Let bygones be bygones?

A big African deal signals a partial thaw in Rio Tinto's relations with China.

IN ONE respect Rio Tinto's relationship with China is clear. That country accounted for a quarter of the mining giant's revenues in 2009, mainly because of China's voracious appetite for iron ore. In other respects their relationship is harder to fathom. China was said to be furious last year when Rio first accepted and then spurned its offer to make a $19.5 billion investment in the Anglo-Australian firm. Four Rio employees were subsequently arrested in China for alleged bribery and commercial spying, and this week a date was set for their trial. But on March 19th, just three days before the courts were to begin hearing the cases, Rio announced it had signed a huge joint venture in Africa with none other than Chinalco, the Chinese state-backed metals firm which it had wooed and then jilted last year.

If the deal, to develop a huge iron-ore mine at Simandou in Guinea, suggests a warming in relations between Rio and the Chinese authorities, the signals from the continuing judicial proceedings against Rio's four employees imply quite the opposite. The arrests of the four men—three are Chinese and one, Stern Hu, is an Australian of Chinese descent—were related to the annual negotiations that set the price China's steelmakers must pay for iron ore from the world's three big suppliers: Rio, BHP Billiton and Vale. It was widely assumed outside China that the arrests were motivated by the Chinese authorities' pique at the way Rio had treated Chinalco.

Rio had contemplated strengthening its ties with the Chinese firm (which was already a 9% shareholder) early last year, when it desperately needed money to refinance its hefty debts. A collapse in commodity prices had left it with nowhere else to turn. But a swift recovery in prices, and moaning from other shareholders, convinced Rio to change course abruptly and raise cash through a $15 billion rights issue instead. Worse, Rio's spurning of the Chinese approach came at a time when the negotiations over iron ore were particularly fraught. China was demanding bigger price cuts than the 33% that the miners had already agreed with South Korea and Japan, but Rio and its fellow miners were standing firm.

Despite appearances to the contrary, Rio's boss, Tom Albanese, has insisted that the people who matter in China's hierarchy bore Rio no ill will. Chinalco's decision to team up with Rio in Africa suggests either that Mr Albanese was right or perhaps that China is beginning to forgive or forget Rio's perceived sins. The deal comes soon after a report compiled for the Chinese cabinet, which blamed economic forces and campaigning by BHP, rather than perfidy by Rio's management, for scuppering Chinalco's proposed investment in Rio.

Notwithstanding these signs of a thaw, the Chinese remain disgruntled over a huge iron-ore joint venture in Australia that Rio has struck with BHP, which China fears will confer even greater pricing power on the miners. Furthermore, this year's iron-ore price talks have so far been as frosty as last year's, which never reached an agreement. Booming demand has prompted Brazil's Vale to push for price increases of 90% or more, which Rio and BHP would follow. China's steelmakers' association, CISA, says this is unacceptable.

The explanation for these contradictory signs may simply be that the Chinese are being pragmatic and not letting any disputes with big resources firms get in the way of their drive to secure long-term supplies of raw materials. The Simandou deal will give Chinalco a 47% stake in the African mine for $1.35 billion and will guarantee a portion of its output for China. Teaming up for the big venture makes sense for both sides, given how African governments have often tried to play off Western mining giants against resource-hungry Chinese firms.

Behind closed doors

Rio has avoided commenting on the case against its four staff but executives at other mining firms have privately suggested that the information Mr Hu and his colleagues were dealing with was the type of commercial intelligence that would routinely be collected elsewhere in the world during this sort of negotiation. Whether this is so may never be known. The part of the trial dealing with these allegations will be conducted behind closed doors, despite Australian diplomats' requests to be allowed to observe the entire proceedings against Mr Hu. At least the initial charges against the four men—of stealing state secrets, a graver crime—were downgraded to merely stealing commercially confidential information.

The trial may reopen a healing rift with Australia, where China has also looked to invest in mines to secure supplies of iron ore and other metals. To Chinese indignation, Australia's government appears to be discouraging China's state-backed firms from taking majority stakes in its mining companies. Australia's prime minister, Kevin Rudd, despite being a Mandarin-speaking sinophile, has warned his counterparts in Beijing that the "world will be watching" the court proceedings. China's ability to overcome other countries' doubts about letting its firms in to develop their natural resources may depend on whether justice is seen to be done in the case of the Rio four.

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