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Global Mining News

RUSSIA COULD GET MINORITY STAKE IN RUSAL

February 1, 2009 (Reuters) – Russia could get a minority stake in the world’s biggest aluminium producer via issuance of a convertible bond but the state is not actively pursuing such a stake, United Company RUSAL Chief Executive Oleg Deripaska said.

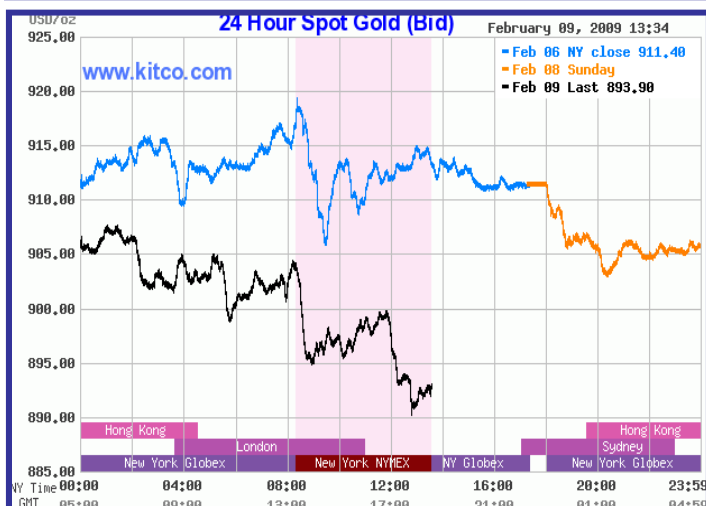
Deripaska, Russia’s richest man last year, has been forced by the deepening global financial crisis to turn to the state for help in refinancing billions of dollars in foreign debt. The fate of Deripaska, who controls one of the country’s most powerful industrial groups, is being closely watched by investors for indications of future Kremlin economic policy.

Deripaska declined to give details about UC RUSAL’s debt but said discussions were continuing with banks about restructuring and that news on the issue would be announced in under a month. UC RUSAL pledged to conduct an initial public offering (IPO) within three years of its formation in March 2007, when Deripaska’s RUSAL merged with smaller domestic rival SUAL and assets belonging to global commodities trader Glencore.

Deripaska said the company still had plans for an IPO, but he declined to answer questions on media speculation that he might have to buy out other shareholders if the IPO did not take place by a certain

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USD	FEBRUARY 06, 2009	JANUARY 30, 2009
GOLD	913.00	892.25
SILVER	12.8900	11.7400
PLATINUM	989.00	953.00
PALLADIUM	208.00	191.00
ALUMINUM	0.6450	0.5938
COPPER	1.5606	1.4177
LEAD	0.5284	0.5194
NICKEL	5.2163	4.9827
URANIUM	48.00 (02/02/09)	48.00 (01/26/09)
ZINC	0.5151	0.4890

date. “We still have our IPO programme but it was never decided whether it would be the LSE (London Stock Exchange) or any other exchange,” he said.

Some of Russia’s richest men, who borrowed billions of dollars in the boom years under former President Vladimir Putin, have been badly hit by the economic crisis as the value of collateral they put up as security for major loans plummeted. Senior Russian officials and businessmen, including Deripaska, have held discussions on merging Norilsk Nickel, the world’s top producer of nickel and palladium, with several large metals and mining companies.

UC RUSAL holds a one-quarter stake in Norilsk. But Deripaska, who put this stake up as collateral on a US\$4.5 billion loan from state corporation VEB, said UC RUSAL itself would not take part in any such mega-merger. “First we need to restructure our debt, which is the most important thing for us,” he said.

Deripaska, who flourished in the chaotic post-Soviet commodity trading world, said Russia was mainly concerned with stabilising supply and prices, and making sure there was no social upheaval in regions where metals companies operate.

RIO TINTO CONFIRMS TALKS WITH CHINALCO ON ASSET STAKES

February 1, 2009 (MarketWatch) – Rio Tinto Ltd. said Monday it has held talks with Aluminum Corp. of China, or Chinalco, over the sale of minority stakes in some of its operations and an investment in convertible instruments. In response to a number of media reports that the miner was in talks with the Chinese group, Rio released a statement confirming the talks but stating that there is no certainty of a deal.

“Rio Tinto confirms that it has held discussions with Chinalco regarding Chinalco acquiring minority interests in various operating businesses of the Rio Tinto group and also investing in convertible instruments,” Rio said.

“There can be no certainty that a transaction will ultimately take place and any possible transaction would be conditional upon approval by the shareholders of Rio Tinto and all necessary government and regulatory authorities.”

The Melbourne-based miner plans to pay down US\$10 billion of its US\$38.9 billion debt and has said it is considering a range of options, including a possible equity issue.

CHINA’S ECONOMIC RETOOLING WILL TAKE TIME

February 2, 2009 (FinanceAsia) – The latest set of GDP figures from China have confirmed the widely held belief that the economy is slowing, and slowing fast. In the fourth quarter of last year, the economy expanded by 6.8% year-on-year, the slowest growth since the fourth quarter of 2001, and significantly less than the 9% growth recorded in the previous quarter.

With global trade evaporating, China’s economy must find less sustenance from exports, and more from domestic consumption. This is not a new idea – for years observers have pointed to China’s over-dependence on exports. The effect of the current economic downturn is that the need for a change in focus has become more pressing.

The bad news is that China’s consumers might not be there to fill the gap. A survey of consumer confidence in

China conducted by Macquarie in December, and released mid-January, suggests that spending is expected to weaken. The survey – which involved interviews with a total of 500 people in Beijing, Shanghai, Guangzhou, Xi’an and Chengdu – found that most people were aware of the subprime crisis in the US, and around 70% of those believed that it was detrimental to the Chinese economy.

The perceived short-term effects were less evident. When asked about how their economic situation had changed over the previous three months, twice as many said that things had become worse rather than better, but over 70% felt no change. A similar majority expected things to remain the same over the next three months, with 20% expecting things to get better and 20% expecting things to get worse. Nearly all the people interviewed were not

planning to dip into either property or stocks over the next three months.

Another factor that will affect spending is the level of employment, and the news is not good there either. The results of a survey conducted by one of China's largest job websites, 51job.com, shows that people are scared about their jobs: 23% said that their company was already laying people off or not renewing contracts and 42% thought that they might be laid-off this year.

Though, Matthew Crabbe, managing director of market intelligence company Access Asia, says that, where it matters, consumption is holding up; and the increased focus on domestic spending is part of an overall plan of the government to slow down the economy and provide quality over quantity.

RUSSIAN GOLD ROUNDUP – PRODUCTION DECLINE REVERSED

February 2, 2009 (Reuters) – Russia boosted gold output by 13.3 percent last year to 184.49 tonnes (5.93 million ounces), reversing five consecutive years of decline, data from the Russian Gold Industrialists' Union shows.

Valery Braiko, the union's head, forecast output from Russia's mines would remain steady this year, with the possible addition of 1 to 2 tonnes. Russia's gold reserves are second only to South Africa's, but the country traditionally ranks fifth or sixth in the world in terms of actual production.

Several leading Russian miners increased output last year and a series of ambitious expansion plans in Siberia and the Far East envisages production rising by another 20 percent by 2015. The country's biggest gold miner, Polyus Gold, accounted for about one-fifth of Russia's production last year and ranks fourth in the world in terms of reserves.

TECK COULD FOLLOW RIO TINTO'S LEAD

February 2, 2009 (Globe and Mail) – Debt-laden Rio Tinto PLC's confirmation that it is in talks with a state-owned Chinese metal giant to sell stakes in mining assets could provide a road map for Teck Cominco Ltd., which is also straining under a massive debt load owing to an ill-timed acquisition.

A \$38.9-billion (U.S.) debt hangover from the top-of-the-market deal to buy Montreal's Alcan is forcing Rio to consider selling off minority interests in mines and aluminum-smelting operations. Like Rio's Alcan debacle, Teck's \$14-billion (Canadian) takeover of Fording Canadian Coal Trust last year has backfired. Just as commodity prices have crashed, the Vancouver base metals miner has smothered itself under \$9.8-billion (U.S.) in debt to pay for the Fording deal. Analysts and industry sources said that Teck may seek a similar path to Rio's when it comes to fighting its debt troubles by selling minority stakes in its coal-mining operations or potentially in some of its copper mines to large foreign buyers.

"I'm sure it is something the company is looking to do in some way, shape or form, principally with the Fording assets. They are the assets that have created the highly leveraged position of the company's balance sheet, so, absolutely," Desjardins Securities analyst John Hughes said in an interview. Mr. Hughes expects Teck to unload an interest in its Elk Valley Coal operations to a Japanese steel mill or perhaps Sumitomo Metal Mining Co. Ltd. Sumitomo is already a major Teck shareholder, controlling about 39 per cent of Teck's class A shares.

RBC Dominion Securities analyst Fraser Phillips is valuing the Elk Valley Coal assets, which annually produce about 21 million tonnes of coal, at \$6.3-billion (Canadian). In a report to clients yesterday, he said Teck could sell a 30-per-cent interest in Elk Valley for proceeds of \$2-billion. Even with the income from the sale of a 30-per-cent stake in Elk Valley, Teck will still

be facing a \$2-billion (U.S.) shortfall on a \$5.8-billion bridge loan that expires in October, the analyst predicts.

Other assets Teck is considering selling to pay down its debt load are unlikely to interest China and other foreign entities. Barrick Gold Corp. and Kinross Gold Corp. have been cited as potential suitors for Teck's gold assets. These include the Pogo mine in Alaska, which has struggled with production issues and soaring costs, as well as the Hemlo Mines in Ontario, which are nearing the end of their life.

Teck is also understood to be shopping its 20-per-cent stake in the Fort Hills oil sands project. An ace up Teck's sleeve may be its Waneta Dam in British Columbia, which provides power to Teck's smelter facilities in Trail. TD Newcrest analyst Greg Barnes said in a report that a one-third interest in Waneta could be sold for \$300-million to \$600-million.

IRON ORE TYCOON OFFERS NORILSK MERGER PLAN

February 2, 2009 (Reuters) – Russian tycoon Alisher Usmanov is proposing a tie-up between his Metalloinvest iron ore group and Norilsk Nickel that would make him the largest shareholder in a merged giant, Vedomosti reported on Monday. The newspaper report is the latest in a series on proposals for a metals and mining mega-merger that could help the companies clear debt and possibly bring in the state as a shareholder.

Usmanov is proposing to combine his Metalloinvest holding with Norilsk Nickel, valuing Metalloinvest at half of Norilsk's value. Usmanov would also contribute Metalloinvest's 75 percent share of the giant Udokan copper deposit.

Usmanov would be left with 37 percent in the new giant, under his plan. Norilsk's largest shareholder, Vladimir Potanin's Interros group, would receive 16.6 percent, as would Oleg Deripaska's RUSAL, which owns 25 percent of Norilsk. The combined company would then issue

shares to the government, giving the state a stake of at least 25 percent plus one share, and use the proceeds to clear debt inherited from Metalloinvest and Norilsk Nickel.

Deripaska said on Saturday that RUSAL itself, which put up its one-quarter stake in Norilsk as collateral on a loan from state bank VEB, would not participate in a merger. The aluminium giant could issue a convertible bond to the government to help it clear his debts, Deripaska told reporters in Davos, Switzerland, on the sidelines of the World Economic Forum.

Around two weeks ago, newspapers reported Potanin and Rusal suggested a merger of half a dozen companies, including two steel groups and potash miner Uralkali which would swap their inherited debts to the state for an equity stake.

2009 IRON ORE SPOT PRICE WILL BE FLAT SAYS INDIAN ECONOMIST FIROZ

February 2, 2009 (Platts) – The iron ore spot market will grow in importance and become more strategically positioned in the global supply chain, with spot prices slipping due to oversupply and a slump in demand, former chief economist at India's the Ministry of Steel, Dr. A.S.Firoz, told Platts in an exclusive interview Monday.

Firoz, now managing partner of SNRSR research, said that the current iron ore spot market is currently in oversupply, given the combined effects of a ramp up in miners' output capacity and a slump of steel demand. He said that steel production will be flat, if not fall, in 2009,

adding that iron ore infrastructure including port capacity and railways would fare better than in the past.

The seaborne spot price for 62% Fe-content iron ore fines imported into China, assessed by Platts, has run up 19% from \$62 last December to \$74/dmt CFR North China as of Jan 30. Spot prices have been historically higher than the annual benchmark contract prices. Going forward, Firoz predicted that iron ore prices would probably converge at the long term contract price level.

He also estimated that the 2009 long term contract price will probably settle at \$50-55/dmt FOB Brazil. When

adding a forecast freight rate of \$15/wmt, this gives a price range of 65-70/dmt on CFR basis for long term contracts.

According to Firoz, Anglo-Australian miner BHP Billiton sold more cargoes on the spot market than annual contracts in the fourth quarter of 2008, as its long term customers had either delayed or canceled shipments of annual contract material.

Junior miner Fortescue Metals Group (FMG) Australia's third largest iron ore exporter, said in its quarterly statement reported by Platts Friday, that it expected to reduce prices 20-25% for the remainder of its contract year. Based on a current spot price of \$65-70/mt until a new pricing regime is agreed for the 2009-2010 contract year.

KGHM SEES COPPER PRICE STABILISING, EYES DEPOSITS

February 3, 2009 (Reuters) – Europe's top copper miner KGHM sees copper price stabilising around \$3,000 per tonne this year, but hopes to take advantage of the weak prices to snap up deposits outside of Poland, its CEO said on Tuesday. "We have no debt, so the ongoing crisis will help us buy deposits around the world in the next one or two years," Chief Executive Miroslaw Krutin told reporters on the sidelines of an economic forum.

Markets have been pricing in a huge drop in KGHM's earnings this year, with the fall of Polish zloty against the

dollar only partly offsetting a 60 percent drop in copper prices MCU3 from their July 2008 peak. The group also faces dwindling margins at its home mines.

"We expect copper prices to stabilise around \$3,000 per tonne," Krutin said. "Our copper production should come in at around last year's level." A source close to the company told Reuters last month its 2009 budget puts the net profit in the tens of millions of zlotys, a far cry from 2.9 billion zlotys (\$834 million) it expects for 2008.

VALE INCO AGREES TO REDUCE VOISEY'S BAY NICKEL PRODUCTION

February 3, 2009 (MineWeb) – After previously deciding to shut down its Voisey's Bay nickel operations in July, Vale announced that Vale Inco will not export more than an average of 55,000 metric tons of nickel in concentrate per year during the next four years. A new agreement between Vale Inco and the provincial government of Newfoundland and Labrador mandates that Voisey's Bay will operate its mine at a lower rate until it finishes building a refinery in the province.

The commercial hydromet plant will not be completed until February 2013, 14 months later than originally planned.

Last week the provincial government announced that it had negotiated improvements to the development agreement with Vale Inco for the construction of the plant at Long Harbour. In a news release, the provincial government said the improvements "include more certainty that the project will proceed on this new schedule, enhanced local employment benefits and greater protection of the province's resource."

Danny Williams, premier of Newfoundland and Labrador, said, "In its draft implementation plan, Vale

Inco requested an extension of 14 months beyond the original completion date of December 31, 2011, contained in the 2002 Development Agreement. When we entered into discussions four weeks ago, it was important to us that we reach an agreement that provides greater assurances around the project, protects the public interest and give us enhanced benefits. We are confident that we have achieved that."

"There is no change in the project beyond a new completion date of February 2013," said Kathy Dunderdale, minister of natural resources. "The company will not be able to export any more than the 440,000 tonnes of nickel they were granted in the 2002 Development Agreement, despite the longer construction period. They will be required to maintain a maximum annual export average from Voisey's Bay over the next four years."

As part of the new arrangement, Vale Inco also commits to a target of 77% of total project employment-8.9 million person hours-in Newfoundland and Labrador.

DECLINING COSTS TO CATAPULT GOLD MINERS AND DEVELOPERS IN 2009

February 3, 2009 (MineWeb) – An analysis of precious metals costs by Wellington Capital Markets claims, “The perfect storm that precipitated higher capital costs has passed, leaving in its wake a favorable development window” for precious metals project. An “unprecedented rate of cost deflation” will boost the economics of gold mines and gold projects, a mining sector report by analysts Steve Parsons, Paolo Lostritto, Ryan Walker and John Miniotis suggests.

The costs of key mine inputs, such as steel and diesel, strongly influence mining construction and operating costs, and have plunged lower, according to Wellington. Explosives, mill reagents, and contract labor costs also all trended lower last year. The analysts estimated that a 20-25% decline in construction costs and the rapid deterioration in equipment costs could mean that a number of late-stage gold mine development projects could benefit. Meanwhile, lead times on large capital items have collapsed from three years to two years.

The analysts suggested that companies “on the cusp of project construction and in the process of soliciting firm bids” should benefit from input cost deflation. In fact, the analysts asserted that almost all gold companies stand to

benefit from “the marked downturn in input prices; however, our analysis indicates almost unequivocally that companies with large, bulk-tonnage mines and projects stand to benefit the most, particularly those that benefit from a weak local currency vis-à-vis the U.S. dollar and have a heavy reliance on diesel and steel.”

Price breaks are also in the offing for secondary equipment, infrastructure build-out materials and labor. Prices for pumps, pipes, steel vessels, structural steel, as well as cement and labour are tracking lower and typically account for 30%-50% of mine development costs, Wellington noted. Gold producers are also posed to benefit from the slowdown in the base metals market, which improves the availability of skilled labor and generate lower contractor rates.

Meanwhile, “the devaluation of currencies relative to the U.S. dollar should provide scope for construction labour savings for mines built outside the United States,” the analysts said. If mine input costs return to the levels of late 2006/early 2007 during this year, Wellington suggested that gold equities will be undervalued by 35%.

REAL GOLD IPO TO RAISE UP TO \$132 MILLION

February 4, 2009 (FinanceAsia) – The Inner Mongolian gold mining company is set to be the first Hong Kong listing of size since October last year. Real Gold Mining, a gold mining company based in Inner Mongolia, intends to raise between HK\$717 million and HK\$1.03 billion (\$92 million and \$132 million) via an initial public offering that will commence today. If successful, this will be the first IPO of any size to happen in Hong Kong since October 2008.

The price range has been set at HK\$4.35 to HK\$6.25 a share. The offering represents 25% of the company in the form of 165 million shares, of which 63.2% are primary shares and the remaining 36.8% are secondary. A 15% greenshoe could add another 24 million shares into the deal, which could bump the total proceeds to \$152 million. The offering is comprised of a 90% tranche for institutional investors while the remaining 10% will be allocated to Hong Kong’s retail investors.

Secondary shares are on offer because the controlling shareholder entered into an exchangeable bond with

two private equity investors. Under the terms of that bond, the shareholder must convert 50% of the bond at the time of IPO and repay the two investors. The deal has been structured so that the secondary shares equal half the value of the bond plus the interest. The controlling shareholder is not selling anymore than he needs to and has agreed to a three-year lock up.

The company has a 97.14% shareholding in three gold mines located in Inner Mongolia’s Chifeng Municipality. The company plans to use the proceeds to purchase smelting equipment. The new funds will also allow the company to purchase more gold resources in Inner Mongolia and Xinjiang, as well as expand the company’s exploration activities.

The price range values Real Gold at seven to 10 times 2009 predicted earnings. This puts Real Gold at a serious

discount to the company that most investors are comparing it to, Zijin Mining Group, another Chinese company that primarily mines gold. Zijin Mining is currently valued at 16.5 times 2009 expected earnings, which means that Real Gold is coming at between a 57% and 39% discount. A discount could be necessary considering the timetable: pricing is expected to happen on February 13, with a debut scheduled for February 23.

What makes Real Gold noteworthy is that it is entering uncharted waters. Ever since markets went haywire in September, there has only been one IPO of size, the listing of Chinese underground mall developer Renhe, which failed to attract interest from international investors. What little IPO activity there has been this year has been for small amounts.

SOUTH KOREA SAYS TO RAISE BASE METAL RESERVES BY 37 PERCENT

February 4, 2009 (Alibaba) – South Korea said on Wednesday it would raise its base metal reserves by 37 percent this year ahead of potentially higher demand later this year when the economy is expected to recover. The move, which may give some support to tumbling metal prices amid deepening global slowdown, also reflects growing efforts in Asia to use the collapse in commodity prices to ensure supplies as a cushion against sharp price spikes in the future.

China, which had led the commodities boom until last year, has been recently buying up reserves of metals to create a bigger state buffer of supplies. “The move is to take advantage of a fall in international raw material prices and to prepare for a rise in demand later this year along with economic recovery,” South Korea’s state-run Public Procurement Service said in a statement.

The agency, which is responsible for building reserve stockpiles of non-ferrous metals for local small- and medium-sized firms, plans to secure 205,500 tonnes of metals including copper, aluminium, nickel and zinc, versus 150,400 tonnes of reserves a year ago. It also plans to release 142,700 tonnes of metals this year, up 12 percent from 127,000 tonnes last year.

South Korea has offered stimulus packages and tax cuts valued at about \$100 billion, or about 15 percent of the country’s annual gross domestic product. But there have been few signs yet that its efforts are reviving Asia’s fourth-largest economy, and many analysts warn it could well slip into recession after suffering its second-biggest contraction on record last quarter.

On Tuesday, the International Monetary Fund revised down its 2009 growth forecast for South Korea to a 4 percent contraction before a projection of 4.2 percent growth next year. The forecast would mark the South Korean economy’s poorest performance since contracting 6.9 percent in 1998, a year after the country barely averted sovereign insolvency with a nearly \$60 billion international bailout.

The country, home to the world’s largest shipbuilder, No.1 memory chip maker and No.4 steelmaker, plans to raise reserve stockpiles on 12 key products to 35 days’ worth of supply by the end of this year and 60 days by 2012 from the current 27 days.

CHINA’S SRB STARTS BUYING COPPER

February 4, 2009 (Reuters) – Copper rose to a one-week high on Wednesday after reports of Chinese purchases and upbeat data from China and the United States helped extend a midweek rally and raised hopes the pace of the global economic downturn may be slowing. China has started buying copper from domestic bonded warehouses and overseas markets in a move to gradually triple its state reserves to about 1 million tonnes, trade sources familiar with the situation said.

The premium for Shanghai’s three-month copper futures to the benchmark London contract, including China’s 17 percent value-added tax, was 107 yuan versus 340 yuan on Tuesday. A rise in China’s official manufacturing index and a surge in bank lending led to optimism the world’s third-largest economy may soon be on the road to recovery.

The service sector, which represents about 80 percent of U.S. economic activity, contracted at a less severe rate in January than the previous month, adding further support to the advance. "There has been some reasonably positive macro data and more speculation on SRB (China's State Reserves Bureau) buying ... it doesn't take much to move the markets to the upside," Gayle Berry, an analyst at Barclays Capital, said.

At the New York Mercantile Exchange's COMEX division, copper for March delivery rose 0.90 cent to settle at \$1.5310 a lb, after hitting its loftiest level in one

week at \$1.5695. Slowing the advance was a continual climb in LME copper inventories, which posted a 4,650 tonne jump to 499,950, the highest since November 2003.

"Most negative economic news is already accounted for and unlikely to surprise, but constantly rising LME inventories continue to fuel demand concerns," Russian bank VTB said in a note. China's official purchasing managers' index (PMI) for January rose to 45.3 from 41.2 in December and a record low of 38.8 in November.

REPORT SAYS CAMBODIAN MINING, OIL SECTOR CORRUPT

February 5, 2009 (The Associated Press) – The corrupt elite of Cambodia, one of the world's most impoverished nations, has laid the groundwork for siphoning off vast profits from a coming boom in mining and oil exploitation, a nongovernment organization said Thursday.

Britain-based Global Witness said that rights to exploit the resources have been allocated behind closed doors by a small number of power brokers around Prime Minister Hun Sen and other senior officials. The report, titled "Country for Sale," said "the same political elite that pillaged the country's timber resources has now gained control of its mineral and petroleum wealth."

"Unless this is changed, there is a real risk that the opportunity to lift a whole generation out of poverty will be squandered," the report said. The allegations were denied by Information Minister Khieu Kanharith and Suy Sem, the minister of Industry, Mines and Energy, who said Global Witness "always defames the government."

Some estimate that in coming years Cambodia may reap some \$1 billion in annual oil revenues, enough to cut its ties to foreign development aid if the funds are properly utilized. But others have raised concerns that rather than pulling Cambodia out of its "beggar status," the revenue windfall will further fuel already rampant corruption. The

Berlin-based Transparency International ranked Cambodia 166 out of 180 on its 2008 world corruption index.

U.S. Ambassador Joseph M. M. Mussumeli told The Associated Press in 2006, shortly after the discovery, that Cambodia could fall victim to an "oil curse" that has afflicted other developing countries. Yet the report said international donors, which prop up the country, have so far turned a blind eye to the looming "corruption disaster."

More than 75 companies, including such internationals as Chevron Corp. and BHP Billiton, were already working in the mining and oil sectors and have paid upfront sums to the government, the report said. Suy Sem, the minister of Industry, Mines and Energy told The Associated Press in the Cambodian capital, Phnom Penh: "Regarding the exploration for oil and gas, we operate under procedures that are very fair and transparent and based on the rule of law."

Global Witness said it wrote to both Chevron and BHP asking them to reveal any payments made to the Cambodian government or government officials. Chevron, it said, did not respond while BHP said it had made no illegal payments related to its mining operations.

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RUSAL TO CUT ALUMINIUM OUTPUT BY 11%

February 5, 2009 (*Mining Journal*) – Russia's UC Rusal, the world's largest aluminium producer, will cut 11% of its annual aluminium output, 30% of alumina output and 5% of its staff as it tackles the global economic crisis. "The programme will further enhance Rusal's competitiveness and support the sustainability of the group's operations during the global economic downturn," Rusal said on Thursday.

Rusal said it would cut aluminium production by a further 320,000t during the first quarter of 2009, taking total reductions since December 2008 to 500,000t/y, or 11% of the group's total production volumes. Output of

intermediate product alumina would be reduced by 3.45Mt, or 30% of total production volumes, by the end of the second quarter of 2009, the company said.

Rusal said it would revisit the schedules for building its Taishet aluminium smelter and the Komi project in north western Russia and would cap 2009 expenditure at US\$500 million. Rusal will cut 5% of its staff and will reduce production costs by a further 34% by the end of the second quarter, on top of a 27% reduction achieved by the end of January compared with the third quarter of 2008

RIO COMPLETES \$850M SALE OF POTASH ASSETS

February 5, 2009 (*Mining Weekly*) – Diversified giant Rio Tinto has completed the sale of its undeveloped potash assets to Brazilian mining giant Vale for a cash consideration of \$850-million. The transaction included the Potasia Rio Colorado potash project, in Argentina, and the Regina exploration assets, in Canada. Rio Tinto on Thursday stated that the proceeds from the divestment would be used for repaying its debt. The company aims to reduce debt by \$10-billion this year.

The potash divestment, which was announced on January 30, was part of a larger transaction that included the Corumbá iron-ore mine, in Brazil, and the associated river logistics operations in Paraguay. The Corumbá transaction would be completed when appropriate consents were received, and completion was expected in the second half of 2009. The total consideration for the Corumbá assets was \$750-million.

In December last year, the diversified miner announced a detailed package of measures in response to the rapidity and severity of the global economic downturn. One aspect of those measures included expanding the scope of the group's existing asset divestment programme.

During 2008, Rio Tinto realised almost \$3-billion from asset sales, comprising the Greens Creek mine in Alaska, for \$750-million, its interest in the Cortez operation in Nevada for, \$1.695-billion and the Kintyre uranium project in Western Australia for \$495-million. Last month, the group announced the divestment of its interest in the Ningxia aluminum smelter in China for \$125-million.

RBC CAPITAL MARKETS EXPECTS GOLD TO REMAIN FIRM IN 2009

February 5, 2009 (*Platts*) – RBC Capital Markets said Thursday that it expects the gold price to remain firm through the first quarter of 2009, buoyed by a seasonally strong period for physical demand and continued investment demand due to ongoing financial market concerns. As such RBC is maintaining its average gold price forecasts of \$850/oz for 2009, \$875/oz for 2010, and \$900/oz long-term.

In a statement RBC said that given the strength of the rally in gold equities in the first month of the year, it would be cautious on the stocks as many continue to trade above historical valuation ranges and, therefore, may provide limited upside from current prices.

RBC expects the gold price to exhibit volatility in 2009, which should result in potentially attractive buying

opportunities of gold company stocks on pullbacks into periods of weak demand in Q2/09 and Q3/09. In RBC Capital Markets' view, there is risk of a significant June-July period of weakness for gold demand and the potential for emerging market scrap sales in an extended global recession. RBC continues to favor gold companies with improving production and cost profiles, gold reserve upside, active exploration programs, solid balance sheets, and strong management teams.

It added in the statement that heading into 2009 gold and gold equities should continue to perform relatively well in the current economic environment and recommends an overweight position in investors' portfolios.

Gold should perform well early in 2009, RBC said, as seasonal demand and investment flows are expected to push the price back up to the \$900-950/oz range. In the current environment of geopolitical and financial uncertainty, gold continues to offer investors a safe haven as a beta-negative asset.

However, by mid-year, RBC's expectation of an extended global recession could result in significant economic pressures in the emerging market economies and it would expect gold to retreat and test \$750/oz and gold equities to correct significantly.

CHINA ZINC SMELTERS REVIVE SOME OUTPUT AS PRICES RISE – ANTAIKE

February 6, 2009 (Dow Jones) – Zinc smelters are beginning to reduce their level of production cuts as zinc prices appear to have found a bottom, a zinc analyst with state-owned metals consultancy Antaika said Thursday. Smelters cut production to around 70% of capacity in November and December, well below the average level of 81.5% of capacity for 2008, said Liu Fan. "Going by the data, November was the worst month for production cuts," she said. "But from December output data, we can see some recovery.

January prices compared to December were also higher. This is where we see the basis for decreasing smelter cuts. Among sizable smelters, Huludao Zinc Industry Co.'s production cuts were negligible in 2008, said Liu, while Zhuzhou Smelter Group was estimated to have cut about 15,000 tons of output last year.

She agreed with private sector estimates that Yunnan Luoping Zinc & Electricity Co. may have cut about 15,000 tons since November. Officials at the three companies could not be reached for comment on these figures. But Liu said smelters have been gradually restoring output since December.

Zinc prices on the Shanghai Metals Market continue to fluctuate but rose sharply in early January on the back of a wider commodities rally to CNY11,430/ton from lows that reached CNY9,200/ton in late October. On the Shanghai Futures Exchange, the benchmark April 2009 zinc contract settled at CNY10,410/ton Thursday, up 12% from CNY9,275/ton in mid-December.

Liu estimated that zinc smelters produced 3.91 million tons or 81.5% of an aggregated capacity of 4.8 million tons in 2008. They produced a slightly higher 85% of capacity in 2007, with output reaching 3.74 million tons out of a 4.4-million-ton capacity. While November output reached about 300,000 tons, December's production increased to around 315,000 tons, Liu said. Smelters produced an average of 325,000 tons a month in 2008, she said.

In January, zinc smelters produced around 300,000 tons, though she said the decrease from December should factor in the week-long Lunar New Year break.

CHINA'S STEEL SECTOR POISED FOR REBOUND AFTER Q4 LOSSES: CISA

February 6, 2009 (Platts) – China's steel sector may have lost up to Yuan 49.6 billion (\$7.3 billion) in the fourth quarter of 2008 as prices plunged and inventory built up, the official Xinhua News Agency said Friday, quoting the China Iron & Steel Association. A CISA official,

speaking on condition of anonymity, said that out of 71 large and medium-sized steel producers the group monitored, 62% had losses that totaled Yuan 29.1 billion in December alone.

The companies lost Yuan 7.77 billion and Yuan 12.77 billion in October and November, respectively, according to CISA. "The weak performance was due to sagging demand [because of] the global economic crisis, which resulted in inventory buildups," said Hu Yanping, an analyst with the Beijing-based steel information consulting company.

Angang Steel, one of the country's biggest steel producers, said late January that its unaudited losses reached Yuan 4.83 billion in December. It attributed the loss to steep price falls and slow inventory movement starting in the second half of last year.

However, there are signs of returning confidence in the steel sector, with prices rising since November, according to Hu. Construction steel prices reached Yuan 3,850/mt in Beijing Wednesday, up almost Yuan 200 from two weeks earlier, Hu noted.

Production has held steady, with total output of about 40 million mt in January, the same as a year earlier, CISA said. It said that showed a recovery of confidence in the sector.

COKE PRICE REBOUND IN CHINA LIKELY HALTED IN MARCH

February 6, 2009 (ChinaMining) – Coke price rebounds in parts of China since January 2009 are expected to last until most coalmines resume production in March, and the price rebound is unlikely to continue, according to coal experts. Analysts hold that the coke price rebound is related to the decline in coking coal output during the Chinese Spring Festival.

According to statistics from Umetal, coke prices have surged by 40 percent in the last two months. The price of second-class metallurgical coke in East China hit 1,700-1,850 yuan per ton (after tax) on Feb. 3, up 150-250 yuan per ton from the January's starting price. The guiding price for coke set by Shanxi Coking Industry Association was 1,750 yuan per ton in January, up 150 yuan per ton from the 1,600 yuan in December of 2008.

Analysts with Umetal noted that the coke price surge was caused by the production reduction and suspension of coalmines in Shanxi province before the Spring Festival, which led to the coke supply shortage. Meanwhile, the transportation volume of coal and coking coal decreased, hardly meeting demand by steel plants.

With the implementation of the government's macro-economic stimulus plan, the production of steel plants will boost demand for coking coal. Insiders hold that coke prices may fall with the end of the Spring Festival and production resumption of coalmines in March.

EUROPEAN ZINC PREMIUMS LOW, ASIA SEES BULK OF BUYING INTEREST

February 6, 2009 (Platts) – The havoc wreaked on London's transport system by heavy snowfalls early this week failed to keep traders from the London Metal Exchange or arrest zinc's slow but steady downward momentum, with the price of three-months metal on the LME giving back any gains made over the week to remain hovering within range. Mirroring the futures market, the picture for physical zinc premiums in Europe remained fairly bleak, with market sources quoting deals done for small tonnages, and premiums slipping towards the lower end of the established range.

Platts' European premiums assessments for SHG zinc shifted down slightly at the top of the range, off \$10 to

\$70-\$100/mt from \$70-\$110/mt plus LME cash on an in-warehouse Rotterdam basis. A European trader told Platts that the physical zinc market remained fairly illiquid as poor demand meant that any volumes being sold remained small, adding that premiums were almost unchanged. He said that he had sold duty-paid SHG material to the EU market for \$95/mt plus LME cash, on an in-warehouse Rotterdam basis. Other market sources confirmed that premiums were hovering within a range established some weeks before the end of 2008.

Demand outside Europe being greater than within the continent, some traders said that they expected ex-

European premiums to climb, saying that the bulk of the zinc leaving their warehouses was heading east. Platts reported that average spot offers for South Korean zinc were heard steady at \$25-45/mt plus London Metal Exchange cash price, in-warehouse Singapore basis, according to traders in Singapore Friday.

“There’s just no demand in Europe at the moment,” a European producer told Platts, quoting premiums of \$90-100/mt plus LME cash for duty paid material on an in-warehouse Rotterdam basis. “However, when it does come back it will start with the steel industry and I think the impact on premiums will be quite sharp. Extra

demand cannot be compensated by extra local production.” The producer added that he had seen imports of the metal to China continuing to rise on arbitrage between lower LME prices and Chinese prices, but added that this had not affected European premiums.

Despite the steady stream of production cutbacks from some of the zinc market’s biggest players, sources stress that there is still too much concentrate in the European market and say that stock inflows are likely to increase considerably.

U.S. MINING METALS AND MATERIALS PRODUCED \$1.8 TRILLION IN PRODUCTS IN 2007

February 6, 2009 (MineWeb) – A report distributed by the National Mining Association Thursday found that U.S. mining transformed metals and minerals into \$98.4 billion of finished mineral, metal and fuel resources, which were used to produce \$1.8 trillion of value-added products in 2007. The Economic Contributions of U.S. Mining in 2007, by Moore Economics found U.S. mining payroll totaled more than \$22 billion in 2007, generating total payroll of \$64.6 billion and \$21.6 billion in personal income and payroll taxes through the economy.

U.S. mines produced \$25 billion worth of metal ores in 2008. Domestic mining exported \$11.4 billion worth of minerals to other nations. An estimated 376,310 workers were employed at U.S. mines in 2007 of which contract employees represented 28.2%, the study found. The annual wage in U.S. mining averaged nearly \$59,000 in 2007, which was 33% higher than the combined average annual wage for all industrial categories. Total compensation including benefits averaged \$72,300 per worker. Following a trend of slow decline, mining employment has been on the increase since 2005, the survey found.

The study found 1.5 million jobs were generated by U.S. miners. Each mining job creates an additional 2.9 jobs in other sectors of the U.S. economy. U.S. metal mining employed more than 49,000 miners, including contractors, in 2007.

According to the U.S. Bureau of Economic Analysis, taxes on production and imports-including severance taxes, royalties, fees, property taxes and gross receipt taxes – were \$4.4 billion in 2006, which was the latest available data.

Meanwhile the domestic mining industry paid \$1.2 billion in federal royalties and other mineral revenues in 2007, and contributed \$304.9 million and \$643.4 million respectively to the Abandoned Mine Lands and Black Lung funds. An additional \$1.2 billion was paid in federal corporate income taxes in 2005, which was the latest data available from the Internal Revenue Service.

The IRS also reported that the mining industry made charitable contributions totaling \$73.2 million, excluding volunteer hours, in 2005.

STERLITE CLOSING IN ON COPPER PRODUCER ASARCO – AGAIN

February 6, 2009 (Reuters) – India’s Sterlite Industries is close to a new deal to buy U.S. copper miner Asarco LLC from bankruptcy, according to a person familiar with the matter. The deal could be signed within a matter of weeks, but would be less than the \$2.6 billion Sterlite

offered for Asarco last year, the person said. Other parties were also continuing to make proposals to buy Asarco, the person said.

The deal would allow Asarco, which owns three copper mines in Arizona, to exit bankruptcy after seeking court protection from creditors amid a slew of environmental lawsuits in 2005.

In October, Sterlite backed out of an earlier \$2.6 billion deal to buy the company, saying it would need a substantial reduction in price after a drop in the copper markets. That also upended a competing offer of \$2.7 billion, plus full repayment for creditors, from Grupo Mexico, Asarco's parent. Grupo Mexico had acquired Asarco in 1999, but lacks board control of the company due to the bankruptcy and has been fighting to get it back.

Grupo Mexico said last year that any future deal for Asarco would likely repay only fractions of its creditors' claims. "Our position is to wait and see if it is true because there is nothing signed and we won't know

anything until they present something to the judge," Juan Rebolledo, vice president of international relations for Grupo Mexico said on Thursday.

Sterlite, a unit of London-listed Vedanta Resources Plc, and Grupo Mexico have been in negotiations over the deal with Asarco for months, both inside and outside of a court-ordered mediation. Last month, Asarco was also considering a potential joint venture with Swiss commodities firm Glencore International AG.

Under the new deal, Sterlite would have to deposit an amount greater than the \$50 million deposit made as part of its original offer, the source said. After Sterlite said it could not close the deal in October, Asarco drew down the \$50 million letter of credit that was posted by Sterlite when it signed the original deal in May.

MONGOLIAN GOVERNMENT SAYS TO OWN 34% OF MASSIVE OYU TOLGOI COPPER-GOLD PROJECT

February 6, 2009 (MineWeb) – Mongolia's Minister of Minerals and Energy D. Zorigt reaffirmed this week that the Mongolian government and the developers of Oyu Tolgoi have reached agreement giving the government a 34% stake in the massive copper-gold project.

Although in the past opposition party leaders have sought a higher percentage of ownership in the massive copper and gold project, the new Mongolian government is standing pat on the 34% ownership recommended by the previous government. The agreement to develop Oyu Tolgoi has been delayed for nearly two years, after the Mongolian Parliament imposed a windfall profits tax on copper and gold and to raise government's stake in the project to 50% or higher.

Zorigt told the Mongolian news media the government "may need still to review the 68% windfall profits tax. No final agreement has been made yet and negotiations are ongoing. They will continue into next week."

Mongolia's national Parliament, the State Great Khural, authorized Mongolia's government, led by Prime Minister Sanjaa Bayar, to negotiate a draft investment agreement for Oyu Tolgoi and present it to Parliament by February 1. A special government panel has sought assistant from internationally recognized experts in negotiating an agreement. Zorigt told the Mongolia news media that the draft agreement should be finalized by March.

A spokesman for Ivanhoe Mines, a partner in the Oyu Tolgoi joint venture with Rio Tinto, told Mineweb Thursday the company plans not to comment until the process is concluded.



2009 RANKING OF COUNTRIES FOR MINING INVESTMENT WHERE “NOT TO INVEST”

Behre Dolbear is pleased to announce that our annual report on the 2009 Ranking of Countries for Mining Investment or Where “Not to Invest” has been posted to our website. Please go to <http://www.dolbear.com/Publications/CountryRankings.pdf> to read our report.

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- Mineral Processing Methods
- Smelting
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