



WHY CHINESE WANT MINER

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Body

Northern Minerals is a key player in the rare earths market. Rarely in Australia and arguably in the Western world has a corporate annual meeting been more important than the Northern Minerals meeting held in Perth on Thursday.

The Chinese combined to almost spike the US-Australian policy of containing China's dominance on global rare earths. The sighs of relief in Canberra could almost be heard in Perth.

Northern Minerals is a vital link in the Australian and US strategy to reduce dependence on China for key rare earths, which are vital in producing magnets used in energy production involving extreme heat, including nuclear submarines.

The Chinese believed they had voting control of the company, so put forward motions to appoint four Chinese-backed new directors. If passed, the motions would have resulted in control of the board of this vital company passing to people linked to the Chinese rare earths industry.

About 73 per cent of the capital voted and, while the Chinese motions were lost, they showed China's total voting power, with a 49 per cent vote for one director and 41 per cent for another.

Support for the other two nominations was much smaller.

China controls 100 per cent of the market for two of the so-called heavy rare earths - terbium and dysprosium - that are essential in the production of high temperatures magnets required in trains, wind turbines, plus many defence applications apart from nuclear submarines.

At this stage, Northern Minerals is the best source in the Western world for these two rare earths, so if China is to maintain 100 per cent of the market, gaining board control of Northern Minerals becomes an essential step.

Northern Minerals is set to produce concentrates from its West Australian Browns Range deposits (near the Northern Territory border) that it has contacted to supply to **Iluka Resources**, which is being backed by the federal

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government to erect a refinery that will produce a range of rare earths. Iluka requires Northern Minerals' concentrates to produce terbium and dysprosium.

The Australian government has agreed to loan \$1.25bn to the refinery project without recourse to Iluka. As is usual in Australia, the original refinery cost estimates were wrong, and the latest estimates are 20 per cent above the original sums. My guess is that the final cost will be higher again. Hence, extra government money is required, and alarm are ringing in Canberra, causing delay.

But given the importance of the refinery to the US defence alliance, Jim Chalmers will simply have to find more money. It's conceivable that if Australia doesn't deliver the two essential heavy rare earths, it could jeopardise the AUKUS submarine program.

The US is funding another Australian company, Lynas, into a second rare earths refinery in the US on a far more generous basis than Australia's backing of Iluka.

At this stage, Lynas does not have a source of concentrates to produce terbium and dysprosium. Northern Minerals drilling is increasing the size of its terbium and dysprosium reserves, so it is conceivable that its material may also be required in the US.

Australian Rare Earths has clay-based rare earths deposits on the South Australia/Victoria border, containing both terbium and dysprosium. Clay-based reserves are much cheaper to extract than the Northern Minerals hard rock deposits, but SA deposits are at a much earlier stage of exploration than those of Northern Minerals.

Iluka also has terbium and dysprosium deposits in Victoria's Wimmera, but they are also at an early development stage.

Shareholders connected to the Chinese rare earth industry realised the Northern Minerals deposits could break their global stranglehold and acquired 10 per cent of Northern Minerals, and there are a series of other Chinese investors who have a presence on the register.

But earlier this week, the Treasurer ordered four Chinese-linked investment funds to significantly reduce their holdings in Northern Minerals, citing Australia's "national interest".

Nick Curtis, the former executive chair of Lynas, took control of Northern Minerals in 2001 and negotiated the Iluka supply deal, so is not popular among the Chinese rare earths industry people.

Prior to the meeting, most of the existing directors had appeared optimistic that the four Chinese would not be elected.

Curtis's unpopularity with the Chinese intensified when he referred their share buying patterns to the Foreign Investment Review Board because he believed they breached foreign investment rules. It took the FIRB a long time to determine that the rules had been breached, but that decision, requiring Chinese rare earths industry-connected investments to be sold, was made in the week of the meeting. The meeting had been postponed many times because of FIRB delays, but more delays were not possible.

A Chinese rare earth industry-controlled Northern Minerals board would still have had a binding contract with Iluka, but almost certainly there would be many obstacles put in the way of its execution. In turn, that would put in doubt the economics of the Iluka refinery, leaving the Chinese with full control of the terbium and dysprosium market.

Another motion put before the annual meeting was to authorise the board to make a 10 per cent share placement, which would further reduce the Chinese position on the register - although a Chinese-controlled board might make the placement to their connected shareholders. As a legacy of times when Chinese dominance was not an issue, there are two existing Chinese directors on the Northern Minerals board. One came up for re-election at the annual meeting but was not opposed by the existing board.

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