

# BEHRE DOLBEAR

## Global Mining News

### BHP JOINS RIO, PLACES PROJECTS IN LIMBO AFTER AUSTRALIAN TAX

May 10, 2010 (Bloomberg) – BHP Billiton Ltd., the world’s largest mining company, joined Rio Tinto Group in putting projects on hold while it investigates the effects of the Australian government’s 40 percent resource profits tax.

BHP Chief Executive Officer Marius Kloppers said expansion plans, including its Olympic Dam project, may be “very difficult” to approve. Kloppers said the new tax regime, to start in 2012, would stymie investment, spur companies to move offshore and threaten an industry that comprises 9 percent of the economy.

Rio, the third-largest mining company, already put some Australian projects on hold because of the tax. Woodside Petroleum Ltd., Australia’s second-largest oil and gas producer, and Fortescue Metals Group, the nation’s third-biggest producer of iron ore, last week joined AngloGold Ashanti Ltd. and Gold Fields Ltd. in opposing the tax. The tax may reduce earnings by 17 percent at Melbourne-based BHP and by 21 percent at Rio in 2013, UBS AG said in a May 3 report.

The tax proposal has “upset the apple cart” for the expansion of the Olympic Dam copper, gold and uranium mine in South Australia, Kloppers said. He added that the project hasn’t been shelved. Kloppers, who didn’t identify other expansion projects that may be affected by the tax,

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USD	MAY 14, 2010	MAY 7, 2010
GOLD	1,236.50	1202.25
SILVER	19.6400	17.7000
PLATINUM	1,721.00	1651.00
PALLADIUM	536.00	505.00
ALUMINUM	0.9439	0.9369
COPPER	3.1550	3.1171
LEAD	0.8854	.8977
NICKEL	1.698	10.0562
URANIUM	41.50 (05/10/10)	41.75 (05/07/10)
ZINC	0.9303	0.9276

said Melbourne-based BHP had no “imminent” projects that were subject to final investment approval.

Kloppers said plans to combine BHP and Rio’s iron ore operations in Western Australia should not be derailed by

the new tax. Rio and BHP, the world’s second- and third-largest iron ore exporters, plan to combine mines, rail, ports and workforces in Western Australia’s Pilbara region into a 50-50 joint venture to save at least \$10 billion.

## FOLLOWING AUSTRALIA, PERU MAY ALSO RAISE MINING TAXES

*May 10, 2010 (Dow Jones Commodities News via Comtex)* – There is a growing risk that Peruvian mining companies will be hit with new taxes next year, an executive at one of the country’s largest mines said Monday.

“There will be strong pressure for the slapping-on of a windfall tax,” Pablo de la Flor, vice president of corporate affairs for Compania Minera Antamina SA, told attendees at a mining conference in Vancouver hosted by the Canadian Institute of Mining, Metallurgy and Petroleum.

Governments across the world are under increasing pressure to levy additional taxes on mining profits as resource prices and profits have skyrocketed over the last year. The Australian government has said it is planning a 40% on mining profits, and companies such as Xstrata

PLC have responded by suspending exploration spending in Australia.

Antamina and other mining companies in Peru have avoided windfall taxes by signing on to a five-year agreement in which they put aside part of their profits to benefit local communities. The Peruvian government also agreed not to change the tax rates on miners while that agreement is in effect.

Antamina signed onto the so-called voluntary contribution agreement in 2006, and it expires next year. Antamina has set aside 3.75% of its pre-tax profits to fund sustainable-development projects including an effort to combat chronic child malnutrition, and has provided more than \$140 million in funding so far, De la Flor said.

## VEDANTA ACQUIRES ANGLO AMERICAN’S ZINC ASSETS, BECOMES NO.1 PRODUCER

*May 10, 2010 (International Business Times)* – Global diversified and integrated metals and mining group Vedanta Resources Plc firmed its position as No.1 zinc producer by acquiring Anglo American Plc.’s zinc assets for \$1.34 billion (£900 million) on Monday.

The all-cash deal, which will help Vedanta acquire zinc mines in Ireland, Namibia and South Africa, will raise the company’s total reserves and resources by 76 percent and give it 11 percent of global market share. The company, which generated core earnings of \$983 million from zinc, or 43 percent of the group’s total, expects to complete the deal within 12 months subject to customary regulatory approvals.

“Of the total consideration, \$698 million relates to the Skorpiion mine (in Namibia), \$308 million relates to the Lisheen mine (in Ireland) and \$332 million relates to... Black Mountain Mining (in South Africa),” Anglo

American, which announced its intention of selling its zinc assets last October, said in a statement.

Vedanta, which will acquire the assets through Indian unit Hindustan Zinc. Ltd, has beaten Xstrata, its biggest shareholder Glencore and a Chinese company in the bidding process. Last year, Vedanta narrowly lost a \$2 billion bid for Asarco, the US copper producer, after a US court ruled for Grupo Mexico, the Mexican copper company.

The acquisition will increase Vedanta’s zinc and lead production capacity from 1.06 ktpa (kilo tonnes per annum) to about 1.46 ktpa of mined production and help it overtake rivals Xstrata and Teck Resources in the metal sector.

## INVESTORS TO BUY 213.9MOZ SILVER IN 2010 – CPM

May 11, 2010 (Reuters) – Investors bought 209.7-million ounces of silver last year, the second highest in history, and silver's strong appeal as both a precious and industrial metal will lift demand further in 2010, according to an industry report issued Tuesday.

Uncertainties after the worst financial crisis since the Great Depression and a subsequent economic recovery boosted silver fabrication and investment demand in 2009, metals research firm CPM Group said in its Silver Yearbook 2010.

"Silver has definitely benefited strongly from the economic woes of the world," Jeffrey Christian, managing director of CPM Group, told Reuters in an interview before the release of the report. Investment buying in silver is expected to reach 213.9-million ounces in 2010, CPM Group said.

Total fabrication demand, which includes jewelry and silverware, photography, electronics and batteries, totaled

616.4-million ounces in 2009, and is expected to rise 2.4% to 631.2-million ounces this year.

Solar panels, which consume only a small amount of silver, could help drive silver fabrication demand because of their growing popularity amid calls to cut down on fossil fuel consumption, he said. Mine production climbed 0.3% to 553.9-million ounces in 2009, and is expected to rise about 5% to 581.2-million ounces. CPM Group said that Peru was the largest silver producer at 123.9-million ounces in 2009, followed by Mexico.

On price outlook, Christian said that silver could range between \$15 and \$21 an ounce for the rest of 2010, and he added that silver's low at \$14.63 in February "may well be the low of the year." However, he said that the metal, which is traditionally more volatile than gold, could still retreat if interest rates rise.

## CHINA MAY RESTRICT MINING INVESTMENT

May 11, 2010 (www.chinainvestor.com) – A source with the State-owned Assets Supervision and Administration Commission of the State Council said China may proportionately restrict reckless investments in fossil resources at home and abroad by China's state-owned enterprises (SOE) with mining operations billed as their non-core businesses. But the policy of encouraging further mining investments by SOEs will remain in place.

The source said a few affluent central government-controlled firms are in rush to paw at mining assets under the cover of portfolio transformation because of coveted benefits amid strong demand for mineral resources.

Those risks are perhaps threefold: causing undue competition among SOEs when they bid for the same overseas tender, unexpected losses and assets devaluation due to opaque and loose management regulations and possible labor disputes.

The commission will tighten approval on investments in mining assets by SOEs whose main businesses have little to do with resources exploration. Performance-related promotion system will also be improved to observe this principle.

## CONGO 2010 COPPER OUTPUT SEEN HITTING 400,000 TONS – MINISTRY

May 11, 2010 (Dow Jones) – Congo's 2010 copper output is expected to hit 400,000 metric tons as output rises at several new mining projects, the ministry of mines said Monday.

In a report, the ministry projects that annual copper output will exceed 800, 000 tons by 2012 due to increased production from mines operated by U.S.-based Freeport

McMoRan Copper & Gold Inc., Toronto-listed Katanga Mining Ltd. and the state-mining company Gecamines.

Freeport operates Congo's largest copper/cobalt mine Tenke Fungurume, which began commercial production last year. The project is believed to hold the world's largest unexploited copper and cobalt reserves. Congo last produced more than 400,000 tons of copper in a year in the

1980s before years of political mismanagement and civil war led to the near collapse of the sector.

The ministry said cobalt production is expected to exceed 90,000 tons by 2012 compared with this year's forecast of 30,000 tons. The government projects that by 2012 the mining sector will create up to 50,000 direct jobs and about 300,000 indirect jobs.

The ministry also forecast significant output increases for other minerals, including gold, diamonds and cassiterite, or tin ores. Congo produces between 5% and 7% of the global tin output, despite the chaotic nature of the country's tin mining sector in the lawless Kivu provinces.

### ENRC NEGOTIATING QUARTERLY IRON ORE PRICE WITH MMK

*May 11, 2010 (Reuters)* – Kazakh miner ENRC has started negotiations with Russia's Magnitorsk Iron and Steel Works (MMK), a major customer, for iron ore prices on a quarterly basis, ENRC's marketing director told Reuters on Monday.

"They're (MMK) also quite willing to move to a shorter term mechanism. The exact nature of that is currently under discussion," Jim Cochrane said in a telephone

interview. He said ENRC has been pricing iron ore to its Chinese customers, Baosteel, China's largest listed steelmaker, and Jiuquan Iron and Steel Company (Jisco) on a quarterly basis since last year.

"We have pretty much finalised pricing for the second quarter," he said, referring to contracts with the Chinese customers, but declined to provide a price level.

### CHINA APRIL COPPER OUTPUT UP 6.1 PERCENT, SEEN RISING

*May 11, 2010 (Reuters)* – China's production of refined copper may rise further this month after a 6.1 percent gain in April due to new capacity and strong prices. Production of primary aluminium is also likely to benefit from increased capacity as well as improved supply of hydroelectricity after the the second-highest level in April, analysts said.

China's April production of refined copper rose 6.1 percent on the month to 380,000 tonnes, data from the National Bureau of Statistics showed on Tuesday. Strong copper prices had encouraged Chinese copper smelters to maintain high production, said Heng Kun, an analyst at Essence Securities.

Monthly economic data released on Tuesday showed the Chinese economy, one of the key drivers of London Metal Exchange copper prices, was in robust health, which could reassure smelters. But Heng warned that smelters face lower concentrate supply in the second half due to low treatment and refining charges for imports, priced against LME copper, implying a high cost for concentrate.

Spot TC/RCs to China are trading well below \$10 per tonne and 1 cent per pound versus \$46.5 and 4.65 cents for term imports this year, traders said.

### RIO'S WAR CHEST SWELLS, MAY SEE ALBANESE REVIVE M&A

*May 12 2010 (Bloomberg)* – Rio Tinto Group spent 2008 trying to sell assets as it strained to cut ballooning debt. Chief Executive Officer Tom Albanese now has the opposite challenge – to decide how to spend his swelling pile of cash.

Rio, the world's third-largest mining company, will have \$24.5 billion in cash next year, according to the median of

nine analyst estimates compiled by Bloomberg News. That compares with \$42 billion of debt the London and Sydney-traded company had after the 2007 takeover of aluminum maker Alcan Inc.

The shift in fortunes, driven by asset sales and surging commodity prices, may spur Albanese to make a major acquisition for the first time since Alcan almost three years

ago. Rio has “firmly re-instated” takeovers as a growth option and won’t be discouraged by Australia’s planned tax on mining company profits, according to JPMorgan Chase & Co.

The value of mining mergers and acquisitions may more than double this year to about \$175 billion, snapping a two-year decline, according to Ernst & Young LLP. Mining companies may have \$91.3 billion of surplus cash, after capital expenditure and dividends, by 2012, Citigroup Inc. said in March.

Surging commodity prices, \$10 billion in asset sales and a \$15.2 billion share sale in 2009 will see Rio move from having \$18.9 billion net debt at the end of 2009 to

\$18.5 billion net cash by end of next year, according to JPMorgan Chase.

Rio Chief Financial Officer Guy Elliott said in February the company was looking for “bolt-on or early stage projects” and Albanese signaled at last month’s annual meeting that acquisitions were on the agenda.

Rio may seek copper mines to boost production, according to Nomura Holdings Inc., as its next major copper project, the \$4 billion Oyu Tolgoi deposit in Mongolia, isn’t scheduled to start production until 2013.

## SINO IRON PROJECT COSTS EXPAND

*May 12, 2010 (Mining Journal)* – CITIC Pacific will pay a further US\$835 million to Metallurgical Corporation of China (MCC) for the company’s Sino Iron project in the Pilbara region of Western Australia. The additional costs will cover the main engineering, procurement and construction, and are due “primarily” to changes in the cost structure of the industry, CITIC said.

CITIC explained that since the original contract was signed for US\$1.75 billion in 2007 the market for iron ore had changed significantly as a result of huge growth in demand, in particular from China. Despite the substantial increase,

CITIC believed after its negotiations with MCC that the additional amount is “acceptable”.

However, chairman Chang Zhenming said the company was “clearly unhappy” about the cost increase. “However, we are confident that we have identified the problems, which have been substantially due to the changing cost environment at what is a pioneering iron-ore development in many ways.” He added: “We have enhanced management controls better to manage costs and the performance of contracts going forward.”

## IRON-ORE MAJORS GIVE GUINEA THE GREEN LIGHT

*May 12, 2010 (Reuters)* – A deal between the world’s top iron-ore miner Vale and BSG Resources to build a massive mine in Guinea is the latest sign that resources firms care more about what lies underground there than chaotic politics on the surface. April’s \$2.5-billion accord was the second mega-deal in Guinean minerals this year, after Rio Tinto agreed in March a \$2.9-billion joint venture with China’s Chinalco, also to develop an iron-ore mine.

The contracts are remarkable because many potential investors had been holding off financing major new projects since a 2008 military coup which pitched Guinea, poor despite being the world’s biggest exporter of aluminium ore bauxite, into a prolonged political crisis.

While mining firms already working in Guinea continued doing so, the government said the political situation was at least partially responsible for a downturn in mineral exports in 2009. Conventional wisdom has it that investors prefer to put their money into stable countries, ideally with elected governments and strong governance records. But political stability is a minor concern compared with size and quality of resources, and with iron ore prices in key market Asia recently hitting their highest in almost two years, demand for the steelmaking material justifies investment in countries with high-grade deposits.

In Guinea, concerns revolve around security of title rather than attacks on workers, but recent history shows that even when a serious sanction is supposedly invoked,

work can continue. The Vale acquisition will give it access to properties with reserves that include the Simandou South property known as Zogota as well as exploration blocks Simandou North 1 and 2.

Mines Minister Thiam, seen by many analysts as a moderate voice, wants the deal to be viewed as a green light for more investment in Guinea, which sits on gold as well as bauxite and iron-ore.

## CHINA TO LEND ZAMBIA MINING FIRMS \$5 BLN -REPORT

*May 13, 2010 (Reuters)* – China will provide \$5 billion in loans to private mining companies in Zambia as Chinese companies continue to increase their influence in Africa's top copper producer, President Rupiah Banda told state media on Wednesday.

Banda said the medium-term and long-term loans would be provided to private companies operating in Zambia under an agreement signed between the ministry of mines and the China Development Bank, the state-run ZANIS news agency said.

“The Zambian private sector should work with their Chinese counterparts in order to access resources from the \$5 billion funding,” Banda said at a signing ceremony for

the lending facility in Livingstone, about 500 km south of capital Lusaka.

Banda said a number of Chinese companies already operating in the southern African country such as China Non-Ferrous Metals Mining Corp. had previously secured financing from the China Development Bank for investments in the country.

China on Tuesday said it would provide equity amounting to \$1 billion to Zambia to help build a key power plant that would boost the country's electricity output by 600 mega when completed in 2017.

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## FRANCO-NEVADA TO BUY 22% OF TASEKO MINES' PROSPERITY COPPER-GOLD PROJECT

*May 13, 2010 (ProActiveInvestors.com/Mineweb.com)* – Toronto's Franco-Nevada Wednesday reported record first quarter results of US\$7.8 million or 7-cents per share this year, partly fueled by a 43% increase in royalty revenue to US\$41.8 million.

Franco-Nevada also announced it has agreed to acquire 22% of the gold produced at Taseko Mines' Prosperity copper-gold project in British Columbia for a US\$350 million deposit for project construction, and will grant Taseko two million of its 2017 warrants.

Each warrant will entitle Taseko to purchase one Franco-Nevada share at Cdn\$75 at any time before June 16, 2017.

Franco-Nevada has also agreed to pay Taseko US\$400 an ounce or the prevailing market price for each ounce of gold delivered from the Prosperity gold stream. Last November Taseko announced reserves for Prosperity of 7.7 million ounces of recoverable gold and 3.6 billion pounds of recoverable copper.

The company projects pre-production capex costs of C\$815 million for a project that would average 300,000 ounces of gold and 130 million pounds of copper annually during the first five years of mine life.

## PHILIPPINES ELECTION RESULT WON'T LIKELY MEAN GOOD NEWS FOR MINING

May 13, 2010 (*miningweekly.com*) – That two of the world's biggest miners, BHP Billiton and Anglo American, recently decided to bail out of the Philippines does not bode well for the country's mining industry. And the impending outcome of the recent elections in the country, which holds nearly \$1-trillion in untapped mineral wealth, doesn't hold much promise either.

According to Hong Kong-based security risk management consultancy Allan & Associates, whoever wins between the two frontrunners in the election, Benigno Aquino and Joseph Estrada, will likely stick to the path their predecessors took, which has not been mining friendly.

Various media reports over the past few years have claimed NGOs and the Catholic Church have encouraged communities to oppose new mining developments in the Philippines. Anglo American and BHP Billiton had various problems with communities before deciding to pull out of the country.

The Allan & Associates report states candidates have emphasised the need for increased foreign investment but haven't laid out how they would achieve this. The report goes on to say of Aquino: "There is some concern his links within the more radical members of either group can result in an anti-mining administration that would pass laws hostile to foreign businesses."

Estrada, who, like former US president Ronald Reagan and California Governor Arnold Schwarzenegger, is a movie actor-turned-politician, would not do the mining industry too many favours either. "An election victory by Estrada could represent the beginning of a new wave of populist and nationalistic sentiment. This would almost certainly have a negative impact on foreign mining interests," Allan & Associates report says.

In the Fraser Institute's latest mining survey, the Philippines was two from the bottom in the policy potential index, with only Ecuador and Venezuela scoring lower.

## COMMODITY BULL CYCLE 'HERE TO STAY' FOR 10, 15 YRS

May 13, 2010 (*miningweekly.com*) – Commodity prices and demand should stay broadly strong for at least another decade or so, Paradigm Capital analyst David Davidson said in Vancouver on Thursday. "I'm certainly of the view that the supercycle, if you want to call it, or the bull commodity cycle, is here to stay for at least another 10, 15 years," he said in a presentation at the Canadian Institute of Mining, Metallurgy and Petroleum conference.

Discussing the outlook for bulk commodities, including steelmaking ingredients iron-ore and coal, he said that there

will be periods of weakness within the cycle, but the general trend remains strong going forward, citing demand from developing countries, and especially China.

Chinese consumption of seaborne iron-ore could rise to 900-million tons a year by 2020, which would represent an estimated 65% of combined world output. By the same year, Chinese consumption of metallurgical coal is forecast at 400-million tons, also 65% of projected combined world production, Davidson said.

## GRASSROOTS EXPLORATION KEY TO LONG-TERM SURVIVAL OF B.C. MINING

May 13, 2010 (*TheProvince.com*) – B.C.'s mining sector could wring its own neck if it continues to choke off grassroots exploration, industry players warn. The industry weathered the global recession by tightening its belt but its long-term survival hangs on whether it can rediscover the willingness – and the capital – to find new deposits, experts said Wednesday.

Spending on grassroots exploration in B.C. has fallen each of the past four years, sliding from a peak of \$83 million in

2006 to a tight-fisted \$26 million in 2009, PricewaterhouseCoopers said as it released its annual mining report in Vancouver.

A handful of new, planned and extended mines reflect the confidence returning to the sector following the global downturn, the PWC report said. But all this activity is based at old sites. "The new mines being planned and built today are centred around historically identified deposits. New deposits need to be found to replace these," PWC said

in the report. “The reduction in grassroots exploration is a trend which the province needs to reverse if it is to replenish existing reserves.”

B.C. can encourage exploration spending by streamlining the permitting process and resolving First Nations land claims, the report said. In a survey included in the PWC report, 79 per cent of mining execs said permitting is a major concern.

As for the near term, metal prices that strengthened in the opening months of 2010 have stirred hopes in some quarters that B.C.’s mining industry could return to the heights of 2008, when it enjoyed record gross revenues of \$8.36 billion.

## UN PANEL SEES FUTURE SHORTAGE OF SPECIALTY METALS

*May 13, 2010 (Reuters)* – Recycling rates for many specialty metals used in high-tech devices are so low – often less than 1 percent – that they may become unavailable in two to three decades, a U.N.-appointed panel said on Thursday.

The figure was disclosed as the U.N. Environmental Program (UNEP) began issuing a series of reports on metals, designed to encourage more recycling of existing metal stocks rather than depending on fresh mining for ores.

Thomas Graedel, a member of the International Panel for Sustainable Resource Management set up by UNEP, said that without recycling the increasing use of specialty metals by the electronics industry would strain their availability. At a U.N. news conference, he cited the case of indium, used in liquid crystal display glass, semiconductors, photovoltaic cells and other products. Demand for the metal is set to grow from 1,200 tons this year to 2,600 tons in 2020.

He said that while he was not predicting the materials would run out altogether, “we do think there is a reasonable prospect that over the next two or three decades some

materials may be in short enough supply so that they will become essentially unavailable as routine materials for industry.”

Prices for such metals could in turn rise, changing the way they were typically used, said Graedel in releasing preliminary findings of a report the panel plans to publish in full in October. Other metals whose recycling rates the panel said needed to be improved included neodymium, used in wind turbine magnets, and gallium, used for light emitting diodes in indicator lamps and lighting.

Graedel cited information from microchip maker Intel Corp. that the number of elements it used for computers rose from 11 in the 1980s to around 60 now, indicating that it would be hard to maintain current levels of computer performance if newer specialty metals became unavailable.

He suggested that one reason for the poor recycling rates was the very small quantities of the metals used in each device, making recovery uneconomic. But better design could make the metals easier to recycle, he said. UNEP chief Achim Steiner told the news conference the rising cost of polluting could force companies to recycle more metals.

## JOHNSON MATTHEY SEES PLATINUM CLOSE TO BALANCE IN 2010; PALLADIUM IN OVER SUPPLY

*May 14, 2010 (Kitco News)* – The platinum market should be close to balance in 2010 with an investment atmosphere that should sustain the price at between \$1,600 and \$2,000 per ounce during the next six months, Johnson Matthey said Friday.

Palladium, on the other hand, is likely to be in oversupply again in 2010, although with a smaller surplus than in 2009, according to Johnson Matthey. Recovering industrial

demand and automotive demand could help to drive palladium to \$700 per ounce in the next six months, with the price unlikely to soften below \$475.

In platinum, Johnson Matthey said concerns remain over global economic recovery and the sustainability of Chinese economic growth, while national fiscal debt issues also continue to apply some downward pressure to the platinum price. Investment activity is a major factor in the platinum

market with net long speculative futures positions at high levels and total ETF holdings becoming even more substantial since the launch of the US ETF early in 2010, the company said in its “Platinum 2010” survey.

“If interest rates remain low and the gold price stays at its current elevated levels, net investment in platinum may well continue to grow and help to sustain the price at between \$1,600 and \$2,000 per ounce during the next six months,” Johnson Matthey said.

For palladium, Johnson Matthey said excluding sales of metal from Russian state stocks, the market has been in

fundamental deficit during the last two years, and recent price movements indicate that many investors see potential long term profits in this metal.

“If investors continue to build on their large futures and ETF positions, then recovering industrial and automotive demand could help to drive palladium to \$700 per ounce in the next six months, with the price unlikely to soften below \$475,” the report said.

## MINERS SEEK SPIN OFFS TO BOOST VALUE, CUT DEBT

*May 14, 2010 (Reuters)* – Diversified mining companies are increasingly likely to favour spinning off undervalued non-core operations via individual listings to achieve better overall ratings amid concerns about high debt levels. Market talk that Russian miner Petropavlovsk is planning a Hong Kong listing for its iron ore operations follows close on the heels of Barrick Gold Corp’s decision to spin off its African operations in March. Barrick, the world’s largest gold producer, used part of the IPO proceeds to repay loans of about \$575-million.

Analysts say that companies are anxious to get their finances in better shape due to uncertainty about an economic recovery underscored by sovereign debt problems in Europe. Last year, accountancy firm Ernst and Young said heavy borrowing by the mining industry in 2007 and 2008 had left many miners with concerns about repayment levels and the impact on capital investments. It estimated total net debt for 60 of the world’s biggest miners grew to \$182-billion at the end of 2008.

Separating non-core assets and selling off a minority stake on the market is often a good route to unlocking value. Analysts have put a value on Petropavlovsk’s iron ore

operations at between \$1.5-billion and \$3.2-billion, compared to the group’s overall value of \$3.4-billion.

Unlike an outright disposal, spinning off an operation via an initial public offering (IPO) can give the parent company a share in the potential upside or revaluation of the non-core asset, Meyer said. Investec’s Guy expects to see more spin-offs over the coming months as the larger miners struggle to increase value via acquisitions. He noted that gold miners are likely to carry out spin-offs by country and diversified companies by commodity.

A number of miners, including Brazil’s biggest diversified steelmaking group CSN, are planning to spin off operations while others, such as South Africa’s AngloGold Ashanti, said they would consider such a move if they continue to be undervalued. The owners of diamond group De Beers, including miner Anglo American Plc, are mulling a possible re-listing for the firm but feel the time is not yet right.

Some miners have been forced to postpone separate listings or scrap them altogether if they get insufficient support.

## MACARTHUR TERMINATES GLOUCESTER DEAL

*May 14, 2010 (Mining Journal)* – Macarthur Coal Ltd has officially put an end to its takeover bid for Gloucester Coal Ltd after months of negotiations. The Australian company said that both parties had mutually agreed to terminate the “bid implementation agreement” entered on December 22 last year.

A takeover of Gloucester had been in doubt since Peabody made a more substantial offer for Macarthur’s shares last month. Originally, Peabody made a A\$16/share cash bid for Macarthur, before lowering that offer to A\$15/share after the Australian government announced its resource super-profits tax.

The failure of the deal will no doubt disappoint commodities trader Noble Group Ltd, which owns an 87.7% interest in Gloucester and would have gained about a quarter of Macarthur if the deal took place.

Last month, Noble's shareholders voted down an injection of assets into Macarthur through the Gloucester bid when it announced it would engage with Peabody. Macarthur

operates two mines in Queensland's Bowen Basin and plans to double its production capacity in the next five years through development of the Middlemount project.

## RUSAL SAYS DEMAND IS VERY STRONG, SWINGS TO PROFIT

*May 14, 2010 (Bloomberg)* – United Co. Rusal, the world's largest aluminum producer, may raise production targets because of the strength of demand in Asia, where it sold shares this year.

"We still see very strong demand for aluminum, especially in Asia," Oleg Mukhamedshin, Rusal's head of capital markets, told reporters today in Hong Kong. "If the aluminum market improves further, we can consider raising production" beyond the planned 4.1 million metric tons target for the year, he said.

Rusal, controlled by billionaire Oleg Deripaska, is restarting plants after prices jumped 59 percent in the quarter and demand outside of China is forecast to grow 10 percent this year. The first Russian company to sell shares in Hong Kong is seeking to repay total debt of \$12 billion and today said it swung to a first-quarter profit from a loss last year.

Rusal wasn't allowed to sell to retail investors in its IPO, and the stock trades in blocks of 24,000 shares. Net income was \$247 million compared with a \$638 million loss a year ago, Rusal said today in a statement.

"Global demand has returned to growth this year," Mukhamedshin said. Rusal has the capacity to produce 4.6 million tons of aluminum annually, he said. The Russian metal producer is planning to raise aluminum production by 3 percent for the year. Output of alumina, a semi-processed material used to make the metal, will increase by 11 percent, the company said April.

Aluminum cash operating cost increased 16 percent to \$1,706 a ton in the quarter. Alumina costs rose 7 percent to \$274 a ton, it said. Net debt dropped to \$12 billion, the statement said.

## COST TO BUILD BASE METALS MINES HEADS 'THROUGH THE ROOF'

*May 14, 2010 (miningweekly.com)* – It is becoming increasingly expensive to bring new base metal operations online, which means prices will need to be strong to justify new mines, TD Newcrest analyst Greg Barnes said in Vancouver this week.

The average capital intensity for new copper mines has more or less doubled, from between \$4,000/t and \$5,000/t of copper at the beginning of the decade, to north of \$10,000/t on average for new projects at the moment, he said in a presentation at the Canadian Institute of Mining, Metallurgy and Petroleum conference. Operating and capital cost inflation has been "endemic" across the industry over the past several years, Barnes commented.

"A shortage of people, shortage of equipment, shortage of tires, Steel prices rising, fuel prices rising, all of those

things ARE pushing up metal prices and pushing up our long term metal price assumptions as well." In fact, the capital intensity figure for Toronto-based Inmet Mining's Cobre Panama copper project, for which the company published new estimates last month, is even well above the \$10,000/t level. "You're looking at north of \$15,000/t to build a very large copper mine in a difficult environment," Barnes said. Operating costs are also rising, as copper mines get deeper and mine lower grade ore.

It also appears that the "easy deposits" have been found, which means that mines will need to go deeper, and more production will come from underground, Barnes suggested, citing data from diversified resources giant Rio Tinto. The same sorts of trends are also evident for new nickel mines,

where capital intensity “has gone through the roof”, he continued.

Global nickel supply will come increasingly from laterite nickel deposits, and high-pressure acid leach (H-Pal) plants

to treat the ore often require much bigger investments. “We are now looking at north of \$35/lb capital intensity as we move into these very large H-Pal projects that are requiring many billions of dollars to build,” Barnes said.

## STILL ‘EARLY DAYS’ FOR GOLD INVESTMENT DEMAND, MURENBEELD SAYS

May 14, 2010 (*miningweekly.com*) – The growth in investment demand for gold is still in its “early days”, and the price of the precious metal is not in a bubble, Dundee Wealth economist Martin Murenbeeld told delegates at the Canadian Institute of Mining, Metallurgy and Petroleum conference in Vancouver this week.

Like other market watchers, Murenbeeld pointed to the fact that, on an inflation adjusted basis, the gold price, which set new records above \$1,200/oz this week, still has a way to go before topping the lofty levels reached in January 1980, which would equal about \$2,300/oz in today’s money. And he said he believes that the 1980 record will be breached on an inflation adjusted basis.

Murenbeeld, who describes himself as a ‘gold bull, not a gold bug’, said he is not concerned about declining jewellery demand, as investment demand for the metal will remain strong. His views are in contrast with researchers at metals consultancy GFMS, which has raised concerns over the market’s reliance on investment demand.

Central banks rediscovering the importance of gold holdings, the private sector starting to worry about the nature of Fiat currencies and the likelihood of currency debasement, and investors awakening to gold’s portfolio

characteristics all mean that “we are in the early days of investment demand,” he said.

The total financial assets in the world stand at about \$117-trillion, including equities, debt, government debt and so on, with managed assets at \$40-trillion, including just \$280-billion of managed commodities, Murenbeeld said. He also pointed to historical data of commodity cycles, with the shortest copper cycle at 16 years.

On the supply side, new gold production is constrained by governments wanting a bigger share of the pie, environmental hurdles, and there is also a growing sentiment that the “low-hanging fruit” in terms of gold deposits has been picked. All this suggests gold supply will be flat or declining, and the costs to build and operate mines will rise, supporting prices.

Of course, there are some bearish factors to consider, including policy exit strategies that will need to be implemented by governments, a strong dollar and a weak euro, a potential absence of deflation, and the fact that producers have finished dehedging their gold production, Murenbeeld said.

## MORGAN STANLEY: AUSTRALIA WILL KILL THE AUSSIE DOLLAR WITH ITS NEW MINING TAX

May 14, 2010 (*BusinessInsider.com*) – The large mining companies, such as Rio Tinto and BHP, have already noted that this change alters their expected investment profile; it has also put some new projects in doubt. Morgan Stanley’s Australian resources equity analysts estimate that the potential reduction in company valuations may be up to 37%.

The mining sector has made up a significant part of Australia’s growth in recent years, protecting it somewhat from the global financial and economic turmoil. This has enabled Australia’s

outperformance in terms of GDP growth, interest rates and ultimately the AUD.

The implementation of this tax, assuming that it does decrease corporate activity, mining investment projects and potentially mining volumes and exports, counteracts high commodity prices in terms of the sector’s benefit to the currency. Basically Australia could be choking off the very thing that saved them during the recent economic downturn.

In addition, Australia's rate-hike cycle, which is already well under way after six rate increases from the central bank, is likely to start biting into the Australian economy. Our portfolio is also short AUD, one of our highest-conviction positions. Increasingly it looks like the six RBA rate hikes are impacting the economy, and this week we again saw weaker home loan data. We would also note that the Australian dollar is extremely overvalued according to our valuation models (35% versus US dollar), having benefited from the huge stimulus given to the global economy over the last few years, which is reflected in the price of the AUD.

With the Federal Reserve likely to start draining liquidity in the summer and with growing evidence over the past week that the Chinese economy is perhaps starting to overheat, we believe that the AUD is vulnerable to a change in sentiment

about the likelihood of a soft landing in China. We like being short AUD against SGD and USD.

Australia may be inadvertently hanging itself here... basically the Australian economy weathered the storm better than most economies thanks to its resource industry which continued to fuel China's robust growth. Due to this outperformance, Australia was forced/able to hike interest rates well before everyone else. Yet now... they are killing the driver of economic performance while at the same time being forced to deal with the higher interest rates they thought they could bare thanks to the mining industry driving outperformance.

## POSCO SET TO ACQUIRE DAEWOO

*May 15, 2010 (Gulf-Daily-News.com)* – South Korea's Posco is set to clinch its biggest acquisition with a \$3 billion deal to buy Daewoo International, as the world's No 4 steelmaker tries to grab raw materials and boost sales overseas.

Posco is likely to beat retail-focused Lotte Group and be picked as the preferred bidder to buy 68 per cent of South Korea's biggest trading firm Daewoo, a source close to the deal said. "The acquisition of Daewoo International will further help Posco secure raw materials. This is important particularly as Posco seeks to develop businesses other than steelmaking," said Kim Hyun-tae, an analyst at Hyundai Securities.

China's steel mills are far ahead in snapping up stakes in Australian iron ore prospectors to trim dependence on the big suppliers, Rio Tinto and BHP Billiton. A deal with Daewoo will give Posco, which depends almost completely on imports of iron ore and coking coal, exposure to major resources assets.

"Posco's bid price was slightly above 3.4 trillion won (\$3 billion) while Lotte proposed less than 3.3trn won," said the source. Posco had been named the preferred bidder, according to a Yonhap report.

## BHP, RIO IRON VENTURE PLAN MIGHT BE RECONSIDERED – WSJ

*May 15, 2010 (Reuters)* – BHP Billiton and Rio Tinto might re-evaluate plans to merge their Western Australian iron ore operations if an agreement is not reached by year end, the Wall Street Journal said on Saturday. It reported BHP chief executive Marius Kloppers said the deal's completion was hampered by a proposed new Australian tax on mining profits.

The new 40 percent resource rent tax has angered the mining industry generally and sparked talk among some of reconsidering Australian projects. But earlier this week Kloppers had told the Australian Broadcasting Corporation both parties were keen to pursue the planned joint venture despite the tax.

The plans by the two miners to merge the iron ore operations have upset major customers, particularly in China, and are the subject of reviews by regulators in Australia and the European Union.

Kloppers and Rio Tinto chief executive officer Tom Albanese, met recently on the subject, the Journal quoted Kloppers as saying, and the two companies agreed to make Dec. 31 the proposed deal's end date.

Kloppers said BHP would be working to defeat the government's tax plan, the Journal reported, and would invest elsewhere if it were approved, for example in Brazil and Peru.



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