[PM's troubled dream of critical minerals; Page Two]

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Body

Anthony Albanese says no state will benefit more than Western Australia from his government's decision to fund comprehensive mapping of the nation's sub-surface and seabed ***resources***.

It's part of the prime minister's efforts to ensure the West feels included in Labor's Future Made in Australia policy, where funding so far has been directed towards manufacturing rather than mining projects.

The government wants to get credit for its efforts to promote downstream processing of Australia's critical minerals - of particular significance in such a ***resource*** rich state.

"So much of our future prosperity depends on finding more critical minerals, extracting more critical minerals - and doing more with critical minerals before we export them," Albanese said in Perth yesterday.

Encouraging the opportunities that flow from co-location of extraction and production would be a priority for Tuesday's federal budget.

"Providing the investment incentives and the regulatory framework to support more downstream processing, on our shores," he said.

"Taking raw materials to the nearest regional centre for value-adding, rather than shipping them to the other side of the world."

But the collapse in prices for nickel, lithium and rare earths has dented last year's optimism about WA hosting a new boom in critical minerals and further minerals processing - key ingredients in the green transition.

The mining industry has politely welcomed the government's investment in further mapping, led by Geoscience Australia, to help identify opportunities for mineral deposit development or for carbon capture and storage projects, particularly in under-explored and remote areas.

The catch is that the $560 million to be spent over a decade can be no more than a modest and drawn-out foundation for an increasingly obvious and urgent gap in the critical minerals industry.

Iron ore remains the massively profitable powerhouse that underpins the West Australian economy - and Jim Chalmers' federal budget.

But rather than the mining land rush under way this time last year, many lithium, nickel and rare earth mines are now being closed, further development is on indefinite hold, and plans for processing are being scaled back or cancelled because projects can't be competitive at current prices.

It is not just smaller players contemplating a messy and expensive end to ambitions that rested on the promise that all these critical minerals would be needed by a decarbonising world.

In February, BHP wrote off the value of its nickel assets by $5.4 billion pre-tax. It is considering mothballing its entire WA nickel division after the global market responded to a new abundance of much cheaper, but still high-quality, Indonesian nickel. So much for the proposed $1 billion upgrade of BHP's Kalgoorlie nickel smelter that had been anticipated this year.

CEO Mike Henry suggests the advent of Indonesian nickel is likely to be a structural rather than a cyclical change in the market. He obviously has more immediate interest in chasing Anglo American's copper assets in South America, and maintains Australia needs to get more of the basics right in areas like infrastructure, power supply, approvals and industrial relations.

Still, many struggling lithium and nickel producers have pressed Chalmers and Treasury for incentives, such as production tax credits. Some form of tax investment allowance is expected in next week's budget to add to the royalty relief recently provided to nickel miners by the WA government.

But whether this will be enough to sustain a competitive large-scale critical minerals industry over the rest of this decade looks far less certain than the government's rhetoric suggests.

Despite all the talk from the Biden administration about creating reliable alternatives to China's dominance, particularly in rare earths, there's been a dearth of investment in Australian mines or downstream processing efforts from either the US or Europe.

Chalmers' announcement that approvals for foreign investment from trusted sources will be accelerated will remove some of the roadblocks, but it won't necessarily make the dollars add up for foreign investors any time soon.

The Australian government has attempted to fill some of the vacuum via cheap loans and grants to individual companies via its critical minerals fund, and other facilities. But this is inadequate to sustain attempts to substantially grow the industry.

Recent low prices, combined with Australia's high costs, make it harder to see how we can be competitive, particularly in further processing of minerals to the extent envisaged by Canberra's talk of electric vehicle batteries.

The generous taxpayer subsidies available under the Biden administration's Inflation Reduction Act, for example, have so far been devoted mainly to projects operating within the confines of the US.

In contrast, China's money, as well as its technical expertise, has made its companies valued local partners, as well as much-needed customers underpinning the development of many WA projects.

Some of those wanting to move more into rare earths processing still argue that China is deliberately suppressing prices and controlling production to deter challenges to its stranglehold on the sector.

Iluka ***Resources*** managing director Tom O'Leary this week expressed his frustration about the difficulties in finishing the company's rare earths refinery at Eneabba in WA, for example. Despite $1.25 billion of cheap loans provided by the Morrison government in its dying days, a subsequent cost blowout in construction means ***Iluka*** needs more funds just when the market is contracting.

"No participant, regardless of geography, is making money at today's prices," he told the annual general meeting. "China's dominance of the rare earths industry, which in the case of heavy rare earths is near total, is achieved through production supremacy and its influence over pricing."

Challenging that equation will take a lot more than decent mapping.

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