New Rio Tinto investors eye Alcan assets
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China's surprise move to team with Alcoa Inc. and buy a 12-per-cent stake in Rio Tinto PLC for $14-billion (U.S.) is an attempt to force a break-up of the world's third-biggest mining firm and divvy up the assets, including the former Alcan Canadian aluminum operations, sources said.

Representing the largest foreign investment yet made by a state controlled Chinese company, Aluminum Corp. of China (Chinalco) and Alcoa formed a special purpose vehicle to purchase the shares at a 21-per-cent premium to the market price, in hopes of disrupting BHP Billiton Ltd.'s proposed all-stock bid for Rio currently valued at about $122-billion.

Pittsburgh-based Alcoa contributed $1.2-billion to the consortium, an investment that sources said it hopes will give it another chance to bid for the former Alcan aluminum smelting operations, which are concentrated in Quebec.

The aluminum producer launched a hostile, $27-billion stock-and-cash bid for Alcan last May but was later trumped by Rio's knockout $38-billion friendly offer. China is gravely concerned about the stranglehold a Rio/BHP combination would have on the market for iron ore, a key ingredient in the production of steel. It also wants to expand its mining holdings offshore, but is conscious of the political opposition that some jurisdictions may have to Chinese ownership.

Under company president Xiao Yaqing, Chinalco has become a powerhouse in its own country and has now been given a government mandate to buy foreign assets to ensure a sufficient supply of the metals needed by China's booming economy. Sources have said Chinalco was one of six international mining firms that held talks with Alcan last summer following the Alcoa bid.

Chinalco is said to be keenly interested in Rio's bauxite mining and alumina smelting operations, and its coal assets. It also has its eye on Rio's copper holdings, including a stake in Vancouver's Ivanhoe Mines Ltd., which is developing the Oyu Tolgoi project in Mongolia, one of the world's largest untapped copper resources.

"[Xiao Yaqing] thinks once these assets are gone, they are gone forever. It doesn't mean that he wants all of them. But if Rio and BHP combine, then all those assets are gone and he is stuck with second- and third-tier stuff," said a source close to the Chinalco/Alcoa consortium.

For China, the massive share purchase represents its official coming out as a serious contender for world-class mining assets. Surging Chinese demand for metals has been the catalyst for a seven-year-bull run in commodity prices. Despite producing little copper and nickel of its own, China has, until now, limited itself to small acquisitions in the sector. In June, Chinalco bid $840-million (Canadian) for Vancouver's Peru Copper Inc., which owned the Toromocho project in Peru. Two other Chinese companies teamed in December to buy Northern Peru Copper, also of Vancouver, for $455-million.

Tony Robson, an analyst at BMO Nesbitt Burns in Toronto said the fact that China is suddenly the largest Rio Tinto shareholder represents a dramatic shift in strategy. "China is now a player globally. They have just made a very public announcement that they are now a global player and can mix and match with the best of the West," the analyst said in an interview. "Alcoa is back in there for Alcan," he added.

BHP has until Feb. 6 to formally launch its bid for Rio or it must walk away for six months under U.K. rules. Sources said the consortium hopes the stake is large enough to spur talks with either Rio, BHP or both companies. The consortium could also be expanded to include other partners.

Submitted by Evo Alexandre