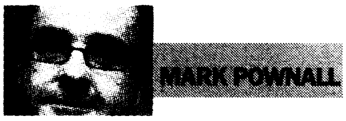
A question of principles



THERE have been many headlines in recent weeks about foreign investment in Australia, especially with so many key foreign leaders in Sydney for last week's Asia Pacific Economic Cooperation meeting.

Many of these deals have involved energy and mining, often with China and countries from the former Soviet Union, such as Russia – most of them with strong links to the natural resources of this state.

The excitement is almost palpable, as deal upon deal is signed up, reinforcing the perception that this boom is going to be stronger for longer.

Few readers would have failed to note that China's president Hu Jintao even took the trouble to visit Western Australia last week on his way to Sydney.

Russian president Vladimir Putin didn't make a stopover via Perth, but then again his main objective was to get access to Australia's uranium and WA is not much use in that respect because we are not allowed to mine it here.

Increasing numbers of Mr Putin's countrymen have been here, though, and many are investing.

Russian steelmaker Magnitorsk Iron & Steel Works, known as MMK and backed by billionaire Russian businessman Victor Rashnikov, has emerged with a 5.37 per cent stake in Andrew Forrest's Fortescue Metals Group Ltd.

In January, Vladimir Iorich secured a 13 per cent stake in gold hopeful Avoca Resources Ltd for $26 million. Last year, steel baron Alisher Usmanov played a major role in Mt Gibson Iron Ltd's takeover of fellow iron ore miner Aztec Resources Ltd.

And then there's Norilsk Nickel, which inherited a number of prominent WA minerals assets when it completed its takeover of former Candian player LionOre.

Let's not forget, last week the board of Consolidated Minerals unanimously backed the $902 million bid by Ukrainian billionaire Gennadiy Bogolyubov's Palmary Enterprises, though this has subsequently been gazumped. But investment by companies from the former USSR is nothing compared with what's coming out of China.

This past week, Gindalbie Metals Ltd signed a joint venture development agreement with major Chinese steel producer Anshan Iron & Steel Group Corporation for the $1.8 billion development of the Karara magnetite and Mungada hematite projects in the Mid-West. Ansteel has about 13 per cent of Gindalbie.

Rio Tinto Ltd's iron ore division and Sinosteel Corporation are in discussions on expanding the Channar Mining Joint Venture agreement.

Another event was a $750 million equity deal between Yilgarn and five state-owned enterprises to underpin the equity required for the estimated $3 billion Oakajee Port and Rail Project near Geraldton. The 75 per cent debt component has been committed by China's EXIM-Bank and the China Development Bank.

And who could forget Woodside Petroleum Ltd's $35 billion to $45 billion agreement with PetroChina Co Ltd for the sale of liquefied natural gas, the biggest single export deal for an Australian company.

That is a staggering list.

The reason I highlight this list is because I find this trend in foreign investment a little disturbing. Without wanting to sound xenophobic, I'm not certain the former USSR and China are ideal places to be doing business with on this scale.

"Please explain?" I hear you say.

As a believer in the free market, I am comfortable with foreign investment – even to the point of being circumspect about the protection of Woodside when the European headquartered Shell group wanted to take it over some years ago.

But with companies from China and the former USSR, especially Russia, I feel that many of the free-market principles that we subscribe to are lacking.

While Russian and Chinese business and political linkages are quite different, they are nevertheless nothing like operations here or in other developed democracies, which have been our major trading partners.

It is one thing to trade goods or services with entities from these countries, but to allow significant direct investment requires considerable thought, in my view.

Our corporate governance is guided by companies doing the right thing by shareholders. But what happens when what those shareholders want reflects the wishes of their governments in very strategic ways?

Already we have an issue with foreign companies owning our minerals and energy assets. The drama of the Windimurra vanadium mine comes to mind. It was shut down and dismantled because its majority owner wanted to develop resources in other locations first.

Even the arrival of Norlisk has implications for WA.

The company says its main focus is Africa, where it believes the resource risks are lower for expansion projects.

It is bad enough when any company hoards our resources for its own global strategy, but what if it were to do the same not for its own long-term advantage, but that of its nation – possibly at the direction of its own government?

I am not saying this is happening or that investment has got to such a level that it is a major concern. I do feel, however, that it's worth asking questions of companies whose ties to their government may distort the principles of good trade and investment.

INTEREST: Andrew Forrest's FMG has been the subject of interest from Russian businessman Victor Rashnikov.