



China clause in rare earths deal

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Body

The Albanese government will have the power to prevent sales to China after stumping up an additional \$400m to help **Iluka Resources** complete Australia's first fully integrated rare earths -refinery.

The new funding is on top of a \$1.25bn limited recourse loan from Export Finance Australia (EFA) that was issued to **Iluka** in the dying days of the Morrison government.

The deal to end a tense standoff with **Iluka** is subject to the company securing offtake agreements satisfactory to the government, which has already intervened several times to prevent China extending its rare earths dominance to assets in Australia.

While the offtake clause doesn't mention China by name, it is clearly intended to ensure rare earths oxides from the West Australian refinery go to Western allies even if the market appears limited by a lack of downstream capacity at this point.

The **Iluka** share price plunged 10 per cent to \$4.93 - its lowest level in more than four years - amid analyst and investor doubts about the economics of the project. **Iluka** is banking on demand growth and a new pricing mechanism involving customers in Western nations.

Prime Minister Anthony Albanese and **Resources** Minister Madeline King yesterday highlighted China's dominance of the strategically important rare earths supply chain in talking about the \$1.65bn funding package alongside **Iluka** managing director Tom O'Leary.

Asked if the government risked inflaming tension with China, Ms King said Australia had to develop independent supply chains.

"I think we need to be clear, and people need to understand, that China's ahead of the game," she said.

"They've invested in critical minerals and rare earths and solar panels and green technologies for 30 years. We need to step up and make sure we're competing as well." China raised fears around rare earths supply this week by banning exports of three critical minerals to the US.

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The move on gallium, germanium and antimony - all used in military applications - appeared in retaliation over the latest US crackdown on China's semiconductor industry.

The new terms of government's increased funding agreement include a financial incentive for Iluka to source rare earths from third parties or its own new rare earths mines.

Iluka has been in talks with government and EFA about additional funding for more than 12 months, with Mr O'Leary threatening to stop work on the refinery at Eneabba in WA without more financial backing.

The company hailed the new government finance package as the biggest for a critical mineral project anywhere in the world.

Former defence minister Kim Beazley is among those who maintain the refinery is vital to Australia's security and energy transition. It is also central to the government's critical minerals ambitions and Made in Australia policy, with rare earths essential in modern weapons systems as well as in the renewables and electronics industries.

Iluka revealed earlier this year the cost of building the refinery had blown out to \$1.7bn-\$1.8bn, after previously alerting the market the price tag was much higher than initial estimates.

The project is underpinned by a million-tonne stockpile of ore containing rare earths left over from Iluka's mineral sands mining, which is sufficient to feed the refinery until the early 2030s.

Iluka warned earlier this year it was under pressure from some shareholders to monetise the stockpile by selling it to China.

Mr O'Leary said on Friday the new funding arrangements were an "appropriate sharing of risk and the alignment of commercial and policy objectives".

Iluka also has an offtake deal with Northern Minerals for the supply of heavy rare earths dysprosium and terbium from its Browns Range project in WA.

The Australian recently revealed the government is still investigating whether five China-linked entities have complied with an order to divest shares in Northern Minerals.

Treasury also put Chinese interests on notice it could take more action to protect national interests over the strategically important rare earths project, on top of two previous interventions by Treasurer Jim Chalmers.

Mr O'Leary repeated his fierce criticism of China's influence over rare earths on Friday, accusing it of using the Asia Metals Index to manipulate pricing to nobble projects in Australia.

He said Iluka planned to commission the refinery in 2027.

Iluka will contribute an additional \$214m in cash to building the refinery. Iluka and the government also agreed to set up a \$150m cost overrun facility on a 50/50 basis.

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