

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,

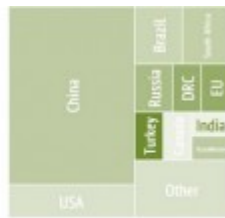
prompting a faster price appreciation than other rare earths. Arafura has worked closely with Chinese experts to accelerate the path to production and de-risk the Project. The East China Mineral Exploration and Development Bureau (ECE) has helped Arafura achieve project optimization thanks to a careful 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.

30 million jobs in Europe depend on access to raw materials



World primary supply of the
54 candidate raw materials



World primary supply of the
20 critical raw materials

The European Union (EU) has published a document, the Raw Materials Initiative, outlining the importance of raw materials to its economy in view of rising concern over access to specific

raw materials needed to match current and future technological development. The EU considers the availability and supply of raw materials to be an important risk to Europe's economy.

About 30 million jobs in Europe depend on access to raw materials. The High Level Steering Group of the European Innovation Partnership (EIP) on raw materials has presented a strategic plan to ensure a stable supply of raw materials. The EIP aims to reduce dependence on imports of raw materials, improving the conditions of supply from within Europe itself and from countries beyond the Union. The EIP have considered both resource efficiency and access to reliable alternative sources, given the extent of the risk.

The development of countries like China, Brazil, India, Turkey, Mexico, or Indonesia has generated a shift in the global economic map thanks to the rise of so called "South-South" cooperation, highlighted by the need to extend the concept of the G8 to the G20 – that is to say between developing countries rather than simply between the rich North and the poorer South. The institutionalization of the BRICS (Brazil, Russia, India, China and South Africa) is perhaps the most startling example of this phenomenon. Of course, Europe

and the United States remain pillars of global technology, trade and finance but they are no longer the sole or even main pillars as was the might have been the case in the 1950's or 60s. In the past two decades, in fact, the economic tides have substantially and permanently changed the international map of supply and demand for raw materials. Raw materials are essential.

In Europe, the construction, chemical, automotive, aerospace, machinery and equipment sectors – all evidently reliant on raw materials produce in excess of 1.4 trillion in value and create employment for some 30 million people: access to raw material is critical on multiple levels. Emerging G-20 or BRICS or aspiring BRICS are also trying to secure access to more raw materials. The race, as stated by the EU Commission caused a “tripling of metal prices between 2002 and 2008”. China, in particular, accounted for over 50% of the increase in global consumption of industrial metals between 2002 and 2005.

Beyond this overall increase in demand, changes in technology have given some natural resources a new strategic importance. For example, rare earths are now essential to many “green” technologies. Tantalum is widely used in the electronics industry. Cobalt is used in lithium ion batteries as is graphite; germanium is found in fiber optics while indium is used in photovoltaic cells. Indium is also needed in the growing field of haptic technology – technology related to the ‘sense of touch’ and frequent in aerospace, displays, video games, controls and a growing list of applications. Such minerals, their rarity, their uneven geographical distribution or concentration of their production chain represent a challenge to the increasing importance for global economies. The emphasis on resource security, will force Europe to shift to the forefront in the fields of raw materials even while mitigating the negative impact on the environment and society. The growing demand for unprocessed metals and the consequent

difficulties in access to raw materials are the foundation of the Strategic Implementation Plan (SIP – Strategic Implementation Plan). The challenge, should it succeed, will turn Europe into a world leader in the field of exploration, extraction, processing, recycling and substitution of raw materials by 2020.

How does the EU plan to achieve this? Research, development of new technologies , recovery and recycling of waste and identification of alternative materials , in line with the objectives of 'Horizon 2020', the EU's main instrument for funding research over the next seven years 2014-2020. Raw materials are the lifeblood sustaining the EU's industrial sector. At least 30 million jobs in Europe depend on access to raw materials and there has been an increase in demand for minerals and metals, accompanied by significant difficulties in the supply of certain raw materials, such as price volatility and market distortions – i.e. China's rare earth export restrictions. The EU has asked its companies, researchers and NGOs to promote technological innovation and non-technological innovation in the value chain of raw materials in Europe and beyond. The group of possible actions includes a wide range of initiatives such as new concepts and technologies for exploration efficient in terms of costs and identifying alternatives for critical raw materials.

The EU plans to launch up to ten specific pilot projects aimed at promoting the technologies for the production of primary and secondary raw materials as well as identifying alternatives for at least three applications of essential raw materials. In a separate aspect the SIP will also sponsor efforts to improve processing and waste management technology to make mining and recovering critical materials more socially and environmentally acceptable.

Image Source: <http://europa.eu>