Big China question hangs over critical minerals sector

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Body

They'***re*** a parochial mob over here in Western Australia, and with iron ore prices booming, new tax production tax credits announced in the federal budget, and GST revenue flowing from the east, there was a buoyant mood on the floor of the Mining Summit.

"I can confirm that we have no active plans to secede," a beaming Premier Roger Cook quipped.

But Cook, whose ascent to the Labor leadership came just weeks after last year's Summit, did acknowledge that it hadn't been all smooth sailing over the past 12 months. The downturn in prices for several minerals - primarily nickel, lithium and rare earths - had put intense pressure on an industry that his government hopes will drive WA's next era of prosperity.

He remains pragmatic. Just as the iron ore sector took decades to come into its pomp, so too would the critical minerals sector face a bumpy ride before establishing itself. "This stuff takes grit, determination and a certain amount of risk," Cook says.

The iron ore sector was ultimately transformed by China's economic super-cycle, and the Summit made it clear that the fate of the critical minerals industry would also rest with China. But this time, China looms as both saviour and enemy.

As Warren Pearce, CEO of the Association of Mining and Exploration Companies, told the Summit, "a large portion of West Australian mining projects have been turned on with the support of Chinese dollars and Chinese investment" over the past two decades, with Chinese companies often acting as both financiers and major companies via offtake agreements.

But as an increasingly hawkish US government seeks to build its own supply chains for reasons of national and economic security, pressure is mounting on Australian miners to turn away from Chinese capital.

"That concerns us," Pearce says. "That investment isn't necessarily coming from other countries, particularly the US, and so if we'***re*** turning away that investment, we've got to find that capital somewhere else. That makes it more challenging for us to get projects up and ... to reap the benefits of those projects."

Peter Coleman, the former chief executive of Woodside who is now chairman of the world's third-biggest lithium producer, Arcadium Lithium, is even more blunt given China's status as the world's centre of critical minerals refining and manufacturing.

"I just can't see a future where you don't co-invest together," he says.

The production tax credits announced by federal Treasurer Jim Chalmers last week will provide a test of this split between China and the West. Many of the WA-based miners that will be eligible for the tax production credits have Chinese ownership. Will local companies with Chinese shareholders be barred from the tax production credits completely? Or will there be some limit - say a maximum Chinese ownership share of 25 per cent, which would be in line with US restrictions?

Resources Minister Madeleine King would not be drawn into this yesterday, saying the government is still designing the credit regime, but foreign ownership issues are under consideration.

AMEC will clearly push back hard on anything that hurts miners with Chinese backers. And Cook is diplomatic; Australia and WA must understand the opportunities that the trade partnership with China has created, but also must not allow itself to become "overly exposed to a single industry or a single commodity or to a single market or single customer".

That's a sensible position to take, but the realities of the critical minerals sector will make this balancing act difficult. As Pearce says, Chinese investment tends to move faster than that of Japan, South Korea and the US, and speed matters in industries such as critical minerals, where volatility is almost guaranteed.

Of course, as ***Iluka*** ***Resources*** chief executive Tom O'Leary told the Summit, China can be responsible for a lot of that volatility, particularly when it comes to rare earths.

He again accused China of effectively manipulating the price of rare earths via the Asian Metals Index.

He says China has used its dominant position across the supply chain to increase production capacity to drive prices on the index down to a point where, he claims, every producer in the sector (both inside and outside China) is unprofitable. In ***Iluka***'s demand, this is being done to protect the longevity of China's domestic rare earths sector.

O'Leary wants the industry to stop linking bilateral contracts to the Asian Metals Index, which he says does not reflect the true value of rare earths.

But Brett Beatty, a private equity investor and Australian managing director of ***Resource*** Capital Funds, says China's ability to shift markets to its advantage is nothing new, and it is something that his fund thinks hard about when it invests. "They have spent the last 20 to 30 years building this strategic monopoly in many of these commodities," he says.

Australia and other nations should look for ways to reduce China's control of critical minerals markets by diversifying supply. But beware: this will not be easy, or fast.

"The reality is, we'll spend the next 15 or 20 years trying to unwind that and our movement of capital is slower, so you can only imagine what China's going to do over the next 15 years to protect that position," Beatty says.

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