



中国铝业公司

ALUMINUM CORPORATION OF CHINA

Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

24 April 2009

Dear Secretary,

OVERVIEW

The Aluminium Corporation of China ("CHINALCO") welcomes this opportunity to participate in the Committee's Inquiry into foreign investment by State-owned entities.

As both a current and potential investor, CHINALCO supports constructive debate on Australia's foreign investment policies and laws.

CHINALCO fully accepts that it is a matter for Australia to determine whether, and on what terms, it allows foreign investment to occur.

CHINALCO is also aware that this issue is a matter of public discussion in part because of the current application under the *Foreign Acquisitions and Takeovers Act 1975* under consideration by the Foreign Investment Review Board and the Treasurer for CHINALCO to increase its stake in Rio Tinto through the strategic partnership announced between the two companies on 12 February 2009.

CHINALCO provides this submission to assist the Senate and the Australian people to have an informed debate in relation to foreign investment by State Owned Enterprises ("SOEs"), particularly those from China.

CHINALCO is a Chinese SOE. However, the decisions CHINALCO has made to invest and to seek to invest in Australia and other countries have been made by CHINALCO at its initiative and in pursuit of its commercial interests.

For its part, CHINALCO believes that open trade and investment flows are in the interests of both Australia and China. This is clearly supported by the evidence.

CHINALCO supports the development of deeper trade and investment ties between the two nations and welcomes the ongoing negotiations in relation to a Free Trade Agreement.

THE AUSTRALIA –CHINA TRADE AND INVESTMENT RELATIONSHIP

The Australia-China trade and investment relationship is clearly beneficial to both nations.

China is Australia's largest trading partner (source: Australian Department of Foreign Affairs and Trade *Fact Sheet*, September 2008 <http://www.dfat.gov.au/geo/fs/chin.pdf>). Merchandise trade in 2007-08 between the two countries was worth an estimated \$57.922 billion.

China was the largest trading partner of the following States: New South Wales, Victoria and Western Australia. China is the second largest trading partner of the Northern Territory, Queensland and South Australia (source: Australian Department of Foreign Affairs and Trade *Facts Sheets*, May 2008 http://www.dfat.gov.au/geo/china/fta/china_states.pdf).

Evidence also suggests that further opening up and deepening trade and investment flows between the two nations is in both Australia and China's economic interests (source: Australian Department of Foreign Affairs and Trade and the Chinese Ministry of Commerce, *Australia-China Free Trade Agreement Feasibility Study*, March 2005 http://www.dfat.gov.au/geo/china/fta/feasibility_full.pdf).

The Feasibility Study was supported by economic *Modelling of the Potential Benefits of an Australia-China Free Trade Agreement* conducted by the Centre for Policy studies at Monash University with assistance from the Chinese Academy of Science and Nankai University dated March 2005 ("the Monash University study") (source: http://www.dfat.gov.au/geo/china/fta/modelling_benefits.pdf). The modelling concluded (at pages iii and iv) that:

The FTA is estimated to boost the present value (see Figure 7.1 on page 42) of real Gross Domestic Product (GDP) and real Gross National Product (GNP) between 2006 and 2015 as follows:

- *Australia real GDP, US\$18 billion;*
- *China real GDP, US\$64 billion;*
- *Australia real GNP, US\$22 billion; and*
- *China real GNP, US\$52 billion.*

In terms of average annual growth rates between 2005 and 2015, the FTA is estimated to increase Australia's real-GDP growth by 0.039 percentage points; and increase China's real-GDP growth by 0.042 percentage points.

Further modelling conducted by Monash University for the Australian Department of Foreign Affairs and Trade dated April 2005 (http://www.dfat.gov.au/geo/china/fta/modelling_impact.pdf) demonstrated that:

The three aspects of trade and investment liberalisation in an Australia-China FTA would have a positive impact on the output of all Australian States and Territories.

CHINALCO is also aware of two new independent economic reports commissioned by the Australia China Business Council.

CHINALCO is a member of the Australia China Business Council and provided additional financial assistance to the Council to allow these two independent reports to be commissioned.

The first is a household benefit survey undertaken by the Allen Consulting Group.

The second is an up-date of the economic modelling of a potential Free Trade Agreement between Australia and China undertaken by the Centre for Independent Economics. This modelling was done using the same methodology as the Monash University study conducted in 2005 for the Australian Department of Foreign Affairs and Trade, but using more up-to-date data.

While leaving to the Australia China Business Council to describe in detail the outcomes of those reports, CHINALCO notes that the reports demonstrate that:

- Australian households are substantial beneficiaries of the Australia-China trade and investment relationship; and
- further opening up and deepening of the Australia-China trade and investment flows economic continues to be strongly in the economic interests of both Australia and China.

CHINALCO

OVERVIEW OF CHINALCO

CHINALCO is one of the largest diversified metals and mining companies in China and is engaged in exploring, mining and processing various mineral resources including bauxite, copper and other metals. CHINALCO is the largest domestic Chinese producer of aluminum, and one of the largest domestic Chinese producers of copper. CHINALCO also produces a variety of other metals and fabricated metal products.

CHINALCO is also one of the world's leading alumina and primary aluminium producers. CHINALCO's assets are primarily located in China, with other assets, operations and investments located around the world.

CHINALCO has 34 directly owned or controlled subsidiaries, and approximately 200,000 employees. Since its establishment in 2001, it has maintained excellent financial performance. Between 2001 and 2007, CHINALCO's assets increased by a factor of approximately 4.7, representing a compound annual growth rate of approximately 29%. Over the same period, its total revenue increased by a factor of approximately 7.2, representing a compound annual growth rate of approximately 39%.

CHINALCO holds a 38.56% stake in CHALCO, a company listed in New York, Hong Kong and Shanghai. CHINALCO also indirectly owns 26.61% of Yunnan Copper Co. Ltd, a Shenzhen-listed company.

STRATEGY

CHINALCO's corporate objective is to transform itself into a leading diversified international resources company integrated into the global market.

In pursuit of that objective CHINALCO has sought to:

- integrate its domestic assets to take advantage of costs benefits from economies of scope and scale in its operations, which extend from mining through to fabrication;
- diversify its product offering to copper and other nonferrous metals;
- invest in research and development and deploy cutting-edge technology to its facilities;
- capitalise on the competitive advantages of operating in China; and
- expand its domestic and, increasingly, its international operations through partnering and investing in the development of overseas metals projects in regions rich in natural resources and with secure and ample energy supplies.

MILESTONES

Since its formation in 2001, CHINALCO has made significant steps towards its goal of being a leading globally-diversified mining company. To date CHINALCO's significant strategic milestones include:

- 2001 - CHINALCO sponsored the listing of its subsidiary CHALCO on the Hong Kong and New York stock exchanges, and in 2007, its listing on the Shanghai stock exchange. CHINALCO currently holds 38.56% of the issued capital in Chalco;
- 2007 - CHALCO acquired the licence to develop the proposed Aurukun bauxite project in Queensland;
- 2007 - CHINALCO acquired the Toronto stock exchange listed Peru Copper Inc for US\$860 million;
- 2007 - CHALCO entered into a Cooperation Framework Agreement and received a permit to construct a primary aluminium plant in Saudi Arabia;
- 2008 - CHINALCO's initial investment in Rio Tinto; and
- 2009 - CHINALCO and Rio Tinto announce a proposal to enter into a strategic partnership.

CHINALCO is also exploring business opportunities in various countries including Russia, Vietnam, Mongolia, Guinea, Indonesia and India.

MANAGEMENT

As previously stated, CHINALCO is a Chinese SOE .

However, Chinese law ensures that a separation exists between the ownership interests in an SOE and its assets and the management of the commercial operations of the enterprise.

As President of CHINALCO, I work together with the other seven senior members of CHINALCO's Executive Committee to formulate strategy and manage day-to-day operations.

A Supervisory Committee oversees and reviews the performance of the Executive Committee, as well as the company's operational and financial performance.

The position of President and the members of the Executive Committee and Supervisory Committee are appointed by various bodies, including the State Council, the State Assets Supervision and Administration Commission ("SASAC") and CHINALCO employees.

More detail on CHINALCO's management and ownership arrangements can be found in the *Overview of CHINALCO* released in February 2009, which is attached at Annexure "B".

CHINALCO'S INVESTMENTS IN AUSTRALIA

Investment in Australia is an important part of CHINALCO's global expansion strategy (see *Information on CHINALCO: Strategy and Milestones* below).

AURUKUN BAUXITE PROJECT

CHINALCO's first investment in Australia was in the Aurukun Bauxite Project in Queensland via its subsidiary Alumina Corporation of China Limited ("CHALCO").

The Aurukun Project in Cape York, Queensland, is intended to develop a bauxite mine with an initial annual capacity of 6.4 million beneficiated tonnes, and construct bauxite loading facilities, and potentially an alumina refinery with an annual capacity of 2.1 million tonnes.

The project involves estimated future capital expenditure of approximately AU\$3 billion (US\$2 billion).

In March 2007, CHALCO and the State Government of Queensland entered into the Aurukun Project Development Agreement. CHALCO also entered into a Land Use Agreement with the indigenous people with respect to the Aurukun Project. The Queensland Government has since officially issued the Aurukun bauxite exploration permit to CHALCO via its Australian subsidiary CHALCO AUSTRALIA.

CHALCO commenced a feasibility study in the fourth quarter of 2007, and a principal contractor for the Aurukun Project was selected through a bidding process.

CHALCO expects to complete the feasibility study in the first half of 2009, and to get approval from the Queensland Government with respect to the related Environmental Evaluation Statement.

CURRENT INVESTMENT IN RIO TINTO

In February 2008, CHINALCO acquired a 12% stake in Rio Tinto plc (the equivalent of approximately 9.3% of the aggregate publicly held ordinary shares in Rio Tinto plc and Rio Tinto Limited (together the "Rio Tinto Group")), and voluntarily submitted to Foreign Investment Review Board scrutiny of this acquisition .

On 24 August 2008, the Treasurer announced that he had no objection under Australia's foreign investment policy to CHINALCO taking a stake of up to 14.99% in Rio Tinto plc (a stake that equates to approximately 11 % of the aggregate publicly held ordinary shares in the Rio Tinto Group).

PROPOSED ADDITIONAL INVESTMENT IN RIO TINTO

On 12 February 2009 CHINALCO and Rio Tinto announced a proposal to enter into a strategic partnership ('the proposal'), the main features of which are:

- The issue by Rio Tinto of convertible bonds to CHINALCO which, on conversion, would give CHINALCO approximately 18.03% of the aggregate publicly held ordinary share capital of Rio Tinto Group;
- The creation of a strategic alliance at the asset level in relation to certain of Rio Tinto Group's iron ore, copper and aluminium businesses; and
- The development of further joint venture operations for mutual benefit, with a particular focus on China.

The proposal is expressly subject to the approval of Rio Tinto shareholders and regulators, including under the *Foreign Acquisitions and Takeovers Act 1975* ("FATA").

A copy of Rio Tinto's announcement dated 12 February 2009 providing more detail of the proposal is attached at Annexure "A".

Following the announcement of the proposal and in accordance with its undertaking to the Treasurer, CHINALCO made an application on 13 February 2009 to the Foreign Investment Review Board ("FIRB") under the FATA.

CHINALCO's application is currently under consideration by the FIRB. On 16 March 2009, the Australian Government extended its consideration of the proposal for a period of 90 days. CHINALCO continues to constructively engage with the Australian Government through this process.

Under the FATA, the Treasurer has the power to determine whether to approve the proposal having regard to Australia's national interest. In February 2008, the Treasurer released *Principles Guiding Consideration of Foreign Government Related Investment in Australia* ("Principles"). CHINALCO regards these *Principles* as an important re-statement of Australia's long-standing approach to foreign investment by SOEs and Sovereign Wealth Funds.

OTHER OVERSEAS INVESTMENTS

CHINALCO pursues a global expansion strategy through partnering and investing in the development of overseas metals projects in regions rich in natural resources and with secure and ample energy supplies.

CHALCO, a subsidiary of CHINALCO (38.56% owned), is listed in New York, Hong Kong and Shanghai.

CHINALCO also indirectly owns 26.61% of Yunnan Copper Co. Ltd, a Shenzhen-listed company.

CHINALCO maintains an ongoing global expansion strategy, and has made significant steps towards its goal of being a leading globally-diversified mining company. One of its key overseas projects includes the Toromocho copper mine in Peru. CHINALCO also expects to be involved in the construction of a primary aluminum plant in Saudi Arabia (via CHALCO).

CHINALCO is also exploring business opportunities in other countries including Russia, Vietnam, Mongolia, Guinea, Indonesia and India.

CONCLUSION

CHINALCO endorses the broadening and deepening of investment and trade relationships between Australia and China, which CHINALCO believes is firmly in the interests of both nations.

Yours sincerely,

Mr Xiong Weiping
President



ATTACHMENTS

Annexure A - *Rio Tinto announces pioneering strategic partnership with Chinalco*, Rio Tinto press release, 12 February 2009

Annexure B - *Aluminum Corporation of China ("CHINALCO") - An Overview*, February 2009

Annexure C - Curriculum Vitae of Mr Xiong Weiping

Xiong Weiping

President & Secretary-General of the Executive Committee

Appointment

Appointed to the role of President and Secretary-General of the Executive Committee in February 2009.

Skills and experience

Mr Xiong is also Chairman and Chief Executive Officer of Aluminum Corporation of China Limited (“Chalco”), and Chairman of Chalco’s Remuneration and Nomination Committee. Mr Xiong has a PhD and is a professor in Mineral Engineering of Central South University of Industry. He is also a PhD Supervisor at Guanghua School of Management, Beijing University. Prior to his current position at Chinalco, Mr Xiong’s previous roles included: Executive Vice President of Central South University of Industry, Dean of the School of Management; Deputy General Manager of China Copper, Lead and Zinc Group Company; Deputy General Manager and Vice President of Chinalco; Senior Vice President and President of Chalco. From June 2006 to 2009, he served as the Vice Chairman and President of China National Travel Service (HK) Group Corporation and China Travel Service (Holdings) Hong Kong Limited as well as the Vice Chairman and President of China Travel International Investment Hong Kong Limited.