Hard reckoning for a critical future; PAGE TWO

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Body

Just before the last election, ***Iluka*** ***Resources*** chief executive Tom O'Leary persuaded the Morrison government to take a big bet on the future of rare earths processing in Australia. The then prime minister sanctioned a $1.25 billion loan from Export Finance Australia for the construction of a rare earths refinery in Western Australia.

A new Labor government was even more enthused about the potential for another ***resources*** boom in critical minerals processing, including rare earths, as Western countries and customers belatedly recognised the risks of relying on China's domination of the industry.

Prime Minister Anthony Albanese and West Australian Premier Roger Cook promoted Australia's potential in advanced chemical processing and "value-added" manufacturing, including batteries and other complex products, rather than just selling its raw ***resources*** to China.

But as the next election looms, there's been a hard reckoning in the difficulties in developing new mines or new processing and manufacturing projects aimed at escaping China's firm grip on the market.

This doesn't mean the strategic imperative to develop alternatives to China's control of critical minerals, especially the 17 rare earth element minerals, has reduced. Instead, the sense of urgency has only grown as China has repeatedly demonstrated its willingness to turn supply on and off.

In some areas, China has dramatically increased and assisted production of minerals like lithium, including making use of Chinese stakes and financing in developing countries. This is an effective way to depress prices and ensure competing projects in Western countries are financially unviable.

At other times, China has restricted or banned exports of key rare earth elements required for advanced technology, including energy transition and defence needs.

That's particularly significant when China accounts for 70 per cent of global extraction of rare earths, 87 per cent of global processing and 100 per cent of processing of "heavy" rare earths like dysprosium and terbium crucial for defence, robotics and electric vehicles.

Rare earths aren't actually that rare. Some are not really valuable in themselves, while small volumes for others make them commercially challenging to process, given the need for complex chemical technology.

Australia has still been a strong advocate of the role it can play in addressing the West's belated concerns about the control China has developed over decades.

That's despite the Donald Trump presidency leaving the fate of the "climate, critical minerals and clean energy transformation compact" signed with the US in the Biden era unclear.

Trump's suggestion of a "minerals for aid" deal to Ukraine and a takeover of Greenland and its rare earths ***resources*** reflects his willingness to trash any concept of alliance relationships that goes well beyond cutting China out of supply chains.

Yet most major customers of critical minerals have been reluctant to pay any "non-China" or "green" premium to make replacement projects profitable or investible on normal commercial terms.

That's compounded by the cost of construction accelerating across the world, particularly obvious in sharp price increases in Australia.

The result is a dismal record of indefinite deferrals, delays or shuttering of a range of critical minerals projects and processing as companies struggle to survive let alone expand.

The Albanese government has more than doubled financial assistance available from its predecessor's $2 billion critical minerals facility, including taking minor equity stakes and providing a range of grants and loans.

In most cases, the finances still don't stack up.

But ***Iluka*** ***Resources*** has stockpiled rare earths from its own mineral sands operations since 1991 on the presumption these would one day be valuable. It now wants to use this supply and other potential feedstocks to produce light and heavy rare earth oxides required for the permanent magnets and metals needed for electrification, defence and other advanced technology.

The company and the government still had a stand-off for more than 12 months after ***Iluka*** insisted it needed an additional loan to build its refinery at Eneabba north of Perth.

This was only resolved after Canberra agreed to lend ***Iluka*** an extra $400 million to help cover the increased costs, with ***Iluka*** providing another $214 million.

The extra government commitment is contingent on the company signing off-take agreements "satisfactory" to the Commonwealth.

The refinery is now due to start operations in 2027.

The federal government has also just made a $200 million equity investment in Arafura Rare Earths.

That's in addition to an earlier $840 million in government loans to Arafura to develop a mine and refinery in the Northern Territory to produce neodymium and praseodymium.

There's still plenty of market scepticism about whether such projects will ever be profitable despite company assurances that customers in countries including South Korea, Japan and European nations will be willing to pay more over time to guarantee security and diversity of supply.

As ***Iluka*** announced a 33 per cent decline in full-year net profit from its other mineral sands and mining operations yesterday, its chief executive sounded optimistic about higher prices to come.

"Neither we nor the customers are focused on the current prices that are published by the Asian Metals Index," O'Leary said.

"Our customers are pretty focused on diversity of supply sources and security of supply. We are engaging with them on a price framework and I think we are getting good traction on that.

"There's a growing acceptance by the industry that there is need for change ... It clearly takes time to evolve and develop the market for products that have hitherto been completely controlled almost by the Chinese."

O'Leary was still careful to remind analysts that the government loans allowing ***Iluka*** "an opportunity to build a terrific business and diversify the company" are strictly non-recourse.

That's bottom-line business.

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