

MMSD REPORT ON MINING; COMMENTS ON PART III.

(Note: Comments may not exactly correspond to page numbers of draft as they are sometimes based on pdf page numbers)

Chapter 6

Page 6-11. 'The mining industry produces standardised homogeneous commodities that are traded globally, the prices of which are set by continuous auction in a commodity market'. That is true only of non-ferrous metals and gold. Prices of all other mineral products, and even of the concentrates of non-ferrous metals, are not fixed in that fashion. Neither are the products standardised homogeneous commodities. As in earlier chapters this comment emphasises that the Report is about only a portion of the global minerals industry.

All sectors of the minerals industry may strive to reduce costs, but relative costs are really only fundamental in those sectors that do depend on terminal market pricing.

Page 6-33. It is argued that the largest mining companies are moving from project to corporate finance, a trend allegedly reinforced by low prices and fewer projects. That may, however, be nothing more than a cyclical movement rather than a permanent trend. What will happen when the investment climate changes, as it inevitably will?

Chapter 8.

Page 8-5. How many of the 34 countries mentioned as minerals-dependent are exporters of oil and gas rather than other types of mineral? This report is not about oil and gas. There are some non-mineral countries that are also heavily reliant on a limited number of companies. That is not a specifically minerals-related phenomenon.

Page 8-6. The section on costs in this and subsequent pages is weak. Once again the section concentrates on the few minerals that are fungible commodities, for which relative costs are important. They are by no means typical of much of the minerals industry.

There is no recognition that there are many, often contradictory, definitions of costs. Much cost analysis is inevitably subjective so that different analysts can produce different rankings of equal validity. Mines produce minerals not finished products, and the existence of co- or by-products in many mines opens scope for considerable dispute. Moreover, it offers another justification for mines to produce even when their relative costs appear high.

The argument that new mines are lower cost overlooks the (partly erroneous) comment in an earlier chapter that higher grade ore deposits are mined first. No allowance is made for capital costs, but these do have to be covered over

the longer term and their inclusion can completely alter the relative rankings. Older mines may have largely or totally written off their invested capital.

Apparently high cost mines may produce in order to supply integrated downstream facilities. The lower cost mines might be selling concentrates into world markets rather than supporting such downstream activities.

Expectations are important. Prices, as noted later in the chapter, are often volatile. Mines may therefore cover their costs and earn some return taking one year with another. Few companies are willing to close down just because prices have dipped in the short term. To the extent that the future is a succession of short terms mine managements may never find the 'right' time to close. They do not want to shut just when markets are about to turn around. Prices have tended to fluctuate, and not always around a declining trend.

The need to service loans may be a reason why higher cost mines continue in production. Banks may be unwilling to force closure as long as they can envisage the servicing of their loans at least partially.

Movements in exchange rates can alter relative cost rankings overnight. In many instances domestic prices are different from international prices because of tariffs or other forms of protection. In those circumstances higher cost mines may have some balancing benefits.

Price volatility is not specifically linked to levels of cost but to the flexibility of supply relative to fluctuating demand, and to the ability and willingness of the sector to hold stocks. Perhaps more important than the shape of cost curves has been the ease of entry into some sectors. The privatisations and changes in investment climate of the 1990s lowered barriers to entry by giving access to a large number of known but undeveloped ore deposits. The collapse of the Soviet Union also altered the supply/demand balances for some products.

Page 8.8 et seq. Throughout subsequent sections there is a tendency to quote different views with little attempt to analyse or evaluate them. It is not really good enough merely to report different view without any evaluation. Some people may still believe that the earth is flat, and others that it is basically round.

The comment about governments possibly setting local floor prices for small and medium sized companies is criticised in a footnote. Why not in the main text? It is open to many objections on grounds of equity efficiency, and economic logic.

The section on Dutch disease effects is, as noted later, somewhat theoretical. Very many minerals-dependent countries have not had any traditional export industries that might be harmed by potential Dutch disease effects. Adjusting away from manufacturing is not really an option for many countries, as they lack any to start with. All they have are mineral deposits. It would make a

much better, and more useful, report if there were less somewhat dubious theoretical speculation in this section and a concentration on lessons to be drawn from the successful exponents of minerals-dependent development.

Page 8-12. The concept of resource rent needs to be explained instead of being suddenly brought into the discussion.

Page 8-14. Far more is required for the development of downstream value-added than the elimination of effective tariff protection in developed countries, important though that is in some instances. Merely to concentrate on tariffs gives a misleading impression.

Page 8-16 By no means all minerals producing countries are dependant on IMF support. There are presumably sound reasons why the IMF is opposed to tax hypothecation, just as the UK Treasury is opposed. It is not clear, however, that the allocation of revenues to local governments is genuine hypothecation. It is, rather, a division of the total tax revenue such as occurs in one way or another in all countries.

Page 8-19. Minerals-dependent countries span the whole gamut of degrees of corruption. Many of the most corrupt are oil rather than mineral producing. Some of the arguments as to why minerals producing countries are especially prone to corrupt practices seem specious and unproven. This and subsequent sections generalise unduly from specific cases.

Page 8-23. Where is the evidence that mining companies have believed that 'stability is best guaranteed by dictatorship'? For much of the post-war period there was no investment by international companies in any minerals ventures outside the OECD area. That was the main concern of much comment in the late 1970s and 1980s. There was a wide range of obstacles to investment, including perceived political stability. Investment on a large scale in Chile only gathered momentum during the 1990s when it was clear that the country was moving towards democracy.

Much of the section on Human Rights is not minerals-specific and really has no place in a report about the mining industry. It is concerned more about multi-national companies in manufacturing - eg employment of children. Similarly the section on Labour Rights concentrates on China and India, not exactly countries that have witnessed large scale inward investment by major mining companies. Nor do Pariah States and Areas of Armed Conflict have a great deal to do with mining, per se. These sections give an impression that the authors of this Chapter are attempting to saddle the mining industry with all the world's ills, rather than carrying out any profound or focussed analysis.

Page 8.32. On the question of Transparency of Information companies have long published Annual Reports. The trouble very often is too much rather than too little information of the proper quality.

Chapter 11.

Page 11-5. The comment on 'coltan' betrays a press-cuttings approach rather than an analytical one. Coltan is an abbreviation for columbite-tantalite ore, which is mined in many countries besides the Congo. Tantalum is the metallic element from that used which is used in capacitors. The main source is a well-run mine in Australia.

Chapter 13.

Page 13.3. Where is the evidence that mercury and beryllium are mined virtually entirely by small miners? Mercury comes predominantly from four large deposits which operate intermittently, and today from recycling and above-ground stocks. The largest producer is Almaden in Spain, hardly a small mine. Beryllium comes mainly from one mine in Utah.

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