



## **Doubts raised over \$1b rare earths bet**

Australian Financial Review

January 16, 2025 Thursday

Print & First Editions

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**Section:** NEWS; Pg. 3

**Length:** 686 words

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### **Body**

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The rare earths company that has won \$1 billion in taxpayer funding is banking on foreign customers paying over the odds for Australian-refined critical minerals in the hope of loosening China's stranglehold over the market, but analysts have raised doubts about the plan.

Arafura Rare Earths' bid to build a \$1.7 billion mine and refinery in the Northern Territory received a boost yesterday after it landed a \$200 million equity investment from the Albanese government's National Reconstruction Fund. The government had already extended \$840 million in loans to help the Gina Rinehart-backed company develop its Nolans project outside Alice Springs.

Arafura's shares closed up 17 per cent at 14¢ yesterday, giving the miner a market capitalisation of \$320 million. Its shares are down 16 per cent over the past year.

When it is up and running, the venture will produce neodymium and praseodymium - rare earths used in the manufacture of magnets found in electric vehicles and wind turbines.

Arafura chief executive Darryl Cuzzubbo said the company had already agreed to binding offtake deals with customers prepared to pay a premium above the current price for various rare earths to avoid sourcing the minerals from China.

"When we're talking to our customers, it's all about supply security and not about price," he said. "Consequently, we've got floors in our contracts that are materially above the current pricing, and that meets some of our conditions required by our lenders.

"This demonstrates that customers are more concerned about supply security than pricing, per se."

China controls more than 80 per cent of rare earths production, and governments including in the United States, the European Union, Canada, Japan and Australia are working to wrest away Beijing's grip on the supply of critical minerals during the global energy transition.

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However, rare earths prices are in the doldrums after China used its dominance to depress the market and cut competition, forcing Arafura and rival Iluka to go cap-in-hand for government backing.

And the theory that foreign customers will pay more for Australian minerals also came undone in the failed campaign by mining billionaire Andrew Forrest to sell local nickel at a "green premium" compared with the commodity produced by less environmentally friendly regimes overseas.

Bell Potter mining analyst Regan Burrows said that despite a lot of talk about the prospect of a "non-China" premium across various commodities, it had not eventuated.

"Good luck to Arafura if they can achieve it," he said

Mr Burrows noted that rival Australian producer Lynas was not receiving such a premium for its rare earths.

"There might be a security or supply angle that more than outweighs the cost ... but I want to see proof," he said.

Last month, Labor agreed to an additional \$400 million of loans to help ASX-listed Iluka develop the country's first rare earths refinery, also on the assumption of a "non-China" premium.

Al Harvey, a mining analyst at JPMorgan, was sceptical that such a pricing differential would eventuate.

"How do you value the strategic elements of rare earths? There still seems to be a view that there will be an ex-China premium, but I can't see it happening until we get an ex-China supply chain developed, and I think that's a much longer-dated phenomenon to play out," he said.

Hancock Prospecting - the private company controlled by Mrs Rinehart, Australia's richest person - is the largest shareholder in Arafura with an 8.6 per cent stake.

Industry Minister Ed Husic acknowledged the current low price of rare earths, but said the Nolans project would create hundreds of jobs and give Australia a strategic foothold in the industry.

"At this point in time, prices aren't anything to brag about. If they change, then [Nolans] is something that puts us in a position to meet global demand," he said.

Arafura has signed offtake agreements that account for roughly half the expected production from the first phase of the Nolans ramp-up, Mr Cuzzubbo said. Customers include South Korean electric vehicle maker Hyundai and European wind turbine group Siemens Gamesa.

**Load-Date:** January 18, 2025