

# *Resource Nationalism*

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# A complex issue, so let's start here.....

## *'Foreign investment in Australia's mineral sector, with special emphasis on Chinese investment'*

- State-ownership of mineral resources
- Exploration and development of mineral assets in Australia
- China's economic emergence and need for resource security
- Chinese investment in Australian mining companies

# Ownership of Mineral Resources

- **Western Australia:** all minerals existing in their natural form are owned by the State, being held in trust by the Government on behalf of the community
- **Chile:** Constitution (Article 19. 24)
- **South Africa:** Mineral Development Bill: 3.(1)
- **Nigeria:** Decree Nbr. 34, 10th May 1999

# Royalties and taxes – a source of State revenue

- The State derives revenue from:
  - Royalty paid on mineral sales
  - State taxes and other related charges levied on production
  - Income also derived from taxation on other factors of production
- *Advalorem* royalties are the most common form of royalties and are based on the value of the mineral products sold
- State Royalties in effect, represent a fee paid to the State in compensation for the transfer of ownership of the minerals to the buyer
- The State holds legislative authority and is free to adjust tax and royalty rates as it sees fit. The State also has the power and right to expropriate mineral assets as a measure of last resort



# Exploration and mining tenure system

- Title to exploit mineral assets requires mining, prospecting or exploration leases or licences
- These titles provide the right to exploit the minerals
- Exploration and mining titles are a real property right which can be assigned to other parties for a consideration or mortgaged
- This real property right often leads to general misunderstanding regarding ownership of minerals
- Only the right to exploit minerals can be transferred or mortgaged, **ownership cannot**
- In all cases the State retains ownership of the contained minerals on behalf of the people and community

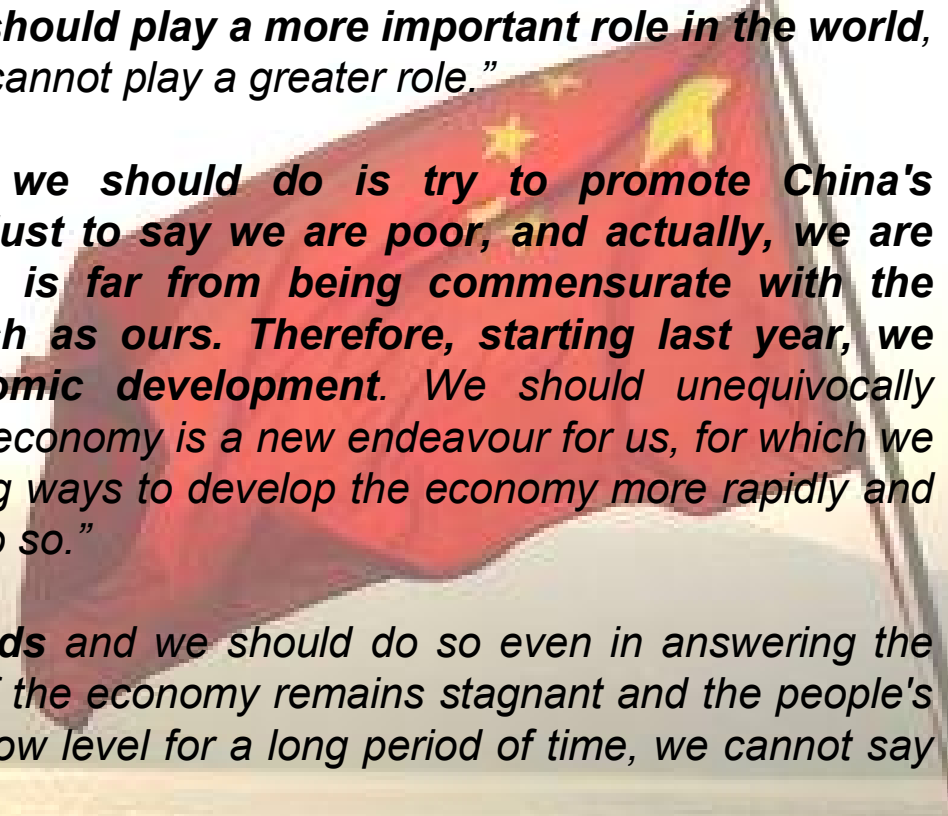


# The China Factor

- The expansion of China's economy has been described as the single most important event in the world economy today
- China's economic emergence represents the greatest shift of power in world history
- China's economic and political influence at the centre of the world affairs is dependent upon the continued growth of its economy
- China does not currently possess sufficient domestic per capita mineral resource abundance to meet the needs of its economic growth



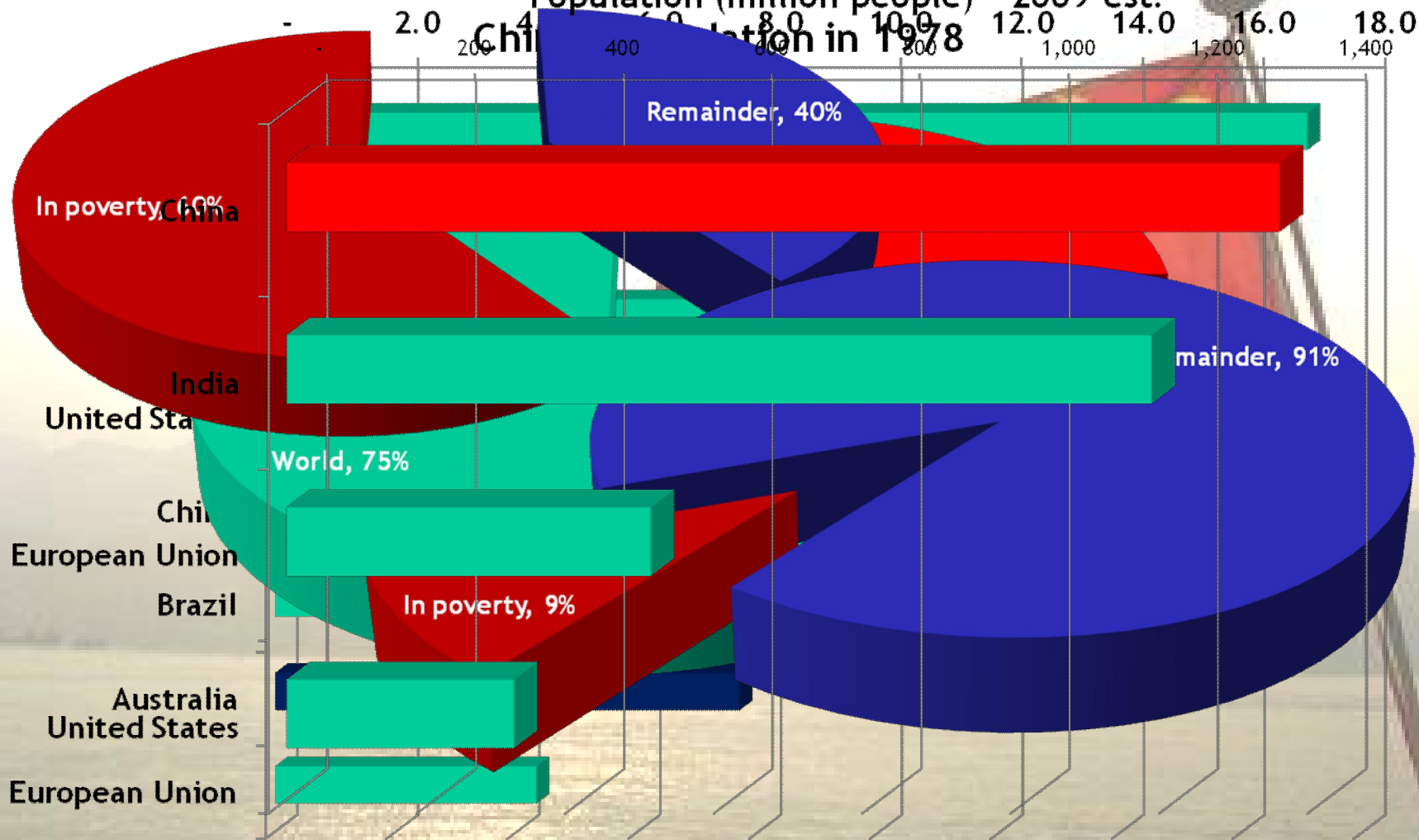
## China's growth sentiment....captured in quote

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- *“Being a large country, China should play a more important role in the world, but owing to its limited strength, it cannot play a greater role.”*
  - *“In the final analysis, what we should do is try to promote China's development. It is not enough just to say we are poor, and actually, we are very poor. Such a status quo is far from being commensurate with the standing of a great nation such as ours. Therefore, starting last year, we shifted our focus onto economic development. We should unequivocally continue to do so. Developing the economy is a new endeavour for us, for which we must pay a price. We are exploring ways to develop the economy more rapidly and we have confidence that we can do so.”*
  - *“We must **emancipate our minds** and we should do so even in answering the question as to what socialism is. If the economy remains stagnant and the people's living standards remain at a very low level for a long period of time, we cannot say that we are building socialism.”*

# China's performance – some staggering statistics

China's population in poverty - 1978

Population (million people) - 2009 est.





***'It doesn't matter if a cat is  
black or white as long  
as it catches mice'***

***Deng Xiaoping***






## Good business

- Massive foreign reserves
- An emerging heavy industrial economy
- Huge dependency on mineral resources
  
- .....to invest in and achieve controlling interests
  
- Large consumers must secure large suppliers

## Chinese characteristics



*“Therefore, while pursuing the policy of opening to the outside world, we must **stick to the principle of relying mainly on our own efforts**, a principle consistently advocated by Chairman Mao Zedong since the founding of our People's Republic.”*

## Some points of caution

- China's capacity to make major investments may distress shareholders and raise fears over disproportional influence
- Such market activity is not necessarily against national interest given the history of similar corporate investment strategies
- It may be equally disingenuous for resource groups to start using nationalist rhetoric in order to advance their own interests

## In the right place at the right time

- Australia is one of the worlds most efficient producers of industrial inputs
- To our north, the largest industrialisation in the economic history of the world is occurring
- Australia is in the right place at the right time, with the right products
- How successful China is in improving the standard of living of 20% of the planets population is a supply side issue

# Engage with the Customer

- It is essential to achieve cultural, historical, economic, and sociological engagement with customers and potential competitors
- Understanding China's evolution is essential to improve our understanding of the challenges it faces
- These aspects of the Chinese economy may well be the engine of world growth for the next two or three decades and the central aspect to future success of the Australian mineral resource sector

## In summary

- The greatest global shift in economic, social and political power the world has ever known is currently underway – it is irreversible
- China's emancipation in considering what socialism is requires an equally pragmatic response
- The primacy of well functioning, robust and broadly inclusive institutions defines our social and political system
- These institutions have the capacity to deliver positive outcomes from mineral commodity demand but must remain inclusive

## In conclusion

- Chinese investment in Australian resources should be encouraged with the following key considerations:
  - Cultural understanding, underpinned by Australia's multicultural population
  - Political awareness of the magnitude of China's economic development and its undeniable implications for world economics
  - Comprehension of the key lessons of history
  - Importance of well resourced, robust, and inclusive institutions to provide checks and balances that are required to achieve positive outcomes