



China sought cheaper iron in share deal

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 Resources

CHINA has been exposed as trying to secretly engineer lower iron ore prices through at least one of its investments in Australia.

Leading Chinese steel player Shougang tried to negotiate a discount to benchmark iron ore prices in a rejected deal with rising West Australian iron ore miner Mount Gibson last year.

At the time, Shougang was a minority shareholder in Mt Gibson and wanted to use that holding as leverage to get a 10 per cent discount for Mount Gibson's high-grade ore.

Mt Gibson never signed a contract with Shougang, which then rolled its shareholding into fellow Chinese group APAC Resources.

The revelations have come to light in the Takeovers Panel's published reasons for its decision to strip Shougang of a 20 per cent stake in Mount Gibson, which it had wanted to buy from Russian resources group Gazmetall.

The Panel noted that in a meeting between Gazmetall and APAC Resources (another major

shareholder in Mount Gibson with a stake of 21 per cent) in Hong Kong last June, controversial businessman Lee Ming Tee, deemed by the Panel to be acting for APAC, said that Mt Gibson's sales policies were "inefficient".

In a file note prepared by a junior official representing Gazmetall's parent company Metalloinvest, Mr Lee called for Mount Gibson to sell all iron ore to Shougang and that both APAC and Gazmetall needed to act in concert and co-ordinate their efforts in regards to Mount Gibson.

The Takeover Panel decision found that Mr Lee had said: "When the management is too independent, it is working largely for itself."

The Panel reports that in a meeting between Mr Lee and Mount Gibson managing director Luke Tonkin in December, Mr Lee said he liked "to control entities, but not necessarily own them outright" and that he would "like to place Gazmetall's stake with friends".

The information puts pressure

on the Federal Government to further scrutinise the motives behind China Inc's growing investment on the Australian resources landscape.

The *Australian* revealed yesterday that China was preparing a \$25 billion raid on the BHP Billiton share register to grab a 9 per cent stake, which it would then halve with an Australian superannuation fund and a global private equity investor.

China already controls 9 per cent of Rio Tinto and has stopped the two iron ore heavyweights from selling their ore on the lucrative spot market in response to calls for higher prices.

China has also proposed a \$1.3 billion hostile takeover of Mid West Corporation and is a backer of a proposed port near Geraldton in the WA Mid West, which could see it dominate the entire mine-to-mill iron ore system in the region.

The Rudd Government is deeply concerned about losing Australian ownership and control of what is an increasingly important part of the Australian econ-

omy. Iron ore contract prices are settled on an annual basis and any discount would mean reduced royalties and taxes.

While Australia has always relied on and welcomed foreign investment, the massive size and potential of the Chinese interest in resources make this a new phenomenon.

Unchecked, the financial might and rapid growth of the Chinese investment could dominate a range of Australian resources companies and industries.

The Government would see that loss of control as undermining the national interest quite independently of the prospect of any concerted attempt at discounted transfer pricing, in which goods are sold to another part of the same company at a lower price.

The extent to which Chinese companies do not operate at arm's length from government also means they are regarded

Continued — Page 42
BHP soars — Page 42

PICKINGS

Top 10 junior miners on Chinese companies' shopping list

Company	Suitor	Mineral	Stake %	Value
Macarthur Coal	Citic	Coking coal	17.66	\$666m
Midwest Corporation	Sinosteel	Iron ore	19.89	\$264m
Gindalbie Metals	Ansteel	Iron ore	12.71	\$79m
Marathon Resources	Citic	Uranium	21.30	\$26m
Mt Gibson	APAC	Iron ore	21.20	\$572m
Centrex Metals	Baotou	Iron ore/copper	10.12	\$15m
Apollo Minerals	China Iron	Uranium/iron ore	11.70	\$3m
Cape Lambert	Delong	Iron ore	4.40	\$8m
FerrAus	Western Mining	Iron ore	10.00	\$18m
PepinNini	Sinosteel	Uranium	5.15	\$3m



Chinese firm sought cheaper iron ore through share deal

From Page 33

more cautiously than earlier waves of investment from the US, UK and even Japan.

Australia needed the investment dollars from the Japanese in the 1960s and 1970s to develop its iron ore projects - a condition that no longer applies.

But the Australian government also wants to avoid following the example of Canada where foreign investment from a range of countries is said, in the eyes of BHP Billiton chairman Don Argus, to have "hollowed out" Canadian ownership of its own resources companies. This means Canada no longer has its own global players in resources at a time of massive consolidation in the resources sector.

However local industry players told *The Weekend Australian* that Chinese investment had become vital to the national resources industry and Australian institutions could not match its financial clout.

Abra Mining managing director Jeff Moore said it was a natural merging of interests when his company aligned with Hunan Nonferrous Metals Corporation last year. The pair signed a Letter

Of Intent to investigate a potential joint venture partnership to develop Abra's three projects in outback WA.

Abra is considered to hold one of the best untapped lead deposits in the nation.

Just five months later and Hunan has proposed a takeover of the company for \$67 million which has received the blessing of the Abra board.

The deal requires approval from the Foreign Investment Review Board.

"It is not critical to align yourself with a Chinese partner if you are in the junior end of the mining spectrum," Mr Moore said.

"But this company has a positive view on lead which is important and they have demonstrated that they can operate in Australia.

"We can't stand still, we have an obligation to develop our tenements.

"In terms of the mining industry selling the farm to China, it's possible. But in our case, I know if there had of been any Australian interest shown I would have been the first person talking to them."

Other leading resources experts add that China had every right to build equity stakes in

Australian miners as they had now become the nation's leading trading partner.

Gindable Metals chairman George Jones believed Chinese investment in Australia was a non-issue.

"The level of Chinese investment in Australia is still very modest when you look at the investment from Japan, the US, the UK," he said.

"The difference with the Chinese is that they know this resources boom is going to last a for a long time to come. Everyone seems to be upset about the Chinese. Our project wouldn't have happened if it was left up to Australian capital."

"Our project is going to pay over \$7 billion in royalties.

He added that the Australian Taxation Office policed transfer pricing very well.

"They can't steal our assets," he said.

"The difference is China is taking a much longer term view of our mineral wealth. The institutions in Australia only look at quarterly returns."



Digging in: China is eyeing stakes in Australia's miners, including BHP, as metal prices soar

Picture: Bloomberg