



Rare earths caught in geopolitical struggle; Page Two

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Body

Most Australians have never heard of Northern Minerals. But the ownership of its rare earths project in north-western Australia is evidence of the pushback against further entrenching China's control of the rare earths processing considered crucial to the global energy transition and to national security.

Treasurer Jim Chalmers' order that Chinese funds reduce their shareholding in Northern Minerals comes after a vicious brawl for board control, in which former executive chairman Nick Curtis was effectively forced out of his position.

For investors, it's a cautionary tale about major geopolitical pressures underlying the typical corporate manoeuvres, linkages and big bets playing out in a still relatively nascent critical minerals industry in Australia.

Wu Tao, the Chinese businessman behind the Singapore-based Yuxiao Fund, certainly wasn't subtle in his tactics. In February last year, Chalmers - acting on the advice of the Foreign Investment Review Board (FIRB) - rejected Wu's wish to increase his 9.8 per cent stake in Northern Minerals to 19.9 per cent.

Wu allegedly attempted to get around this block by using related entities to purchase shares - a concern that Curtis then referred to the FIRB for investigation.

This battle is part of the background for Curtis recently becoming a "strategic adviser" to the company while backing the appointment of a new chairman, former CFO Adam Handley, before a showdown with Wu and allies at a shareholder meeting called for this Thursday.

The Yuxiao Fund had nominated Wu for a seat on the board and had also demanded access to Northern Minerals' accounts and marketing contracts. It also signed co-operation agreements last year with two big Chinese rare earths processors: China Northern and Shenghe **Resources**.

The Australian Financial Review reported last November that a director of China Northern described this as "another important measure to thoroughly implement the spirit of ... Xi Jinping's important instructions on the development of the rare earth industry". But Chalmers' edict now orders Yuxiao to reduce its ownership of Northern

Rare earths caught in geopolitical struggle Page Two

Minerals to 8.5 per cent, and the other associated parties - two individuals and two companies - will be forced to sell their shares, which currently add up to another 9 per cent.

According to a spokesman for the treasurer, the decision is "designed to protect our national interest and ensure compliance with our foreign investment framework".

That seems a reasonable response to what appears to be a remarkably blatant attempt to bypass the FIRB.

Despite the treasurer's simultaneous insistence that Australia operates a "non-discriminatory foreign investment framework", the primary target for foreign investment restrictions on the ownership of Australian critical minerals is also clear: China, China, China. This will doubtless be a topic of discussion when Chinese Premier Li Qiang visits Australia this month.

But many small miners argue that Chinese investment, technology and partnerships will continue to be necessary ingredients in Australia's attempts to develop a critical minerals processing industry - as well as its role as Australia's most important customer for all its minerals.

And if that's not complicated enough, there's another politically sensitive domestic issue lurking.

Northern Minerals' proposed project is supposed to have the rare earths it wants to mine - dysprosium and terbium - processed by **Iluka Resources** refinery, which is still under construction at Eneabba in WA. These "heavy" rare earths are required for the manufacture of permanent magnets necessary for electrical equipment, electric vehicles, wind turbines and other advanced technology, including for defence purposes.

Iluka is building the refinery that was provided \$1.25 billion in cheap loans during the last days of the Morrison government. It is looking for additional funds to finish the project, given that costs have - also typically - blown out while prices have fallen.

Iluka Resources CEO Tom O'Leary has been particularly vocal in warning of China's price manipulation to force out competitors in other countries that are struggling with the abrupt decline in a range of critical minerals, including rare earths.

Curtis is personally familiar with this storyline. Until 2013, he was executive chairman of another Australian rare earths player, Lynas Rare Earths, one of only two companies globally undertaking any processing outside China. Lynas received essential financial backing from Japan to survive when facing extreme competitive pressure from Chinese interests.

Northern Minerals is yet to take a final investment decision on its Browns Range project. But governments in Australia, and the US and Europe, belatedly recognise the risks of relying on a China-dominated supply chain.

That led to the Albanese government's willingness, for example, to assist other projects, such as Arafura Rare Earths, with an announcement in March of \$840 million in concessional financing to develop its mine and refinery in the Northern Territory.

Arafura has agreements to supply rare earths to South Korean automaker Hyundai, Siemens Gamesa Renewable Energy, and GE as other countries try to diversify their supply chains away from China

Chalmers' budget also included up to \$7 billion in production tax credits over a decade for critical minerals processing in Australia.

What is less clear is what level of Chinese investment will be permitted for these projects to be eligible for these credits. The details are awaiting further consultations with industry.

If Australia follows the US, Chinese involvement in companies would be held to a maximum of 25 per cent to be eligible. But many projects, particularly in Western Australia, already have higher levels of Chinese ownership, allowing them access to more funding and expertise.

Rare earths caught in geopolitical struggle Page Two

The Association of Mining and Exploration Companies - influential in persuading the Albanese government of the benefits of production tax credits - will be arguing that a 25 per cent threshold would be too low to allow the industry to flourish.

It's a story still being written.

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