



An Update on our recent Work on Critical Minerals

In a recent Peterson Institute [working paper](#), ZENO-Indices were used to analyze who controls the mining industry of critical minerals. The paper concluded that “China’s control over the global value chains involving critical minerals and Rare Earths Elements extends beyond what is commonly assumed.” In May 23, we analyzed in a short [note](#) the recent move by Chile to nationalize its lithium mines. We argued that “the proposal to take 51% of the shares in Lithium mines through a public national holding is excessive” and that “a blocking minority of 25% would have taken care of the interest of the population and the geopolitical interests of preventing an obstruction of global markets and free trade would have been equally, if not better, achieved.” We also argued that nationalization was eating away some of the ability of China to control the market for lithium.

But a lot happens and it happens fast in the area of critical minerals: the increase prices and shortages in supply motivate governments and private companies to look for new deposits while protecting their existing interests.

Copper: a substantial increase in production can be expected from Russia (the UDOKAN Copper Project aiming at producing 400kt per year); the Oyu Tolgoi Project (by Rio Tinto, a company controlled by China) would double Rio Tinto’s copper production; and the Quebrada Blanca 2 project (by Teck Resources, another company controlled by China) could reach 300kt per year and double Teck’s production.¹

Cobalt: In 2023, Indonesia became the second producer with 10kt (while the DRC remained a comfortable leader at 130kt in 2023). However, recent Chinese investments aim at multiplying the production ten-fold by 2030.²

Nickel: Vale has sold some of its Nickel operations to Centaurus (an Australian company that has a shareholding structure similar to that of AVZ that we discuss below) while a French hedge fund has sold its shares in Mineralindo Morowali to a group of Indonesia-based Chinese investors.³

¹ <https://www.aa.com.tr/en/economy/russias-largest-copper-mine-in-siberia-eyes-2023-for-operations-start/2737647>

<https://www.riotinto.com/en/operations/mongolia/oyu-tolgoi>
<https://www.mining.com/top-10-new-copper-projects-by-mine-life/>

² <https://investingnews.com/where-is-cobalt-mined/>

³ <https://www.nsenergybusiness.com/news/centaurus-offtake-jaguar-nickel-products-vale/>
<https://www.centaurus.com.au/site/investor-centre/top-20-shareholders>
<https://www.nsenergybusiness.com/news/hedonova-exits-its-stake-in-indonesian-nickel-miner-mineralindo-morowali-with-310-gains/>

Lithium: In the case of lithium, we explored the implication of a protectionist move by Australia to limit China's influence in AVZ - an ASX-listed junior mining company considered significant due to its development and control over the largest undeveloped lithium resource in the world, the Manono project in the Democratic Republic of Congo (DRC).

The case: In 2020, the Australian Foreign Investment Review Board (FIRB)⁴ informally indicated that it would not approve a 12% investment in AVZ by Chinese company Yibin Tianyi, which is jointly owned by China's largest lithium-ion battery manufacturer (CATL) and a major Chinese lithium hydroxide producer (Canmax Technologies).⁵ In response, Yibin Tianyi withdrew its investment proposal, but within months, had submitted a new proposal for a ~9% shareholding that could be approved by AVZ without FIRB review.⁶

The impact in Australia: FIRB's decision to deny Yibin Tianyi board representation in AVZ⁷ did not necessarily deter Chinese ownership of AVZ. Chinese companies already control in excess of 10 % of AVZ's shares: Yibin Tianyi presently holds ~6% of AVZ's shares, as does the Chinese Huayou International Mining, which entered the AVZ shareholding structure prior to Yibin Tianyi (and without substantive FIRB review as far as we are aware). Moreover, nominee shareholding accounts⁸ today constitute some 23.51% of AVZ's shareholding structure – a proportion that our analysis shows has been building since the FIRB decision.⁹ Given the opaque nature of such nominee accounts, it is not possible to state with certainty that Chinese interests in AVZ's shareholding structure – including but not necessarily limited to Yibin Tianyi and Huayou – do not own a substantial and potentially controlling interest in AVZ.

Outside Australia: The logic of FIRB's attempt to control the shareholding of a company whose sole asset is in another country (in this case, the DRC) also appears questionable. Soon after Yibin Tianyi's entry into AVZ, the company announced that CATH Energy Technologies – another joint venture involving Chinese interests – would buy a 24% stake in Dathcom, AVZ's subsidiary in the DRC, in a move that would reduce AVZ's shareholding in the Manono asset. The fact that Chinese mining company Zijin Mining is also attempting to obtain a stake in the local subsidiary¹⁰, potentially to the detriment of AVZ's equity interest in Dathcom and the Manono asset, further highlights the limited effectiveness of FIRB's attempt to control Chinese investments in a company – AVZ – that currently exists only to exploit a lithium resource elsewhere – in the DRC.

The implications: Efforts by FIRB to block the Chinese investment in AVZ appear to have been counter-productive. If the nominee accounts represent the interest of Chinese individuals or firms, the policy's effect has only been to reduce transparency and prevent formal board influence for substantial

⁴ Australia's Foreign Investment Review Board (FIRB) is charged with making recommendations to the Treasurer as to the implications of foreign investment proposals in Australian companies in relation to the Foreign Acquisitions and Takeover Act (FATA) of 1975. In recent years, FIRB has rejected a number of proposals for Chinese in-bound investment in Australian listed mining companies.

⁵ <https://www.afr.com/companies/mining/china-group-blames-australia-for-barring-stake-in-african-lithium-mine-20200426-p54n8h>

⁶ <https://www.mining-journal.com/capital-markets/news/1386135/avz-bypasses-firb-with-new-yibin-tianyi-deal>

⁷ Yibin Tianyi's original proposal included a Board seat; its second proposal did not include this requirement.

⁸ A nominee refers to a person or company who has been entrusted with the safekeeping of investors' securities or property; all of your investments are held in its name, while you retain control (Investopedia)

⁹ <https://static1.squarespace.com/static/5934d2ae6b8f5beeb5ba23f3/t/64b8efc58bb6e27a492e1346/1689841605736/202306++AVZ+Top+20+Shareholder+30+June+2023.pdf>

¹⁰ In May 2022, the Chinese mining company Zijin Mining claimed that it had purchased a 25% stake in the DRC subsidiary that owns the Manono licences, Dathcom SA, which is majority-controlled by AVZ. This claim has been refuted by AVZ and is the subject of arbitration proceedings.

shareholders. We believe that this lack of transparency and clarity over ownership, influence, and control may have compounded the governance issues that have resulted in the ASX's suspension of AVZ's shares since April 2023.¹¹ While opacity, interference and informal influence in the governance of the DRC's own mining sector is a key factor in AVZ's recent troubles in that country¹², policy interventions by the Australian government appear to have contributed further to the lack of transparency, with limited obvious benefit to the Australian 'national interest' or the interests of the DRC.

Policy interventions to limit investments by foreign parties in western-listed "strategic" companies may be counter-productive, reducing transparency and weakening governance at home and overseas, especially in cases where:

- 1) Nominee shareholdings obscure the identity of substantial shareholders; and/or**
- 2) Target company assets are held overseas by local subsidiaries.**

ZENO-Indices S.A. All rights reserved August 2023.

Prepared by Vincent Descamps, Luc Leruth, and Christopher Melville.

The authors would like to thank Bruno Hanzen and Bernard Hermant for useful comments.

¹¹ <https://www.afr.com/markets/equity-markets/asx-suspends-avz-for-non-compliance-with-listing-rules-20230412-p5czvo>

¹² <https://theboatmancapital.com/avz-minerals/avz-minerals-the-proceeds-of-corruption/> and <https://theboatmancapital.com/avz-minerals/avz-minerals-experiencing-a-chinese-burn/>