Taxpayers have bet $1.65b on a rare earths premium

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The failed campaign to hand Australian nickel a so-called green premium is barely over. But politicians and miners are already making a fresh bet that foreign customers will voluntarily pay overs for our critical minerals.

That much was clear from Friday's Eneabba rare earths update. The refinery is now the recipient of the second-biggest taxpayer loan in history after receiving an additional $400 million from Export Finance Australia.

Taxpayers are now lending a total of $1.65 billion to a project that will struggle to make a profit if rare earths prices stay at current levels.

To be successful, the Eneabba project and its developer, ***Iluka*** ***Resources***, need a revolution to sweep through the mining industry and change everything about how rare earths are priced.

It's a bold bet, and it has split the investment community between those, such as JP Morgan analyst Al Harvey, who wish it were abandoned, and those, such as Goldman Sachs analyst Paul Young, who believe the refinery, which will be one of the first in the country, will be a strategically valuable asset.

Iluka managing director Tom O'Leary is the ring-leader of the revolution, arguing that China has used its market power to depress the rare earths prices quoted on the major price discovery venue: the Asian Metal Index.

O'Leary reckons the AMI should be disregarded, and he has publicly lobbied rare earths rivals such as Lynas to cease giving the index credibility by selling their product on contracts that link to the index. ***Iluka*** is the owner of the Eneabba refinery, and O'Leary spent Friday's call justifying a business case for the refinery that assumed long-term prices for neodymium and praseodymium would average between $US82 and $US148 per kilogram; well above the $US58 per kilogram price quoted on AMI.

"The consequence of having to go with AMI is that the whole industry is losing money, so thus the importance and the general acceptance I think in the industry that we need to break away from an AMI linkage," he said.

"We must find a new pricing dynamic for the sale of rare earths into this more open, Western supply chain."

O'Leary's alternative vision is for rare earths to be sold on bilateral contracts that allow non-Chinese miners to receive higher prices, while the non-Chinese customers get security of supply in an era where China wields influence by occasionally starving rival nations of the metals they need for their manufacturing industries.

"It is really landing with customers and with the rest of the industry, so I am confident we will get those [better-priced sale contracts] in place with plenty of time," said O'Leary.

The French government's top bureaucrat for strategic minerals, Benjamin Gallezot, visited Australia in October and said European carmakers would need to be protected from the extreme peaks in commodity price cycles if, in exchange, Australian miners wanted a special premium to help them survive periods of weak prices.

"You can't have a system that walks just one way," he said.

So, will the rare earths pricing revolution happen? It is easy to be pessimistic after an 18-month period in which the hubristic exceptionalism of the Australian critical minerals sector has been punctured.

Local nickel miners no longer speak with certainty that they will receive a "green premium" to reflect their lower carbon footprint. Electric vehicle makers such as Tesla have shown they are willing to buy the cheap nickel coming out of Indonesia, even if it causes more harm to the landscape.

Local lithium miners also spend less time talking about the Inflation Reduction Act these days, after realising the fine detail of the eligibility criteria means most of them won't qualify for a subsidy because of links to Chinese investors or processors.

But unlike the green premium sought by nickel and lithium miners for their environmental attributes, O'Leary's pitch for a premium is more khaki green because it is based on the threat of war, or at least a protracted cold war.

If China can control the supply of neodymium, praseodymium, terbium and dysprosium, it can limit Western nations' ability to make defence equipment such as night-vision goggles and fighter jets.

While the environmental policies that stoked talk of a "green premium" may have lost momentum, there is no sign that geopolitical tensions between China and the US are easing.

The past month has seen President-elect Donald Trump talk up a new round of tariffs, while China last week placed fresh curbs on the export of critical minerals such as gallium and germanium. Those headlines are grist for the mill in O'Leary's push for a rare earths pricing revolution.

Export Finance Australia has given itself a little bit of protection in case O'Leary's price revolution doesn't eventuate; the extra $400 million pledged can only be drawn down after ***Iluka*** strikes offtake agreements. In other words, the government has told ***Iluka*** it must crystallise its price revolution into a sales contract before it gets any more taxpayer funds.

The clock is now ticking, and O'Leary has about two years before he needs to deliver. Vive la revolution.

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