

# BEHRE DOLBEAR

## Global Mining News

### CHINA SAID TO DISCARD PLAN TO BUY COPPER FOR RESERVES

January 12, 2009 (Bloomberg) – China, the world’s largest metal consumer, discarded a plan to buy copper to support domestic smelters because producers are still profitable and inventories aren’t high, government and company officials said. The government also deemed it risky to buy the metal now from overseas as prices could fall, said the three officials who asked not to be identified because they weren’t authorized to disclose the information. The officials are involved in the planning process. The government last month said it plans to boost reserves of raw materials to help metal producers which have suffered as prices plunged.

“Aluminum and zinc prices had fallen below production costs and domestic supply can meet local demand, while China still relies on imports to meet copper demand,” Yang Changhua, analyst at Beijing Antaika Information Development Co., said. Chinese smelters don’t have enough copper to help build state reserves, he said.

Copper smelters are still able to sell their products unlike aluminum makers, one of the officials said. The State Reserve is buying 290,000 metric tons of aluminum from domestic smelters, who have been losing money, by the end of January. It has also called for a meeting with zinc smelters in two days to discuss purchases of zinc, two officials said.

Shanghai copper stockpiles were at 22,736 tons as of Jan. 9, or about 2 days of Chinese consumption. Aluminum

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USD	JANUARY 16, 2009	JANUARY 09, 2009
GOLD	824.25	847.25
SILVER	10.7800	11.2200
PLATINUM	943.00	988.00
PALLADIUM	185.00	196.00
ALUMINUM	0.6557	0.6897
COPPER	1.5164	1.4878
LEAD	0.5271	0.5375
NICKEL	4.8784	5.1596
URANIUM	51.00 (01/12/09)	53.00 (01/05/09)
ZINC	0.5649	0.5534

inventories reached 166,033 tons last week, or 5 days of consumption, according to the latest exchange data.

Copper smelters which own mines can break even at prices of about 22,000 yuan a ton, Qu Yi, an analyst at CBI China Co., said by phone today. "The key is the copper price," Qu said. Should the metal price drop significantly in the following months, the State Reserve Bureau may consider buying the metal then, she said.

China's Yunnan province last month said it is encouraging banks to lend to metal producers to allow them to keep operating and also asked smelters to stockpile their output as collateral. Copper has the best potential among industrial metals for a "large price rebound" in 12 months because supply growth is limited, Goldman Sachs JBWere Pty. said last week.

## CHINA'S BIGGEST COAL MINER SAID TO BE AFTER RIO STAKE IN COAL AND ALLIED

January 12, 2009 (Reuters) – China Shenhua Energy, the country's biggest coal miner, plans to bid for a key stake in the coal unit of Rio Tinto, a newspaper reported on Monday. Global mining giant Rio is looking for bidders for its 76 percent stake in Australia's Coal & Allied Industries, which runs three operations in New South Wales, the South China Morning Post reported on Monday, citing unnamed sources. The unit is worth about \$3.72 billion, the report said.

Analysts say the news is still too vague, but could be a good move for Shenhua as it seeks to secure assets beyond China. "Many coal companies are trying to cut costs right now, but Shenhua still has an ample cash position," said Michelle Leung, an analyst who covers Shenhua for CIMB. "Actually the news didn't disclose how much reserve the coal is going to provide or the quality of the coal. There are many uncertainties," Leung added. "It could help to diversify as a source of resources.

This is a good strategy for them to go overseas for long-term reserves."

China Shenhua is also pushing Rio Tinto for more assets to be included in the sale, the report said. The firm's chairman Chen Biting had previously said Shenhua was looking for acquisitions in Mongolia, Indonesia, and Australia, the Morning Post said.

Other likely bidders for Rio's 76 percent stake in Coal & Allied Industries include Mitsubishi of Japan and Switzerland's Xstrata, the South China Morning Post said. Rio Tinto is lumbering under the weight of its debt load, brought on by its \$38 billion buy of aluminium producer Alcan last year. Bankers and analysts say the world's largest miner BHP, Brazil's Vale, Xstrata, and China's aluminium giant Chinalco, parent of Chalco, are all eyeing Rio's diverse collection of assets.

## RIO TINTO POSTPONES CORUMBA EXPANSION

January 12, 2009 (Mining Journal) – Rio Tinto has indefinitely postponed the US\$2.15 billion expansion of its iron-ore mine in Corumba, Brazil, as world steel production drops in the face of global economic growth stalling. A Rio Tinto spokesman said employees and contractors had been informed of the decision to postpone the expansion, which would have boosted annual capacity at the mine more than six-fold to 12.8Mt from 2Mt.

The expansion was announced last July before the resources demand faded. First production from the expansion had been slated for the fourth quarter of 2010. Rio Tinto said on December 10 it would cut 13% of its

workforce, slash capital spending by more than half and sell more assets as it sought to reduce nearly US\$40 billion of debt and battled with a collapse in commodity prices.

At the time, it did not make any specific statement about individual projects such as the Corumba expansion. Chief executive Tom Albanese signalled last month that Rio Tinto would provide more detail of the cut-backs and asset sales when the group released its annual earnings results on February 12.

## APEX SILVER TO FILE FOR CHAPTER 11 BANKRUPTCY

January 13, 2009 (MineWeb) – Warnings by Apex Silver executives last summer that the Colorado based silver miner was suffering from a severe liquidity crisis came to pass Monday as the company announced it will file for Chapter 11 bankruptcy this week. The company announced Monday it had reached an agreement with 43% of its short-term debt holders of Apex Silver's convertible subordinated notes to agree to receive a pro rata shares of approximately \$45 million in cash plus common stock of the reorganized company.

Last June Apex reached an agreement with San Cristobal silver mine joint venture partner Sumitomo Corporation to sell the rights for deferred payments to Sumitomo for \$70 million. The deal provided Apex with \$100 million in unrestricted cash and a combined total of \$198.9 million in aggregate and restricted cash, and short and long-term investments.

Apex Silver's flagship mine is the San Cristobal operation in southern Bolivia. San Cristobal was expected to mine 15 million ounces of silver, 215,000 tonnes of zinc, and 75,000 tonnes of lead last year. It is believed to contain 450 million ounces of silver and 8 billion pounds of zinc and 3 billion pounds of lead in proven and probable reserves. However, the company's liquidity problems had been compounded by increased cash costs and high operating costs, while lead and zinc prices substantially declined.

The company delisted from the NYSE last month after concerns were raised about whether Apex Silver's financial position had become so impaired the exchange wondered if the miner could meet its financial obligations.

## CAMEROON GOVERNMENT GIVES GO-AHEAD FOR NEW \$160M IRON-ORE PORT – SUNDANCE

January 13, 2009 (MiningWeekly) – The Cameroon government had given the go-ahead for the development of a new \$160-million export terminal to serve an emerging iron-ore province that extended beyond Cameroon into neighbouring Congo and Gabon, Australian iron-ore company Sundance Resources said on Tuesday.

ASX-listed Sundance said that September was the targeted date for the raising of the funding for the proposed new terminal, which Cameroon Transport Minister Gounoko Haounaye had announced. The \$160-million cost, which excluded materials-handling infrastructure and utilities, was \$50-million less than the prefeasibility study estimate. The site selected for the terminal, which would handle high-grade direct shipping ore (DSO), allowed for the development of a 22-m deep berth that could receive 250,000 dry-weight-tons ships.

Sundance MD Don Lewis said that CamIron SA, its Cameroon subsidiary, had been selected as a core operator within the overall multiuser port development, where Rio Tinto Alcan would finance, construct and operate an aluminium terminal, the Bolloré group would

finance, construct and operate a container terminal, and Angelkique/ SCDP would finance, construct and operate a hydrocarbons terminal. Other consortium members included Boskalis International, Vinci/Sogea/Satom, and Petredec/Camship.

The new deep-water port would be located near Kribi, where CamIron would construct a stand-alone iron-ore terminal, which would allow for phased additional development by the other selected operators. Sundance said it was developing Cameroon's Mbalam iron-ore project, which was located close to the Belinga iron-ore project in Gabon that China National Machinery and Equipment Import and Export Corporation was developing.

The Mbalam and Belinga projects formed part of an emerging iron-ore province, which straddled the Cameroon border into the Congo Republic and Gabon. Lewis said that the company had delineation of a compliant resource of 2.45-billion tons of DSO and itabirite hematite.

## CHINA COAL DEMAND “TO GROW MORE SLOWLY IN 09”

January 13, 2009 (Reuters) – China’s coal demand will continue to grow this year thanks to policies to boost economic growth, albeit at a likely slower pace, the Shanghai Securities News said on Tuesday, quoting a senior official. Zhang Guobao, head of the National Energy Administration, said output in industries closely related to the coal sector, such as power, steel, construction materials and chemicals, had been falling, affecting coal demand in the short term. But Zhang said demand would grow for the whole year due to efforts to expand domestic demand.

China’s power generation fell more than 6 percent in December on the year, its third decline in a row, as industrial growth slowed despite the government’s ambitious stimulus plan. But China’s State Electricity Regulatory Commission expected this year’s power consumption and generation to fall, due to the economic

slowdown, according to a statement on its website. “In addition, the problems in pricing of coal and electricity have not been solved properly, and power firms will face increased difficulties in operation,” the statement said.

The commission also expected to push for power tariff reform, and encourage regional power markets to be formed. Coal stocks at a regional grid covering six central provinces had dropped fast as cold weather pushed up power consumption, the paper also reported on Tuesday. Coal stocks at power plants affiliated to the grid had fallen over 23 percent since late November to 15 million tonnes, enough for less than 20 days of use, the paper said. Some power generators had to shut down due to lack of coal in the central province of Henan, it said.

## FREEMPORT, JIANGXI COPPER SAID TO AGREE HIGHER FEES

January 13, 2009 (Bloomberg) – Freeport-McMoRan Copper & Gold Inc., the world’s second-largest copper producer, verbally agreed to pay higher processing fees to Jiangxi Copper Co., the first increase in three years, two company executives said. Jiangxi Copper accepted fees of \$75 a metric ton for smelting ore and 7.5 cents a pound for refining in 2009, said one executive, a jump of about 60 percent from this year. Both officials, who had direct knowledge of the talks, asked not to be identified as they are not authorized to speak to the media.

Copper has plunged by more than half from a record \$8,940 a ton in July as a global recession curbed demand for the metal, used in power generators, wires and cables. Freeport-McMoRan has already agreed a fee increase with Mitsubishi Materials Corp.

“The almost 60 percent jump in fees implies copper concentrate supplies are ample, which is a bad sign for prices,” Zhao Kai, an analyst at Jinrui Futures Co., said by phone from Shenzhen today. As \$55 would be the break-even for Chinese smelters, higher fees would be an incentive to produce rather than cut back, he added. Freeport-McMoRan and Jiangxi Copper declined comment.

Mining companies, including Freeport and BHP Billiton Ltd., settled 2008 copper processing fees with Chinese smelters at \$47.2 and 4.72 cents, down from \$60 and 6 cents in 2007.

## PERU MINING WORKERS LOSING JOBS AS METALS PLUMMET

January 13, 2009 (Reuters) – Thousands of workers in Peru’s vast mining sector have lost their jobs as global mineral prices sink and stall investments, a sign that the traditional engine of the Andean country’s economy is slowing sharply. The National Federation of Mine and Steel Workers says more than 5,500 workers have lost their jobs since December, while the Labor Ministry says

at least 4,000 miners are out of work. “There is a lot of uncertainty among mine workers right now,” said Jesus del Castillo, head of the labor federation.

The layoffs have come despite pleas by President Alan Garcia, who has asked companies to refrain from firing workers and who unveiled an economic stimulus package

last month that will boost the size of the 2009 budget by 13 percent. "The mining sector is the one that has lost the most jobs," Labor Minister Jorge Villasante told Reuters. "We've asked businesses to reduce other costs instead of eliminating jobs."

Peru's economy grew more than 9 percent last year, according to forecasts, but may slow to about 5 percent growth this year as prices for its minerals exports, the government's biggest source of revenue, plunge.

According to the union federation, the job losses, which some companies have called vacations instead of layoffs, include 800 at Newmont Mining's Yanacocha gold mine and 300 at the Cerro Verde copper pit of Freeport McMoran. More than 300 workers at the Cerro de Pasco zinc mine of Volcan are out of work as production has halted, while 450 have lost their jobs at Doe Run Peru's Cobriza mine.

## PRODUCERS SEEK RECORD CUT IN IRON ORE PRICE

*January 13, 2009 (Financial Times)* – Chinese and Japanese steelmakers have demanded a record 40 per cent cut in iron ore prices in annual benchmark pricing negotiations, but are facing resistance from mining groups.

Vale, Rio Tinto and BHP Billiton, which account for more than 70 per cent of the world's seaborne traded ore, privately acknowledge that annual contract prices are likely to drop for the first time in seven years. But they are delaying negotiations because they believe ore demand will improve in the next few months. Traders and analysts said the miners were hoping for a cut of 20 per cent or less after securing a record 85 per cent increase in the 2008-09 negotiations.

Shen Wenrong, chairman of Jiangsu Shagang Group, China's largest private steelmaker, said last week that annual iron ore prices would fall by at least 40-50 per cent in 2009, echoing a consensus view at Chinese steel mills.

Industry officials said Japanese steelmakers were also seeking a 40-50 per cent cut as demand for ore and steel was plunging. The secretive iron ore negotiations, which set the price of the bulk of the market, are often acrimonious, with some parties threatening to cancel

contracts to improve their bargaining position. Such threats rarely materialise.

Iron ore traders and analysts are anticipating a drop in ore prices, but most believe it will be less severe than the steelmaking industry is demanding. "Realistically a 30 per cent cut will be more achievable", said Du Wei, a Beijing steel analyst for MySteel.

Industry officials said an agreement, which affects ore cargoes for the year starting in April 2009, was unlikely in the near term. The miners were likely to delay a deal until the second quarter betting on a recovery, they added. Last year the talks went beyond the April deadline, with the final contracts signed in June.

The miners' strategy to avoid large price cuts has so far been successful. Since November's low point, spot iron ore prices have rallied by about 30 per cent from \$55 a tonne to \$72 a tonne on the back of a pick-up in steel production. Iron ore spot prices hit an all-time high of close to \$200 a tonne in early 2008.

Max Layton, of Macquarie in London, said the latest signs were "encouraging", although he warned that the sustainability of the rally was in question.

## CHINA SRB'S 59,000 MT ZINC PURCHASE UNLIKELY TO IMPACT MARKET

*January 14, 2009 (Platts)* – China State Reserve Bureau's plan to buy a total of 59,000 mt of refined zinc from seven state-owned smelters at Yuan 11,800/mt (\$1,725) is unlikely to impact the market, industry sources said Wednesday. "The tonnage is relatively small, so there will not be much impact," one smelter source said. "The amount is not enough to support the market ... in the mid to long term, the market must still

depend on economical and financial factors. Demand is the main concern," he added. "The news just came out today and there's not much impact so far. The government is trying to stimulate the market, but if there's no real demand then there's no use. This move may be able to stabilize prices, but not push it up much further," a trader said. He added that prices have also been rising recently before the purchase announcement,

so “it was hard to really see significant impact from the move.” The SRB deal was decided Wednesday following a meeting with the seven smelters in the morning. The concluded volume was lower than the 100,000-200,000 mt which was earlier expected in reports. The price was about 3% higher than the nearest January contract for zinc on the Shanghai Futures Exchange, which closed at Yuan 11,480/mt on Wednesday. “The price settled is not much higher than market levels. The earlier aluminium purchase by the SRB was done around 10% higher than market levels, and even that had minimal impact on the market,” the trader said. A source from another smelter involved in the deal said the SRB

was actually looking to buy 100,000 mt, but producers had not enough stockpile to supply that amount. “There are limited reserves since many producers cut output earlier,” the source said. “The smelters cut output earlier, and no one really wants to keep too much stocks when a market is on the downtrend as in the past few months. But the plants may also have offered less as they want to keep some stocks over the Chinese New Year period, just in case there is a sudden need for them by regular customers, or should prices rise further after the break,” the trader added.

## CHINA TO HALT STEEL MILL EXPANSIONS TO HELP STABILISE MARKETS

*January 14, 2009 (Reuters)* – China vowed on Wednesday to stop its steel mills from expanding further as industry figures showed the sector carrying massive overcapacity which risks swamping domestic and foreign markets. The State Council, which also agreed measures to support its carmakers, said it would allow no new steel capacity expansion projects and would adopt a flexible tax policy on steel exports to “stabilise” China’s share of the global steel market.

China has the world’s biggest steel sector, with rampant growth fuelled by an economic boom that ran out of steam over the last few months. Steel capacity reached 660 million tonnes at the end of 2008, a China Iron and Steel Association official said at an internal government meeting on Tuesday, the China Securities Journal reported. CISA officials later told Reuters the proper figure should be 616 million tonnes. Industry analysts said both figures are plausible.

Either way, 2008 showed strong growth despite the weakening market. Chinese steel capacity at the end of

2007 is estimated at about 550 million tonnes. “Everyone keeps saying the steel price has recovered, but this overcapacity is still there. As soon as the price improves a bit, they’ll start up again,” said analyst Henry Liu, of Macquarie Research. “It’s not good for the industry.” Nor is it good for relations with trading partners, whose own steel mills have cut output aggressively as the global financial crisis decimated demand.

Record raw materials costs combined with plummeting prices have hurt returns, even at model national mills like Baosteel Group, which includes Baoshan Iron & Steel Co where profits dropped by 32 percent in 2008. China’s policies to rein in capacity have been mostly ineffectual over the last few years. Some in the steel industry expect the government to add financial incentives to encourage medium and large size mills to merge, while forcing smaller mills with outdated, polluting furnaces to shut. The state council’s measures, which were not released in detail, could compound the challenges for 2009.

## SOUTH AFRICAN PLATINUM MERGER COLLAPSES

*January 14, 2009 (Financial Times)* – A potential \$2.6bn deal to create a “platinum champion” by combining two of the world’s biggest producers of the metal collapsed on Wednesday, adding to the gloom surrounding a sector that has been among the hardest hit by the global slowdown. Johannesburg-listed Impala Platinum, the second largest platinum producer, spent the best part of last year in talks to acquire Northam Platinum, the fourth biggest, and its major shareholder, Mvelaphanda

Resources, which is controlled by a leading South African black investment group.

The structure under discussion involved issuing Impala shares in exchange for those of each of its targets at slightly different ratios. But the price of platinum has plunged dramatically since the talks began – taking miners’ shares with it. The three companies issued a joint statement on Wednesday saying that “due to the current

global economic climate as well as the ongoing volatility in commodity and equity prices, the parties have not been able to agree on exchange ratios for the implementation of the proposed transaction. Negotiations have therefore been terminated.” They added: “Although the near-term outlook for the platinum sector remains challenging, the parties continue to believe in the long-term fundamentals of the industry.”

Under the original terms of the deal, Impala had offered 35 of its shares for every 100 of Northam’s. The offer eventually shrank to 25 per shares per 100, at which point both sides walked away, said a person familiar with the talks. The decision leaves Northam with one of the prime platinum assets in South Africa’s Bushveld – home to three-quarters of global stocks of the metal – but unsure as to how it will be able to finance its development.

For Impala, the collapse of the deal will complicate what David Brown, chief executive, said last year was the

company’s “defensive strategy” to gain access to so-called “shallow ounces” – platinum deposits, like those at Northam’s Booyesendal holding, that are close to the surface and thus less costly to mine.

Mr Brown said he was “disappointed” at his failure to capture Northam in spite of there being “a strategic rationale for the deal”. He said Impala, which had net debt of R207m (\$20.3m) at the end of 2007, had to preserve cash because “we are in for a tough 2009”.

The collapse of the deal leaves Northam – and its 63 per cent shareholder Mvela, a black South African investment group controlled by Tokyo Sexwale – sitting on a rich deposit that it could struggle to exploit independently. Derek Wolstenholme, corporate finance manager at Northam, said the company would push ahead with its feasibility study at Booyesendal.

## CHAVEZ SEEKS GOLD-MINING VENTURE WITH RUSSIANS

January 14, 2009 ([seattlepi.nwsource.com](http://seattlepi.nwsource.com)) – President Hugo Chavez is awarding a valuable gold mining concession to a joint venture between a Russian-financed company and the Venezuelan government, in an apparent bid to secure new sources of state income as oil prices fall. Venrus, a joint enterprise formed last year between Rusoro Mining Corp. and a Venezuelan state holding company, will begin developing the country’s largest gold mine, Las Cristinas, this year, Chavez told Congress late Tuesday.

The Venrus concession apparently ignores an exclusive contract that Venezuela’s government had granted Toronto-based Crystallex International Corp. in 2002 to develop four sections of Las Cristinas. Crystallex’s request for a final permit to start digging there was denied in May, but the company on Wednesday said it had not been informed of any changes in its deal.

The move would boost Venezuelan state control over the country’s gold reserves, a potentially lucrative resource, said Pavel Gomez, an economist at the IESA business school in Caracas. Those reserves could, in time, compensate for falling oil income and allow Chavez to continue his broad public spending.

Chavez is now awarding to the Venrus joint venture five of Venezuela’s biggest gold concessions – including one

called Brisas del Cuyuni and four in Las Cristinas, which holds an estimated 1,100 tons (998 metric tons) of gold. He said the venture would help double Venezuelan gold production to 9 tons (8.2 metric tons) in 2009.

Rusoro, which was founded by a group of private Russian investors and trades on Canada’s TSX Venture Exchange, has recently increased its presence in Venezuela, purchasing Idaho-based Hecla Mining Corp.’s Venezuelan subsidiaries for \$25 million in June. It also offered to buy all outstanding shares and equity units in Spokane, Wash.-based Gold Reserve, which holds the Brisas concession.

Gold Reserve refused the offer, suing to stop the hostile takeover from progressing. The Ontario Superior Court of Justice will hear its case Feb. 4, according to a statement on the company’s Web site. Gold Reserve President Douglas Belanger did not return calls for comment.

Venezuela also plans to rejoin the Kimberley Process – an international accord to stem the flow of conflict diamonds – in order to exploit its diamond reserves, Chavez said. Venezuelan diamonds have been barred from mainstream world markets since it abandoned the agreement last year.

## THE CHINA FACTOR AND WHAT IT MEANS FOR THE COPPER PRICE

January 14, 2009 (MineWeb – SHSS) – Back in December 2008, SHSS suggested that world refined consumption probably fell by between 10-20% so creating a surplus of 740kt to 1,180kt in that quarter alone, using its definition of consumption being material going into furnaces. Current global consumption is no better, either in China or elsewhere in the world. Thus, a monthly surplus of between 250kt to 400kt is being built up in January.

In China, scrap merchants lost so much money in the second half of last year that many are idle; scrap is, therefore, tight in China. Some smelters have also been forced to cut production, led by Jiangxi Copper, who have had a blow-out in their oxygen plant, so we hear, which will take 6-7 months for reparations to be completed. Until 2009, importers had difficulties in opening Letters of Credit; now banks are enabling LCs to be given and opened.

The combination of these developments together with the usual market games being played has given the appearance of tight supplies in China, despite domestic consumption remaining very weak. Now, the arbitrage between SHFE and LME has become profitable for importers, we should expect that cathode imports into China will become significantly higher in coming months.

Moreover, we understand that the SRB is buying 20-25kt a month directly from producers/merchants, basis monthly average prices. Clearly, large imports will be greater than will be needed for furnaces, but, then, such a development will be nothing new for the market.

The collapse in exports and manufacturing reported by so many Asian countries for November 2008 confirms what we hear on the ground. Uncertainty and volatility in prices and currencies only add to the difficulties being encountered by manufacturers and semi-fabricators in Asia and elsewhere. In some Asian countries, especially those where a change of government is likely or where there is political instability, there is a sharp drop in domestic business, such as in Malaysia, Thailand.

What is emerging out of this credit crisis and global recession is a long period of weak global business activity as the world deleverages and consumers become savers, despite central banks and governments trying to persuade households to spend. In the long run, the collective wisdom of households is infinitely superior to that of central banks and governments. Households have learnt their lesson.

What does this background mean for copper prices? Prices should continue falling, but markets seldom move in straight lines. Despite the cuts in production – with more to come – large surpluses will emerge this year as global consumption will fall by at least 2%.

Nonetheless, the direction of prices until mid-2009 is likely to be up for hope springs eternal. We could see prices reaching \$5,000 by then which would provide an excellent opportunity for producers to hedge and for others to short. By end 2010 or in 2011, prices should be below \$2,000.

## RIO TINTO HALTS AUSTRALIAN DIAMOND PRODUCTION IN LATEST CUTBACK

January 14, 2009 (AFP) – Mining giant Rio Tinto Wednesday said it was suspending diamond production in Western Australia for up to three months, in its latest cutback in response to the global financial crisis. The Anglo-Australian miner said it would also slow work on the 1.5 billion US dollar development of an underground operation at the Argyle Mine in Western Australia's Kimberley region.

“Given global market conditions, we will also reduce diamond production by taking an extended maintenance shutdown of the diamond processing facilities for up to three months,” said Kevin McLeish, chief operating

officer of the Rio Tinto subsidiary Argyle Diamonds. McLeish said the shutdown would begin in March.

The decision is the latest in a string of cutbacks by Rio Tinto in recent days as it attempts to slash debt in the face of flagging demand caused by the global financial crisis. On Tuesday Rio announced it was suspending a 229 million US dollar copper and gold mine development in eastern Australia because of low commodity prices and deferring a 371 million US dollar automated train project in the iron-ore rich west.

One day earlier, the group postponed the 2.15 billion US dollar expansion of its Corumba iron ore mine in Brazil due to the worldwide slowdown. Analysts expect more cuts to be announced after Rio releases quarterly production figures on Thursday.

The company has already said it will cut 14,000 jobs and reduce capital spending by five billion US dollars to help shrink its 38.9 billion US dollar debt amid sluggish

demand for commodities. The underground project at the Argyle operation was due to be completed by 2010 and was designed to extend the life of the mine, which currently produces about 20 million carats of diamonds a year, past 2018. The slowdown means only critical development activities will be completed.

## JAMAICA'S LARGEST BAUXITE COMPANY CUTS PRODUCTION

*January 14, 2009 (Reuters)* – Jamaica's largest bauxite and alumina producing company, Alumina Partners of Jamaica, will cut production by 50 percent and lay off staff, a company official said here late Wednesday. Officials at the company known as Alpart blamed the global economic slowdown for the cutbacks, which take effect on Thursday. "The economic situation required Alpart to take immediate action," said the Managing Director Alberto Fabrini. "Alpart has already introduced measures to reduce cost and increase efficiency. We have been in dialogue with the workers and their unions about the measures," he said in a statement.

The company, which has the capacity to produce 1.65 million tonnes of alumina each year, did not say how long the production cut will last. Fabrini said 250 part-time or temporary workers would lose their jobs on a

phased basis. "The workers are not in agreement with this move, but they understand that the global crisis has impacted on this situation," said Vincent Morrison, president of the National Workers Union, which represents some of the workers.

Representatives from United Company RUSAL, the majority shareholder in the company, have arrived in Jamaica to meet with government and company officials and said they could not rule out further job and production cuts. Norwegian aluminum group Norsk Hydro also owns a stake in Alpart. Although other bauxite companies operating in Jamaica have not said they will cut production and staff, analysts believe that could occur soon.

## BLACK HOLE OF HORROR FOR BUMI'S INVESTORS

*January 14, 2009 (Financial Times)* – Bumi Resources, the world's second-largest thermal-coal exporter, lives simultaneously in two parallel universes. In one are the Indonesian company's two world-class assets, the coal mines of Arutmin and Kaltim Prima Coal. They have combined reserves of 2.1bn tonnes. Bumi plans to more than double its output from 53m tonnes in 2008 to 110m tonnes in 2012 to feed the demand from power stations. It predicts its 2009 average selling price will be about \$77 per tonne this year, up from \$73 last year and \$44 in 2007.

Even if they fall short, and previous long-term forecasts have proved optimistic, the future, from the operations side, looks pretty rosy. The other universe is a black hole

of investor horror. Bumi's share price has fallen 50 per cent this year and is 94.6 per cent off its peak reached in June last year. Only a fraction of this can be put down to the global financial crisis. Many analysts believe corporate governance issues, particularly in relation to the company's links to the powerful Bakrie family and three recent acquisitions, are now so serious that Bumi is largely uninvestable. And this is in spite of the rising demand for thermal coal. Bumi executives claim operational performance will reduce investors' anxieties and push up the share price. But investors, especially foreigners, appear unlikely to be rushing back in any time soon.

## RIO TINTO'S NEW BIG TITANIUM PROJECT STARTUP TO BRING MADAGASCAR HUGE BENEFITS

January 15, 2009 (Reuters) – A subsidiary of UK-based multinational Rio Tinto has started ilmenite production at its QMM mineral sands operation at Fort Dauphin in Madagascar, the company said on Thursday. Rio Tinto Iron & Titanium, part of the world's fourth-biggest diversified mining group, owns 80 percent of the development in the south of the Indian Ocean island. The Madagascar government owns the rest.

“This first production is a major landmark in a project which, notwithstanding many complex challenges, has been described as a model for future projects in Africa and elsewhere in the developing world,” Rio Tinto Chief Executive Tom Albanese said in a statement. The company said the ilmenite from Madagascar would be shipped to Rio Tinto's metallurgical complex in Sorel-Tracy, Quebec, which had been upgraded to process it. It said the total investment cost in Madagascar and Canada was \$1.2 billion.

The company said phase one production at Mandena, north of Fort Dauphin, would eventually ramp up to 750,000 tonnes per year. Later phases planned at

Ste Luce and Petriky would bring the potential to boost production to 2.2 million tonnes a year. The QMM project is part of an incipient mining boom in Madagascar, where most people live on less than \$2 a day. Set to produce nickel, cobalt, bauxite and ilmenite, explorers are also looking for oil, gold, coal, chrome and uranium.

The first ilmenite shipment is scheduled for March 2009 when work is finished on the new Ehoala port, south of Fort Dauphin. The port, which will cost \$145 million including a \$35 million World Bank loan, will be able to handle vessels up to 60,000 tonnes. It is expected to help open Madagascar's isolated and impoverished southern region and let the economy benefit from rising trade between Africa and Asia.

The QMM project includes conservation zones and the involvement of non-profit groups like Conservation International, Flora and Fauna International, Birdlife International and London's Kew Gardens.

## BIG OUTPUT FALLS FOR IRON ORE, COPPER, IN RIO'S DECEMBER QUARTER OPS REPORT

January 15, 2009 (Reuters) – Global miner Rio Tinto reported one of its biggest quarterly falls in iron ore output on Thursday after demand from Chinese steel mills slumped late last year, but sales met its own reduced target. Rio Tinto, which is slashing costs and selling assets to help pay down debt, reported an 18 percent fall in fourth-quarter iron ore output to 31.8 million tonnes, while sales from its Western Australian iron ore mines, which more closely reflect demand from Chinese steel mills, slid 23 percent to 33.6 million tonnes.

The drop plays into the hands of Chinese mills which are pressing for a 40 percent cut in contract prices from Rio Tinto, Brazil's Vale and BHP Billiton, to reverse last year's near-doubling in contract prices. “We are taking firm action in response to the global economic downturn and, given the resilience of Rio Tinto's low cost assets, expect to remain well positioned when recovery comes,” Chief Executive Tom Albanese said in a statement.

The world's fourth-biggest diversified mining group delivered no major surprises in its December-quarter operations report, but said aluminium profits would be hurt by falling prices and it would also write down stocks to reflect the weaker prices.

Rio Tinto had flagged in November that it would cut its annual iron ore production rate by 10 percent, paring its annual shipments target to between 170 million and 175 million tonnes. Sales for all of 2008 came in at 171.4 million tonnes. On an annual basis, iron ore production grew 6 percent in 2008, the weakest pace in four years, and a Rio Tinto official said it was probably the biggest ever quarterly fall, year-on-year, but he could not confirm this.

Fourth quarter output of refined copper fell 18 percent due to a continued decline in grades and operational problems at Escondida in Chile. Aluminium production from the combined Rio Tinto and Alcan operations fell

2 percent, largely due to output cuts in France, New Zealand and the UK. Hard coking-coal production surged 40 percent, spurred in part by increased port capacity, while thermal coal output jumped 21 percent.

Its copper earnings would be cut by about \$360 million due to pricing adjustments in the second half, it said. Following up on its plan to cut capital spending by more than \$5 billion this year, it announced this week it was

shelving its Corumba iron ore expansion in Brazil, its Northparkes copper expansion in Australia, automation of iron ore trains and an underground mine project at its Argyle diamond mine in Australia. It also said it would shut diamond processing at Argyle, the world's top producer of pink diamonds, for up to three months from March.

## NOW SOUTH AFRICA FALLS BEHIND US AS WORLD GOLD OUTPUT CONTINUES SLIDE

*January 15, 2009 (MiningWeekly)* – Global gold mine production fell “substantially” in 2008, to its lowest level since 1995, according to a report published by metals consultancy GFMS. Output declined for the third consecutive year, contracting by a provisional 88 t, continuing the “flat to declining” trend that has developed since production reached a peak in 2001, chairperson Phillip Klapwijk said in Toronto on Thursday. “Aside from technical constraints, power issues and skills shortages, the global credit crisis started to take its toll, with financing options becoming increasingly limited.”

According to GFMS's ‘Gold Survey 2008 – Update 2’, the decline was led by Australia, Indonesia and South Africa, where production plummeted a whopping 14% year-on-year. This represented the sharpest percentage fall since 1901, when the second Boer War was still under way. “According to GFMS’ archive data and provisional 2008 figures, the country’s output hit its lowest point for a century, relegating the country to world number three, behind the US,” GFMS said.

South Africa was the world's biggest gold producer for more than one hundred years, until it was overtaken in 2007 by China, which extended its lead last year with an estimated 3% increase in production.

For 2009, output is expected to grow slightly, thanks to new projects starting up, although any gains will be in comparison to a weak first half in 2008, GFMS said. Global total cash costs rose by 22% year-on-year in the first nine months of 2008, a rate of increase which was fractionally down against the same period last year. World total cash costs topped \$500/oz in the third quarter of 2008, a first for the industry, according the report published on Thursday. “Much of this rise can be attributed to relentlessly rising costs in Australia, where the year-on-year increase was a dramatic 50%,” GFMS said. Of the major producing countries, Canada was the only player to buck the trend by recording a decrease in average costs in the nine months to September in 2008.

## GFMS SAYS \$1,080/OZ GOLD POSSIBLE THIS YEAR

*January 16, 2009 (MiningWeekly)* – Highly-respected metals consultancy GFMS expects gold prices to range between \$750/oz and \$1,080/oz in 2009, executive chairperson Phillip Klapwijk said in Toronto on Thursday. The consultancy published its latest market report, ‘Gold Survey 2008 – update 2’, in which it argues that risk aversion and a desire to preserve wealth will be the main force behind the expected surge in gold investment demand. The top end of the forecast range would imply a new high for the metal, which Klapwijk said would not surprise him.

Although the global economic downturn would have negative implications for fabrication demand for the

metal, he suggested that gold's “competition” for investors’ attention – stocks and bonds – would probably have an even worse time of it over the next few months. GFMS is forecasting an average gold price of \$915/oz in the first six months of the year, compared with an average price of \$871.96 recorded last year.

Klapwijk said that he expects a weakening US dollar and pressure on global stocks will boost gold investment, and reverse some of the selling that has taken place over the last couple of months, when investors’ need to cover losses elsewhere has prompted widespread liquidation of gold holdings.

The economic stimulus and rescue measures being taken by governments, and the US in particular, would likely boost gold's attractiveness, and high levels of financial uncertainty, particularly as inflation concerns begin to simmer over the course of the year, will mean that investors increasingly favour hard assets like gold, Klapwijk said.

Implied net investment rose 20% in 2008, to 219 t, according to GFMS figures, and is expected to jump 89.4% year-on-year in the first half of 2009, to 388 t.

However, high and volatile prices, plus the slowdown in world gross domestic product growth were forecast to cut jewellery demand by 11% in the first six months of this year. Jewellery offtake was also estimated to have declined by 11% in 2008, chiefly due to the damage from high and volatile prices, especially in the developing world, and the slide into recession in many countries, in particular, the US.

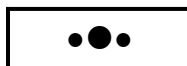
## ZAMBIA MAY CUT MINING TAXES

*January 16, 2009 (Mining Journal)* – Zambia's President Rupiah Banda said on Friday the government could cut mining taxes after numerous complaints and threats of litigation from foreign investors in the country's struggling mining industry. Mr Banda said the government was currently in talks with the owners of the mines to see the best way to mitigate the impact on mining brought about by the effects of higher taxes introduced in 2008, and the low global metals prices.

"The government is currently engaged with the industry to make sure that a beneficial financial environment

exists for both the government and investors. My government will do all it can to protect jobs and to safeguard the industry for the future," Mr Banda said.

"We must ensure that we do not kill the goose that lays the golden egg. There is little point in taking in a few million dollars in tax if thousands of jobs are lost as a result."



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**Beijing**  
**Behre Dolbear Asia, Inc.**  
 Tel: +86.10.6397.8580  
 Fax: +86.10.6397.8580  
 beijing@dolbear.com



**Denver**  
**Behre Dolbear Group Inc.**  
**Behre Dolbear & Company, Inc.**  
**Behre Dolbear Capital, Inc.**  
**Behre Dolbear Management Consulting, Inc.**  
 Tel: +1.303.620.0020  
 Fax: +1.303.620.0024  
 denver@dolbear.com



**Guadalajara**  
**Behre Dolbear de Mexico, SA de CV**  
 Tel: +52.33.3610.2113  
 Fax: +52.33.3610.2112  
 bsolanor@prodigy.net.mx  
 mexico@dolbear.com



**Hong Kong**  
**Behre Dolbear Group Inc.**  
 Tel: +852.9039.0288  
 hongkong@dolbear.com



**Johannesburg**  
**Digby Wells & Associates (Pty) Ltd.**  
 Tel: +27.11.789.9495  
 Fax: +27.11.789.9498  
 info@digbywells.co.za



**London**  
**Behre Dolbear International Ltd.**  
 Tel: +44 (0) 1233.650405  
 Fax: +44 (0) 1233.666828  
 london@dolbear.com



**New York**  
**Behre Dolbear & Company (USA), Inc.**  
**Behre Dolbear Capital, Inc.**  
 Tel: +1.212.684.4150  
 Fax: +1.212.684.4438  
 newyork@dolbear.com



**Santiago**  
**Behre Dolbear Chile y Cia Ltda.**  
 Tel: +56.2.243.0947  
 Fax: +56.2.243.0022  
 santiago@dolbear.com



**Sydney**  
**Behre Dolbear Australia Pty Limited**  
 Tel: +61.2.9954.4988  
 Fax: +61.2.9929.2549  
 sydney@dolbear.com



**Toronto**  
**Behre Dolbear & Company, Ltd.**  
 Tel: +1.416.369.9011  
 Fax: +1.416.369.0449  
 toronto@dolbear.com



**Vancouver**  
**Behre Dolbear & Company, Ltd.**  
 Tel: +1.604.646.4666  
 Fax: +1.604.687.1327  
 vancouver@dolbear.com

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