TIME FOR RIO TINTO TO CALL AUSTRALIA HOME

Friday, September 28, 2007

Today's Rio Tinto shareholder meeting will almost certainly approve the $US44 billion takeover of Canadian company Alcan – the largest cash bid in Australian corporate history.

However, what few people realise is that the terms of the agreement will see the world's second biggest mining company become even less Australian. Rio Tinto is a dual listed company with an Australian and UK listing - but its head office is in London.

The company's Australian assets are worth at least $70 billion but the business is still run from the other side of the world in a country were Rio Tinto has no mining operations.

When the dual listed company structure was established in December 1995, the boards of CRA and RTZ reached an agreement with the Keating Government to retain part of its head office in Melbourne, from where the Eastern Hemisphere of the global operation would be run.

This agreement was broken 15 months later under the Howard Government, when 100 jobs were axed in Melbourne and Australia was downgraded to running just three of six global divisions – aluminium out of Brisbane, iron ore out of Perth and energy out of Melbourne. Now we have a further downgrading of Australia's role with this Alcan deal because the aluminium business will be run out of Montreal rather than Brisbane.

It gets even worse when you look at the Rio Tinto board, which currently has only three Australian based directors - Sir Rod Eddington, Ashton Calvert and Mike Fitzpatrick. Three Alcan representatives will join the Rio Tinto board, which means the Australian-based representation will be down to less than 20% given the board will be expanded to 16.

The Keating government originally requested that RTZ-CRA's board remain one third Australian-based in perpetuity but backed down after the companies threatened to scuttle the 1995 merger.

Up until the appointment of American Tom Albanese as managing director last year, Rio Tinto also had an Australian CEO in either Leon Davis or Leigh Clifford since the 1995 merger. In 1997, when the CRA name was buried, Rio Tinto gloated that six of its eight top executives were Australians. These days, only two of the top nine hail from Down Under.

Given that the Australian-listed shares trade at a premium to their London equivalents, it makes sense for Rio Tinto to "do a Brambles" and collapse the dual-listed company structure and instead shift the global headquarters to Australia.

With wall to wall Labor Governments on the horizon, this would surely make it easier for Rio Tinto to operate in the country which will still deliver close to half of group profits, even after the Alcan deal.

In an era or growing resource nationalism across the world, Rio Tinto needs to treat Australia with a lot more respect.

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