

# BEHRE DOLBEAR

## Global Mining News

### IRON-ORE MARKET MOVING AWAY FROM BENCHMARK-PRICING SYSTEM

August 18, 2008 (Mining Weekly) – Not only was the iron-ore benchmark pricing system coming apart at the seams, but it has “lost a pants leg”, as the market moved towards more transparent prices, BHP Billiton CEO Marius Kloppers said on Monday. Further, he said that the movement towards the steelmaking ingredient becoming a traded product was now irreversible.

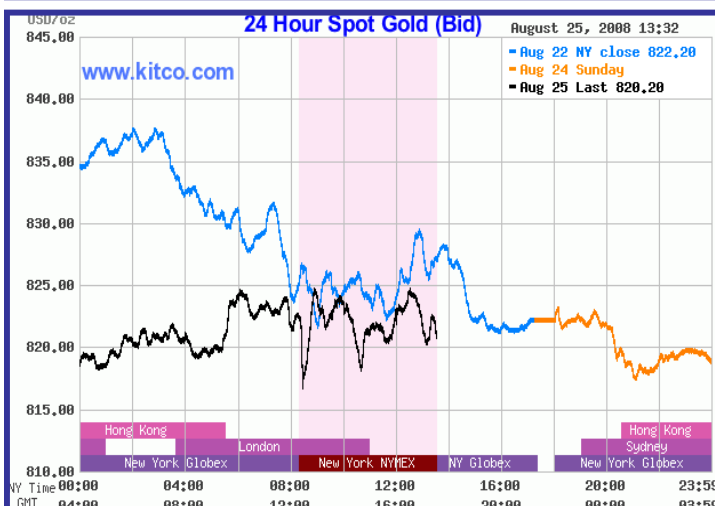
He said that one of the next developments in the iron-ore market would be similar to what happened in the steam-coal market, which shifted from a benchmark pricing system to a physically traded market, adding that there was “great interest” in this.

BHP Billiton stood to benefit from a spot iron-ore market, as the majority of its mines were strategically located in the Pilbara region of Australia, close to the key Asian markets, while competitors had strong presences in South America. “As we’ve said before, we would not like to sign any new term iron-ore contracts based on traditional benchmark systems,” Kloppers said.

“I do think the fact that there is now a plethora of so-called benchmark prices, basically [confirms] our prediction over the last couple of years that the benchmark system is coming apart at the seams – we’ve

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USD	AUGUST 22, 2008	AUGUST 15, 2008
GOLD	824.00	786.50
SILVER	13.6200	12.8200
PLATINUM	1,427.00	1,400.00
PALLADIUM	288.00	295.50
ALUMINUM	1.2478	1.2320
COPPER	3.5657	3.3158
LEAD	0.8528	0.7688
NICKEL	9.5255	8.3937
URANIUM	64.50 (08/18/08)	64.50 (08/11/08)
ZINC	0.8190	0.7446

sort of lost a pant leg now. And I think the situation is largely irreversible from here on forward,” he argued.

Kloppers said that supporting this was the fact that the iron-ore market was now so big, with a vast amount of customers. BHP Billiton earlier this year secured a near-100% increase in its iron-ore prices for Chinese

customers. Prices for the bulk commodity were currently calculated according to a benchmarking system, and were subject to lengthy discussions, which often took months to concluded.

## BHP BILLITON SAYS CHINESE STEEL DEMAND HOLDING UP

August 18, 2008 (Reuters) – BHP Billiton, the world’s largest mining group, said Chinese investment in infrastructure using steel was holding up well despite a downturn in export-oriented sectors and in the West. BHP, the world’s third biggest producer of iron ore used to make steel, said on Monday when releasing annual results that the Chinese outlook was weaker in nickel and aluminium used in finished goods.

“For the domestically driven, investment-driven sectors, such as the steel sector ... we see these businesses performing well,” Chief Executive Marius Kloppers said at a presentation. The bulk of the downturn in China is occurring in export-led light manufacturing, but this only accounts for a modest portion of the overall economy and GDP is likely to dip only slightly from recent levels around 10 percent, Kloppers said. “There is clearly some divergence between China, the main drive of materials demand, and the rest of the world.”

In the near term, demand for aluminium and nickel was soft since they were used more in manufactured goods rather than infrastructure, he said. “The shorter-term outlook in the more middle-class, more finished good-oriented metals such as nickel and particularly aluminium, appear somewhat weaker.” In the longer term, demand from China and other developing economies was still on track to keep metals prices strong amid difficulties in increasing supply, he added.

Over the next two decades, China’s construction sector alone is estimated to need three billion tonnes of steel, equivalent to the total amount of iron ore supplied by Australia over the past half century, Kloppers said. Heavy iron-ore demand from China spurred a near doubling of contract prices this year for material supplied by BHP and rival Rio Tinto, the world’s second biggest producer.

## ARGENTINA TAXMAN HOLDING UP MAJOR GOLD MINE: CHILE

August 18, 2008 (Reuters) – It is Argentina’s taxman, and no longer environmental or terrain issues, that is holding up development of Pascua Lama, one of the world’s last known mega-gold finds, neighboring Chile charged on Monday. Pascua Lama straddles a shared border in the Andes at about 5,500 meters (18,000 feet) above sea level, and holds a treasure trove of some 17 million ounces of gold and one of the world’s largest deposits of silver as well.

The project, owned by Canada’s Barrick Gold Corp, overcame years of environmental challenges after Barrick agreed to leave nearby glaciers untouched, only to run into a tax dispute by the host countries. “Now it’s up to (Argentina’s tax) Treaty Commission to call a meeting to discuss and reach a solution,” Chile Mine Minister Santiago Gonzalez told journalists in Santiago. Chile gave the project the green light months ago.

Gonzalez said Chile sent proposals to Argentine counterparts for a potential solution to disagreements about how to divide tax take from the project, but was still awaiting a response. Chile and Argentina have agreed to tax profits on the gold and silver from Pascua Lama depending on what side of the border it comes from. But they are still discussing how to tax what they call transborder services, or services rendered by individual companies to the project on either side of the border.

For Barrick, the Pascua Lama property is far too valuable for the company to be deterred by the delays and said it was also still waiting on some secondary permits in Argentina. Construction is already years behind the earliest hopes of Canada’s Barrick, the world’s largest gold miner.

## XSTRATA TEMPORARILY SHUTS FALCONDO MINE AS COSTS BITE, PRICES SINK

August 19, 2008 (*Mining Weekly*) – Diversified miner Xstrata, which is bidding to buy Lonmin for \$10-billion, on Tuesday announced the temporary shutdown of its Falconbridge Dominicana (Falcondo) nickel operation, owing to high input costs and low metal prices.

The shutdown, which confirmed BHP Billiton CEO Marius Kloppers' prediction on Monday that the industry would see closures, would last for four months, while Xstrata would conduct furnace repairs and crucial maintenance activities. "It wouldn't surprise me if we see shutdowns," Kloppers said of the nickel industry, after cost pressures and low prices ate into margins. Falcondo, based in the Dominican Republic, had a capacity of 29,000 t/y of nickel in ferronickel.

Xstrata said in a statement that it would also use the shutdown period to accelerate feasibility studies to use

coal to generate power for the operation, instead of oil, which it currently uses. Oil made up a significant portion of the operation's costs, it stated. It would also speed up studies into a nearby higher-grade prospect.

"Falcondo has implemented various measures to alleviate the negative impact of record high oil prices on its financial position," Xstrata Nickel CEO Ian Pearce said. "These actions have resulted in approximately \$20-million of cost savings."

"The resumption of activities will be assessed based on market conditions, which are expected to improve towards the end of 2008," he noted.

## CHINA'S PORT IRON ORE STOCKS HIT RECORD 79.22 MLN TONS

August 19, 2008 (*chinamining.org*) – China's port stocks of iron ore reached 79.22 million tons, a record high for the country, according to statistics from the Ministry of Transport. According to statistics from the customs, China's iron ore import surged 40 percent in June to reach 37.79 million tons, adding the total to 230.04 million tons in the first half, jumping 22 percent year on year, which was higher than the 17 percent increase of last year.

China's iron ore import is divided into two parts of long-term agreement and on-the-spot purchase. The iron ore import under the long-term agreement is mainly from Brazil and Australia, which account for 38 percent and 25 percent of China's total import of iron ore, and the iron ore import by on-the-spot purchase is mainly from India to account for 21 percent of the total.

## CITIGROUP LOOKS TO STRONGER OUTLOOK FOR GOLD, COPPER, ALUMINUM, STEEL AND BULKS IN BATTERED MINING AND METALS SECTOR

August 19, 2008 (*MineWeb*) – In an analysis published Monday, Citigroup mining analysts John H. Hill, Graham Wark and Paul Cheng noted that mining and metals "have been battered amid the broader crude oil and China-slowdown induced carnage in materials and cyclical."

Nevertheless, the analysts advised that investors should differentiate between mining and metals sub-groups, such as copper, steel and coal, and focus on micro-indicators,

particularly in areas of structural change or M&A, to guide stock picking.

"This favors tight supply chains in bulks (iron ore, coal) and select industrial metals (copper, aluminum, steel)," they explained. "In general, metals micro-indicators (inventories, scrap prices, merchant premia, and smelter charges) have proven to be clear and effective guideposts

during macro-driven 'end-cycle, burst-bubble' jitters which tend to recur.

The analysts asserted that copper micro-indicators are mixed. "Inventories remain down in China but are creeping up in Korea, local premiums have cratered in China to just \$15/T and are slipping in Europe, while spot TC/RCs are barely bouncing above zero as acid byproducts boost profitability," they said. Meanwhile, the analysts noted that the pace of copper imports to China was at two-year lows in June and barely up in July.

Nevertheless, Citigroup forecasts that a higher copper import volume will "prove a catalyst for LME [copper] prices in 2H/08." Citigroup predicts that Chinese restocking, mine shortfalls and project stretch-outs will drive copper prices higher next year.

While Citigroup finds that gold "has been punished amid a broad-based correction in commodities," the analysts assert that the floor in the U.S. dollar "is likely a short-term blip for gold, as it underscores the frailty of fiat currency globally."

"We see gold as attractive, heading into a period of seasonally strong physical out-take, which tends to tighten the market and allow any negative macro catalysts to be rapidly transmitted to prices. ...Gold will likely shine over time. Long-term drivers remain intact; falling mine production especially in S. Africa, competitive currency devaluations, wealth creation on India/China, and petrodollar flows."

## MINING FIRMS COULD BENEFIT FROM STABILITY IN ZIMBABWE

*August 19, 2008 (Reuters)* – South African mining firms, which include multiple platinum projects, could benefit from deals to end Zimbabwe's post-election crisis. Zimbabwe holds the world's second biggest platinum reserves and South African companies could stand to benefit as the country attempts to control its economy and bring back prosperity.

Platinum firms are already considering investments in the country with Impala Platinum stating its intention to pour cash into the industry if political balance can be assured. Meanwhile, Anglo Platinum also has interests in Zimbabwe and has stated its intention to continue with its

investment in its business. But firms are unlikely to consider the country for investment until problems in the political and economical systems show signs of improvement.

Speaking to Reuters, Moeletsi Mbeki, of the South African Institute of International Affairs, said there would be "no economical rescue" while Mugabe was in charge. "If there is a coalition controlled by Mugabe then it means donors are financing his crazy economic policies," he explained.

## ABANDONED NORTH AMERICAN MINES GETTING A SECOND LOOK

*August 20, 2008 (Bloomberg)* – The population of Hoyt Lakes, a town dotted with maple and pine trees in the hills of Minnesota, has fallen by half to 1,400 since 2001, when declining metals prices forced LTV Steel Co. Inc. to close a nearby iron mine and refinery. Now, PolyMet Mining Corp. plans to revive the deposit as a copper and nickel mine using specially developed technology. That will help draw back some of those who left, says Robert Bartholomew, president of the town's Chamber of Commerce.

Even after the U.S. dollar's rise and fears of global recession dragged down raw material prices in recent

weeks, copper is still 300 per cent higher than five years ago, nickel is up 93 per cent and gold has more than doubled. This has encouraged a new look at abandoned mines in North America. For PolyMet, Mercator Minerals Ltd. and Franconia Minerals Corp., the risks are lower than in countries with instability, changing laws and rising royalties.

Investors betting on miners with projects in North America have gained more than those buying companies such as Moto Goldmines Ltd. and Ivanhoe Mines Ltd., which staked their fortunes in Africa and Asia. None of

these companies are generating production revenue from their own operations and all are digging or planning to dig their first mines.

Meanwhile, the total value of all mining projects planned for the United States and Canada rose more than fourfold to \$34.1-billion in 2007 from \$7.47-million in 2004, according to Raw Materials Group's Mr. Ericsson.

"At least you've got laws on the books that you can deal with," said Michael Surratt, the CEO of Kingman,

Ariz.-based Mercator, which plans a fivefold increase in annual copper production from an Arizona copper prospect it acquired for about \$3.3-million in 2003. The mine is scheduled to begin operating in October and produce 10.3 million pounds of molybdenum and 56 million pounds of copper a year. "Going to the Congo, or one of those places, you never can tell when someone starts shooting and it all goes away," he said.

## CHINA MAY INCREASE COPPER IMPORTS BY 60% FROM JUNE

*August 20, 2008 (Bloomberg)* – China's manufacturers, the world's largest copper consumers, may raise imports by as much as 60 percent from June after a price slump, trader Bayin Resources Co. said.

Imports of refined copper may jump to between 100,000 metric tons and 120,000 tons a month, Frank Zhou, deputy manager of Bayin's copper division, said today in an interview from Shanghai. Purchases fell to 75,707 tons in June, lower than the monthly average of 114,502 tons in the first half.

"There has reemerged a lot of appetite for London copper these days," Zhou said over the phone. "Demand from these inquiring buyers is quite inelastic as they are users, not speculators."

A narrowing price gap between Chinese and international prices is making imports cheaper, Zhou said. The gap has dropped from historical highs in June. China's economic expansion has slowed for four quarters, prompting the government to put a bigger emphasis on maintaining growth and protecting jobs. Government statements last month dropped references to a "tight" monetary policy.

China may consume 10 percent less copper this year because of credit tightening policies by the government, Maiké, the country's largest copper importer, forecast in January. The Asian nation accounts for 23 percent of the world's copper demand, which is estimated at 18.8 million tons, according to Barclays Capital, the investment banking unit of Barclays.

## 'CRITICALLY VITAL' PLATINUM 'MISUNDERSTOOD' METAL – GILBERTSON

*August 20, 2008 (Mining Weekly)* – Platinum-group metals (PGMs) were a "very much misunderstood" group of metals that "the world just wouldn't operate without", platinum mining doyen Brian Gilbertson said on Wednesday at the listing of his new Pallinghurst Resources company on the main board of the Johannesburg Stock Exchange (JSE).

"It's a critically vital element, and 80% of the world's reserves are here," he said of the preponderance of PGMs in the Southern African region. "It's a set of metals that has a wonderful future for the years ahead," said Gilbertson of the industry that provided his "first serious job" in the late 1960s.

Besides platinum, a second would involve the rebuilding Faberge as one of the world's iconic brands, the third was to build a business in colour gemstones that was "absolutely booming" internationally but without the

required consolidation and investment, and the fourth was in manganese and other raw materials needed for the making of steel, which was an economic growth prerequisite.

On the cyclical nature of the resources business, Gilbertson said that the opportunities had to be built in such a way that they were beneficial to investors irrespective of whether the cycle was up or down. World growth was dependent on steel, platinum, copper and aluminium.

"Fundamentally, the outlook for decades is really positive. It's really hard to see prices going back to what they were 20 years ago. Input materials are higher priced, there are no cheap easy-to-mine deposits. So fundamentally, commodities is a good place to be in for a long time," he said.

## ARCELORMITTAL ADDS TO BRAZIL IRON-ORE INTERESTS WITH MINE, PORT ACQUISITIONS

August 20, 2008 (*Mining Weekly*) – Steel giant ArcelorMittal has agreed to buy Brazilian iron-ore-miner London Mining Brazil for about \$810-million, from Oslo-listed London Mining, and will also acquire an 80% stake in a port for \$40,5-million, the company announced on Tuesday.

London Mining Brazil is located in the state of Minas Gerais, and is currently in the process of expanding its production of iron-ore concentrate and lump ore from 1.4-million tons a year to 3.2-million tons a year in 2009.

Further, depending on the results of technical studies, ArcelorMittal will consider investing up to \$700-million to increase London Mining Brasil's production in the medium term to more than ten-million tons a year, the firm said.

The acquisition, together with an agreement to buy a stake in an iron-ore port facility in the state of Rio de Janeiro, which ArcelorMittal will develop with Canada-based Adriana Resources, is part of a drive by the steelmaker to increase its self-sufficiency in increasingly pricey raw materials like iron-ore and coal.

ArcelorMittal announced earlier this month that it would buy 49% of Mineração Pirâmide Participações Ltda, a Brazilian iron-ore and manganese miner, and agreed in July to acquire US coal-miner Concept Group.

ArcelorMittal and Adriana plan to build a ten-million tons a year port on land acquired by Adriana in January this year, the company said. The project is expected to cost about \$250-million, and the companies will each fund their respective shares and will share in the capacity of the port in proportion to their ownership.

In addition to an 80% share in the port, ArcelorMittal has also agreed to buy up to 19.9% of Adriana in two private placements, and will be granted a seat on the smaller company's board of directors. The steel group has also committed to help Adriana source debt financing for its portion of the development costs, Adriana said in a separate statement.

## GLENCORE PLANS JOINT \$1.5 BLN ZAMBIA POWER PROJECT

August 21, 2008 (*Reuters*) – Swiss-based firm Glencore International AG plans a joint investment with Zambia's Copperbelt Energy Company (CEC) to build a \$1.5 billion hydro power station, a senior CEC official said on Thursday. CEC chief financial officer Michael Tarney said the plant will generate 750 megawatts of electricity. CEC is Zambia's sole power distributor to the vast copper and cobalt mines, and also said it plans to spend a further \$300 million on generation expansion to boost supply to the mines.

"We plan to put in a joint bid with Glencore to develop the Kafue Gorge (Lower power) project, which is estimated to cost \$1.5 billion once the government decides how it will be done," Tarney told Reuters in an interview.

Tarney said Glencore, the majority owner of the Mopani Copper Mines (MCM), Zambia's second largest copper producer, wants to invest in the power project to boost supply to its units, the Mufulira Smelter, Nkana and Mufulira copper mines.

The World Bank's private sector arm, the International Finance Corporation (IFC), which the government mandated to conduct a fresh feasibility study on the project, would receive bids from foreign and local firm for the project. Tarney said there would be increasing power demand due to growing mining and industrial activities in the country, which already faces a power deficit.

Tarney said some of the new projects requiring power were the Konkola Deep Mining project of London-listed Vedanta Resources Plc, the Mulyashi mine, which will start producing 60,000 tonnes copper in 2010, and the Nchanga Smelter with a capacity to produce 300,000 tonnes copper per year. Tarney said up to \$3 billion in investments was needed to raise power output to meet growing national demand.

## DO MORE MATH, FRANK HOLMES

*August 21, 2008 (MineWeb)* – Frank Holmes, CEO and chief investment officer at US Global Investors, has elegantly written about how he thinks that the “downturn in commodity prices has been overdone with commodities and stocks due a considerable rally”. In advancing his thesis, that “many commodity stocks are now at oversold levels”, Holmes refers to two main issues. First, the S&P 500 Energy Index, where his studies go back as far as a decade. Second, the inverse relationship between gold and the dollar, which, as Holmes correctly states, “is widely known”. Holmes may have an interest in salesmanship, if his job title is anything to go by, but leaving that aside, his thesis may be slightly flawed.

The S&P 500 Energy Index has increasingly been losing influence and significance over the past decade. The collective market value of the US-centric index is currently USD 1.6 trillion; the index is dominated by Exxon Mobil (with a market value of USD 416bn), and, a long way after, Chevron (USD 181bn); the two account for more than a third of the index, by value.

While a good number of the 39 constituents of the index can be described as truly transnational companies, the past decade has seen the emergence, modernization and growth of a good number of other oil majors, principally from developing nations.

The story becomes a little more extreme when considering the coal constituents of the S&P 500 Energy Index, such as Peabody, Massey and Consol. Here, consider that the market value of Shenhua, a very big Chinese coal miner, at USD 65bn, is worth more than the

combined value of Peabody, Consol, Fording, Arch, Massey, and Walter Industries, which rank among the largest North American coal miners.

There has been a proliferation in the emergence of big coal companies from developing nations, including China Coal (market value: USD 14bn), Bumi Resources (Indonesia, USD 11bn), Shanxi Xishan (China, USD 6bn), Rospadskaya (Russia, USD 5bn), Neyveli (India, USD 4bn), not to overlook unlisted stocks, such as State-owned Coal of India, which may be the world’s biggest single coal mining entity.

Today, oil and coal companies across the world are competing for the same big, well endowed customers, and, equally, the same investment dollars. To treat the S&P 500 Energy Index in isolation, and, more particularly, as a guide to future developments, is like asking for trouble.

Second, the Holmes thesis states that “commodity supplies remain extremely tight, and as global population and emerging economies continue to grow, these trends will be supportive of commodity prices”.

Looking at commodity prices generally right now, either earlier peaks overshot “fundamental” value, or global demand is cooling, in line with global economic cooling; no doubt both elements apply, in varying degrees. But there appears to be no room for this interpretation in the Holmes thesis, with its belly hugging motto, that the “downturn in commodity prices has been overdone”.

## FINANCE MINISTER MANUEL SOFTENS ROYALTY STANCE, OPTS FOR EBIT – SOUTH AFRICA

*August 21, 2008 (South African Finance)* – Minister Trevor Manuel on Thursday softened his hard stance on mining royalties and opted for formulae-based royalty rates that would use earnings before interest and tax (Ebit), with full capital expensing, rather than earnings before interest, tax, depreciation and amortisation (Ebitda).

He said that there would be one formula for refined minerals and another for unrefined minerals, which would encourage greater value-adding within South

Africa, and that oil and gas production – for which South Africa had no formula up to now – would be subject to the refined formula.

The Minister said: “To ensure equitable royalty rates and in response to requests for relief for marginal mines, a formula-based royalty rate structure has been proposed. In terms of the proposed formulae (one for refined minerals and one for unrefined minerals) the applicable royalty rates will vary according to the profitability of the

mining company, subject to a minimum rate of 0.5% and maximum rates of 5% and 7% for refined and unrefined minerals respectively.

“The profitability parameter in the formulae is Ebit and it also allows for 100 % capital expensing. The 100 % capital expensing is an acknowledgement of the high capital costs associated with deep underground mining, currently in the case of gold and in future some other minerals, and of deep level sea oil and gas exploration and production,” Manuel said.

The formulae-based royalty rate structure of the Mineral and Petroleum Resources Royalty Bills of 2008 not only provided automatic relief for marginal mines but also allowed for the State to share in the upside, in times of high commodity prices. Royalty rates would tend to increase as commodity prices increase and vice-versa. He said that the Mineral and Petroleum Resources Development Act No. 28 of 2002 (MPRDA) protected the right of certain communities to continue to receive community royalties.

### **XSTRATA EYES \$15BN LOAN DEAL FOR LONMIN BUY – BANKERS**

*August 21, 2008 (Reuters)* - Swiss-based miner Xstrata is talking to banks about a \$15-billion loan to fund its planned \$10-billion hostile bid for South Africa-focused Lonmin, senior banking sources said on Thursday. Xstrata has asked banks for proposals on such a loan, larger than the five-billion pounds loan originally anticipated, which will refinance Xstrata and Lonmin's existing debt and finance the acquisition, the sources said.

Lonmin, the world's third-biggest planinum producer, has rejected Xstrata's planned 33 pounds per share approach as too low and opportunistic. Xstrata has approached 22 banks to make large commitments and give pricing indications on the \$15-billion loan, with the aim of putting a club of senior banks together to fund the deal at the top level, they added.

Initial indications suggest that pricing on Xstrata's loan is likely to be similar to the initial pricing of 175 basis

points on InBev's \$45-billion loan at 150-175 b.p., bankers said. The loan may face a challenging syndication as it battles for limited liquidity with second round syndications for InBev's loan, a \$14 billion loan for BG Group and a 16.1-billion euro loan for Schaeffler.

Xstrata's loan could also raise mining sector exposure issues for some banks as BHP Billiton's \$55 billion financing backing its bid for Rio Tinto is still on banks' balance sheets. The deal, which was underwritten this year, has yet to fund due to a lack of resolution around the outcome of the bid.

The company said that following the proposed acquisition the company's net debt would rise to around \$26-billion from \$14.8-billion, with gearing rising to two times from 1.37 times.

### **NAMIBIA URANIUM MINE CLEARED FOR TAKEOFF AFTER MINING LICENCE AWARDED**

*August 21, 2008 (MiningWeekly)* – Toronto-based Forsys Metals has been granted a mining licence for its Valencia uranium project, in Namibia, and can now go ahead with the full-scale development of the project, the company announced on Thursday.

The 25-year nuclear fuel licence was only the second of its kind to be awarded in the country in the past two decades, president and CEO Duane Parnham said in an emailed statement. Forsys, which is listed on the Toronto

and Namibia stock exchanges, expects to start production at its Valencia uranium mine, in Namibia, in 2010.

Valencia is located 35 km along the geological strike to Rio Tinto's Rossing mine and 40 km north of Paladin Resources' Langer Heinrich operation. The mine will produce approximately 3-million pounds of uranium a year.

## RIO TINTO SAYS CLOSE TO INDONESIA DEAL

August 21, 2008 (AFP) – Anglo-Australian mining giant Rio Tinto said Thursday it hopes to sign a contract with Indonesia later this year for the development of a major nickel concession in Sulawesi. Rio Tinto Indonesia president Omar Anwar told reporters after a meeting with Indonesian Vice President Jusuf Kalla that the company hoped to start producing nickel at the project in 2010 with full operation by 2015.

The company says it has an estimated 162 million tons of laterite nickel ore at its Sulawesi project, and its development could put Rio Tinto into the top 10 global nickel producers. It plans to spend 1.97 billion dollars developing the concession.

## SEVERSTAL AGREES TO BUY PBS COAL IN \$1.3 BILLION ALL-CASH OFFER

August 22, 2008 (Platts) – Russian steelmaker Severstal said Friday it had agreed to buy US coking coal producer PBS Coals in an all-cash offer for \$1.3 billion, following similar US mining acquisitions by larger rival ArcelorMittal.

PBS operates in the northern Appalachian coal fields in Pennsylvania, close to Severstal's North American production centers, with a production capacity of 4 million mt of metallurgical coal, the Russian company said in a statement. PBS' operations, which include six underground and six surface mines would become a unit of Severstal Resources, the Russian steelmaker's iron ore and coal mining subsidiary.

PBS produced about 2.4 million clean mt of coal, including 1.5 million clean mt of coking coal in the year ended March 31, according to Severstal. Severstal said it would better control operating costs by increasing self-sufficiency in primary raw materials available to its North American operations and reducing transportation expenses.

“The acquisition of PBS will help ensure that Severstal controls its operating costs by providing a guaranteed supply of metallurgical coal for our coke making operations in the US,” Gregory Mason, CEO of Severstal International, said in the statement. “The integration of our upstream production, from coal and coke making to steel making, will allow us to sustain profitability and return value to shareholders.”

Severstal intends to acquire PBS by buying out TSX Venture Exchange-listed Penfold Capital Acquisition Corp. following a business combination of PBS and Penfold, paying C\$8.30/share (US\$7.94/share), which implies an enterprise value of \$1.3 billion, the statement said. Severstal said it expects to use internal funds for the proposed acquisition with the transaction expected to close by mid-October pending regulatory clearance.

## CHINA RAISES COKE EXPORT TARIFF RATE TO 40%

August 22, 2008 (goldmau.com) – China is to raise the coke export tariff rate to 40 percent as of August 20, up from 25 percent, said the State Council's customs tariff commission on Friday. This move aims to ease a tight coke supply in domestic markets and to contain export of products with high pollution and energy cost. China is the world's biggest coke exporter, which accounts for 60 percent of the coke trade volume.

Despite some western country's move in reducing coke production for environmental reasons, China's coke exports have continued to increase in recent years. Coke exports surged to 14.50 million tonnes in 2006, representing an increase of 14 times in 15 years since 1991. The figure hit a record 1.66 million tonnes in May this year.

## INDONESIA WILL CAP OUTPUT OF TIN, FOUR OTHER METALS

August 22, 2008 (Bloomberg) – Indonesia, the world's largest tin exporter, plans to cap production of five minerals including tin to extend mine life and try to control prices, an official said. The government will cap output of tin at 90,000 metric tons a year from this year, Bambang Setiawan, director general of coal and mineral resources, said in an interview in Pangkalpinang, Indonesia. The government also plans to cap the output of copper, gold, nickel and iron ore, he said, without giving details.

The ceiling by Indonesia may help to sustain a rally in the price of tin, the best-performing contract on the London Metal Exchange this year. The Southeast Asian country accounted for about a third of global tin-in-concentrate production last year, according to figures from researcher ITRI Ltd. The contract gained 1.5 percent today to \$20,800 a ton, extending yesterday's 3.8 percent advance.

Shares in PT Timah, Indonesia's largest tin producer, gained as much as 12 percent to 2,550 rupiah, and traded at 2,525 rupiah at 3:30 p.m. in Jakarta. The gain put the

stock on course for the highest close since Aug. 11. Freeport-McMoRan Indonesia, Southeast Asia's biggest economy, is rich in minerals and home to Grasberg in Papua province, the world's biggest gold mine and second-largest copper mine. That site in the east of the country is operated by Phoenix-based Freeport-McMoRan Copper & Gold Inc.

Mangantar Marpaung, a director at the energy and mining ministry, said in June this year that Indonesia may cap tin output at 90,000 to 100,000 metric tons a year from 2009 to extend mine life. The country has boasted control of the nation's tin industry since February 2007, when the government required all exporters to acquire a permit to ship the metal overseas. To date, at least 19 permits have been issued, including to Timah and PT Koba Tin.

## NORILSK NICKEL TO SPEND \$2 BLN ON SHARE BUYBACK

August 22, 2008 (Reuters) – Norilsk Nickel's board voted on Friday to spend up to \$2 billion buying back 4 percent of its stock, a move opposed by one-quarter owner United Company RUSAL as it wrestles for a greater say in the Russian miner. Norilsk said it would buy back up to 7.95 million of its own shares at 6,167 roubles (\$253.8) each, a 27 percent premium to its Friday close of 4,855 roubles, in a bid to reinvigorate a share price that has fallen by a third since May.

"This price drop was impacted mostly by factors that are irrelevant to the company's fundamentals," Norilsk Chief Executive Vladimir Strzhalkovsky, who assumed the post on Aug. 8, said in a statement. He did not say what those factors were. UC RUSAL, majority owned by billionaire Oleg Deripaska, has been at loggerheads with Norilsk's largest single shareholder, Vladimir Potanin, over the management of the world's largest nickel miner since it bought its stake in April this year.

Each side has accused the other of attempting to devalue the company's stock, which has also been damaged by a

downturn in investor sentiment toward Russia and a sharp decline in the price of nickel. Norilsk supplies a fifth of the world's nickel. A Moscow-based mining analyst said the buyback would be beneficial for minority shareholders, as neither Interros – Potanin's investment company – nor UC RUSAL were interested in cutting their stakes.

UC RUSAL, the world's top aluminium producer, said in a separate statement it had voted against the share buyback and accused Interros of violating corporate governance standards by conducting an in absentia vote.

"In the last three years, the shareholders of Norilsk Nickel received more than \$8 billion as a result of stock buybacks or buyouts, and in the form of dividends," Norilsk First Deputy General Director Alexander Popov said in the statement. The shares that Norilsk buys back will be held as treasury shares on the company's balance sheet.

## CRYSTALLEX HOPE RENEWED FOR VENEZUELA MINE PERMIT

August 22, 2008 (*Mining Weekly*) – Toronto-based Crystallex International, while still some way from the home stretch in its pursuit of approval to build a gold mine in Venezuela, appears to at least be gaining ground, after project changes proposed by the company got the thumbs up from the country's Ministry of the Environment and Natural Resources (MinAmb).

Crystallex, which has been trying for years to get permission to build its Las Cristinas mine, was told by the country's Ministry of the Environment in June that it could still receive the all-important environmental permit to effect natural resources, if it was prepared to accept some modifications to the project. The development raised hopes that the project may still go ahead, although it seemed to fly in the face of repeated comments from the country's Environment Minister that Venezuela would no longer allow openpit mining in its Imataca Forest reserve, where both companies' projects are located.

Crystallex has since prepared a report, which, as instructed, included plans to mitigate the impact of

openpit mining in the Imataca Forest Reserve, improving the company's plans to remediate the environmental damage when the mine closes, as well as contributing to cleaning up the damage already caused by illegal miners in the area.

In an official letter, the Vice Minister of MinAmb has now informed the company that the proposals in the report are “viable and conform to the environmental and social guidelines of the Venezuelan government”, Crystallex said in a statement on Friday. In June, the company filed a rebuttal with the Minister of MinAmb, after a previous appeal, to the official who denied the company an exploration permit, was refused.

However, the company said on Friday that it had been advised by its legal counsel that the latest letter superseded the previous denial.

## GOLD FIELDS FACES CLAIM OF UP TO R11BN OVER WESTERN AREAS

August 22, 2008 (*Mining Weekly*) – JSE-listed Gold Fields said on Friday that it was facing a claim of as much as R11-billion from the formerly Brett Kebble-run Randgold & Exploration (R&E), but that it would defend its position “vigorously”.

The claim related to Western Areas, the company that it bought in early 2007, and the tangled web of fraud and missing shares that occurred between JCI and R&E. Gold Fields said that Western Areas' early opinion was that it had “strong defences to these claims”.

“Accordingly, Western Areas' attorneys have been instructed to vigorously defend the claims,” the company said. Western Areas was allegedly part of a scam where JCI unlawfully disposed of shares owned by R&E in Randgold Resources and Afrikander Lease, now called Uranium One.

“The highest claims have been computed on the basis of the highest prices of Randgold Resources and Uranium One between the dates of the alleged thefts and March 2008 (approximately R11-billion). The alternative claims have been computed on the basis of the actual amounts allegedly received by Western Areas to fund its operations (approximately R519-million),” the company said in a note to the JSE.

Gold Fields pointed out that the claims were only against Western Areas, which only owned a 50% stake in the South Deep mine. “This alleged liability is historic and relates to a period of time prior to Gold Fields purchasing the company,” it stated.

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## XSTRATA TAKES AIM AT INDOPHIL BID RIVAL

August 23, 2008 (*The Age*) – Swiss-based Xstrata has not taken defeat in the bidding war for Melbourne-based Indophil well. Confirming that it would not be increasing its \$1.28-a-share bid for its junior partner in the world-class Tampakan copper-gold project in the Philippines, Xstrata could not help but fire some shots at apparent winning bidder the Stanhill consortium, which includes Indophil managing director Richard Laufmann.

The chief executive of Xstrata's copper unit, Charlie Sartain, said Xstrata saw "no value in remaining involved in a competitive process" with Stanhill. "In our view, there must be a high degree of uncertainty concerning the financing of the Stanhill bid, particularly in light of the significant future funding obligations and lack of exposure to product for marketing for the Tampakan project that any eventual owner of Indophil faces, together with the fact that Tampakan will not generate cash for several years," Mr Sartain said.

It was a source of annoyance to Xstrata during the heat of the takeover battle that Indophil said it would be able to

market its share of the planned copper-gold concentrate production independently of Xstrata. Indophil has stood by its claim. Xstrata started the ball rolling in the Indophil shoot-out with a cash bid of \$1 a share. It was later forced to increase the offer to \$1.28 a share to match a bid by Stanhill.

Earlier this week, Stanhill sweetened its offer to \$526 million by keeping it at \$1.28 a share cash and offering shareholders an 80% share in a new company that would be seeded with \$8 million in cash and that would hold all of Indophil's non-Tampakan interests.

Indophil's independent directors said yesterday they believed that in light of Xstrata's decision not to extend or increase the offer, Xstrata will fail in its takeover bid, which lapses on August 29. The enhanced offer from Stanhill – financed by backers in the Middle East, Pakistan, Asia and London – has been unanimously recommended by Indophil's independent directors "as it is clearly superior" to Xstrata's offer.



### *Did You Know?*

#### **Less Well Known Uses of Platinum**

PGMs are also used in:

- \* fiberglass;
- \* refining of oil for fuel;
- \* nitric acid production, which is used for nitrogenous fertilizer to grow crops; and
- \* 20% of all consumer products either contain PGMs or require the metals in their production.



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