

BEHRE DOLBEAR

Global Mining News

CHILEAN THINK TANK FORECASTS COPPER PRICES WILL DROP EVEN LOWER

January 19, 2009 (Reuters) – Copper output in Chile, the world’s largest producer, may fall in 2009 as the industry is hammered by low prices for the red metal, the director of the CESCO copper industry think tank said on Friday. CESCO Executive Director Juan Carlos Guajardo told Reuters in an interview that he saw copper output coming in at about 5.3 million tonnes this year, either unchanged from a year earlier or down as much as 1 percent. The CESCO outlook is far more pessimistic than a Chilean government report last week for a 3.7 percent rise in production this year.

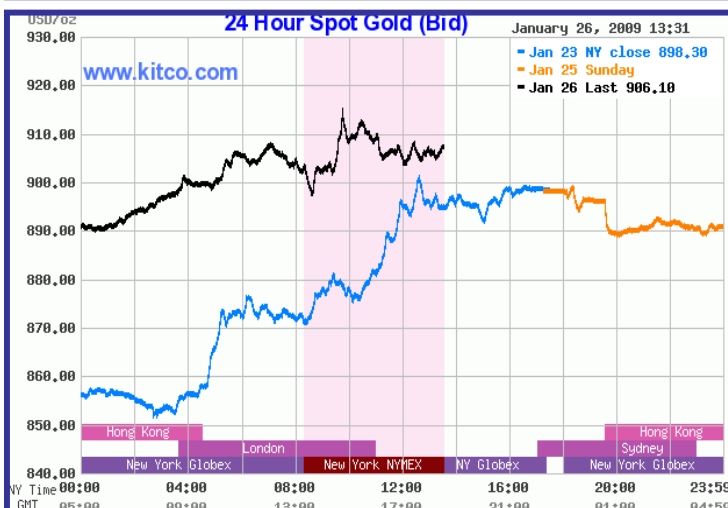
Chile copper miner Antofagasta Plc said this week it was closing a small Lince open pit mine in northern Chile because of lower prices, the latest in a series of global copper industry project casualties. “If you look at the 19 largest mines in Chile, 10 saw falling production last year (2008), so we are talking about more than half of Chile’s mines with falling copper (output),” said Guajardo.

Guajardo said a study conducted CESCO showed planned investments for the sector have fallen 25 percent in dollar terms in Chile since September, to close to \$27 billion as of early January from some \$37 billion when the industry was still in an extended price boom and costs were soaring.

Global copper prices have plummeted since then to close to \$1.50 a pound, from record highs of over \$4 last July.

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USD	JANUARY 23, 2009	JANUARY 16, 2009
GOLD	875.75	824.25
SILVER	11.4600	10.7800
PLATINUM	928.00	943.00
PALLADIUM	183.00	185.00
ALUMINUM	0.5851	0.6557
COPPER	1.3837	1.5164
LEAD	0.4876	0.5271
NICKEL	5.0099	4.8784
URANIUM	51.00 (1/19/09)	51.00 (01/12/09)
ZINC	0.5026	0.5649

Guajardo said he estimated average copper prices would range between \$1.50 and \$1.80 in 2009.

For Chile's mining industry over all, Guajardo said planned investments fell 38 percent from September, led by projects in iron and steel and, to a lesser extent, molybdenum mining. Of roughly \$10 billion in investment plans put on hold in the copper industry, nearly \$7 billion are attributable to No. 1 diversified miner BHP Billiton, majority owner of Chile's Escondida, the world's largest copper mine. The CESCO report showed Escondida could postpone its Phase Five expansion, originally planned for 2013, and the building of a new complex to desalinate sea water for ore processing, planned for 2012.

Guajardo said the copper market could see a slight rebound in the second half of the year, if copper

inventories prove less robust than currently thought. Most industry analysts predict copper inventories, until recently in deficit and underpinning booming prices, will come in near 300,000 to 400,000 tonnes this year. Copper prices are already up from close to \$1.20 per pound just weeks ago, in part because they crossed the threshold below the minimum costs of even the most efficient producers.

And financial market turmoil has not punished the copper price as much as some had predicted. China, he said, is giving signs for optimism, importing more copper than expected in December at a time when China bank loans rose.

RIO TINTO IN NO HURRY TO SELL U.S. ASSETS

January 19, 2009 (Mining Journal) – The financial turmoil has slowed Rio Tinto's plans to shed some U.S. assets and the company will wait until it secures the right price, the chief executive of its energy and minerals unit said. Preston Chiaro also said energy would remain an integral part of the company's business even if it sold some of its assets to raise funds to help pay its debts.

"We have put up four of our five (coal) mines in the U.S. for sale over a year but there are no buyers. We will hang on to them, they are profitable and safe, we will not sell for a bargain price," Mr Chiaro said. Due to the financial meltdown, banks are unwilling to lend and buyers probably face difficulties in securing cash to purchase assets, he said.

Rio Tinto, the second largest uranium producer, has no plans to sell its majority stakes in Energy Resources of

Australia and the Rossing uranium mine in Namibia. Mr Chiaro rejected speculation Rio Tinto may sell its stake in its 76% stake in Australia's Coal Allied Industries. Plans for an initial public offering (IPO) in its U.S., coal business have been postponed due to poor market conditions, he said.

Rio Tinto's joint venture hydrogen power project in the UAE capital, Abu Dhabi, is on track with engineering and design completed. Construction is due to start next year and commissioning is set for 2013, he said. Rio Tinto and BP hold a 20% stake each in the project while Abu Dhabi's Masdar holds 60%. The company is not pursuing any other joint ventures in the Middle East for the time being, he said.

MACQUARIE SCALES BACK 2009 STEEL AND IRON PRODUCTION FORECASTS

January 19, 2009 (Platts) – 2009's steel output and iron ore trade are forecast to drop 8% and 5% respectively compared to 2008 figures, according to a report by Australian bank Macquarie published Monday. The bank has now decreased its forecasts for the materials' 2009 production and trade by 18% and 14% since this time last year.

In 2009, carbon steel production is expected to fall to 1.232 billion mt, down from an estimated 1.339 billion

mt in 2008. Total iron ore seaborne trade is expected to drop to 829 million mt from 870 million mt.

Large production cuts by steelmakers are stabilising and rebalancing markets, but an overhang will still prevent strong growth, the report said. However global recession prospects in 2009 have changed the outlook dramatically and prices are unlikely to rebound to previous highs, it added.

On a more positive note, the longer-term outlook remains strong due to the lack of new non-Chinese steel capacity relative to demand, the report said, adding that when recovery comes, developing world demand growth should help drive strong global growth rates. Talking about metals as a whole, the report said physical tightness is to re-emerge in the next decade in many cases, keeping prices well above normalised levels.

Macquarie argued that the iron ore oversupply caused by collapsed Chinese and European steel production means iron ore price falls of 20-30% are likely in 2009. Iron ore miners Vale, Rio Tinto and FMG cut production by 10%, helping to rebalance the market, the report said. But

longer-term, there will still be too much supply in 2011 and 2012 despite major project delays, Macquarie said.

The report also argued the collapse in freight rates has done a lot of the work in reducing spot prices from \$190/mt to \$55-50/mt, and has forced “uneconomic” producers in China and India out of business. The report forecasts total seaborne demand for iron ore will be 813 million mt in 2009, 942 million mt in 2010, 1.06 billion mt in 2011 and 1.17 billion mt in 2012. China’s demand for seaborne iron ore meanwhile is forecast at 453 million mt in 2008, 545 million in 2010, 635 million mt in 2011 and 735 million mt in 2012.

BIG SURGE IN LENDING (BUT IT’S IN CHINA)

January 19, 2009 (Reuters) – For the first time in a while, that light at the end of China’s economic tunnel might not be an oncoming train after all. Brushing aside awful trade figures for December, investors took heart from a surge in bank lending and money growth last month that economists read as an early sign that Beijing’s efforts to pump up growth are working.

Some economists immediately questioned whether the burst of lending can be sustained – at least without risking a damaging rise in sour loans as banks lower their credit standards. They also said that trade flows were likely to get worse before they get better: both exports and imports fell in December from year-earlier levels for the second month in a row, reflecting depressed demand in the West and at home.

But optimists pointed to other indicators suggesting that parts of the economy on the mainland might be finding a floor: property deals in some big cities have rebounded on the back of government incentives, while steel prices have staged a partial recovery. Andy Rothman, CLSA’s macro strategist in Shanghai, also cited the first month-on-month increase in electricity generation since July.

He said he expected to see sustainable signs of life in the economy by March or April. That is when orders from the government’s \$585 billion fiscal stimulus plan, centered on infrastructure, will start landing at steel and cement producers – at a time when inventories are low.

A rush to cherry-pick the most bankable of the investment projects lay behind a \$113 billion rise in new

local-currency lending last month – 14 times more than in December 2007. That took new lending in all of 2008 to a record 4.91 trillion yuan, up 35 percent from the year before.

The authorities have certainly made their intention plain. They have scrapped all loan quotas, eased smaller banks’ loan-to-deposit ratios and set an aggressive target of 17% growth in M2 money supply in 2009 – the first time since 2003 that money would grow faster than nominal GDP, according to Macquarie analyst Paul Cavey.

Mr. Wang expects lending to remain strong this quarter as infrastructure spending is cranked up, but added: “Later in the year, we will have to watch closely whether banks continue to be willing and can find worthwhile projects to sustain loan growth.” Yu Song and Helen Qiao at Goldman Sachs, which has a below-consensus economic growth forecast for 2009, also think money and credit growth will fall back to a more normal pace after the first quarter.

But at the very least, economists said the credit data should allay fears about who will pay for the pump-priming. The central government has said it will finance only 30% of its plan. Mingchun Sun at Nomura said public project loans – which carry an implicit state guarantee – are attractive for banks that are reluctant right now to lend to property developers, small companies, exporters and firms in sectors with overcapacity.

A RUSSIAN CONTENDER TO BHP

January 20, 2009 (MineWeb) – Media reports from in and around Moscow about the possible formation of a “giant” Russian mining combine, where BHP Billiton, the world’s biggest diversified resources company, is mentioned as a potential peer, highlight once again crushed market valuations, and crippling debt, of a number of big mining companies.

The mooted Russian plan apparently aims at a mega entity where government holds 25%, plus a vote, in return for absorbing the debt in a number of big mining names. It seems that giant Siberian nickel miner Norilsk sits at the core of the plan, one that could also involve Metalloinvest (unlisted), Evraz, and Mechel, three of Russia’s biggest names in iron ore and steel, and also Uralkali, a significant player in the global fertiliser sector via its operations in potash mining and milling.

Russian stocks have been among the worst hit globally, during the equities sell off and credit markets crisis, not least due to the insignificant retail equities market in Russia. It is of no small interest that United Company Rusal, the world’s biggest aluminium and alumina producer, is not set down to participate, but is apparently agreeable to part with its 25% stake in Norlisk.

Have promoters of Russia’s would-be mega miner spent enough time explaining what synergies the merged entity would offer, if any, and, at the same time, why any number of pedigreed entities, such as Magnitogorsk, have apparently not been invited to the party? There are other headwinds, such as the ruble, which has been sharply managed down in the past few months, and currently ranks as one of the worst performing currencies. Dollar prices of Russia’s biggest exports, hydrocarbons, metals, and minerals, have crashed.

Media reports indicate that the architects of the would-be giant Russian combine reckon it could carry a market value (or capitalisation) of between \$70 and \$100bn. The underlying reasons for forming “Russia’s BHP Billiton” stand as far from convincing, but would benefit the oligarchs, whose net worth has fallen by tens, if not hundreds, of millions of dollars since mid-2008. Should the mooted market value of the Russian mega miner materialise, it would be up with the likes of BHP Billiton, currently carrying a market value of around \$101bn, and Vale, the world’s No 2 miner.

ANGLO AMERICAN EYES M&A OPPORTUNITIES IN BASE METALS

January 20, 2009 (Dow Jones Commodities News via Comtex) – Diversified global miner Anglo American PLC is looking at opportunities to buy assets while prices hit cyclical lows, according to a company presentation Tuesday in London.

Anglo American is “currently looking at opportunities to acquire assets at the bottom of the cycle,” Brian Beamish, chief executive for Anglo’s base metals division, said in the presentation. The base metals investors seminar was closed to the press but slides were posted on the company’s Web site.

“(The) current market may offer opportunities to acquire capacity for less than it would cost to build, but a continued disciplined approach to M&A is required,”

Beamish added. Anglo American also continues to develop its project pipeline and is considering moves into new commodities such as titanium, he said.

Anglo American said in December that it would cut its 2009 capital spending by more than half, including deferring its Los Bronces copper expansion in Chile by eight months and the Barro Alto nickel project in Brazil by a year.

The cutbacks reflect weaker prices for copper, nickel, zinc and other commodities as demand slows while the global economy cools. Beamish said the company’s project pipeline is set to deliver increased production of copper and nickel from 2011.

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RIO TO CUT ALUMINIUM OUTPUT EXTRA 6 PERCENT, SHED JOBS

January 20, 2009 (Reuters) – Alcan, the aluminium unit of mining group Rio Tinto, plans to cut another six percent of output and will shed 1,100 employees to cut costs after a deeper slide in metals prices, the firm said on Tuesday. The measures are part of a wider programme by Rio Tinto to conserve cash so it can make payments on nearly \$40 billion in debt amid the global economic downturn.

The move by Canada-based Alcan, the world's second biggest aluminium producer, will bring its total production cuts to 450,000 tonnes, or 11 percent of total annual capacity. The firm also plans to reduce production of alumina, the raw material to make aluminium, by 6 percent, a statement said.

The job cuts comprise 800 permanent employees, 3 percent of a total of 26,600, and 300 contractors. The total number of contractor jobs was not immediately

available, a Rio spokeswoman in London said. Alcan said it had already cut around 5 percent of its aluminium capacity in the fourth quarter, but the worsening economic downturn forced further cuts.

The firm will permanently close down its Beauharnois smelter in Quebec, which produces 52,000 tonnes per year using the old Soderberg technology, which is being phased out in line with environment regulations. Alcan also plans to sell its interest in a Chinese joint venture and close the Anglesey operation in Britain.

In alumina, the firm plans to temporarily cut production at its Vaudreuil alumina smelter in Canada by 25 percent, or 400,000 tonnes, and at Gardanne refinery in France by 15 percent, or 105,000 tonnes.

CHINA 2009 REFINED COPPER CONSUMPTION ESTIMATED TO GROW BY 2 PERCENT, INSIDER

January 20, 2009 (ChinaMining) – China's consumption of refined copper will grow by 2 percent only in 2009, due to soft demand on domestic household market. The forecast is made by Wang Chiwei, a deputy manager of China's top copper producer Jiangxi Copper Group, parent of Jiangxi Copper Co., Ltd..

Although the government's economic stimulus package will stimulate wire and cable producers to add demand for copper products, producers of air-conditioners and

refrigerators will cut demand for copper pipes and bars greatly, said Wang.

Wang estimated Chinese copper consumption in 2008 to increase 4 percent on year to 4.96 million tons, output of copper mines to increase 8.4 percent on year to 920,000 tons, and output of refined copper to grow 6.7 percent to 3.68 million tons.

INDONESIA SEES MINE INVESTMENT BELOW \$1BN IN '09

January 21, 2009 (Reuters) – Mining investment in Indonesia may drop below \$1-billion this year and there may be no fresh projects as metal prices fall and miners await details from a new mining bill, a senior industry official said on Wednesday. Mining investment rose to \$1.6-billion in 2008, up from \$1.2-billion in 2007, data from the energy and mines ministry show.

The investment would come from existing mining firms which have completed exploration and are moving towards exploitation, Priyo Pribadi Soemarno, executive director of the Indonesian Mining Association, told

Reuters. "The new mining law came at the wrong time. It should come during a boom in metal prices. But it came when prices fall, it makes investment less attractive," Soemarno said. "Mining investment may not reach \$1-billion this year and we may see very little fresh investment," he said.

Indonesia's parliament passed a new law in December last year on coal and mining that promises more certainty for investors, although it has stirred concern that it may deter major new foreign investment. One of the

contentious items in the new law is dropping licensing via a contract of work, favoured by major mining firms, and replacing it with mining permits running for shorter periods. The new coal and mining law came as metal prices sunk to multi-years low as global economic weakness hit demand.

Indonesia has some of the world's largest deposits of gold, nickel, tin, coal and copper, with several leading international mining firms, including Freeport-McMoran Copper&Gold, operating in the country. But fresh

investment in the sector had been lacking as legal uncertainty, bureaucracy, allegations of corruption as well as concerns over the environment and land disputes have meant little interest from investors.

Fresh mining investment may not come soon as investors are waiting details of the new mining law and also mining areas that are open for investors as under the new law mining areas will be offered via tender, Soemarno said.

BHP TO CUT THOUSANDS OF JOBS WORLDWIDE, TAKE MASSIVE WRITEDOWN

January 21, 2009 (Reuters) – BHP Billiton Ltd/Plc will cut some 6 percent of its workforce, and close its giant Ravensthorpe nickel mine in Australia with a \$1.6 billion writedown, its biggest in nine years, hit by a global recession. Joining smaller rivals in downsizing to combat sinking metals prices in the economic downturn, the world's largest miner also flagged it was reducing activity at its nearby Mount Keith nickel mine.

“Clearly their balance sheet is in a respectable position. But they are not immune from the commodity price environment that we're seeing, and earnings are going to suffer,” said Neil Boyd-Clark, managing partner at Fortis Investment Partners.

BHP Chief Financial Officer Alex Vanselow warned on Wednesday more mines could be closed given uncertainty in commodity markets, with the Australian metallurgical coal mines already slated to reduce output 10 to 15 percent. Until now BHP has set itself apart from other miners by maintaining production and just last month said sales volumes were holding up despite the global downturn. BHP said it was cutting some 6,000 jobs in total.

Rival Rio Tinto is in the process of eliminating 14,000 workers, Brazil's Vale has cut 1,300 jobs and put 5,500 workers on paid leave and other miners have also warned jobs were at risk.

Vanselow conceded the company “got it wrong on Ravensthorpe”, but analysts said it was doing the right thing to shut it down in face of weak nickel prices. Besides some 2,100 jobs cuts in Australian nickel mining another 4,000 jobs out of BHP's 101,000-strong global workforce will go, Vanselow said. Vanselow estimated the total job cuts will cost \$500 million.

With industrial activity worldwide slowing, analysts doubted the cuts to nickel output would be enough to turn prices around. “The decision to suspend Ravensthorpe really reflects the weakness in the nickel market, which is probably one of the weakest in all commodities,” said Gerard Burg, commodities analyst at National Australia Bank.

RUSSIA GOVERNMENT TO DROP NICKEL DUTY, CUT COPPER ALLOYS

January 21, 2009 (Reuters) – Russia's government will issue an order on Wednesday abolishing a 5 percent export tariff on nickel and cutting substantially a 10 percent tariff on some copper alloys, Russian news agencies reported. “This should apply not only to Norilsk Nickel, but to all companies which work in this sector,” Ria-Novosti quoted Prime Minister Vladimir Putin as saying.

At the end of December, the government's Commission for Protective Measures in Foreign Trade, responsible for drafting government orders on customs tariffs, recommended that the tariffs on nickel and refined copper be scrapped. The recommendation came within hours of Vladimir Strzhalkovsky, chief executive of Norilsk Nickel, the world's top producer of nickel and Russia's

largest producer of copper, saying he expected the government to abolish the duties.

Norilsk Nickel has said it expects revenues to decline drastically to \$8 billion this year, or by more than 50 percent compared with \$17.1 billion in 2007. Other nickel producers in Russia are Ufaleynickel, which stopped production in October, and Yuzhuralnickel, a unit of steel maker and coal producer Mechel. Other Russian copper producers are the Urals Mining and Metals Co and the Russian Copper Company. Both said

in October they were forced to freeze some of their projects due to the crisis.

Normally a new tariff becomes effective one month after an order setting it is signed by the prime minister and officially published in the government gazette, unless the text of the order states otherwise. The standard practice is to set it initially for nine months, after which the government has to take a decision on whether to extend it indefinitely.

ERA OF CHEAP OIL IS OVER

January 21, 2009 (FinanceAsia) – Forget about cheap gasoline, today's low oil price masks a looming energy crisis that could dwarf the current economic problems. If you thought things couldn't get any worse than a collapse of the global financial markets, think again. The economic meltdown is a good reason to be gloomy, for sure, but an under-reported study by the world's leading energy agency recently raised the spectre of a collapse in the global energy market too.

The steep fall in oil prices during the last few months of 2008 prompted many people to think that the run-up to \$147 a barrel was an aberration – driven by speculators or another artefact of the credit bubble. But some industry analysts say that today's prices are the real aberration and, in fact, oil production is dangerously close to going into a permanent and unstoppable decline.

Indeed, the collapse in oil prices is accelerating this trend. Non-traditional projects that were profitable when prices were high, such as Canada's oil sands and fields that are deep underwater, are now being postponed or even scrapped. At the same time, the Organisation of Petroleum Exporting Countries (Opec) cut production targets in December in a desperate bid to reverse the decline. That move seems to have had some effect, but there is now a fear that supply in the oil market will be dangerously out of sync with demand when the economy starts to recover.

“We will work our way through these financial problems, but what would be really unfortunate is that once things bounce back, oil prices will bounce back too,” said Matt Simmons, chairman of Simmons & Company International, at a roundtable held in mid-December. He says that supply shortages could help oil prices soar through \$147 as unhindered as a hot knife cuts through butter.

It is no longer just conspiracy theorists that are worrying about a looming energy crisis. Today, even the International Energy Agency (IEA) is sounding the alarm bells. The agency, which has very close ties to the big oil companies, quietly dropped a bombshell in its World Energy Outlook 2008 when it revealed that its first ever real-world survey of existing oil fields shows production falling at a much faster rate than its earlier guesses. Simply maintaining today's levels means discovering four new Saudi Arabias. Not even the IEA expects this to happen. Its 2008 report represents the most optimistic outlook, but is nevertheless dire. Put simply, there is no quick fix to meeting the world's future energy needs.

It may be too late already. Forecasts for production declines are based on the depletion rates of large oilfields, but almost half of the world's oil supply comes from tiny fields that produce fewer than 400 barrels a day – and these small fields are known to decline much quicker than big fields.

In the midst of a global recession, much of the explanation for falling prices has focused on the supposed collapse in demand for oil, particularly from Asia's rising economic powerhouses, but talk of China's falling oil imports is misleading. It is only growth that is falling – from 28% in October to 17% in November.

According to Simmons, the story of supply destruction is a more immediate problem. As the IEA says in its report, the era of cheap oil is over. And, unless drastic measures are taken to reduce energy consumption and speed up the development of new energy sources, the world could be headed for a serious energy crisis as soon as 2015. If that happens, our current economic woes will hardly merit a mention in tomorrow's history books.

BRAZIL'S VALE REPORTS RECORD NICKEL PRODUCTION FIGURES FOR 2008

January 22, 2009 (*Platts*) – Brazilian mining giant Vale ramped up its nickel production by 11.1% from 2007 figures to produce a record amount of 275,400 mt of nickel in 2008, according to the company's annual production results released Wednesday. The company said that its finished nickel production reached an all-time high in 2008, with Q4 2008 production up 1.1% compared with Q3 production at 73,200 mt.

Vale said that finished nickel production from its operations in Sudbury, Canada stood at 85,300 mt for 2008, an increase of 14,600 mt from the level reached in 2007. It added that the increase in Sudbury output saw rising production of finished nickel pellets and powders from both the Copper Cliff nickel refinery in Sudbury and the Clydach refinery in Wales, which refines part of the Sudbury feed, though sinter production fell.

Production at Thompson, in the province of Manitoba, was 28,900 mt in 2008. In Q4 2008, it decreased 1.5%

over Q4 2007. Voisey's Bay nickel-in-concentrate production in 2008 was 77,500 mt, which was 18,600 mt higher than 2007. Vale said that this was due to continuing above-plan ore grades and good asset performance.

The company said that in response to the ensuing significant negative shock on the global demand for minerals and metals, Vale had cut back production, shutting down higher-cost, lower-quality output mines alongside other measures to fine tune its activities to the assessment of the demand prospects in the short term.

Vale added that it had decided to shut down production fed by thermal power generation and rely solely on less expensive hydroelectric power generated by its Larona and Balambano plants.

AUSTRALIAN MINISTER PLANS TO APPROVE XSTRATA ZINC MINE PROPOSAL

January 22, 2009 (*MiningWeekly*) – Australia's Environment Minister Peter Garrett plans to approve the proposal by diversified mining group Xstrata to expand its McArthur River Mining (MRM) zinc project, as well as the diversion of the McArthur river. His comments came after Xstrata appealed to the Minister to make a decision regarding the zinc operations, before the mine was forced to close and retrench about 300 workers.

"If we do not have a decision by the Federal government on whether we can continue mining at the MRM by January 26, we will unfortunately have no other option than to lay off 300 workers and suspend all operations at MRM, putting the operation into care-and-maintenance for an indefinite period," Xstrata COO Brian Hearne said last week.

Mining and civil works were halted at MRM during December, after the Federal Court upheld an appeal, stating that the initial decision by the Federal Environment Minister to approve the mine was invalid because of procedural errors by the Commonwealth

government. However, Hearne said that the company had taken all actions necessary to comply with the decision of the Federal Court, and any further delays would result in significant financial damages to the operation.

"My decision is limited to protecting matters of national environmental significance under the Environment Protection and Biodiversity Act, in this case the freshwater sawfish and a number of migratory birds. I will ensure that they will be protected by any decision I make, and any conditions I apply," said Garrett in a statement on the Ministry's website. Traditional landowners and Commonwealth Ministers now have ten business days to provide comment on the decision.

Hearne said that Xstrata welcomed the draft decision, but noted that a final decision on the project could be weeks away. He added that until Xstrata was given a final decision from Garrett, the company had no choice but to transition to care-and maintenance. This meant that all on-site operational activities would be halted.

SUMITOMO RECKONS ALUMINIUM SURPLUS WILL FADE THIS YEAR

January 23, 2009 (Reuters) – Sumitomo Corp expects a surplus of 135,000 tonnes in the global aluminium market this year, down from an estimated 1.16 million tonnes in 2008 due to production cuts, data showed on Friday. Japan's third biggest trading firm said it expects global supply in 2009 to amount to 39.17 million tonnes, compared with demand totaling 39.03 million tonnes.

More time is needed for demand to recover after falling sharply from the end of 2008 due to the financial crisis, Sumitomo said in a report. The automobile and construction industries in particular have been badly hit by the downturn, it said.

Production is thought to have amounted to 40.15 million tonnes in 2008 versus demand for 38.99 million tonnes. It said production cuts would likely continue and deepen in 2009, helping to cut excess supplies. The price of aluminium MAL3, used heavily in transportation and packaging, is currently trading around \$1,330 a tonne, the lowest since April 2003.

Earlier this month, China's Shanxi Guanlu said it was shutting 40,000 tonnes of aluminium capacity due to low prices and weak demand, despite state purchases of the metal.

ESKOM WILLING TO RE-ENGAGE MINERS ON RATIONING IN INTERESTS OF GROWTH

January 23, 2009 (MiningWeekly) – South African power utility Eskom has materially downscaled its electricity demand estimates for the next few years in light of a dramatic slowing in the South African economy, as the fallout from the global financial crisis continues to spread into every corner of the real economy.

The utility also hinted to a willingness to re-engage with those companies currently being rationed to 95% of their traditional offtake, particularly in those instances where a relaxation could boost economic output and support national growth objectives. "We don't want to be the constraint to growth," Eskom CEO Jacob Maroga said on Friday, but he noted that many of the mines had already adapted to the 5% reduction and where able to meet their production targets within that limitation.

But the company – which on January 24 last year announced a power-system emergency, precipitating months of load shedding and power rationing to mines and factories – stressed that the system, while far more stable, remained tight.

It would, therefore, continue to pursue a framework for mandatory savings, under the so-called power conservation programme, with fair and transparent incentives and penalties. Maroga said that, while it could not count on the longevity of current savings, emanating primarily from smelters and the mines, the utility was willing to discuss the provision of additional capacity with any business that felt it had room to expand output during these dire economic times.

But Eskom would also continue, as per plan, with its already approved build programme, as well as with planning for the next base-load capacity in a bid to claw back a reasonable reserve margin of 15% – at present, the reserve margin stood closer to 8%, despite the slowdown.

It had, however, pushed out its decision relating to a possible new nuclear facility, on economic considerations, and would also delay the work schedule for a large-scale pumped-storage scheme in Limpopo, given that its new demand models showed that the additional peaking capacity would not be required by 2017 as first calculated.

Maroga indicated that the utility was anticipating a 3% overall reduction in demand for 2008/9, on the back of some power conservation efforts, but mostly as a result of cuts made by metals processing facilities, such as ferrochrome smelters and carbon and stainless steel mills. The utility anticipated demand growth in 2009/10 would be flat to marginal and only expected the figures to begin rising above the 1% level in 2010/11.

This new demand outlook is radically different from the 4% growth projection that had hitherto been underpinning its expenditure plans. It, therefore, had a material implication for the future capital programme and its schedule. But given the degree of "catch-up" still required, the new demand outlook was not severe enough to force a review of the current project suite.

Therefore, the two coal-fired stations, Medupi and Kusile, which would together add nearly 9 600 MW to the Eskom system by 2017; the remaining return-to-service projects (3,645 MW); the three peaking projects (the Ingula pumped-storage scheme, the doubling-up of the open-cycle gas-turbines in the Western Cape, and the

Sere wind project) that would add 5,032 MW; and the new capacity associated with the Arnot upgrade (300 MW), would continue as initially planned. Together, the budget for Medupi, Kusile and Ingula had risen to R227-billion.

LONG-TERM UNDERLYING FUNDAMENTALS FOR POTASH REMAIN STRONG – POTASHCORP

January 23, 2009 (MineWeb) – Although the duration and depth of the global economic crisis are impossible to predict, PotashCorp of Saskatchewan asserts that this “does not alter the underlying fundamentals that drive long-term growth in demand for fertilizers.”

“In potash, growth in demand has exceeded increases in new supply, consuming all available potash production in recent years and leaving major markets short and on allocation through much of 2007 and 2008,” the company said. “While nitrogen and phosphates prices have fallen precipitously, the long-term underlying fundamentals for potash remain strong,” according to PotashCorp.

Meanwhile a new potash facility carries financial challenges. The cost “is measured in billions of dollars and the timeline for first production and any positive cash flow is at least five to seven years with subsequent lengthy ramp-up after construction completion,” the company said.

“There are also significant qualitative issues such as the rarity of good deposits, difficulty in obtaining financing in the current credit environment, geological and geopolitical risks involved in this type of long-term

project and the world’s limited amount of expertise and specialized equipment needed to successfully execute a potash project. Numerous mines have been damaged or destroyed by water inflow, an uninsurable hazard that can wash away investment capital. Despite increases, current potash prices still represent a challenge in justifying a greenfield investment.”

PotashCorp expects the 2009 gross margin for potash to range from \$4.5 billion to \$5.5 billion, with total shipments flat to slightly below last year’s levels. The company intends to curtail production from its 2009 operational capacity in this year by more than 2 million tonnes. Sales are expected to be more heavily weighted to the last three quarters of this year.

In spite of high solid phosphate inventories worldwide, phosphate rock prices have been in the \$250-\$290 per tonne range early this year, while phosphoric acid prices remain above \$1,000 per tonne. PotashCorp expects capital expenditures, including capitalized interest, to approximate \$1.8 billion this year, of which \$250 million will be sustaining capital.

PRICE SLUMP LEAVES CHILE’S COPPER MINES IN A FIX

January 23, 2009 (CommodityOnline) – The recession has hit the mining sector also. And one country which is hit hard by the metal prices slump is Chile, where thousands of mining workers will lose jobs because of the slump. Chile’s copper mining industry, the world’s largest producer of the red metal, has been hard hit by the sharp drop in copper prices. While in 2008 copper fetched an average \$3.15 a pound, this year the metal is seen trading at an average around \$1.40 a pound.

According to Chilean mining minister Santiago Gonzalez, the country was concerned about the large number of jobs that have been lost in the mining industry

amid the significant tumbles in metals prices. Private sector mining trade group Sonami estimated some 14,000 jobs had been cut in the mining sector, including the recently announced 2,000 posts Billiton Ltd (BHP) cut from its Chile operations.

“We are worried about the news we’ve recently seen and so the government is making every effort to maintain jobs in small mining companies as well as in mid-sized and large mining outfits,” Gonzalez said. He underscored that the government’s recently announced \$4 billion stimulus package including a \$1 billion capital contribution to

state copper miner Corporacion Nacional del Cobre's \$2 billion 2009 investment budget, which aimed to create additional jobs.

The government, through the capital contribution to Codelco, seeks to generate an additional 10,000 jobs. The minister called on mining companies to increase productivity in a bid to slow down layoffs.

Workers represented by the Federation of Copper Miners, meanwhile, are seeking government action against the layoffs. The Federation isn't ruling out calling a general strike in March if layoffs continue.

BHP BILLITON TO SELL COBALT DIRECTLY TO CONSUMERS; COY ABOUT WHY

January 23, 2009 (Platts) – Australian resources giant BHP Billiton is to market its 99.8% high-grade cobalt cathode directly to consumers, the company said Friday, having announced earlier this week that it would suspend sales via its Cobalt Open Sales System web site.

However, the company has revealed few details about its new marketing approach, or its reasons for the change. A spokeswoman from the Melbourne office of the traditionally tight-lipped company declined to answer most questions about the new approach. "We've decided to market our cobalt directly to customers," said the spokeswoman, adding that it would target consumers rather than selling to the trade.

Sales through BHP's web site involved stringent payment terms, which deterred many buyers, especially consumers. It sold mainly on cash on delivery terms, whereas the international cobalt trade usually operates on net 30 days payment terms, with some adjustments for high credit risk.

However, the consumer added that he would be happy for BHP sales staff to make contact with him. But traders have been regular buyers from the web site, despite the payment terms, and have often been accused of making such purchases for the sole purpose of pushing prices up.

But other traders said they have also used BHP to buy cobalt as a means of last resort because there were no other sellers. One trader said that he bought 5 mt of cobalt on the site on August 20 last year at \$26/lb. Another sale occurred the next day at the same price, then two larger quantities of more than 10 mt and 20 mt were sold on August 22 at lower prices, before prices began rising rapidly. Later the same day, sales at up to \$28.50/lb

were recorded and, by end-August, BHP was selling at \$33/lb. Between August 20 and August 28, BHP sold a total of 95 mt and the price of cobalt climbed by \$7/lb, or 27%.

BHP has around 60 mt of cobalt to sell a month, which it obtains through a tolling agreement with Xstrata Nickel at the former Falconbridge refinery in Norway. Xstrata tolls a custom feed, which BHP ships from Kalgoorlie in Australia.

Last month, a spate of sales on BHP, after a period of inactivity and falling prices, also produced a bounce in prices. On December 4, BHP was booked for a 10 mt parcel for European delivery at \$13.20/lb, which was the first sale it had made since September 12, when it sold 5 mt for European delivery at \$36.50/lb. By December 11, it had sold 100 mt and the price had risen to \$17.20 – a gain of just over 30% in a week – but then the market stalled. The December 11 sale of 5 mt for December delivery in Europe was the last sale BHP recorded on the web site.

Several market participants welcomed BHP's decision to abandon the web site sales. Other traders said that after periods of inactivity, BHP was often booked at the bottom of the market for quite large volumes before prices rose.

BHP has used the Cobalt Open Sales System since it inherited the cobalt business with the acquisition of Western Mining in mid-2005. BHP's move also follows a decision by Norilsk Nickel to stop selling cobalt through its web site last August.

RUSSIA, CHINA REVISE ALUMINUM PROJECTS IN GUYANA

January 24, 2009 (AFP) – Aluminum producers RUSAL of Russia and Bosai Minerals of China have delayed or changed their multi-million dollar investment plans in Guyana, Prime Minister Samuel Hinds said Friday. Among the world's top producers of aluminum and alumina, United Company RUSAL and China's state-run Bosai Minerals Group Co. have revised their plans in light of a global drop in prices and demand for metallurgical and non-metallurgical bauxite, Hinds told reporters. Aluminum prices are forecast to remain under "great pressure" in 2009, he added.

The premier said RUSAL's year-old plan to revive a hydro-electric plant deep in Guyana's jungle and to build a smelter and an alumina plant "are clearly on hold." The

three projects were to begin construction in 2011, he added. Formed 10 months ago by the merger of three companies making it the world's top aluminum producer, RUSAL last month laid off at least 200 workers at its bauxite concerns in Guyana and Jamaica as part of a cost-cutting measure.

Hinds also announced that Bosai had amended its plans, announced two months ago, to build a one-billion-dollar alumina smelter in Guyana to produce one million tons annually. "They may construct it in two stages rather than one-off," Hinds said. "I am hoping that their studies will still prove attractive in the circumstance to proceed with that development."

JIANGXI COPPER GETS HIGHER FEES

January 24, 2009 (Shanghai Daily) – BHP Billiton Ltd, the world's largest mining company, agreed to increase processing fees paid to China's Jiangxi Copper Co by about 60 percent, an executive directly involved in the talks said.

The fees are US\$75 a ton for smelting ore and 7.5 cents a pound for refining, said the executive, who asked not to be identified because the talks are confidential. That's less than the 74-percent rise Chinese smelters have asked for and more than the 12 percent offered by Melbourne-based BHP.

The global credit crunch and economic slowdown have led to an oversupply of copper ore and curbed the ability of mining companies to keep stockpiles, forcing them to offer the first increase in fees since 2006. Higher fees, known as TC/RCS, would revive sagging profits at Jiangxi Copper, China's second-largest copper smelter, and its rivals.

"Smelters will raise utilization rates," Peng Bo, an analyst with Ping An Securities Co, told Bloomberg News. "China relies mostly on concentrate imports." The fees match what Jiangxi Copper agreed with Freeport-McMoRan Copper & Gold Inc, the world's second-largest copper producer. The break-even fee level for Chinese smelters is about US\$60, Peng said.

Jiangxi Copper will boost output by 12 percent to 800,000 tons this year, Wang Chiwei, executive director and vice president at the company, said on Monday. Other Chinese smelters would also increase output this year, he said.

The Jiangxi Province-based company needs imports to meet 70 percent of its copper concentrate consumption, according to Peng.



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