitable, long-term contracts for non-Chinese suppliers.

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The additional \$400 million government loan, for example, is dependent on **Iluka Resources** signing offtake agreements with customers in what are diplomatically called "like-minded nations".

When and whether that happens is an even bigger bet on the future.

jennifer.hewett@afr.com

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