

# BEHRE DOLBEAR

## Global Mining News

### ACTIVISTS FREE 56 MINE WORKERS

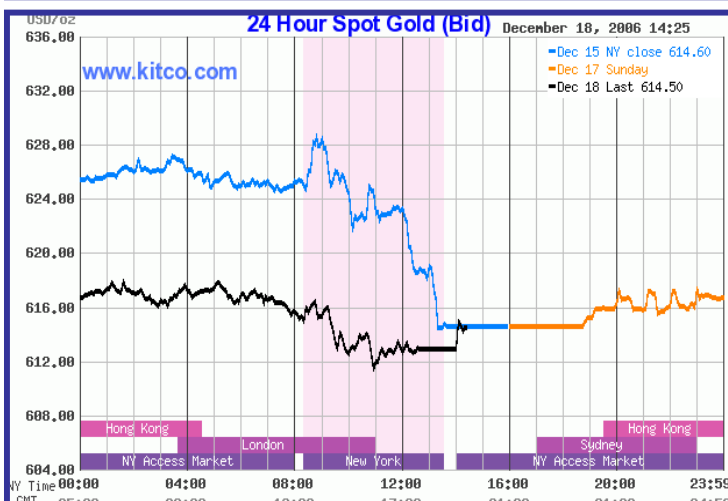
December 10, 2006 (Agence France-Presse) – Ecuadoran indigenous activists have freed 56 workers overnight who were taken hostage at a Canadian mine, ending a six-day protest over a planned strip mine in the Andes, the protest leader said. “These people, that we will insist on calling paramilitaries, were released and are in good health and are with the police,” Indian leader Gustavo Leon said. The Ascendent Copper employees include 34 retired soldiers. They were handed over to police in Junin, in Imbabura province, where they were held this week in a chapel, Leon said.

On Monday, the native activists took hostage employees of Canada’s Ascendant Copper, demanding that the company drop plans to strip-mine in a nature preserve in the Andes. Some 15,000 indigenous Ecuadoreans living near the preserve targeted for copper prospecting complained that the mining concession Ascendant was granted in 2004 is illegal because they were not consulted.

Apart from their claim to the land, local residents are afraid of the environmental damage the planned strip mine might cause to a 205,000-hectare (500,000-acre) wilderness stretching across four provinces bordering Colombia. The mining company insists the retired soldiers are armed security guards hired to protect their facilities. Ascendant Copper manager Francisco Veintimilla earlier this week denied that the company was trying to take land illegally and said that some of the security guards held captive had been injured. A human rights activist who visited the hostages, however, said on Friday that the captives had been treated well and fed two meals a day.

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USD	DECEMBER 15, 2006	DECEMBER 08, 2006
<b>GOLD</b>	<b>623.75</b>	<b>637.40</b>
<b>SILVER</b>	<b>13.7300</b>	<b>13.8400</b>
<b>PLATINUM</b>	<b>1,110.00</b>	<b>1,117.00</b>
<b>PALLADIUM</b>	<b>328.00</b>	<b>329.50</b>
<b>ALUMINUM</b>	<b>1.3011</b>	<b>1.2791</b>
<b>COPPER</b>	<b>3.0441</b>	<b>3.0980</b>
<b>LEAD</b>	<b>0.7824</b>	<b>0.7992</b>
<b>NICKEL</b>	<b>16.0821</b>	<b>15.8304</b>
<b>URANIUM</b>	<b>65.50 (12/11/06)</b>	<b>63.00 (12/04/06)</b>
<b>ZINC</b>	<b>2.0096</b>	<b>1.9641</b>

## SPENCE OPENS AHEAD OF SCHEDULE

*December 10, 2006 (Mining Journal)* – The world's biggest mining company, BHP Billiton Ltd (BHPB) has started copper production at its US\$990 million Spence copper mine in northern Chile three weeks ahead of schedule. BHPB said it will increase annual production to 200,000 t of copper cathodes by the end of next year, said Bloomberg citing the company's e-mailed statement. The mine will have a mine life of 19 years. "Minera Spence

produced its first cathode on Wednesday, December 6, 2006. This milestone was initially planned for the end of the month," the statement added. In September, BHPB reached a new three-year wage deal with workers at Spence. Mauro Valdes, a BHPB spokesman, said at the time: "The conditions of the contract guarantee a smooth transition from the project stage to the operating stage in December."

## BHP MAY ACCEPT 13% CUT TO COKING COAL PRICES AS SUPPLIES RISE

*December 11, 2006 (Bloomberg)* – BHP Billiton Ltd., the world's largest mining company, may accept a 13 percent cut in hard coking coal prices from April as supplies increase and steelmakers slow the pace of capacity expansion. Prices of premium coal used to make steel may fall to \$100 a metric ton starting April 1 from \$115 a ton, according to the median estimate of seven analysts polled by Bloomberg News. Estimates range from \$94 to \$105 a ton.

BHP and China's Shanxi Coking Coal Group, the largest producers in the two biggest coking coal mining nations of Australia and China, have raised output to meet demand from steelmakers and to benefit from prices that doubled in 2005. Melbourne-based BHP is meeting Japanese steelmakers this week for price talks, Tex said Dec. 6.

"There's still a real demand for coking coal, but it's one of those commodities where supplies can be brought on relatively quickly," said Brendan Fitzpatrick, a resources analyst at Aegis Equities Research Pty, in Sydney. China will increase coking coal production by 11 percent to 325 million metric tons in 2007, from an estimated 294 million tons in 2006, according to the Australian

Bureau of Agricultural and Resource Economics, the government commodity forecaster.

The coking coal market is "softer," than the past year, because "the available supply in China probably developed faster than expected," said BHP Billiton's Chief Executive Officer Charles "Chip" Goodyear on Nov. 29. BHP may accept an 11 percent price decline and settle at between \$102 and \$104 a ton, Gerard McCloskey, chairman of the coal consulting company McCloskey Group Ltd., said on Dec. 5.

Supplies from Australia will increase as port expansions at Newcastle, Gladstone, Dalrymple Bay and Hay Point may add as much as 71 million tons of export capacity a year by the end of 2007, Deutsche Bank AG said in September. The pace of growth in steelmaking may slow next year, UBS AG said in an Oct. 31 report. Consumption of steel may rise 5 percent to 1.179 billion metric tons globally next year, slower than the forecast 9 percent gain this year, the International Iron and Steel Institute said in October.

Coking coal prices jumped to \$125 a ton in 2005, compared with \$57.50 a ton in 2005, and \$46.50 a ton in 2004, according to Goldman Sachs JBWere Pty.

## FUND WANTS HIGHER PRICE FOR PHELPS DEAL

*December 11, 2006 (Reuters)* – Hedge fund SAC Capital intends to seek a higher price for the proposed buyout of mining giant Phelps Dodge Corp. by Freeport McMoRan Copper & Gold Inc., the New York Post reported on its Web site on Monday. Freeport-McMoRan Copper & Gold said in November it had agreed to buy much larger Phelps Dodge for \$25.9 billion in cash and stock to create the world's largest publicly traded copper company. SAC filed an ownership reporting document with the U.S. Securities and Exchange Commission on Monday, stating it has acquired a 5.1 percent stake in Phelps Dodge stock.

It said in the filing that it planned to vote against the proposed transaction, which it believed would offer few benefits to the combined operation and use Phelps' balance sheet "to fund the purchase in what is essentially a public recapitalization." SAC also said there was unrecognized long-term value in Phelps' shares that would be lost in the deal. The fund will seek a sale of Phelps Dodge at \$150 per share, the article said. Freeport had agreed to pay \$88 plus 0.67 share of its stock for each Phelps share. At Friday's close, this amounted to a prospective \$129.41 per share, the Post said.

## URANIUM TO TOP 125 A POUND BY 2010

*December 11, 2006 (Market Wire)* – Uranium prices have now ballooned over 70% for the year. Over the past three and a half months alone the nuclear fuel has shot up over 30%, outperforming the eight most popularly traded precious and base metals including gold, silver, platinum, palladium, aluminum, copper, nickel and zinc. But according to one analyst, uranium could still increase nearly 100% further.

Uranium is now trading at a 26+-year high of \$63.00/lb. and hasn't had a down month in five years. But this hasn't stopped Luke Burgess, managing editor of GoldWorld.com and contributor to EnergyAndCapital.com, from claiming, "The radioactive metal still has a lot of steam behind it."

When we last talked to him about a month ago, Burgess told us that he expected uranium prices to top \$110/lb. in just four years. But in light of recent price developments, he now says, "If prices keep increasing like they have over the past 12 months, I expect uranium to top \$125 a pound by 2010."

A near 100% increase in such a short time may sound a bit exaggerated. But Burgess argues that the logic behind this estimate is simple. He says, "Right now there are 28 [nuclear] reactors under construction around the world and another 62 being planned. Japan alone intends to add 11 more by the year 2010 and China hopes to add 24 to 30 by 2020. Uranium demand is destined to increase dramatically. "And the big moves in uranium prices," Burgess says, "will not come until people actually realize the seriousness of the world's supply/demand conundrum."

"Production from the world's uranium mines now supplies only about 60% of the requirements of the world's nuclear power facilities, leaving a wide gap between supply and demand," he says. "The world's 440 reactors have a combined capacity of some 360,000 megawatts that require about 77,000 tons of uranium per year. Yet in 2005, mines supplied only about 41,000 tons of uranium."

## XSTRATA AVERTS STRIKE AT ALTONORTE COPPER SMELTER

*December 12, 2006 (Mining Journal)* – The management at Xstrata plc's Altonorte copper smelter in Chile have agreed to extend talks over a wage dispute, thereby postponing a strike that was due to begin today, said Bloomberg, citing a local union official. The union was told today by management at Altonorte, Chile's only private smelter, that it would exercise its right to delay the scheduled walkout for a week, said union president Isidro Cabrera. However, Mr Cabrera said he has yet to receive a formal request from the country's labour agency

to delay the strike. The vote to strike was made on Saturday when workers rejected a company offer to leave wages unchanged. The strike would be a major setback for Altonorte's production because the union represents 70% of the smelter's workers. The 350 union workers want wages to rise by 10 percentage points above inflation, which was 2.1% in the 12 months through November, and are also seeking bonuses -something the company has yet to include in its offer.

## ZINIFEX, UMICORE TO MERGE SMELTERS, SELL SHARES

*December 12, 2006 (Bloomberg)* – Zinifex Ltd. and Umicore SA agreed to combine their zinc smelters and sell shares in what would be the world's largest producer of the metal. Zinifex will contribute 60 percent of the assets and Brussels-based Umicore 40 percent, Melbourne-based Zinifex said today in a statement. The new company may have assets worth 1.13 billion euros (\$1.5 billion), according to Petercam SA in Brussels. The sale will provide Zinifex and Umicore funds to use for acquisitions or to return to shareholders, both companies said. The shares rose, with Zinifex stock gaining on expectations the sale may make it a more attractive takeover target once it sells out of the new company.

"The smelters provided a potential barrier for other suitors," said Tim Barker at BT Financial Group in Sydney, which manages and advises on \$54 billion of assets including resource stocks. "This may be one way of extracting that poison pill and giving people a potentially more attractive asset."

The new company, to be incorporated in Belgium and based in London, will overtake Seoul-based Korea Zinc as the biggest producer, supplying about 10 percent of global demand. It will make 1.2 million tons of zinc and about 250,000 tons of lead a year from smelters in Europe, Asia, Australia and the U.S. The combination

will be complete by the third quarter of 2007, Zinifex said.

Zinifex, the third-biggest zinc metal producer, behind Korea Zinc and Xstrata, and Umicore, the world's largest precious metals recycler, didn't put a value on the new entity. Smelting provided about 31 percent of Zinifex's earnings before tax last fiscal year. About 17 percent of Umicore's earnings in the half ended June 30 came from its zinc business, which includes smelting. Zinifex plans to sell its entire stake in the venture, Chief Executive Officer Greig Gailey said on a call with journalists today.

The shares will be sold on Euronext NV's market he said, without giving a timeframe. The initial public offering will take place probably in the third quarter of 2007, depending on market conditions, Leysen said. Gailey said last month that his company was a target because of its low price to earnings multiple. Zinifex shares trade at 8 times annual earnings compared with 25 at Korea Zinc. Zinifex is spending A\$30 million over the next three years on exploration as it seeks to boost reserves and extend the life of its mines. The company's Century mine in Queensland is due to be depleted in the next decade.

### CHINA'S IMPORTS OF COPPER AND COPPER PRODUCTS IN JANUARY-NOVEMBER FALL 21%

*December 12, 2006 (Hoovers)* – China's copper and copper products imports fell 21% on year in January-November to 1.86 million metric tons, preliminary data from the General Administration of Customs showed Monday. Imports in November reached 174,510 tons, it

said on its Web site. The customs department didn't provide the on-year change for November alone.

Imports of aluminium and aluminium products for January-November fell 4.4% on year to 1.11 million tons.

### CORUS: THE BUYOUT BATTLE HEATS UP

*December 13, 2006 (Business Week)* – The \$9.8 billion offered for the steelmaker by Brazil's CSN has topped Tata's proposed price, though the Indian outfit may make a counterbid. Rival suitor Tata Steel of India has stated that it has not ruled out a counter-offer, and analysts say the bidding could continue for at least another round.

Following initial talks between Tata and Corus in October, the Indian company looked poised to follow Mittal Steel's hostile takeover of Luxembourg-based Arcelor earlier this year. However, Tata's initial offer of \$8.04 billion was well below some analysts' market valuation of the company, which quickly raised speculation that another bidder would emerge. In November, Brazil's CSN stated its intention to make a bid, and last week Tata preemptively sweetened its offer to \$9.38 billion, only to be outbid by CSN. Both parties

stand to gain substantially from an eventual fusion. Corus Group, formed in 1999 from a merger between Koninklijke Hoogovens N.V. and British Steel Plc, offers access to the lucrative European market, but suffers from high production costs and lacks self-sufficiency in raw materials, according to analysts. CSN and Tata Steel could both supply iron ore to Corus, while also offering lower production costs thanks to its plants in Brazil and South Asia, respectively.

"CSN and Tata Steel are bidding on access to a more diverse range of end markets," says Archbold. "That diversity can bring them greater stability of earnings and shelter them from the cyclicity of the market." Further, he says automakers are highly globalized, and are looking to deal with steel suppliers that are equally global and can deal with them on an equal footing.

### CHINA'S IRON ORE IMPORTS START DWINDLING

*December 13, 2006 (PTI)* – China, the world's largest iron ore importer, is buying less from foreign suppliers, including India due to increased domestic production. China's iron ore imports is showing signs of abating, with the combined volume in the first 11 months growing 19.8 per cent to total 298 million tonnes, the slowest rate in recent years, the latest customs figures show. Imports

in November reached 28.56 million tonnes, 30 per cent higher than last month.

Iron ore, India's number one export item to China, had dwindled by 7.51 per cent during January-October period with the value coming down to 4.3 billion US dollars from 4.65 billion US dollars during the same period last

year. Domestic production rose sharply in the first nine months, with output of large mines hitting 406 million tonnes, 37.7 per cent higher than the same period last year, easing the country's dependence on overseas suppliers.

China has become a net steel exporter, with total exports in the first 11 months reaching 37.46 million tonnes, up

100.3 per cent from the same period in 2005. In the same period, imports dropped by 29.1 per cent to 17.01 million tonnes. Steel exports in November stood at 4.63 million tonnes and imports at 1.48 million tonnes, with net exports reaching 3.15 million tonnes, up 10.14 per cent from the previous month.

## TOP OF THE RANGE PRICING FOR CHINA COAL'S \$1.7 BILLION IPO

*December 14, 2006 (FinanceAsia.com)* – No hints that fund managers are closing down for Christmas as China's second largest coal provider attracts more than 1,000 institutional investors to the book. China Coal Energy has raised \$1.7 billion from its initial public offering after fixing the price at the top of the HK\$3.20 to HK\$4.05 price range. Like other recent Hong Kong listings, China's second largest provider of coal after China Shenhua Energy attracted strong demand from both institutions and retail investors. Neither group are showing any hints that they are starting to tire of Mainland-based listing candidates even though this was the eighth company to price a Hong Kong IPO in less than two weeks, raising \$5.7 billion between them.

And as one banker put it: why would they tire of these new listings and chose to close their books to preserve their profits for the year when "every IPO keeps going up 50% to 80% on the first day of trading?" However, according to sources, investors did hesitate over Sunlight Reit, which closed the retail tranche of its offering yesterday and is due to fix the price by today. Sources say the real estate investment trust's up to \$349 million IPO was about 3.5 times covered on the 10% retail tranche and estimated that the demand from institutional

investors was less than 10 times the shares available to them. China Coal, which is brought to market by CICC, Citigroup and Morgan Stanley, attracted more than 1,000 institutional investors to its offering with the institutional tranche more than 50 times covered post clawback and after deducting the portion of the deal sold to corporate investors. The 5% retail tranche was just over 170 times covered, sources say. This will trigger a full clawback, boosting this portion of the deal to 20%. China Coal also sold \$100 million worth of shares to US private equity firm First Reserve Corp and \$25 million worth to American Metals & Coal International.

In addition to that strategic sale, it also sold a combined \$250 million dollars worth of shares to corporate investors Citic Pacific, China Life Insurance, a private investment vehicle of Henderson Land Development chairman Lee Shau Kee, Cheung Kong's Li Ka-shing and New World Development chairman Cheng Yu-tung. China Coal offered 3.25 billion new H-shares or 29% of its enlarged share capital. The final price values to the stock at 11.5 times its estimated 2007 earnings, which marks a slight discount to Shenhua Coal's 13 times. The shares are due to start trading on December 19.

## CHINA'S ALUMINA PRICES FALL DUE TO INCREASE IN IMPORTS

*December 14, 2006 (Asia Pulse)* – Rapid release of production capacity of alumina is pulling down the prices of home-produced as well as imported alumina. According to Customs' statistics, the average import price of alumina was US\$366.3/ton in the first ten months of this year, down 10.8 per cent year on year.

In response, Chalco is not optimistic about alumina prices for 2007 and does not rule out the possibility of further lowering alumina prices. Rapid development of electrolytic aluminium in recent years has boosted investment in the sector, resulting in rapid expansion of the production capacity.

Experts estimate that China's alumina output may have exceeded 15 million tons in 2006, up over 80 per cent from 2005. As of November 1, 2006, China has lowered the import tariff on alumina from 5.5 per cent to 3 per cent, which has to certain extent lowered the import cost of alumina. As most of Chinese alumina enterprises are small scaled and backward in production techniques, their production cost is over 50 per cent higher than the world's average level.

Import surge due to lowering of import cost will aggravate price competition Chinese alumina producers face. Meanwhile, expansion of alumina production

capacity has made the situation of short supply of bauxite resources worse.

China needs to import 10 million tons of bauxite for its newly increased production capacity of alumina every

year. China imported 8.02 million tons of bauxite in the first ten months of this year, up 4.1-fold. It is learned that the spot price of alumina offered by Chaclo is 2,400 yuan/ton at present.

### BRAZIL'S CVRD EXPECTS 40 PCT RISE IN SALES TO CHINA IN 2006

*December 14, 2006 (Macauhub)* – The sale of iron ore by Brazilian mining giant Companhia do Vale do Rio Doce (CVRD) to China are expected to end 2006 with a 40 percent rise, the company's chairman Roger Agnelli said in a year-end press conference. "We are growing on average 40 percent in exports [of iron ore] to China as compared to last year, beating records every month," Agnelli told journalists Wednesday.

In 2005, CVRD's sales of iron ore totaled 213.3 million tons, which generated gross revenues of 16.7 billion reals. China bought 26.4 percent of the total, or around 56.5 million tons. Taking into account all products, gross revenues from exports last year totaled 35.3 billion reals, with 14.5 percent going to China.

Until September of 2006, iron ore and pellet sales reached 202.5 million tons. China bought 58.4 million tons, or 28.8 percent of the total exported by the Brazilian company in the period. For 2007, the company's chairman projected annual iron ore production of 300 million tons. The growth of exports is expected to remain high, according to Agnelli, and the challenge, "will be to maintain the rate of growth that the market," demands. "We are growing by 14 percent every year, [which is the equivalent of] a new gigantic mine per year," CVRD's chairman said.

### TIGHT SUPPLY MAY RAISE PRICE OF TIN

*December 14, 2006 (Malaysia Star)* – The price of tin will likely hit US\$12,000 per tonne next year as fears grow over the tight supply situation globally. The commodity soared to an all-time high at US\$11,300 per tonne on the Kuala Lumpur Tin Market (KLTM) on Monday, but closed US\$80 lower at US\$11,220 per tonne yesterday on some technical correction.

Dealers expect the commodity to be traded between US\$10,800 and US\$11,000 per tonne for the rest of this week after the significant price surge. The average tin price last year was US\$7,410 per tonne. A trader told StarBiz the metal's performance next year was expected to remain bullish, as the growth in supply seemed to be lagging behind consumption.

Dealers said recent developments such as the clamping down of illegal tin mining operations in Indonesia – the world's largest tin producer – as well as the unrest in Bolivia, the world's fourth largest tin producer, when its mining cooperatives and state-employed miners clashed, could result in a disruption in tin supply next year.

Indonesia-based PT Timah, one of the world's largest tin companies, is also reducing its production by about

4,000 tonnes this year to support the trading of the metal on the international market. A dealer said the tin stockpile of the United States Defence Logistics Agency (DLA) was dwindling. DLA has systematically offloaded about 10,000 tonnes of its stockpile per annum. At last count, however, the DLA stockpile is believed to be at 8,000 tonnes. "This means that beyond 2007, supply of tin in the world market will be lower," the dealer added.

Independent tin authority CRU International Ltd said the supply deficit had been filled by US DLA and drawn down on inventory by the London Metal Exchange's players (tin producers and consumers). Reported inventory in terms of weeks of consumption decreased to 5.4 weeks last year from 9.8 weeks in 2001. CRU said: "For this year, inventory is expected to be lower to 4.7 weeks." For this year, world production of refined tin is projected at 359,300 tonnes against higher world consumption estimated at 364,500 tonnes. A dealer said China had been recording double-digit growth in consumption since 2002, and as the largest consumer of refined tin since 2003.

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**NICKEL MARKET RECORDS DEFICIT OF 95,000 TONS IN JANUARY-OCTOBER**

*December 14, 2006 (Hoovers)* – The global nickel market recorded a deficit of 95,000 metric tons during the first ten months of 2006, with reported stocks some 32,000 tons lower, the World Bureau of Metal Statistics said Wednesday. Mine production was at 1.146 million tons, up 4.5% on the same period last year, the WBMS said. Refined production was fractionally below the

comparable total for 2005 due mainly to reduced output in Oceania.

World demand was 58,000 tons higher than in the first ten months of last year, the WBMS said. In October, world production stood at 103,700 tons while demand totaled 114,800 tons.

**WORLD COPPER SURPLUS OF 306,000 TONS IN JANUARY-OCTOBER**

*December 14, 2006 (Hoovers)* – The global copper market was in a 306,000 metric ton surplus during the first ten months of 2006, up one-third on the forecast during the previous month, the World Bureau of Metal Statistics said Wednesday. The WBMS doesn't make allowances for drawdowns of unreported stockpiles such as widely reported sales from China's State Reserve Bureau, which have lowered China's apparent copper consumption.

Mine production was slightly lower at 12.24 million tons than in the first 10 months of 2005 with supply problems in Mexico, Chile and Indonesia dampening global output. Refined production was 14.49 million tons, up 6% on the first ten months of 2005.

Chinese output rose by 396,000 tons while Indian, Zambian and Japanese production rose by 107,000 tons,

62,000 tons and 116,000 tons respectively, the WBMS said. Consumption in the January to October period totaled 14.19 million tons, up 1.6% on the previous year. "Chinese consumption fell by 4.7% to 2.92 million tons due to lower demand for imported copper," the WBMS said.

Output of Chinese semi-manufactured products rose by 6.9% in the January to October period compared with the first ten months of 2005. European demand rose 10.5%, led by strong demand in Germany and Italy. Demand in Sweden and the U.K. also recovered to "more normal" historical levels.

In October, world refined copper production stood at 1.46 million tons while demand totaled 1.41 million tons.

**ALUMINIUM MARKET RECORDS 328,000 TON SURPLUS IN JANUARY-OCTOBER**

*December 14, 2006 (Hoovers)* – The global aluminium market recorded a 328,000 metric tons surplus during January to October 2006, the World Bureau of Metal Statistics said Wednesday. Demand for the light metal rose to 28.2 million tons, up 1.6 million tons on the same period last year. Global production rose increased 5.2% compared with January to October 2005, hitting an all-time high of 2.91 million tons in August but declining again in September and October, the WBMS said. Growing output in China contributed an additional 1.1 million tons to the world production total.

Bauxite imports into China rose to 7.6 million tons in the first 10 months of the year, equivalent to just over 5% of

global bauxite output. Meantime, production in the European Union was down 8% and demand up 6% to 26.61 million tons. European demand recovered from the lows recorded in the August holiday season, to rise by 225,000 tons during the first ten months.

In October, Chinese demand stood at 776,000 tons with a cumulative total for the year to end October of 6.93 million tons. In October, world production totaled 2.90 million tons and consumption 2.88 million tons, resulting in a small surplus for the month of just under 20,000 tons.

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## ZINC SUPPLIES ARE QUIETLY RUNNING OUT

December 15, 2006 (*MarketWatch*) – Spot prices for high-grade zinc have more than tripled on the London Metal Exchange in the last two years – and the price rally won't likely end soon with demand for the industrial metal far outpacing supplies, analysts said. After many years of languishing at low levels caused by abundant supplies, spot prices for high-grade zinc climbed to over \$4,400 per metric ton as of Wednesday on the LME – up almost 270% from 2004's levels.

“Zinc has been perhaps the worst investment in major metals during the past several decades, which has resulted in significant underinvestment in exploration,” said Dr. Harlan Meade, president and chief executive officer of both Pacifica Resources Ltd. and Yukon Zinc Corp. “The addition of several large mines in the mid 1990s simply flooded the market with zinc,” he said.

New zinc output, in part, was made possible because of byproduct credits such as copper and silver that sometimes provided enough added revenue to offset zinc prices that really weren't high enough to encourage exploration or development, he said. Now the zinc market faces a supply deficit, “caused by the depletion of many of our large mines,” Meade said.

Exacerbating the problem, China, “who dumped zinc on the market during the 1980s and 1990s, became a net importer of the metal in 2003 as the country's consumption took off,” he said. Indeed, China's zinc demand has been “rising at an amazing rate,” said Eric Coffin, co-editor of *HardRockAnalyst.com*, which offers publications focused on resource stocks. He blamed “extremely high capital investment growth,” much of which is centered on construction, for the increase in Chinese consumption, which climbed 35% between 2003 and 2005.

The recent run in the zinc price has “demonstrated ... the critical shortage of metals supply coming from the mining industry,” said Roulston. “There are many small new mines constantly being developed, but no big mines.” Meanwhile, “mines are constantly being shut

down as the ore bodies are depleted, [so] the net result is that production has been flat at a time of rising demand,” he said. Overall, the zinc industry will “have a hard time at any price bringing on enough new supply to balance supply and demand in 2010 and thereafter,” Meade said. Against that backdrop, warehouse stocks of zinc have been depleted.

On the LME, supplies were down to around 85,750 metric tons as of early December – down from 450,000 a year ago and close to their lowest level since March 1991, according to Martin Hayes, a senior correspondent at London-based *BaseMetals.com*. And inventories are “set to keep on falling,” he said. The supply deficit this year will likely be close to 300,000 metric tons, he said, with supply of 6.8 million metric tons not enough to satisfy 7.1 million metric tons of consumption.

In fact, at the current rate of supply declines, Coffin expects the LME warehouse to “be bare in about 3 months.” “There is very little potential supply enhancement that we know of,” said David Coffin, Eric's brother and co-editor of *HardRockAnalyst.com*. “At a practical level, what will happen is that the high zinc price will bring metals out of unknown stores and mining companies will push as much as they can into the market,” he said. So “while we do expect the decline to continue, that does not mean we actually expect to see a ‘0’ stocking,” he said.

Even so, zinc will likely follow the same pattern as other metals with stocks declining “to the point where there is only a fraction of a day's usage in warehouses,” he said. Hayes expects the shortfall in zinc supplies to ease in 2007 to closer to 40,000 metric tons, from 300,000 in 2006 as “the supply-side response to record prices kicks in.” Roulston argued for a longer-term inventory deficit. “The projected pace of new mine development shows a big supply gap extending for years into the future as demand grows and some of the big, old mines are shut down,” he said.

## \$1.3BN DRC COPPER MINE TO BEGIN PRODUCTION IN 2009 – NIKANOR

December 15, 2006 (*Engineering News*) – Aim-listed and Democratic Republic of Congo (DRC) focused miner Nikanor on Thursday said that it was spending \$1.3-billion to rehabilitate the Kamoto-Virgule Oliveira (KOV) copper/cobalt mine, located in the DRC's copper belt, which was one of the largest high-grade copper resources in the world. The opencast mines, which CE

Jonathan Leslie described as an “amazing orebody”, and “the jewel of the DRC copperbelt” boasted grades of over 5% copper, would be dewatered and mined, with first production scheduled to begin in the second half of 2009. He also reported that Nikanor would build a new processing plant near the mines, capable of processing 265 000 t of copper a year, which the company could

upgrade to 400 000 t a year. The plant would be completed in 2009, and would be one of the largest in the world of its kind, he stated. Leslie, who was previously the CEO of paper-producer Sappi, and had worked for mining giant Rio Tinto, enthused that the KOV mine could be exploited at a very low cash cost, and it had a more-than-30-year lifespan, based on reserves.

Nikanor had already mined 65 000 t of ore at its nearby satellite operations, Kananga and Tilwezembe, in November, and the company's Kolwezi concentrator produced 5 500 t during the month, however, Leslie said that the concentrator was "not in good shape". The planned capacity for the Kananga was 2 500 t of ore a day, and at Tilwezembe, 2 000 t a day. The refurbishment of Kananga, Tilwezembe and the Kolwezi concentrator would be generating cashflow for the firm by next year.

Leslie noted that Nikanor had been in talks with State-owned Chinese companies regarding the new plant and mine refurbishments, but highlighted that the

construction contracts had not yet been finalised. Nikanor was working in joint venture with the DRC's government-owned mining company, Gecamines, to exploit its copper and cobalt reserves in the region.

Leslie said that Nikanor had signed a memorandum of understanding with electricity supplier SNEL to secure its first 100 MW of power, but would need 220 MW at when its projects were in full operation. The company had raised \$434-million from an initial public offering of its shares, which would fund 40% to 50% of the \$1,3-billion, along with the concentrate sold from the Kolwezi concentrator.

Nikanor would fund the balance through raising debt, and had appointed NM Rothschild as its financial advisor for this. Also important to the project, was social responsibility, and Leslie said that the Nikanor board had agreed to set up a foundation to uplift the surrounding communities.

## LME NICKEL FALLS AFTER TOUCHING NEW ALL TIME RECORD

*December 15, 2006 (AFX)* – Nickel declined after touching a new all time high earlier on continued supply concerns, this time at PT Inco's nickel operations in Indonesia, where low rainfall is threatening production targets. At 11.00 am, LME nickel for three-month delivery, which earlier touched an all time record of 34,950.00 usd a tonne, was down at 34,550.00 usd a tonne from 34,800.00 usd at the close yesterday.

Nickel surged to a record 34,875.00 usd a tonne yesterday after PT Inco said it may have to cut nickel matte production from Dec 20 because of low reservoir levels at its hydro-electric power plant. "Rallies in aluminium and nickel yesterday were the main features of a largely routine day with market participants squaring positions in readiness for the year end," said UBS Investment Bank analyst Robin Bhar.

Aluminium was assisted yesterday by a large net fall of 5,700 tonnes in LME stocks and by technical buying that

occurred amid relatively light volumes, said Standard Bank analyst Mike Skinner. He added the larger positive bias seen in all metals yesterday was aided by rallying oil prices and better than expected US jobless claims data that helped ease concerns over the economic slowdown in the world's largest economy.

Three month aluminium was trading down at 2,844.50 usd a tonne against 2,865.00 usd at the close yesterday. "Further gains (in aluminium) are likely through to early 2007 amid an ongoing technical squeeze and large open interest on futures and options evident for January and March," said Bhar.

Elsewhere, LME copper was down at 6,730.00 usd against 6,780.00 usd at the close yesterday. "Consumer bargain hunting and speculative short covering helped copper move off its lows (yesterday) and further gains will now be dependent on how labour negotiations at Xstrata, Asarco and Codelco progress," said Bhar.

## CHINA GROWTH KEY TO BASE METALS MARKETS: BARCLAYS

*December 15, 2006 (Hoovers)* – Base metals prices should be well supported going forward into 2007 because of strong growth in China, despite evidence of slower growth in several developed countries such as the U.S., Barclays Capital said Thursday.

China has risen to not only the world's largest metals consumer but the main driver of global demand growth,

according to Barclays Capital's 2006 Global Outlook report. Chinese trends such as urbanization, development of the transport network and investment in power generation and transmission "all serve to provide a base-load level of consumption that is relatively immune from the vagaries of the business cycle," the report added. "The importance of the U.S. is diminishing a lot as China

grows in importance” for commodities prices, said Kevin Norrish, chief commodities analyst at Barclays, during a presentation of the report.

Moreover, in looking to 2007, China’s macroeconomic outlook remains promising, with “the recent phase of monetary tightening now over and gross domestic product growth expected to stay at close to 10%,” Barclays noted. Indeed, China’s GDP growth would need to decline below 8% before it would raise alarm bells, Norrish told Dow Jones Newswires on the sidelines of the presentation. But it would depend on which sector of the Chinese economy saw a decline in growth, he added.

Supply-side issues, such as labor actions, strikes, and declining inventories, as well as strong underlying demand outside of the U.S., support Barclay’s bullish outlook on base metals prices. “Low levels of inventory are expected to persist throughout 2007, since we do not expect any major base metals market to move decisively into surplus,” the report said.

On the supply front, recent significant changes to the tax and duty structure on exports of refined metals and semi-fabricated products has had the net effect of reducing incentives for expanding local output and exports, Barclays said. China is the world’s largest producer of aluminium, lead and zinc.

Zinc and nickel, in particular, have substantial upside price risk because of their tight supplies, according to Barclays. It forecasts zinc to average \$4,600 a metric ton in the second quarter of 2007, up from \$4,170/ton average price in fourth quarter of 2006, while nickel is expected to average \$34,800/ton during the second quarter of 2007, up from an average price of \$33,000/ton in the fourth quarter of 2006.

Elsewhere in the base metals complex, Barclays said the underperforming copper market could surprise once again with the potential for substantial gains. “Although inventory levels of refined copper have built over the past few months, far materials markets have continued to tighten,” the report said. “Meanwhile, Chinese imports of refined metal are picking up again following a long period of destocking,” they add. Copper prices are forecast to average \$8,100/ton in the second half of 2007 from an average of \$7,230/ton during fourth-quarter 2006.

On the precious metals front, Barclays forecasts gold prices to average \$620 a troy ounce during the first half of 2007 before declining to \$560/oz by the end of next year, unless the U.S. currency weakens substantially. “Gold demand has proved highly vulnerable to current price levels, and the pace of producer dehedging has slowed markedly,” Barclays noted.

## ALCAN TO BUILD \$550-MILLION PLANT IN QUEBEC

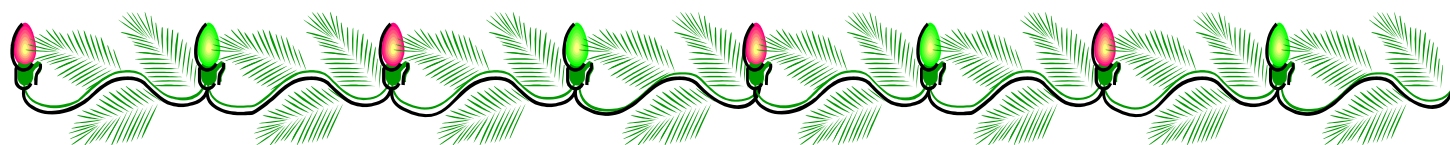
*December 15, 2006 (Associated Press)* – Aluminium producer Alcan Inc. said Thursday it is investing \$1.8 billion over 10 years in Quebec’s Saguenay-Lac-St-Jean region to expand its smelter operations. The Canadian company said that 740 skilled jobs would be created over the period, and between 1,200 and 1,500 related to construction of the new metal capacity. The cornerstone of the investment is a \$550-million pilot plant at the company’s Complexe Jonquiere site to develop Alcan’s AP50 smelting technology, which the company claims increases productivity and cuts industrial emissions.

The pilot plant is expected to produce approximately

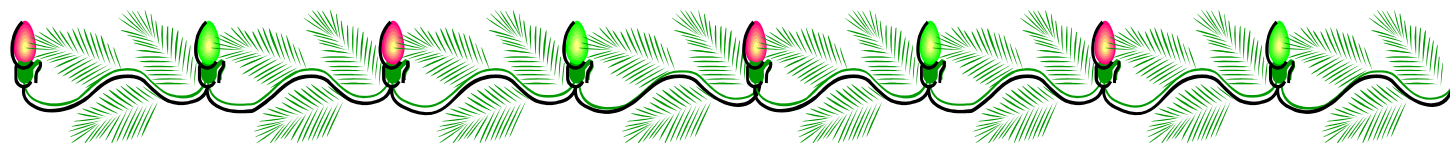
60,000 tons of aluminium per year and will be the platform for future generations of AP50 technology. The AP50 pilot plant is the initial step in creating up to 450,000 tons of new metal production capacity, based on renewable hydroelectricity to help cut greenhouse gas emissions.

Alcan announced earlier Thursday it is boosting its aluminium research-and-development center in France, creating more than 50 technology and engineering jobs as it spends \$70 million in the Rhone-Alpes region. The company has set a target of increasing its energy-efficient and environmentally friendly smelting technology by at least 20 percent.





**All of us at Behre Dolbear join in saying  
“Thank You”  
and  
Wishing you a Happy Holiday  
and a  
Successful New Year**



## **NOTICE**

The next issue of the Global Mining Newsletter will be published on **Tuesday, December 26, 2006** as we are observing the Christmas Holiday on Monday, December 25, 2006.

The Denver Behre Dolbear office will be closed on **Friday, December 22, 2006** and **Monday, December 25, 2006** for the Christmas Holiday.



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