

> FACT SHEET - THE AUSTRALIA CHINA MINERALS TRADE

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THE CASE FOR A FREE TRADE AGREEMENT

How important is the Chinese market for Australian minerals exports?

China is already one of the Australian minerals sector's most important markets, and was worth nearly \$4.5 billion in 2004. Minerals exports currently account for 60 per cent of Australia's total exports to China, with minerals and energy exports accounting for 7 of Australia's top 10 merchandise exports to China. Since 1995, minerals exports to China have grown by a massive 470 per cent.

This expansion continued in 2004:

- > iron ore exports to China grew by 41 per cent to reach \$2.4 billion and overtake Japan as the world's largest iron ore importer; and
- > coal exports surged by 72 per cent to \$417 million, nickel exports grew by 88 per cent to \$142 million, copper sales expanded by 35 per cent to \$156 million and sales of aluminium grew by 26 per cent to approximately \$1.2 billion.

How big is China's thirst for minerals imports?

China accounts for 4 per cent of global GDP, but 16 per cent of the world's metal consumption. China is the:

- > largest consumer of copper, tin, zinc, steel, iron ore and coal;
- > second largest consumer of aluminium, petroleum and lead;
- > third largest consumer of nickel; and
- > the fourth largest user of gold.

China's iron ore imports increased *10 fold* between 1990 and 2003 from 14 million tonnes to more than 200 million tonnes.

- > China now consumes 35 per cent of the world's iron ore; and
- > produces more steel than the US and Japan combined, and yet still imported 40 million tonnes last year.

China's imports of alumina have increased 5 and a half times over the last decade.

China has large minerals reserves itself. Will China's demand for imported minerals continue?

China has large reserves of some minerals, including 54 per cent of world manganese reserves, 23 per cent of lead reserves, 22 per cent of silver reserves, 12 per cent of coal reserves, 11 per cent of vanadium reserves, and 6 per cent of copper reserves.

- > China is very dependent upon commodity imports, with China's imports of minerals commodities topping \$US140 billion last year.

What complementarity is there between China's resources needs and Australia's minerals reserves?

Australia and China are a natural strategic fit. Australia is the third largest minerals sector by value of production of any country (after the US and South Africa). It is:

- > the world's largest global producer of bauxite, alumina, diamonds [by volume], ilmenite, rutile and zircon;
- > second largest producer of zinc ore (after China);
- > third largest producer of iron ore (after China and Brazil), nickel (after the Russian Federation and Canada) and gold (after South Africa and the US);
- > the fifth largest producer of aluminium (after the US, Russian Federation, China and Canada) and coal (after China, US, India and former Soviet Union); and
- > the world's largest resources of uranium - 23% of world production.



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How has the Australian minerals sector responded to the opportunities provided by the Chinese market?

Investment in additional production capacities, is expected to increase by 60 per cent in 2004/05, to \$8.2 billion from \$5.1 billion:

- > there are 43 minerals projects at an advanced stage - either committed or under construction, with total estimated investment of around \$13.6 billion; and
- > spending on related infrastructure projects has increased by 50 per cent since 1997.

What are the prospects for increased two-way investment in the resources sector?

The existing investment relationship is modest, but growing. China is Australia's 18th largest investment destination with \$1.2 billion. Australia is China's 14th largest investment destination with \$2.2 billion in Chinese investment, primarily in the resources and property sectors:

- > as at June 2003, 15 Chinese resources and mining companies had invested a total of \$328 million in Australian projects; and
- > this reflects the fact that China is increasing its investment in minerals production abroad, with more than 52 per cent of Chinese outward FDI destined for minerals and energy ventures.

China has considerable potential for investment from Australian producers.

- > the International Energy Agency projects that 34.4 per cent of the world's coal mining investment over the next 20 years will be in China; and
- > if existing barriers can be addressed,(see below), there are many other opportunities as well in energy, base and precious metals.

How an Australia/China free trade agreement expand the bilateral minerals trade?

On market access, the FTA should eliminate or reduce the remaining tariffs on imported minerals including;

- > 5.5 per cent on manganese;
- > 3 per cent on zinc;
- > 3 to 6 per cent on coal;
- > 3 to 6 per cent on various copper products;
- > 7 per cent on aluminium alloys;
- > 3 per cent on lead; and
- > 3 to 4 per cent on unwrought nickel.

Will a Free Trade Agreement (FTA) provide better access for providers of mining services and related technologies?

A key goal of the FTA should be to reduce the barriers to providers of mining related services

- > the value of Australian exports of mining technology services globally is expected to reach \$1.24 billion in 2004/5; and
- > 60 per cent of the world's mining software is written in Australia.

Despite its massive domestic mining sector, China remains largely off-limits to Australian providers of mining technology services. This is underlined by the fact that Australian exports of mining technology services to China amounted to only \$90 million last year, less than one-third of Australian exports of similar technology services to Indonesia.

In addition to the array of restrictions governing companies' investment and operations in China, the attraction of the Chinese market for mining technology services is heavily compromised by the lack of rigorous and effective intellectual property protection.

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What are the so-called 'post border' measures that the minerals sector wants addressed in the FTA ?

The respected Fraser Institute study of the global mining industry (www.fraserinstitute.ca) released in March 2005 showed that China's 'minerals policy index' is continuing to improve.

But problems still remain, including:

- > confusion over the status of tenements or exploration rights;
- > long delays in approvals for projects;
- > difficulty in securing exploration qualifications which are essential to obtain exploration licences;
- > unwieldy corporate law requirements;
- > access to infrastructure; and
- > very limited geological data.

The FTA should remove or reduce restrictions on foreign investors by:

- > liberalising domestic trading, and import and export rights for foreign companies;
- > improving access to, and certainty in, exploration and the right to mine;
- > providing for national treatment – non discrimination against foreign companies that must meet local content requirements;
- > removing restrictions on exploration and production for minerals and ore grades; and
- > harmonising tax incentives, including by developing a double tax treaty and providing for grouping of tax losses, especially exploration.

Will the FTA also promote technical co-operation between the Australian and Chinese minerals industries?

The Minerals Council of Australia (MCA) sees the FTA providing a useful umbrella for a closer technical co-operation, especially in the promotion and application of sustainable development practices:

- > our Chinese counterparts have already expressed considerable interest in our concept of our 'social licence to operate'; and
- > it's a concept which goes beyond simple regulatory approvals but recognises that minerals operations are not sustainable if they don't have the support of their communities at the local, regional and national level.

In practical terms, some areas ripe for such co-operation include:

- > mine safety practices and technology;
- > leading environmental practice and technologies; and
- > clean coal technologies.