

N S McNally

April 2009

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

“Inquiry into foreign investment by state-owned entities”

To the Committee:

I understand that the submission deadline is past. Please treat the following information as information for general reading by the Committee.

This letter has four parts and three Attachments A, B & C

PART ONE

RE: Comments on SUBMISSION by CHINALCO dated 24th April 2009 and attachments.

1. Chinalco 8 page submission, final paragraph, page 1

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.

I believe this statement is incorrect. It is clear from attached documents esp. ‘Go Global by Paola Bellabona & F Spigarelli’ and Chinalco’s own attachment ‘Chinalco ... An Overview at Schedule 1 SASAC’s Main Functions and Responsibilities’ that the investment initiative is a result of the direct political agenda of the Chinese Central Administration (The 11th Five Year Plan – ref ‘Go Global’) and has been directed as such. Thus the essence of Chinalco statement selected above cannot be true.

2. Chinalco 8 page submission, penultimate paragraph, page 4.

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.

This statement completely conflicts with the statements made in Chinalco's own attachment 'Chinalco ... An Overview at Schedule 1 SASAC's Main Functions and Responsibilities'. There is no separation between SOE ownership and management. Therefore the selected statement cannot be true.

3. Chinalco 8 page submission, third last paragraph, page 6

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.

This global expansion strategy is a directly related to the 'Go Global' policies of the Chinese Central Administration and it is my view that Chinalco has been instructed by the Central Chinese Administration to act as such.

N S McNally

PART TWO

RE: General letters and comments by the undersigned in pen name 'Norm Stephen'

These letters have been written by the undersigned under the pen name 'Norm Stephen' All letters have been published by 'The Business Spectator' web site.

The content of the letters generally relate to 'foreign investment in Australia.'

Five year plan

Norm Stephen

28 May 2008 12:13 PM

The blatant and obvious activities of Sinosteel would not be so bad if the company was a result of years of free enterprise. Unfortunately it is a basic arm of the Chinese government formed for the purposes of China's 11th Five Year Plan - a 'Go Global' policy which the Chinese are implementing all over the planet - not just in the Midwest. Our Chinese speaking Prime Minister must make sure that the Chinese government does not get control of our iron ore reserves under any circumstances. The ramifications are too horrible to even think about. The PM must protect Australia's commercial sovereignty as much as it must defend our geographical borders. Let the Chinese buy as much iron ore as they want but from freely established companies and under normal market practices. Google: "Paola Bellabona" + "Moving From Open Door to Go Global". I would very much like to see an update on the paper.

Of supreme importance

Norm Stephen

27 Jun 2008 1:44 PM

Congratulations to Treasurer Swan on the deferment of the Sinosteel decision. Bruce Sutherland says 'the Rudd Government has pulled the rabbit out of the hat'. It does not matter whether it's a rabbit or an elephant, the Rudd Government must implement more stringent regulations to limit foreign government ownership of Australian resources to 49.9 per cent (or even less). If the result of the Murchison/Midwest manipulation is that just about the entire iron ore resources located in the very large mid-west region will be in the hands of the Chinese

Government, then this is an unthinkable position, from an Australian sovereignty viewpoint and an international commercial viewpoint.

Mike Honeychurch might reflect on why the Chinese Government is readily agreeing to large purchase price increases for iron ore in recent months (besides the fact that China needs the iron ore). An aim of the Chinese 'Go Global' policy is to own very large iron ore reserves (and other metals) on a world wide basis. When Chinese owned reserves are under production and the ore is being shipped directly to China, does anybody really think the Chinese will be concerned with the free market sale price for iron ore? It might also be of interest to Mike that entities closely associated with the Chinese government are very keen on (have commenced) acquisitions, either directly or indirectly, in the Australian wine industry. As far as Mike's 'waving the flag', I'll wave the flag anytime mate when it concerns the protection of matters that my ancestors of five generations have worked, fought and died for. I know the colours on the flag I prefer.

The largess of the lease

Norm Stephen

16 Mar 2009 6:40 PM

A recent news item on TV showed the signing of the deal between China and Fortescue. Surrounded by the Fortescue 'suits' the representative from 'China Inc' was obviously a carefully selected front man acting for the Chinese Central Administration.

China's eleventh 'Five Year Plan' includes a deliberate policy of world-wide investment in order to secure ore reserves of any type on any continent. Chinalco's strategy in relation to Rio is obviously a part of implementation of the global expansion policy of China's Central Administration.

I would be interested to know if China is fully aware of the fact that investment in mining companies operating in Western Australia, at least, does not confer a right of ownership of ore reserves in their natural state in the ground. A mining lease gives a right to occupy certain land and undertake mining operations for particular minerals. In the meantime the ore reserves are owned by the state (ex-Crown) or the people of Western Australia. Section 85(2)(b) of the Mining Act 1978 states "... the lessee of a mining lease- ... owns all minerals lawfully mined from the land under the mining lease."

In other words the minerals are not owned by the lessee until after the minerals have actually been mined and brought to the surface or have been prepared for shipment. In the light of the multitude of covenants associated with a mining lease in Western Australia and the current flimsy nature of international business arrangements I wonder if the Chinese Central Administration is happy with the concept that they have only secured a possible right to mine for minerals in the future in Western Australia as against other areas in the world (eg. South America, Africa) where the central administration believes that they have secured ownership of the ore reserves in totality to mine at their leisure at any time in the future.

I hope the 'front-men' of the various Chinese government mining entities wanting to spill billions of dollars around the world are fully aware of the consequences of the law of the land in Western Australia.

Future headlines: "Chinese CEO of state mining entity fronts central administration after Australian mining company collapse."

Regardless of the above, if a sovereign entity wants to negotiate to purchase or secure ore reserves or anything else for that matter then that sovereign entity, in this case the Chinese government, should deal directly with the government of the nation that holds the reserves or materials that the Chinese are interested in buying. The process of setting up obvious (false) fronts to negotiate with Australian mining company management and their legal advisors should be banned.

The Chinese government should deal directly with the Australian government if they want to invest in Australia. Appropriate business entities can then be set up to deal with the Australian mining companies that hold rights to mine the various resources that China might be interested in buying or securing for the future.

The concept should work, after all we do have a Prime Minister who speaks Mandarin quite fluently. Should be useful.

Throw them overboard

Norm Stephen

25 Mar 2009 10:54 AM

The FIRB's 'deadly bottleneck' is a direct result of the Chinese Central Administration's implementation of the 'go global' policy written into the eleventh five year plan many years ago. (See Paola Bellabona '*Moving from Open Door to Go Global: China goes on the world stage.*')

The aim of the Chinese government is now plainly obvious with so many acquisitions and mergers having been undertaken and many more planned. The repetitive acquisition processes should now be clearly seen as deliberate market manipulation by the Chinese administration.

Australia cannot risk having a massive web of resource entities under effective control or part control by the Chinese government. Sovereign governments must deal with other sovereign governments.

Regardless of current economic circumstances, Australia cannot risk having its resource industry's future being held to ransom by the idea of short-term economic gain to be achieved by some shareholders on the advice of certain company executives who are obviously way out of their capability depth in dealing with such a sovereign entity as the Chinese Central Administration.

The Australian government must set up a semi-autonomous authority to deal with such massive investments into Australia's resource sector by any foreign sovereign entity. Australian mining companies can deal directly with the Australian authority if they wish to invite capital injection from foreign sovereign governments.

This is not about the Chinese people – I love the Chinese people – this is about how free enterprise and sovereignty merges and meshes on an international scale in future years. The current potential massive encroachment into Australia's resource sector by the Chinese government should be stopped completely and immediately until a better form of investment structure for Chinese sovereign funds can be determined for the benefit of all stakeholders. Rudd should act immediately and decisively.

Sorry OZ Minerals and others but an old Chinese proverb says "If your ship is already underwater do not expect to continue the journey very much further." and "The man who stands on top of sinking ship is the last to get wet and the first to get rescued."

Good Luck 'Mum and Dad' shareholders.

Veritas omnia vincit

Norm Stephen

28 Mar 2009 11:49 AM

The fallacy of a well-founded Chinese corporation doing a straightforward business deal with Rio Tinto is proven in the following revelation from Reuters: *Chinalco raises \$US21bn loan for Rio deal* (March 28.)

Chinalco in its own right (whatever that might mean?) does not have or is not putting one cent into the proposed deal with Rio. Every cent is going to be provided by Chinese state-owned banks. I wonder what guarantee and redemption clauses the funding documents might have in case Rio goes all the way rear up?

These Chinese negotiating charades must be dismantled in the interest of securing a consolidated resource sector that will operate in the interest of all Australians and all industry stakeholders – providing we know who they might be.

The Australian government must act decisively and formulate a guarantee that the Australian resource sector will operate in the future for the benefit of all Australians.

If the Chinese state-owned banks can fund this type of deal, where are the Australian banks, super funds and investment groups?

You can't keep a red man down

Norm Stephen

1 Apr 2009 12:14 PM

When will it become clear to the recipients of these offers from China that the offers are a direct result of a global expansionist policy of the Chinese Central Administration?

(See *OZ Minerals strikes \$US1.2 bn deal with Minmetals, lenders extend debt deadline*, April 1.)

The administration has set out to buy whatever world-wide resource assets it can buy, virtually at whatever price and under whatever circumstances. The current hardship being suffered by some in the resource sector is not an issue to the Chinese – the offers would have materialised anyway and will continue to materialise and probably at higher prices in the future. OZ Minerals could probably double the sale price – and still get agreement by China.

The assets involved in the OZ deal reads like a smorgasbord of delectable resources which is sure to very much please the Central administration's hierarchy. All the Chinese have to do if the deal is successful is find somebody who has the

experience and a diversified knowledge in the international resource sector to look after the newly acquired assets on behalf of the Peoples Republic of China.

These comments apply to all of the numerous resource sector deals being negotiated at this time with the Peoples Republic of China. Once again I am not anti-Chinese – I am anti-charades that have the potential to inflict major damage on the long term operation and viability of the Australian resource sector. What about the Australian government response to this game of charades?

Australians should now be seriously concerned about this ongoing Australian resource sector 'cheap' sell-out.

Time to pull your head in Albanese

Norm Stephen

16 Apr 2009 12:09 PM

Regarding Albanese's comments in London from *Rio chair admits to Alcan regrets*, particularly:

"Albanese said the Chinalco deal, which has sparked a fierce political debate about foreign ownership in Australia, should be compared to how Japanese and other Asian interests boosted their investments in Australia in the past three decades.

"I think there's a recognition in Australia, it's a very important and healthy debate, that Australia ... is long on resources and short on capital," he told reporters.

"It does require and has required over the past several decades access to foreign capital to develop its mines, to develop its infrastructure to develop its overall investment universe.

"Certainly during the 70s and 80s, similar types of debates took place with respect to Japanese investment in Australia and I think part of this is just reminding people of the fact that this is one more phase of foreign investment activity into Australia."

Why does Albanese not take into account other factors? As stated many times by many commentators, the Chinalco deal is not simply about foreign investment in Australia.

The Chinalco deal is about a tactical strategy being used by the Central Administration of the Peoples Republic of China to secure resource assets on a worldwide-scale using Chinese sovereign funds that are directly controlled by the Central Administration. This is not 'simply foreign investment' as stated by

Albanese – this is a foreign takeover attempt of Australian resources by a foreign government. If Albanese cannot face the truth, he should 'pull his head in' and let the Australian government make an investment decision in Australia's national interest – not in the interest of saving face on behalf of Albanese and others.

PART THREE

OTHER COMMENTS

The following links have various statements, letters and comments published by 'The Business Spectator.' Except as an occasional contributor, the undersigned has no connection to 'The Business Spectator' web site or any sponsors, owners and principal commentators.

1. Foreign Investment

<http://www.businessspectator.com.au/bs.nsf/Conversations/Foreign-investment-PD2BA?OpenDocument>

2. Rio Tinto

<http://www.businessspectator.com.au/bs.nsf/search?searchView&query=%28%5Bbodyrich%5D+contains+Rio%20Tinto+or+%5Bbodyhtml%5D+contains+Rio%20Tinto+or+%5Bprecede%5D+contains+Rio%20Tinto+or+%5Bheading%5D+contains+Rio%20Tinto+or+%5BNomAuthor%5D+contains+Rio%20Tinto%29&SearchOrder=4&count=500&start=1>

3. Chinalco

<http://www.businessspectator.com.au/bs.nsf/search?searchView&query=%28%5Bbodyrich%5D+contains+Chinalco+or+%5Bbodyhtml%5D+contains+Chinalco+or+%5Bprecede%5D+contains+Chinalco+or+%5Bheading%5D+contains+Chinalco+or+%5BNomAuthor%5D+contains+Chinalco%29&SearchOrder=4&count=500&start=1>

PART FOUR

Please see attachments:

- A. 'Moving From Open Door to Go Global: China Goes on the World Stage' – Bellabona and Spigarelli'
- B. 'Chinalco's Submission to Senate Standing Committee on Economics dated 24th April 2009
- C. Aluminium Corporation of China ("CHINALCO") page 48, 'Schedule 1 – SASAC's Main Functions and Responsibilities'

Thank you for making this information available for general reading by the Committee.

N S McNally
Perth
WESTERN AUSTRALIA

NOTE:

This letter has been forward in word.doc format as per the Committee's preference.