Len Johnson

SUBMISSION TO SENATE INQUIRY INTO FOREIGN INVESTMENT

I believe that Australia's independence is at stake if it allows Chinalcos bid for Rio Tinto to proceed

1. It will allow any foreign government to be able to acquire the mining rights and control many other strategic assets and also have a large say in the pricing BHP and other Australian Companies charge; which makes this subtle takeover totally unacceptable.

2. What we are looking at is a transfer of global mineral power to customers of unprecedented proportions that the world has never seen, an agreement of EPIC Proportions, were China will eventually control all minerals, mining & gas within Australia, therefore they will control our economy & will be able to dictate to the Australian Governments, what it wants. In essence the Chinese Government will eventually become the biggest company in the world, therefore they will be able to control the pricing of most commodities.

3. Note:- China does not allow any foreign government to own any mineral assets in its country, So why are we considering this take over

4. Australia needs to mobilise its superannuation funds through a government-backed bank to refinance the nation's foreign debt.

5. Australia holds $1.1trillion in savings in its superannuation fund and that the Commonwealth government should use part of this money to protect Australia's strategic assets and to refinance our national debt.

6. By condoning this subterfuge take over (wanting 20% which will be in fact will be 50% voting rights of Rio Tinto); you would be doing so Against Australia's best interest.

Len Johnson

*The Commonwealth future fund should take a $20 billion stake in Rio Tinto mining to protect Australia's independence from Beijing's strategy of controlling key world mineral supplies and pulling Australia into China's orbit, writes **Patrick J. Byrne**.*

Australia is currently borrowing $500 million per week from Beijing. If the worsening economic crisis causes Australia to become dependent on China for the refinancing of our nation's $658 billion net foreign debt (about 60 per cent of our GDP), then Beijing may well demand a controlling interest in Rio Tinto in exchange.

Together, these concessions to Beijing would draw Australia out of the Western alliance and into China's orbit.

To avoid this serious threat to Australia's sovereignty, the Commonwealth Government's future fund should take a $20 billion stake in Rio Tinto, which would also blunt Beijing's mercantilist strategy of controlling key world mineral supplies through taking eventual control of Rio.

Then, Australia needs to mobilise its superannuation funds through a government-backed bank to refinance the nation's foreign debt.

The Rio deal

The Rio Tinto-Chinalco deal is the most important, and potentially dangerous, commercial venture the Australian Government has ever had to decide on.

While the Government considers the deal, the Senate is currently holding an inquiry into investment in Australia by foreign government-owned sovereign wealth funds (SWFs) and foreign-government-owned companies.

Recently, veteran financial commentator Robert Gottliebsen has written three incisive articles on the issue in Australia's online business news outlet *Business Spectator*. Although *News Weekly* disagrees with his strategic conclusions, Gottliebsen nevertheless makes several important points. He says:

"As a nation [Australia] seems likely to play a role to assist China and the US reconcile their differences. At the same time, China has superior air, sea and land defence capability to Australia and in a decade or two may emerge as our 'protector' because they need to safeguard their raw material supply lines and because the US appears to be in decline.

"Australians will not find it easy to see China taking the role that Britain and the US took, but within two decades it is a distinct possibility. Accordingly, a deal between Rio Tinto and Chinalco could be in Australia's long term interests ...".

To propose that China become this nation's new protector, and that Australia should resign itself to being financially dependent on Beijing, would be to surrender Australia's independence to the world's last major Communist dictatorship, which has scant regard for universal human rights, democracy, private property or personal freedom.

Investment from China comes with far more political strings than came with Japanese investment in Australian energy and minerals industries in the 1970s and '80s. Japan has been for decades a democracy and respects human rights. While its economy is a mixture of state capitalism and free enterprise, it respects the right to private property.

In his articles, Gottliebsen says that Chinalco is less interested in what percentage of shares it holds in Rio, as in the myriad of operating agreements that would deliver a high level of control to this Chinese government-owned company.

He says that "control" is the main game, focused on an incredible web of agreements covering every aspect of the key operations of Rio Tinto - production, marketing, strategy, executive performance, provision of interest-bearing capital and board representation.

"That web is designed to be eventually owned by the relevant arm of the Chinese government that buys each product," he says.

For example, "Chinalco will hold 50 per cent (repeat *50 per cent*) of the shares in ISA Sales Co. which will market 30 per cent of the Hamersley iron-ore output or more than 30 million tonnes ...

"Chinalco (but more likely China's steel-makers) will nominate three of the six directors who can act as representatives of Chinalco and vote on matters where Chinalco has an interest.

"Rio Tinto can appoint the chairman who has the casting vote ...

"While Rio has the casting vote, anyone who has been involved in joint ventures that work understands that casting votes are rarely used and in this case the web of interlocking deals means that it may never be used."

This means that "the Chinese government will have power over Australian iron-ore pricing way beyond its 15 per cent Hamersley stake."

Furthermore, as Chinalco is an aluminium company, it's likely that it will eventually hand over its Rio iron-ore interests to the steel-making companies owned by the Chinese government.

Gottliebsen says that buried deep in the agreements is a provision, which actually explains the Chinese intent in the whole exercise. Chinalco (again, read Chinese steel-makers) will have consultation rights in relation to the performance of the Rio Tinto executives and key senior personnel of the iron-ore group. Rio will have to pay due regard to those views in completing management performance reviews.

In 10 years' time when the current Rio management has moved on, there will be a series of Rio Tinto executives competing for promotion.

Gottliebsen says: "They are a team, but like all executive teams they work out where the power lies and go with it. The Chinese are united and will review carefully the performance of those negotiating the iron-ore prices. They may also review executives' recommendations on expansion and many other areas.

"In isolation this clause does not mean much. Combine it with the Chinese position on the board and the incredible rights it has in marketing and strategy and suddenly you see how it all works."

Gottliebsen says that there is a similar network of agreements for the aluminium, bauxite and copper areas of Rio. In essence, these agreements also are designed to deliver control over these areas of the company and over pricing, investment and supply.

Many other areas of the agreement are designed to give Chinalco control of Rio. For example, it will provide for Chinese financial institutions to develop relationships with the company so that Rio can access Chinese capital to refinance existing debt and secure future financing.

Hence, Chinalco will gain control not by any one move, but, as its 600-page proposal copiously spells out, by numerous operating conditions.

Gottliebsen warns: "My opinion on this is that Rio will have unlimited finance to buy prized assets and expand production ahead of demand. No other mining company will have that ability.

"So what we are looking at is a transfer of global mineral power to customers of unprecedented proportions.... The world has never seen an agreement like this before."

It will also affect BHP. In the future, Chinalco's plan will likely see an expansion of production well ahead of demand so as to keep a lid on prices, setting the price for BHP minerals as well.

Beijing curtails foreign ownership

While Beijing seeks mercantilist control of vital foreign mineral and energy resources, it is curtailing foreign ownership of its own domestic major companies.

Under recently revamped rules, China now restricts or prohibits investment in industries it has already mastered (like toys, furniture, shoes and clothing) or in industries with high usage of resources or energy (like steel, aluminium, paper, cement and other basic industries).

It has shifted its emphasis to quality rather than quantity of investment, with more emphasis on advanced technology and management. It maintains substantial restrictions on publishing, media, market and social research, and an absolute prohibition on investment in real estate, including brokerage firms.

Energy security expert Dr Vlado Vivoda has recently commented, "While foreign firms are lining up to invest in China, Beijing seems increasingly reluctant to let them in as several acquisitions of large Chinese firms by foreign companies have been stalled after a storm of public protest over the impact such sales could have on Chinese economic security.

"What the leadership refers to as 'socialism with Chinese characteristics' is a sustainable and competitive form of state capitalism." (Vlado Vivoda, "China challenges global capitalism", *Australian Journal of International Affairs*, Vol. 63, Issue 1, March 2009, p. 32.)

Sovereignty at stake

News Weekly, in its October 2008 *Strategic Report: The global power shift: defending Australia's independence*, quoted America's famous investor and economic commentator, Warren E. Buffett, who had warned back in 2003 that the world was witnessing a new form of strategic dominance, and that countries that excessively depend on foreign borrowing risked losing their sovereignty, being "colonised by purchase rather than conquest". (*Fortune,* October 26, 2003).

Chinese government-controlled investments in Australia have jumped from a trickle three years ago, to $6.8 billion in 2007, and around $30 billion last year.

The Rio deal would involve $20-30 billion in just one company.

Rio Tinto's problem is its $20 billion debt. It needs to raise new money.

The solution is simple. The Commonwealth Government should invest $20 billion from its future fund in Rio, and thereby take shares in the company.

When global markets have improved in the future, the Government can sell its shares in Rio back to private investors and make a handsome profit for the future fund.

After all, it is better to have the Australian rather than the Chinese government own a major stake in Rio.

Foreign debt solution

Australia's net foreign debt is now $658 billion (about 60 per cent of our GDP), while the gross foreign debt has reached $1.1 trillion.

As the global economic crisis deepens, Australia's creditors may be unwilling to keep rolling over this debt. Much of the foreign debt that Australia has incurred, via its major banks, is short-term, i.e., it must be repaid within 12 months.

China has accumulated over US$1 trillion in savings from its huge trade surpluses with the US, and holds another US$2 trillion in domestic savings.

As *News Weekly* warned in its *Strategic Report*, a foreign debt crisis could see Australia become dependent on borrowing from capital-rich China.

This is entirely unnecessary. Australia holds around $1.1 trillion in savings in its superannuation funds.

It is time that the Commonwealth Government required that part of the nation's compulsory super savings be deposited with a government-guaranteed agency, to be used for the refinancing of our nation's foreign debt.

Then, having secured its economic sovereignty, Australia needs to establish a strategic alliance encompassing its Western allies along with other emerging democratic powers like India and Indonesia.

This alliance should not be hostile to China. Rather, over the longer-term, its ultimate goal should be to induce Beijing to adopt democracy and universal human rights.

The solutions are there. But is there the political foresight and will to make this happen?

- Patrick J. Byrne is national vice-president of the National Civic Council.

Peter Westmore
Patrick J. Byrne

The world is witnessing a new form of strategic dominance. Countries that excessively depend on foreign borrowing risk losing their sovereignty, being “colonised by purchase rather than conquest”.

Warren E. Buffett, Fortune,
October 26, 2003

A. Overview

For 200 years Australia has depended on first the British and then the US strategic umbrellas for military protection.

Over this period Australia welcomed foreign investment, first from Britain and later from the US and nations of the Western Alliance. This investment was vital to the development of Australia's resources, infrastructure and industries.

Today the economic and strategic climates are changing dramatically, such that Australia's over-reliance on foreign investment and massive foreign borrowings are putting this nation at risk of losing its sovereignty, not by military takeover, but to economic colonisation by China which is ruled by a one-party dictatorship and has global strategic ambitions.

This emerging threat derives from a combination of serious structural weaknesses in the Australian economy – particularly the foreign debt and over-reliance on foreign investment – at the same time as the world is undergoing the greatest shift in geo-political power since the beginning of the industrial revolution. The world's centre of economic power is shifting rapidly from the US and Europe to China, India and Russia.

Should these deep flaws in the Australian economy precipitate a serious domestic financial crisis, a country like China – with a rapidly expanding, resource-hungry economy, boasting massive domestic savings and huge government-controlled sovereign wealth funds – may find itself in a position to buy out Australia's biggest strategic industries.

Such an economic buy-out poses a serious threat to Australia's sovereignty.

The danger for Australia is made more immediate because the international financial markets are currently under threat of collapse from the worst financial meltdown since the Great Depression.