

Mining and Minerals: Chinalco - "we don't want control of Rio Tinto"

A Aluminium Corp. of China spokesman has told a public meeting in Australia that the AUD30,000 million it wants to inject into Rio Tinto is not to take control, nor to distort the market.

Chinalco is not a sovereign wealth fund, but it is 100% owned by the Chinese government. However, its recently appointed "President," **Xiong Weiping, said yesterday that his brief from the government is simple: run the company like a fully independent commercial concern.**

That sounds fine, except for one slight wrinkle: while many governments are pumping money into businesses to keep them afloat, the Chinese government, still sitting on economic growth that all other countries envy despite significant reduction from its high, has an enormous cash pile and state-owned-enterprises (SOEs) are being flooded with cash and told to go out and buy strategic purchases all over the world. Xiong's predecessor, Xiao Yaqing, was quoted in Xinhau last month as saying that the money for the Rio Tinto deal would come from two of China's biggest banks: China Development Bank and Export-Import Bank of China. But those two banks are said to be being restructured by the government with a view to being floated. At present, both are fully state owned. So, indirectly at least, the money is government money.

One of the fetters on China's recent growth spurt was the question of supply of essential minerals. Many came from Australia but as prices rose, China feared for its continued expansion. And as prices rose, so the price of shares in minerals companies rose, too.

But what a difference a year makes. With commodity prices dramatically down from those of just three quarters ago, Rio Tinto looks affordable. With a mix of share purchase and bonds, there are fears that Chinalco will seek to secure its own supplies, and at favourable prices. Existing shareholders and some in the Australian government fear that this will lead to market distortions, and to reduced profit if (when?) commodity prices go back up. But Chinalco is already Rio Tinto's biggest shareholder with a little over 9%. It is clear that it does not intend to try to mount a full takeover bid, and that it does not seek executive control.