

## **UWA 'In the Zone' conference speech - Peter Lee**

**9 November 2009**

### **Introduction**

Good afternoon ladies and gentlemen. My name is Peter Lee.

It is a pleasure to be here today presenting at such a prestigious gathering. Congratulations to the organisers of the 'In the Zone' conference.

The year 2009 has been an eventful period in Australian-Chinese relations. It is therefore a very timely opportunity for a discussion on our two countries' relationship and the mutual benefits derived from our relationship.

I am deputy managing director of CITIC Pacific, a company with diverse business interests including being China's biggest specialty steel maker.

I am also a director of CITIC Pacific's Sino Iron Project – a massive magnetite iron ore project under construction at Cape Preston about 100 kilometres south west of Karratha.

The project represents China's largest magnetite iron ore investment in Australia and the largest magnetite mining and processing operation under construction in Australia.

Once complete, the Sino Iron Project will become the first 100 percent Chinese-invested mining company to ship iron ore products from WA to China.

Our goal in pursuing the Sino Iron Project has been to work in partnership with Australia to meet China's great demand for high quality steel through a reliable source of high quality iron ore. The products from the Sino Iron Ore Project will not only be used in CITIC Pacific's three special steel mills in China, but also in other Chinese steel mills.

### **The benefits of Chinese investment**

Although we are new to Australia and the Australian mining industry, our parent company CITIC Group and CITIC Pacific has a long history of successfully operating in mainland China, Hong Kong and in many other countries.

Our project is also 20 percent owned by MCC - China Metallurgical Group Corporation – which is our lead construction contractor and one of the world's top 500 companies.

Despite our project being relatively new, we have achieved a great deal in a short time. This is owed largely to the strong Chinese-Australian partnership behind the project.

I believe the story of our Sino Iron project illustrates the benefits of Chinese investment.

Although Chinese economic growth has moderated, there is absolutely no doubt that the economic expansion of China will continue.

China's massive industrialisation and urbanisation has seen it reach out to many countries including Australia via a policy of 'go global' to obtain the resources it needs to fuel this massive growth.

This is a natural step in the development of an expanding economy that has traditionally been relatively poor.

China's development demands have seen it make its largest individual foreign investments in the resources sector.

The impact this has had in helping fuel Australia's resources industry is clear.

China needs to undertake overseas investment for the purpose of a reliable long-term supply of resources.

At the same time, Australia needs this investment to occur to help sustain long-term economic growth.

International investment comes from a myriad of sources. But in my view, Chinese investment, at this time, delivers the best outcome to Australians and is the most suited to the Australian context.

There is significant interest from Australian industries in seeking Chinese investment.

And there are clear advantages in this Chinese investment for Australia.

Firstly, unlike much of the developed world in the wake of the global financial crisis, China is well and truly 'open for business'.

While international investors face major challenges securing finance, Chinese funding is available.

Further, international investment often requires bankable feasibility guarantees which has typically drawn out the investment process.

Chinese projects have more flexibility to get development projects underway, for example, undertaking engineering and design work and spending substantial amounts, while obtaining project approvals in parallel.

I would like to share with you the experience of the Sino Iron project.

I also want to discuss the far-reaching benefits this investment is bringing to both Australia and China - benefits in areas as diverse as employment and infrastructure development to technology transfer and the environment.

### **Sino Iron project – full development**

As I touched on, the Sino Iron project is the largest single Chinese investment in a new resources project in Australia, with a capital cost investment of about \$5 billion.

Planning work for the project started in March 2006 and since then we have achieved Foreign Investment Review Board approvals as well as environmental, heritage, mining and State Agreement Act approvals. Actual construction on the Sino Iron project began in mid-2008.

The project is now working at full speed to achieve first production by the fourth quarter of 2010.

Once complete it will produce about 28 million tonnes of concentrate and pellets each year for 25 years.

A project this big requires a major infrastructure investment in the Pilbara region, the state of Western Australia and the Australian nation.

In addition to a massive open pit mine, we are developing a state-of-the-art magnetite concentrator, a 25km slurry pipeline and pellet plant.

We are building a huge, low-emission, combined-cycle gas-fired power station. At 450 megawatts, it is equivalent to the current generation capacity servicing the mining and residential power needs of the entire Pilbara.

Construction of the power station has underwritten development of the new \$600 million Reindeer gas field which will result in a new domestic gas hub for Western Australia, with about 40 per cent of the plant capacity to be made available to other domestic gas customers.

The project includes a 51-gigalitre desalination plant to serve our water needs without drawing on the region's precious groundwater. This plant is about as big as the Kwinana desalination plant here in Perth.

To export the Magnetite, we are building a port and transshipment facility – the first port to be built in the Pilbara in decades.

Significantly and uniquely, the Sino Iron Project will undertake downstream processing of the magnetite resource in Australia prior to export which will magnify the benefits to the nation.

On the employment front, construction of the project will create about 4,500 jobs and about 600 plus permanent positions at site once the operation is up and running. This is on top of the 250 positions currently engaged at corporate level.

There are significant benefits for the local business community. The project has committed to source 70 percent of goods and services within Australia over the life of project. This will contribute about A\$75 billion in export income and more than A\$3 billion in royalties to the State over the life of the project.

So far we have engaged more than 100 local companies from around the Karratha, Dampier, and Hedland areas in delivering the project.

In addition to about 95 percent of project contracts already awarded, we'll soon be awarding others to a value of more than A\$220 million dollars.

The regional community will benefit from an estimated in council rates to be paid over 25 years to the Shire of Roebourne.

Our project provides jobs and services to the local community because of its geographic location.

The Sino Iron project adjoins the iconic 220,000 hectare Mardie Station. The Station, established in 1865, continues under the management of the Sino Iron project as a working station with more than 8,000 head of cattle.

Similarly, we also operate the Fortescue Roadhouse, a welcome stop for visitors needing fuel and supplies for their journeys. These examples show how a company, whether foreign or not, can maintain and enhance local business ventures and practices which result in a win-win outcome.

There are other environmental and social initiatives that will benefit from a \$400 million direct contribution the company will make in a range of areas.

The focus of many of our social initiatives are directly linked to the local indigenous groups in the Cape Preston area.

We continue to work with these traditional owners and together, we are implementing training, employment, business and community development programs.

Already, nearly 40 indigenous people are in stable permanent employment on our site in a range of roles.

We run a Work Ready program in partnership with the Roebourne TAFE which promises a guaranteed job on graduation. Earlier this year, our first Work Ready group successfully completed the program and started work for the Sino iron project.

We are involved in a three-year partnership with the Clontarf Foundation for its new program in Roebourne in the Pilbara region.

The Foundation exists to improve the discipline, life-skills and self-esteem of young Aboriginal men and by doing so equip them to participate in society in a meaningful way. The outcomes are achieved through the medium of Australian Rules Football.

In addition, our project is partnering with Curtin University in a special community study involving our Traditional Owner groups.

This unique study involves working with traditional owners to develop community survey tools and techniques and then supporting them to undertake their own interviews within their family groups.

By doing this, we will help identify their future needs and aspirations so we can work in partnership to strengthen their communities through projects and enterprises they have identified themselves.

Again, we see the importance of providing additional benefits to the community, just as any Australian company may seek to do.

Some benefits aren't as tangible.

Consider those brought by innovation and technology transfer.

Australia, as the world's second biggest producer of iron ore, has experience in mining on a massive scale, and has been responsible for much global progress in innovation, industrial mining and processing. However, the prolific occurrence of hematite iron ore in Australia has left magnetite in the background, which is much more costly to produce.

In contrast, China has been mining and processing magnetite iron ore for decades, and has built up a wealth of knowledge, expertise and technology in this area.

By working together, this project is witnessing the transfer to Australia of China's magnetite mining and processing technology and expertise.

The technology and expertise is coming together to ensure a high-quality concentrate product that will be strongly welcomed by Chinese customers.

The high-quality nature of this product also carries significant environmental benefits compared to hematite, with significant energy savings in the iron making and steel making process.

By using magnetite iron ore to feed its steel mills, China is – relative to hematite ores - reducing the global carbon footprint of steel making.

For a country with such enormous energy requirements, this is extremely significant.

It is important the environmental credentials of magnetite are recognized, especially in the light of the Australian government's proposed Carbon Pollution reduction Scheme.

For this reason we have joined with other Western Australian iron ore companies to form the Magnetite Network or 'MagNet' to ensure any carbon scheme doesn't adversely affect this lower carbon-producing feedstock.

The estimated CAPEX for development of Magnet's foundation members' projects stands at almost A\$10 billion.

China's demand for high-quality magnetite will continue to drive this emerging magnetite industry in WA.

### **Chinese investment**

Ours is just one example of the positive wide-ranging effect Chinese investment can have for Australia and Australians.

It brings significant benefits to not only Australia, but Australians, boosting national prosperity, economic growth and living standards.

Despite this, there are those who express unease with China's growth.

Research just released by the International think tank, The Lowy Institute, found 42 percent of Australians believed the federal government was allowing the right amount of Chinese foreign investment. However, 50 percent thought the government was allowing too much.

But many Australians would be surprised to learn that compared to traditional foreign investor countries to Australia, how small the weighting of Chinese foreign investment in Australia is.

According to the Department of Foreign Affairs and Trade, at the end of 2008 foreign investment in Australia by China, including Hong Kong, was about \$64 billion.

Of the total amount of foreign investment in Australia, this is about 3.8 percent, putting China (including Hong Kong) at a ranking of number four of foreign investors in Australia.

This foreign investment in Australia is vastly smaller than that of the United Kingdom, which makes up almost 25 percent, or the United States, which makes up about 24 percent.

### **Foreign Investment Review Board reform**

I believe the partnership between Australia and China has been a very successful and mutually beneficial one. But there have been, and remain, some challenges.

There has been some comment in recent weeks about the federal government's changes to laws relating to foreign investment.

The changes reflect the federal government's desire to keep the foreign share of greenfields developments to below 50 percent and in the case of major resources producers, at below 15 percent.

Although this is purported by Canberra to be an 'easing' of foreign review regulations, major mining companies would expect little benefit from the federal government's changes.

The Foreign Investment Review Board regulations appear to cause some confusion in relation to Chinese investment into the Australian resources sector.

The Australia-China Business Council argues Australia has the second most restrictive regulatory framework for foreign investment among all OECD countries, behind only Iceland.

Australia obviously must retain a first-class regulatory regime and a national interest test should clearly be retained for investment applications.

But there seems a need for some more clarity regarding the foreign investment rules and a discussion about the overall review system as we are aware that different conditions have been set for different approvals in the last few weeks.

What about a system more open to market forces? One where the market played a greater role in determining whether U.S., Japanese, Chinese or any other foreign investment was the preferred outcome?

Subject to national interest issues, investment approval decisions made by the Australian government should be based more on commercial grounds and on a timely basis.

For our part, the Sino Iron project has from the very beginning embraced our Australian partnership. We have purposely ensured we have an Australian CEO, Australian head office and a predominantly Australian management team.

In my opinion, the question should be not whether we should have Chinese investment, but how Chinese investment can be attracted.

After all, it is only through our two countries investment and trading relationship that our nations will continue to grow.

It is this same strong, strategic, mutually beneficial partnership that has seen the Australian-Chinese relationship come such a long way in a relatively short time.

Major investments such as the Sino Iron Project are among those that prove just how successful collaboration between China and Australia can be.

I look forward to a continued reciprocal, mutually co-operative and stable relationship for the future.

Thankyou