

China eyes stake in world's largest mining firm

China has approached Australian companies to team up for a billion-dollar share raid on giant miner BHP Billiton, news reports said Friday.

A tilt at the world's biggest miner and Australia's largest company would alarm the Canberra government, which earlier this year toughened restrictions on government-owned companies taking strategic stakes in Australian companies.

In February, state-owned Chinalco, in concert with US-based aluminium company Alcoa, took a nine-percent stake in Rio Tinto in what was seen as a bid by Chinalco to block BHP's proposed takeover of Rio.

China worries that a marriage of the world's two biggest mining companies would allow the new entity to jack up prices.

'A firm that owns too many resources is not good for the world,' Chinalco President Xiao Yaqing told Hong Kong's South China Morning Post in an interview earlier this month. 'People do not want to see a company dominate a market in any industry.'

The Australian newspaper said that linking up with an Australian company for a proposed share raid was a way of making it more difficult for Canberra to reject a move on BHP.

The financial services industry company was not named, but the paper said that under the Chinese proposal, the Australian firm could hold its 4.5 percent of BHP for five years before selling out to its Chinese partner for an agreed price.

BHP has proposed a merger with Rio that would create a new entity valued at 400 billion Australian dollars (\$376 billion). Rio is resisting the move.

China has overtaken Japan as Australia's leading trade partner but is increasingly grumpy at the rising costs of importing the coal and iron ore that feed China's steel mills.

Australian producers like BHP and Rio say that Beijing has sought to hold down prices on long-term contracts by keeping them out of China's spot market for resources.

The Chinese allege Australian producers have delayed deliveries to restrict supply and therefore inflate prices for long-term contracts.

Labor Party Prime Minister Kevin Rudd, who took office in November, visited China earlier this year and is believed to have impressed the Beijing leadership that market mechanisms rather than government decrees should set commodity prices.

He noted that Australia was exporting liquefied natural gas to China at one-third of the current market rate because the deal had been sealed in 2002, when prices were low.

Canberra is concerned about Chinese companies taking stakes in Australian firms, because China is ruled by the Communist Party and firms like Chinalco are effectively government departments.

Concern at a piece-by-piece Chinese takeover of Australia's resource industries was strengthened earlier this month when speculation surfaced that Chinese interests were eyeing Fortescue Metals Group, which this week became the nation's third iron-ore exporter after BHP and Rio.

US-based hedge fund Harbinger Capital Partners has a 16-percent stake in Fortescue, which Chinese steelmakers are keen to buy.

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