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Senate Economics Committee

Inquiry into foreign investment by state-owned entities

I am a retired engineer who worked for 16 years in underground mines owned and managed for most of the time by CRA which was the Australian company that evolved from the Consolidated Zinc Corporation, formed in the 1930's to treat zinc rich mine tailings in Broken Hill using the Australian developed flotation process for mineral beneficiation.

Later I was employed by Comalco Limited as the project director for what became the Yarwun Alumina plant.

I would like to provide the Committee with some issues to consider when deciding if the agreement between RioTinto PLC and Limited with Chinalco should be approved by the treasurer in its present form.

Point 1:

The agreement provides Chinalco with direct equity participation in Rio's Australian aluminium assets comprising, the Yarwun refinery (50%), the Weipa bauxite deposit (30%), and the Boyne island smelter (29.4%), with the attached power station (20.6%).

Issue to consider:

Comalco spent 30 years trying to develop a wholly owned refinery based on Weipa bauxite. My project team from 1995 to 2001 finally got the numbers and technology to add up with the assistance of both Queensland and Commonwealth government. (about $150m each). Alumina conversion technology is chemically complex and much of the process is very specific to the characteristics of the bauxite feed. Weipa bauxite is arguably one of the best deposit in the world, surpassed only by Trombetos, and the Yarwun refinery is the best technology for converting Weipa bauxite to smelter grade alumina.
This technology was developed by Australian engineers who considered they were working for the benefit of Australia. The evidence for this is the hostility that was displayed within the team towards the option we were considering to site the refinery in Sarawak, based on the low cost natural gas supply, and the eventual development of an integrated aluminium smelter there using hydro power from Bakun dam.

Giving China access to both the bauxite AND the conversion technology I believe will lead inevitably to the construction of refineries in China, reducing value adding opportunities for Australia, and the loss of continuing development of intellectual property associated with the highly complex alumina processing technology.
Meanwhile, the Gove bauxite alumina complex acquired by RIO with the Alcan assets will continue to struggle through its troubled expansion and be closed down in the medium term as the resource is depleted.

The pressure to transfer value offshore is evidenced by BHPB floating the idea that the Olympic dam copper smelter and refinery may not be expanded with the proposed mine expansion, and the concentrate instead shipped to China. If BHPB think this is the best option, how much more pressure will be applied by the Chinese aluminium corporation to have Chalco refine and smelt Weipa bauxite in China, thus eliminating construction and operating jobs in Australia?

At the very least this value transfer should be offset by ensuring the state royalty on export bauxite is sufficiently high to make the option economically neutral. In any event, the royalty needs review as the recent Rio strategy seems to be leaning towards the export of more and more good Australian bauxite from Weipa for value to be added by others.

Next point:

It seems to me that Rio is positioning itself to exit Australian downstream processing of Weipa bauxite if the ETS regime becomes too onerous. And that is possibly a reasonable and rational business decision.

The issue is:

In 1995 I consider the Australian assets of RioTinto were taken over by the British without any premium being paid to Australian investors. Since that time the London men have increasingly stripped Australian influence from their decision making, and having made a stupid decision to buy Alcan, are now offering China our Australian resources to extricate themselves. Of course they see no problem with this. There are no British resources to trade!

On the iron ore assets I have less knowledge, but I do recall that the initial operations developed in joint venture in the mid 60's by CRA and Kaiser steel struggled to return the cost of capital. Even after Kaiser's departure and the formation of the Australian listed Hamersley Iron Ltd, the return on capital invested was a miserable 7% or so.

In my view part of this problem was the influence of the Japanese trading houses who took equity in the projects, and during the boom in Japanese manufacturing, used this position to successfully goad Hamersley, BHP and North to continually increase production capacity ahead of demand to keep the price down. This situation continued until the Japanese economy ran out of steam and their influence waned. That was when Rio London came calling, scooped the assets cheap and set about using commodity price graphs in conferences showing a steady decline in real prices of all commodities over 70 years of between 2,5% and 4%. The answer, they said, was for the industry to be rationalized (consolidated) and the remaining big boys disciplined to limit production capacity to just less than demand.

The issue is:

By handing China 15% of the Hamersley asset and rights to market portion of the output, the prospect of lower iron ore prices is real based on history of customer involvement in operations. Rio talks about the value of closer links with China, the opportunities to develop in and with China, but what about the Australian value adding options lost in the process?

The Australian equity in Rio is now not much above 20%, yet they have gained control of a major proportion of our iron ore, coal, and bauxite resources. This is not fair. The Australia fund should buy back control of our resources and send the British men home.

Thank you.

Peter Matters