

Free trade deal opens possibilities for greater Chinese investment in Australian rare earths sector

✘ China and Australia, after years of negotiations, have reached a free trade agreement (FTA) after the G20 meeting in Brisbane on the occasion of the visit to Australia by Chinese President Xi Jinping. The FTA further strengthens already deep economic relations between the two countries. The agreement allows for pricing changes that will benefit farmers, growers and other service companies in Australia while allowing Beijing greater investment access in Australian companies and its workers easier access to the labor market. Australian agricultural products such as rice, milk and dairy products, wool, cotton, and 40 services including health, social security and legal services will be the first to benefit. Meanwhile, Chinese enterprises will be able to invest one billion Australian dollars up from the previous ceiling of AUD\$ 248 million – agricultural land remains the exception with a threshold of AUD\$ 515 million. The Australian Trade Minister, Andrew Robb, on the sidelines of the press said that once fully operational the agreement will include 99.9% of Australian exports.

China is already the most important trading partner for many economies in the Asia-Pacific and swallows up their raw materials. In the case of Australia, there are immense quantities of iron ore and coal and even rare earths of course. Last year, China took on nearly 40 percent of all Australian exports, particularly natural resources. This makes China the largest trading partner of the resource-rich nation. The volume of Australian exports of goods and services toward China has surpassed the AUD\$ 100 billion mark in 2013

according to the Australian Bureau of Statistics. Therefore, China now accounts for nearly a third of the volume of Australian exports of goods and services and accounts for a much larger slice of that trade than the next highest countries including runner-up Japan (AUD\$ 50 billion), South Korea (AUD\$ 21 billion), the United States (AUD\$ 16 billion) and India (AUD\$ 11 billion). Moreover, also in 2013, the volume of trade in both directions between the two countries reached AUD\$ 151 billion or 20 percent more than 2012.

Australia and India are targeting a similar agreement, designed to spur trade between the two countries, which in both cases will be helping Australian exporters of mining products, thanks to the immediate reduction of tariffs on copper, zinc, and the majority of aluminum based products. Ironically, the Australian Government's hope is for the free trade deal to open up new economic sectors, as a means to reduce its dependence on the mining sector, and 'green tech' in particular. In this respect Australian and Chinese companies have already secured important partnerships. Arafura Resources ('Arafura', ASX: ARU) is one of Australia's fastest-growing rare earths developers and it has secured Chinese technological and financial backing for its Nolans Rare Earths Project. The Nolans Rare Earths Project, a world-class rare earths resource grading 2.6% rare earth oxides ("REO") according to Arafura's 'Nolans Development Report (NDR)'.

Chinese magnet producers are very interested in Arafura's Nolan Project, which is not surprising given its (20%) neodymium and praseodymium content – two of the main materials used to make magnets. Given China's dominant position in the rare earths sector, is a very welcome and surprising prospect. Arafura's uniqueness stems from the composition of its resource, which as stated above, features 25-26% magnet feed materials, accounting by themselves to some 70-77% of its potential revenues. The growth in demand growth for NdPr Oxide is expected to lead to supply shortages in the next decade,

prompting a faster price appreciation than other rare earths. Arafura has worked closely with Chinese experts to accelerate the path to production and de-risk the Project. The East China Mineral Exploration and Development Bureau (ECE) has helped Arafura achieve project optimization thanks to a careful and review of capital and operating costs, which will maximize the savings achieved thanks to an ambitious cost cutting plan. ECE holds a strategic equity holding of 24.86% in Arafura, enabling Arafura to avoid having to dilute the share price while continuing to work on its own innovative rare earth extraction process. The much higher investment threshold for Chinese Companies also open up possibilities for Chinese investment in Lynas Corp (ASX: LYC). Chinese rare earth producers would gain from Lynas's highly advanced and environmentally superior processing facility. In the past, Australian politics have interfered in a deal involving China, Lynas and/or the Mt. Weld rare earth mines.

There had been some concerns over the status of Australian-Chinese relations and their potential deterioration. While, military and international diplomatic cooperation has suffered over Prime Minister Tony Abbott's stance against China's ally Russia, economic cooperation is actually flourishing. Beijing is currently doing its best to challenge the influence of the United States in the Asia-Pacific region and aims to establish itself as Asia's dominant economic and military power. The Free-Trade deal with Australia (that reached an impasse lasting almost a decade because of some contentious issues) will accelerate this strategic objective. Australia remains a close political and military ally of the US, but the growing wealth of the Chinese people, makes China an increasingly important engine for economic growth in Australia. China's demand for raw materials actually managed to prevent Australia from experiencing a recession in the wake of the 2008 global financial crisis.