Iluka Resources ticks off rare earth refinery on $1bn government loan

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Australia's allies won't have any preferential rights to access rare earth oxides produced at Iluka Resources' Western Australia refinery, despite the federal government agreeing to loan the company the majority of the upfront cost of building the facility.

The government will kick in almost 90 per cent of the direct costs of building Iluka's $1.2bn rare earths refinery through a low-cost loan, as the mineral sands major confirmed its full-blown move into the rare earth market on Monday.

Iluka's board ticked off on the construction of a $1.2bn refinery in WA, with the federal government's Critical Minerals Facility to chip in a $1.05bn low-cost loan to help build the plant, which will produce about 17,500 tonnes of rare earth oxides each year. Another $200m will be available for the facility to help cope with any cost overruns.

The project will be Australia's first domestic rare earth refinery in the modern era, and Iluka said on Monday construction would begin late this year, with first production due in 2025.

But despite the recent political hype in the US and Australia about the need to build secure supply chains for critical minerals that do not rely on Chinese sources of production, the government will not impose any specific restrictions on who Iluka can sell the refinery's output to, according to Iluka boss Tom O'Leary, nor require any preferential treatment for Australian allies.

Mr O'Leary told The Australian the only conditions imposed by the Critical Minerals Facility – which is administered by the government's Export Finance Agency – were typical commercial considerations.

"There are, as you'd expect in a project financing arrangement, lender protections in place to ensure the money is used appropriately – counterparties have got to be reputable and credit worthy. Customers can't be subject to sanctions or other kinds of legal issues, but there's no kind of restriction about where you can sell the products," he said.

Mr O'Leary told analysts on Monday the company had "engaged extensively" with a range of potential buyers as it firmed up plans for the refinery, but would not be drawn on when Iluka expected to begin to sign contracts for production from the facility.

He said the refinery had been designed as a potential national rare earth production hub, able to take concentrate produced by other mines in Australia – including future Iluka developments in

Victoria and NSW, and concentrate produced by third parties.

“That has been a key part of what has attracted government to enter into this risk-sharing arrangement, because we’re not merely building this facility, designing and building a facility, for our own resources, but really to enable the development of the rare earths industry in Australia,” he said.

But Mr O’Leary said the government had not set any rules requiring the company to process third-party product, saying that any decision to treat concentrate produced by other miners would be made on a commercial basis.

Mr O’Leary confirmed to The Australian that Iluka had already had discussions with several other would-be Australian rare earth miners.

The decision to build the $1.2bn refinery is the culmination of Iluka’s long-term diversification strategy. Iluka began exporting a rare earth concentrate drawn from tailings at its old Eneabba mineral sands operations in WA in 2020, before expanding those operations to produce a higher-grade concentrate in the second phase of the strategy.

The company said the loan would be non-recourse to its own balance sheet, with Iluka planning to set up a separate special purpose subsidiary to build and manage the refinery.

Iluka will contribute $200m build the plant, as well as the “equity-like contribution” of the resources at Eneabba.

It will pay a headline interest rate of the bank bill swap bid rate plus 3 per cent over 16 years on the federal loan. Iluka will take an annual royalty payment of up to $81m a year from cashflows from the project, with the royalty payments ranked equally with loan payments if Iluka’s repayments are up to date.

Excess cash would be split between accelerated loan repayments and distributions to Iluka, the company said.

Iluka shares closed up 70c, or 6.1 per cent, at $12.22 on Monday.

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Nick Evans has covered the Australian resources sector since the early days of the mining boom in the late 2000s. He joined The Australian's business team from The West Australian newspaper's Canberra bureau, w... Read more