



Submission

to

Senate Foreign Affairs, Defence and Trade References Committee Inquiry into Australia's Relations with China

1. Introduction

Rio Tinto is pleased to make this submission to the Senate Foreign Affairs, Defence and Trade Reference Committee's Inquiry into Australia's Relations with China. In this submission we review Rio Tinto's commercial relations with China and address the terms of reference pertaining to this aspect of the bilateral relationship (part (a)).

Economic growth in China over the past thirty years, and particularly the past few years, has had wide ramifications for Rio Tinto. Our aim in this submission is to generate an understanding of the opportunities and challenges associated with the emergence of China as a world economic power, and the implications of these for a resources company like Rio Tinto, which is a large investor and participant in the Australian economy.

2. Rio Tinto Group in Australia

Rio Tinto is a world leader in finding, mining and processing the earth's mineral resources. In 2004, Rio Tinto's Australian expenditure in iron ore, coal, aluminium, diamonds, uranium, gold and salt was over A\$2.0 billion. These businesses employ over 10,000 Australians. Rio Tinto is the largest iron ore producer in Australia, exporting 127 million tonnes in 2004. Rio Tinto is a large investor in the coal industry - Australia's biggest export earner and an important source of international comparative advantage. Rio Tinto is also a large investor in bauxite production, alumina refining and aluminium smelting in Australia. This industry sector represents Australia's second largest export earner.

3. Rio Tinto's Submission

Rio Tinto has long-standing business relations in China. Our business is based on a strong tradition of establishing and maintaining close relationships with our principal customers. This approach has applied for more than thirty years, starting with marketing arrangements for iron ore and aluminium in the early 1970s, followed by the Channar joint venture in 1987 and continuing with the Eastern Range joint venture in Western Australia between Hamersley (a wholly-owned subsidiary of Rio Tinto) and Shanghai Baosteel in 2004. China has also participated in the HIsmelt joint venture, which is an innovative steel making process being developed by Rio Tinto at Kwinana in Western Australia.

Rio Tinto is also continuously strengthening its business relationships with key Chinese suppliers. Through stronger customer-supplier relationships Rio Tinto seeks mutually beneficial improvements along the whole value chain, thus contributing to Australia being able to optimise the value it receives from its natural resource endowments.

The first part of this submission is an overview of Rio Tinto's business with China. The submission then details specific issues in the trading relationship pertaining to iron ore, alumina, procurement and exploration. The issues raised include quarantine barriers on iron ore and import licensing of alumina. The submission also deals with issues that are linked to China's transition from a planned economy to a market economy. This includes issues such as inland waterways regulations, permitting and approvals, logistics, transparency and the treatment of wholly foreign owned enterprises. Finally, the submission addresses the issue of Market Economy Status and anti-dumping.

4. Summary Comments

4.1 Rio Tinto's commercial relations with China have been developed over many years.

The current China boom will see the emergence of new players in some traditional industries. It is important for Australia's long-term relationship with China that recognition be given to the need for responsible long term Australian suppliers whose financial and operational performance can enhance Australia's international competitiveness.

4.2 Some Chinese officials have expressed concern about the size of price increases recently negotiated for traded iron ore. The recent price increases are a response to a very sharp increase in global demand. These prices are necessary to encourage the investment required for an expansion in supply. Any attempt by government to control Australian ore prices would disrupt the mechanism for achieving global market balance in iron ore.

4.3 If Australia is to build a long-term trading relationship with China, we need to facilitate reciprocal trade opportunities that support cost competitive inputs from China. The ease with which anti-dumping actions can be taken against inputs from China should be reviewed. A Productivity Commission inquiry would seem the appropriate process for this.

4.4 Trade facilitating measures like improved inland transportation arrangements in China for Australian iron ore; the removal of quarantine and other administrative barriers on iron ore imports into China; the removal of import restrictions on alumina in China; and reform of China's contracting, corporate and legal framework would enhance Australia's trade relations with China.

4.5 Reform of exploration and mining laws in China would facilitate Australian foreign direct investment in China's minerals industry.

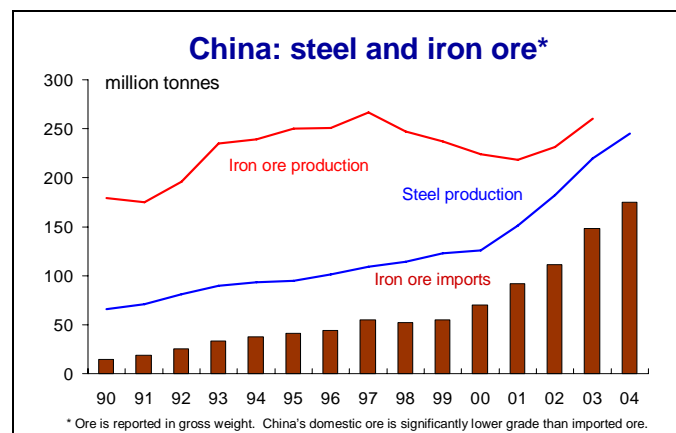
5. Rio Tinto's Business with China

Last year China accounted for 9.5 per cent of Rio Tinto Group sales. This may not seem a lot, but it represents growth at a time when demand elsewhere has been relatively subdued. Moreover, the impact of China's mineral demand on global markets is considerable. Rio Tinto and other Australian mineral exporters have been major beneficiaries of economic growth in China and these benefits are flowing through to the Australian economy. More recently, however, infrastructure constraints around port and rail facilities on the east coast of Australia have limited the capacity to realise fully Australia's export opportunities to China.

In China, the impact of physical constraints on growth (eg power availability for aluminium smelting) as well as recent measures taken by the Chinese authorities to moderate development in other sectors of the economy have caused some concern. Nevertheless, the Chinese Government's steps to address overheated sectors of the economy are not likely to significantly limit overall growth in demand for Rio Tinto's products in the foreseeable future.

Rio Tinto has a number of developments underway to support its growing business with China and these are based on opportunities that were identified years ago. Economic growth of the kind being experienced in China today has a precedent – specifically Japan in the 1960s. The challenges associated with such growth in a nation like China will mean that there will be some areas of stress and policy adjustment as development proceeds. Resource companies with long-term time horizons like Rio Tinto are aware of the risks and recognise that there will be short-term fluctuations in demand for resources as the economy continues to grow in the long run.

A review of one aspect of Rio Tinto's growing involvement with China over the years indicates why we hold this view.



More than two-thirds of Rio Tinto's trade with China in 2004 was in iron ore. Rio Tinto is China's chief supplier of seaborne iron ore, accounting for around 25 per cent of its iron ore imports. Last year, Rio Tinto Iron Ore (RTIO) exported 39 million tonnes to Chinese steel mills from its Pilbara operations, up from 18 million tonnes in 1999. By 2007, Rio Tinto's exports of iron ore to China are expected to be in the order of 70 million tonnes, which will account for around 40 percent of RTIO's total projected exports of 170 million tonnes per annum from Western Australia in 2007, up from 127 million tonnes in 2004.

Hamersley Iron established a marketing relationship with Chinese parties in the late 1960s and shipments of iron ore to the region began in 1973. In 1987, following several years of negotiation, the Channar Joint Venture was established between Hamersley (60 per cent) and the then Ministry of Metallurgical Industry's trading arm CMIEC (40 per cent), the largest Chinese overseas joint venture at the time.

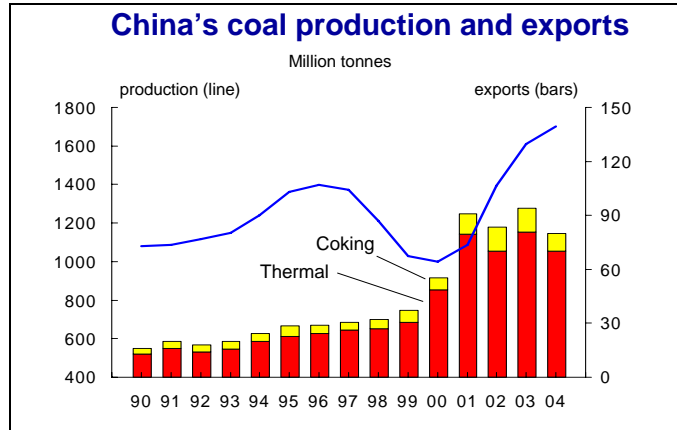
In June 2002, the BaoHI Ranges Joint Venture in Western Australia was signed between Hamersley and the Shanghai Baosteel Group (SBG). This project will deliver 200 million tonnes of iron ore to SBG over the next 20 years.

Other Rio Tinto sales to China from Australia include alumina, copper concentrates and – more surprisingly, given the scale of China's domestic resources – coal. There are more than 60 Rio Tinto personnel in China (outside of Hong Kong).

Rio Tinto's view on the opportunities, risks and challenges associated with the developing relationship with China is based on its experience. Rio Tinto understands the need to develop long-term relationships and has carried out the fundamental analysis required to support its investments.

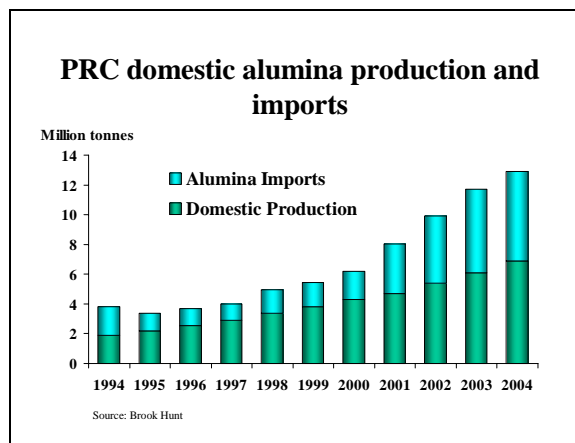
Ultimately, a nation of 1.3 billion people whose economy is at the minerals intensive stage of development is going to see significant growth in consumption of minerals and energy. There will be imports of resources and other products/services where Australia enjoys a competitive advantage and exports of goods in which China enjoys a competitive advantage. Trade in the latter provides economically priced goods to Australia with major flow-on benefits for the Australian economy and consumers.

China needs iron ore to supply growing demand from its steel mills. With nine mines and three ports in the Pilbara, RTIO is well placed to satisfy that demand.



Thermal coal, on the other hand, is a different situation. The Chinese coal industry is the world's largest and Chinese exports of thermal coal have made that nation an influential player in traded markets in the Asian region. With China's production and consumption of thermal coal both in the region of 1.8 billion tonnes a year, relatively small surpluses or deficits (by Chinese standards) can have a significant impact on the traded thermal coal market. Strong domestic demand has constrained China's ability to export recently and this has been one of the factors behind the tightening of the traded coal market and the increases in thermal coal prices. Exports of Chinese surpluses in previous years have placed downward pressure on prices, to the detriment of Australia's export earnings.

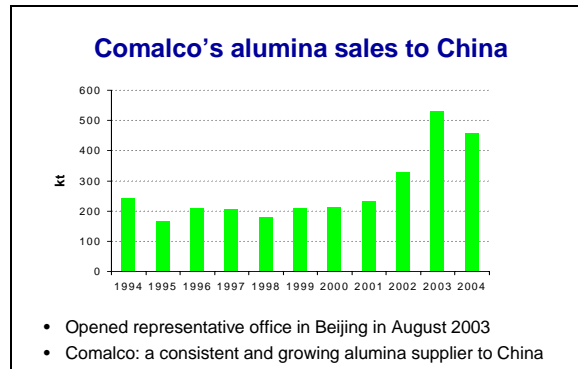
China's impact on the metallurgical coal market has been even more significant. China is short of low volatile hard coking coals such as those produced by Rio Tinto's Hail Creek mine in Queensland, and has recently emerged as a net importer of hard coking coals, a trend that is likely to continue into the future as its domestic steel market grows. Hail Creek is a 5.5 million tonne per annum operation that was commissioned in 2003 and is now implementing an expansion programme to lift capacity to 8.0 million tonnes per annum in order to take advantage of the growth in demand in China.



China's aluminium industry has grown rapidly, to the point where the country is self-sufficient in that metal. However, domestic refineries can only supply around half the alumina required by these Chinese smelters.

Despite stricter domestic investment guidelines, China's alumina demand is forecast to continue to grow. Comalco (Rio Tinto's integrated aluminium business) is strategically placed to help satisfy that demand and build on its previous sales to Chinese smelters.

At Weipa, on Cape York, Comalco has one of the world's largest deposits of high quality bauxite. Weipa is a low cost mine capable of inexpensive expansion.



The new Comalco Alumina Refinery (CAR) was commissioned in late 2004 and will add value to the Weipa resource. CAR, the first greenfields alumina refinery to be built anywhere in the world in recent years, is in part a response to China's growing demand for alumina imports. So, too, is the expansion and upgrading of the Weipa operation that has been carried out to guarantee CAR's raw material needs. Comalco is currently examining the feasibility of expanding CAR, which is an opportunity created by China's growth in demand for alumina.

Rio Tinto has an exploration joint venture and a permanent exploration office in China. While gradually improving, the exploration regime in China suffers from the fragmentation of data and a complex regulatory system. At this stage, there does not appear to be much support for foreign investment in this sector.

As noted above, China is still at the materials intensive stage of development where infrastructure, urbanisation and manufacturing make a heavy demand on steel, aluminium and electricity.

Half of steel consumption in China is in the construction sector. Growth in investment in railways, ports, power stations and highways accounts for the major part of world growth in the use of aluminium, copper and steel. Along with investment in infrastructure, other minerals demand has been generated by manufactured goods, exports of which have grown at a rate well in advance of global rates of export growth.

Since joining the WTO in 2001, China has allowed market forces to play a much greater role in the economy. Future demand in China will be increasingly driven by domestic consumption.

As this change continues there will be direct implications for Australian minerals suppliers. There will also be indirect implications because Australia is a commodity supplier to regional economies that are profiting from Chinese growth.

A reduction in government investment could affect demand for aluminium and steel used in infrastructure and buildings. On the other hand, stronger internal demand for consumer goods would see compensating growth in demand in areas such as motor vehicles and packaging. A greater emphasis on market forces is bringing about greater cost consciousness on the part of steel users and concern for quality. This should benefit Australia's high quality iron ore suppliers over domestic Chinese producers.

Greater Chinese domestic consumption is already increasing demand for Australian diamonds and one might anticipate a growing market for Australian gold and silver.

It is also important to remember that trade is reciprocal – and that this reciprocity will increase over time. In recognition of this, Rio Tinto, like a number of other minerals companies, is procuring more of its fabrication and input needs from China. It concerns Rio Tinto that these imports are sometimes subjected to threats of anti-dumping actions, which work to raise costs and reduce the competitiveness of Australian mineral suppliers. It should be recognised that measures designed to protect a portion of one industry may do so at a cost to other industries and the Australian economy as a whole.

While examining the feasibility of a Free Trade Agreement with China, the Australian Government should pursue free trade policies. As China's comparative advantage increasingly comes to reside in more elaborately transformed manufactures, the Australian Government will come under pressure from domestic industry to restrict imports from China. Protectionist measures typically perpetuate inefficiencies and are not conducive to developing our trading relationship with China and to sustaining an efficient Australian economy.

Australia needs to avoid any protectionist practices that will prevent Australian consumers from enjoying the full benefits of Australia's economic relations with China. A bilateral Free Trade Agreement with China is supported by Rio Tinto as a fitting vehicle for facilitating the future commercial and political relationship between the two countries.

6. Rio Tinto Iron Ore (RTIO)

6.1 Iron ore tariffs

The general tariff rate on iron ore is zero and the rate on direct reduced ferrous products is 8% or 2% under MFN arrangements. RTIO strongly supports the continuation of zero tariffs on iron ore. In addition, any streamlining of export/import documentation processing for iron ore would be an advantage.

6.2 Infrastructure and inland waterways regulations act as a non-tariff barrier

RTIO has experienced some difficulties in facilitating trade with iron ore customers located in inland regions of China. A number of significant Chinese steel mills are located well away from the coast and the cost of transporting imported ore from the port to the mill is a major factor in determining the competitiveness of imported ore against the local product. China's inland transport infrastructure is relatively underdeveloped, with barge transport on waterways continuing to be an important mode for bulk cargoes.

RTIO has made various attempts to assist inland customers to make more efficient transport arrangements in order to increase the competitiveness of its products. These efforts have met with only limited success largely because of the restrictive approach to regulating access to the waterways taken by the relevant Chinese authorities. This approach constitutes, in effect, a non-tariff trade barrier. Restricted access to rail transportation and low prioritisation also acts as a non-tariff barrier. It would be useful if the FTA negotiations could free up these barriers.

RTIO supports Australian companies being permitted to own and manage their own transportation infrastructure in China. The freeing up of infrastructure development would remove one of the major bottlenecks in the supply chain for steel making.

6.3 Quarantine barriers

Quarantine barriers on iron ore are an issue RTIO would like to see addressed in the FTA. Under Chinese law, iron ore is listed for compulsory examination upon import. This limits the potential for pursuing “Loading Analysis as Final”, which would be a mutually beneficial agreement between Chinese steel mills and Australian exporters.

6.4 Bans on import/export licences for Wholly Foreign Owned Enterprises (WFOE)

According to Chinese law, if a company establishes a WFOE then it cannot have a full import/export licence. The company must rely on local Chinese import/export agents to handle imports and exports. This regulation limits its business scope and flexibility and increases transaction costs.

6.5 Corporate law and transparency

RTIO would like to see greater transparency in the Chinese marketplace. Practices such as not producing annual reports; lack of third party audits; reporting that is not up to international standards; stock market regulations not comparable with international norms; and opaque local and state government decision-making make conducting business in China difficult for Australian firms.

RTIO would like to see greater legal protection for contracts made between Australian companies and Chinese firms. RTIO would also like to see clear and enforceable competition laws introduced in China, which deal with matters such as collusion.

6.6 Anti-dumping

RTIO is sourcing an increasing volume of its supplies from China. These fall into two major groups: fabricated or manufactured products and raw materials. Although the Australian tariffs on many of these items are low, 10% or less under developing country arrangements and free for relevant chemicals, some of these items are at risk of anti-dumping claims, which, if successful, result in the imposition of significant costs to Rio Tinto’s business. Rio Tinto recently made a submission on antidumping to the Productivity Commission Review of National Competition Policy Arrangements.

6.7 Market economy status

Under its Trade and Economic Framework Agreement with China, Australia has agreed to consider China's request for market economy status and for Australia to discontinue treating China as an 'economy in transition' with respect to anti-dumping applications. Rio Tinto understands that recognition of China as a market economy does not alter Australia's rights and obligations under the dumping, subsidies and safeguards codes of the WTO.

To the extent that Australia recognising China as a market economy facilitates negotiations on an FTA, Rio Tinto supports such action. This would simultaneously improve access for the Australian mining industry to competitive Chinese inputs, which helps Australian miners retain their cost competitiveness in the global marketplace and thus benefits the competitiveness of the Australian economy.

As has been noted by many commentators, there is a very substantial natural complementarity in trade relations between Australia and China. This natural complementarity has underpinned the rapid growth in trade between the two countries, including in areas in which RTIO is directly involved.

6.8 Iron Ore Prices

Chinese officials have expressed some concern about the size of price increases recently negotiated for traded iron ore. It needs to be recognised that these are global prices that apply, for example, to sales of Brazilian ore into Europe, as well as to Australian ore into China. As such, they are determined by the balance of supply and demand in the global traded iron ore market. Any attempt by government to control Australian ore prices would disrupt the mechanism for achieving global market balance. It would place Australian iron ore producers at a competitive disadvantage and could well reduce exports of Australian ore to China.

The recent price increases are a response to the very sharp increases in demand for iron ore that have been seen in the early years of this century. In order to accommodate this rapid growth, major increases in capacity will be necessary. Higher prices are necessary to attract the investment required. As the major producers put this capacity in place and long term supply increases, some moderation in prices may be expected.

7. Rio Tinto Procurement (RTP)

Rio Tinto Procurement recognises China's potential as a strategic partner as growth in China's economy continues to underpin expansion in Rio Tinto's Australian operations. A Free Trade Agreement (FTA) would provide Rio Tinto's operations with access to high quality products and will be an important component in overcoming supply shortages and the lack of competition for inputs in the Australian market.

In the absence of an FTA there is a likelihood of sporadic trade protection actions being initiated in Australia. Rio Tinto would be concerned if Australia's commodity exports to China were ever threatened by trade retaliation initiated by the Chinese because of protectionist actions in Australia.

7.1 History of RTP Involvement in China

Rio Tinto Procurement (RTP) views China as one of Rio Tinto's most strategic customers. In response to this, RTP has been actively exploring opportunities for reciprocal trade with China since 2002. This provides substantial direct benefits in terms of greater depth within the supply pool, but most critically strengthens our broader relationship and protects our iron ore export business. RTP sees a number of benefits from closer economic ties with China through an FTA.

7.2 Reducing Single Source/Restricted Market Risk

Rio Tinto's Australian operations are, by and large, in an expansion phase. Overall growth in the mining industry in Australia has created shortages in critical supply inputs and longer lead times. A FTA will allow greater access to Chinese products, thereby reducing operational risk - for example, domestic shortages in the supply of ammonium nitrate in 2003/04 were relieved by imports from China.

7.3 Reciprocal Trade/Back Load Opportunities and Antidumping

Brazil and India are implementing reciprocal trade agreements with China and Australia needs to do likewise to maintain its competitiveness. Rio Tinto Shipping and RTP have identified unutilised back load vessels in the Asia Pacific region that could provide transport of Chinese products to Rio Tinto's Australian operations. The freight savings would be significant and this could further enhance opportunities for reciprocal trade.

The opportunities for reciprocal trade between China and Australia will be threatened, however, if domestic industries in Australia continue to mount anti-dumping actions against Chinese products. Trade delegations from Brazil, India and South Africa have already commenced discussions with China on long-term reciprocal trade agreements. Australia needs to ensure that its competitive position is not disadvantaged by protectionist actions and lack of progress in FTA negotiations.

8. Rio Tinto Aluminium (Comalco)

Comalco is a supplier of bauxite, alumina and primary aluminium to Australia, New Zealand and export markets. It is a wholly owned subsidiary of Rio Tinto and provides about 20% of Australia's total production of bauxite, 8% of its alumina and 24% of its primary aluminium. It is the world's eighth largest aluminium company.

China is a major importer of Australian alumina. China imports its alumina under "tolling" contracts (under which the user obtains PRC Government approval to import alumina for the purposes of conversion and re-export of aluminium metal) or by an import licence. The Ministry of Commerce issues both tolling contracts and import licences. The concept of an import licence was introduced as an "interim measure" in 2002 to assist with regulating alumina imports.

With the recent "soft-landing" initiatives in China, the Ministry of Commerce has acted to severely restrict import approvals under the "tolling book" process. The ability to obtain alumina import licences has been restricted to eight major buyers, which include Chalco (a monopoly PRC alumina producer), MinMetals and six large independent smelters. The independent smelters represent about 20% of independent smelter capacity.

The severe restrictions on tolling and the restrictions on import licences are causing a constraint on Australia's alumina trade. Comalco has smelter customers that have finance (despite the credit squeeze), who claim to need alumina and have a desire to import - but sales cannot be completed because of lack of "tolling" book approval and/or import licences.

9. Rio Tinto Mining and Exploration

The World Bank recently described China's mining industry as being characterised by low efficiency, poor safety standards, poor environmental standards and low social standards. Foreign Direct Investment (FDI) in the Chinese industry can help improve these standards. In exploration, FDI can help introduce new exploration techniques, transfer technology and apply both knowledge and experience gained at a global level. There is an opportunity for Australian mining companies to contribute to higher standards in China, however, a number of impediments to FDI persist.

9.1 Security of conjunctive rights from exploration to mining

Article 6 of China's Minerals Resources Law states that the exploration rights holder has the "privileged priority" to become the holder of mining rights in an exploration area. This protection for exploration rights holders needs to be strengthened. However, such reform involves more than just changes to the wording in Article 6. If a foreign company discovers a valuable resource in China, then it needs to be confident of receiving the mining licences and all approvals necessary to allow it to mine that deposit lawfully. This requires more transparency in the current project approval process. Each required approval must be known and the conditions to obtain that approval must be clear. There should be little administrative discretion in granting approvals where the published criteria have been met. In Australia there is a strong judicial and administrative review process which gives investors confidence that approvals will be granted on the merits of an application.

9.2 Approvals Process

The approvals system was developed for manufacturing projects. In mining, we apply for approvals to explore but there is a low probability that an exploration project will lead to a mining investment. Most greenfields exploration projects are unsuccessful. However, if a company has completed a detailed Western style Pre-feasibility Study (costing several million dollars), then it is much more likely to proceed to the mining phase. Rio Tinto suggests that all State Government Approvals for FDI should be given before commencement of a Pre-feasibility study. This is still around 2-4 years before a mine will commence construction, but the early approvals will give investors much greater confidence to spend the high risk capital required to assess fully the feasibility of the mining investment.

More transparency and a shorter time frame to grant approvals will also attract more FDI in mining in China. The same process must be followed in all parts of China.

9.3 Wholly Foreign Owned Enterprises (WFOEs)

A limited number of exploration and mining companies have recently been granted business licences for WFOEs. This is an exciting development for all foreign investors because a WFOE is ideal for early stage exploration. Foreign companies are currently forced into full-scale incorporated joint ventures far too early - at the first stage of reconnaissance exploration. This costs unnecessary time and expense. Using a single WFOE to apply for and hold a number of exploration licences should eliminate the time and costs in establishing joint ventures. This approach is appropriate because, at this early stage, the likelihood of proceeding to develop a high quality mineral discovery is very low.

A WFOE should be entitled to hold Exploration Licences anywhere in China and should be granted Qualified Explorer Status. There is currently no precedent for a WFOE to hold a China-wide business scope, and it is not clear whether a WFOE could hold exploration licences anywhere in China. Granting the WFOE Qualified Explorer status would also reduce its reliance on local third party exploration contractors. A streamlined WFOE approvals process would help attract much more FDI to China's exploration industry and reduce the burden of approving full joint ventures for early stage exploration.

If a WFOE-held exploration project is successful, it is likely that the foreign owner of the WFOE will want to introduce a Chinese partner to a project for the mining stage. It is possible to change the status of an exploration WFOE into a Joint Venture but tax and title transfer issues may arise in respect of the other exploration licences held by the WFOE.

It would be useful if changing the FDI catalogue could be reviewed as part of the revision of the Mineral Resources Law in order to widen the areas for a WFOE to explore in China even if some restrictions remain on mining with a Chinese partner.

9.4 Encouraged and Restricted Activities

There has been some discussion of tighter restrictions on exploration and mining for gold in China. This would cause a major reduction in FDI in the exploration and mining industry.

It is unclear what is meant by "Special Coals" in the restricted activity list. If this applies to a range of coking coals and anthracites, foreign companies need to know in advance before committing funds and effort to ventures involving these commodities. Clarification of the commodity classes would assist.

Rumours of tighter restrictions on certain commodities after foreign companies have made major commitments in those commodities can destabilise FDI in China's mining sector. There is a need for a well-defined and transparent process that provides certainty for investors over time.

9.5 Taxation of the exploration and mining industry

It would be useful if revision of the mining laws in China encompassed the following tax issues-

- Indefinite carry forward of tax losses for mining projects.
- Ability to amortise exploration costs against mining revenue.
- More flexible depreciation policies.
- Deductions for all exploration expenses (even before issue of EL).
- Transfer of losses between group companies.
- The Resource Tax duplicates the Mineral Resource Compensation Tax.

9.6 Access to good projects

The World Bank's 2003 China Mining Report said "most properties are controlled by government entities, leaving few opportunities for private investors." At provincial level, some promising mineral projects are unavailable to foreign exploration companies. Successful projects are the key to more FDI in China's mining industry and a provision for FDI participation will enable this.

9.7 Transparency of the Tenement System

Tenement information is unavailable in some provinces and is usually difficult to access in others. Data are seldom available at short notice. Delays occur in establishing mineral title locations, title owner and title validity. Streamlining of tenement management systems would be of great value to the exploration industry. In Australia, for example, these data are updated daily and are available online.

Accuracy of tenement records remains an ongoing issue. Errors in recording of mineral licence locations are fairly common. These can cause long delays in applying for adjacent titles. Further, slow access to tenement information delays exploration projects.

9.8 Access to Data

Regulations on Administration of Geological Data became effective on 1 July 2002. These regulations are a good concept for collection, storage and release of geological information to the public but it is still too early to see any major impact. In practice, data are still not easily available and in any given Province, data are distributed among a large number of current and former Exploration Brigades and entities. Exploration data are not shared among the various authorities and need to be collated from numerous sources. This problem is not easily solved and in future it will still be necessary to approach a range of provincial agencies in order to collate all exploration data on a particular district or region. Centralising this brigade scale information involves removing the leverage these separate agencies have to deal with foreign companies and thereby threatening their survival.

Foreign investors must either pay for data or enter into some form of exploration agreement with a range of Chinese agencies holding exploration data. Regional geophysical data are held by a government agency that sells such data at a reasonable cost. However, having negotiated an exploration agreement over a region, it is often necessary to incur further substantial costs by purchasing required geophysical data from this agency.

9.9 National Security Laws

Foreign companies need firm guidelines to prevent potential infringement of these laws when conducting exploration in China. Many foreign companies use overseas experts to review geological data as part of the evaluation process.

Access to topographic data is fundamental to all exploration projects but restrictions still apply in China. Geological plans at 1:50K scale are restricted because they show topographic contours, not because the detailed geology is sensitive information. Digital Terrain Models for China are available from external agencies at high resolution using remote sensing, so topographic data can be sourced outside China in any case.

9.10 Auction and Bidding Process

Auction and bidding is a process, which is not favoured by most international mining companies for obtaining exploration title. New laws should include the granting of exclusive rights to companies who wish to conduct reconnaissance exploration over large areas. The auction and bidding procedure in some provinces is also affecting the small-scale explorers and miners adversely.

9.11 Administration of laws and regulations

Projects are approved very much on a 'case by case' basis leading to a lack of useful precedents. More uniformity and stability in the criteria for approving minerals projects will lead to a much more stable investment regime.

Statutory periods for issuance of licences also create uncertainty. Time limits set out in the regulations are not strictly followed and delays in having licences issued commonly result.

In most provinces, access to current title maps is not readily available and more transparency is required in this area. In Australia, such licence data are available from State Mines Departments online.

Provincial, prefecture, county and municipal bodies may interpret aspects of the Mineral Resource Law differently and some high level guidance is necessary to standardise administration of the law and its regulations and make it consistent across the country.

Much stricter safety, environmental and sustainable development laws and regulations need to be applied to mining in China, particularly small-scale mining. The government has taken serious steps to close a large number of unsafe mining operations and this is an encouraging trend.

10. Conclusion

China's economic growth and development has been important to Rio Tinto and the robustness of China's future growth will be closely watched. In April 2005, Rio Tinto and the Australian National University (ANU) entered into a strategic partnership to enhance Rio Tinto's understanding of long-term developments in China. This partnership will not only deepen Rio Tinto's knowledge of the Chinese economy, it will also increase the capacity of the ANU and strengthen Australia's research and teaching on the Chinese economy.