



Sell-down order adds to crazy tale

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Body

There's something almost cinematic about the rollicking tale of intrigue that has enveloped the \$212 million rare earths hopeful Northern Minerals.

Once upon a time, a small Australian company, which one day hopes to mine two little-known minerals - dysprosium and terbium, crucial to the production of high-performance magnets, batteries and defence equipment - was targeted by a mysterious Chinese businessman, Wu Tao.

He's a big wheel in the Chinese rare earths sector, which has used its dominant position to control price, supply and trade flows in an industry that has become central to tensions between China and the West.

Wu took a 9.8 per cent stake of Northern Minerals via his Singapore-registered company, Yuxiao Fund, but wanted a bigger slice, outlining a plan in 2022 to increase his stake to 19.9 per cent. But when this bid was thwarted in February last year by Treasurer Jim Chalmers, on the advice of the Foreign Investment Review Board, Wu is accused of taking matters into his own hands by orchestrating the buying of shares via a series of related entities and parties, including Black Stone **Resources** and Indian Ocean International Shipping and Service Co, plus Ms Ximei Liu and Mr Xi Wang.

In October 2023, then Northern Minerals chief executive Nick Curtis referred the share buying to FIRB - and subsequently found himself the subject of an attempt by Wu to remove him as a director of the company at an extraordinary general meeting showdown on June 6.

Last Monday, Curtis fell on his sword, resigning as a director and moving to a position as a special adviser. But yesterday, Chalmers struck again, ordering Yuxiao to reduce its stake from 9.8 per cent to 8.5 per cent within 60 days, and Black Stone, Ocean International, Liu and Wang to dispose of shares equivalent to about 9 per cent.

Such disposal orders are extremely rare in commercial matters, and so the implication seems clear: Chalmers has used his power to prevent a surreptitious attempt by Chinese interests to grab control of a promising miner, whose precious products may help insulate Australia's high-end electrification and defence supply chains from Chinese control of the rare earths market.

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Roll credits! Well, maybe not so fast. One of Australia's top FIRB experts argues that the disposal orders issued by Treasury were widely predicted and welcome: this was an attempt to use the backdoor to get around an earlier FIRB order and couldn't be allowed to go ahead. So our expert says this shouldn't necessarily be read as a sudden hardening of Treasury's stance against Chinese investment in critical minerals.

Nevertheless, the timing of the announcement is fascinating, and not just because it seems poor old Nick Curtis resigned a week too early.

As the government goes through the design process for the critical minerals production tax credit regime announced in last month's budget, the question of whether projects with Chinese investment will be treated differently is high on the minds of those in the Australian sector.

Just as the birth of Australia's iron ore sector in the 1960s was financed with Japanese and Korean capital, China has emerged as a powerful force in the creation of Australia's critical minerals industry, as financier, customer and provider of key infrastructure, particularly processing capacity. Some US government money has found its way into key projects, but not nearly as much as Chinese interests have provided.

But at the same time, key figures in the Australian critical minerals sector are growing more vocal in the warnings about Chinese control of markets. At The Australian Financial Review Mining Summit in Perth last month, **Iluka Resources** chief executive Tom O'Leary repeated his warnings that China is using its power to manipulate rare earths pricing.

Ironically, **Iluka** is both a shareholder in Northern Minerals and, if all goes to plan, will process Northern Minerals' production at its new \$1.8 billion refinery at Eneabba in Western Australia. Perhaps it might even be in the market for the 10 per cent of Northern Minerals that will now be on the market.

The Australian critical minerals industry, and indeed the federal government, is in a sticky position, caught between the need to keep tapping Chinese capital and growing geopolitical tensions in a vital industry.

Chalmers' latest intervention might not represent a change in the government's view on Chinese involvement in the sector, but where it draws the line on Chinese exposure to the new production tax credit regime will be telling.

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