



DIGGERS & DEALERS

DIGGERS & DEALERS MINING CONFERENCE - KALGOORLIE, AUGUST 2-4

- CHINA GROWTH, AUSTRALIA MINING TAX, ELECTION IN FOCUS
- OUTLOOK FOR CHINA IMPORTS OF METALS TO DOMINATE AGENDA
- FATE OF MINING TAX POST AUSTRALIAN ELECTION



REUTERS

CHINA AND TAX IN FOCUS AT OUTBACK MINING MEET

By James Regan and Manolo Serapio

Chinese demand and a controversial new tax on resources will be in focus at a key mining industry gathering in the Australian outback next week, testing the appetite for new mining projects.

With overhangs in metal stocks and questions over how fast China can keep growing, miners trying to drum up funds for new projects can expect a lukewarm reception from lenders at the Aug. 2-4 Diggers & Dealers meeting in Kalgoorlie, Western Australia.

London Metal Exchange stocks of copper, lead, zinc and other metals have eased in the last month, but remain above year-ago levels, suggesting a recovery in global demand has yet to hit its stride. With lingering worries about a double-dip recession, Chinese stocks of base metals also remain a market risk.

"Despite strong demand in the first quarter, we believe it is unlikely that there has been significant erosion of the large unreported base metal stockpiles that accumulated in China in 2008/9 and need to be eroded before we get genuine pricing tension," said Daniel Major, an analyst at RBS Global Banking and Markets.

A Reuters mid-year poll of analysts showed only tin and nickel price forecasts were raised from estimates in January, while projections for copper, lead and zinc were cut and aluminium was unchanged.

Australia's mining industry faces additional uncertainties ahead of an election on Aug. 21, with the government planning to bring in a new 30 percent tax on mining profits on iron ore and coal, while the opposition has pledged to drop the tax.

Prime Minister Julia Gillard, who is ahead in the polls, agreed a watered down tax with global miners BHP Billiton, Rio Tinto and Xstrata, but small and mid-range miners are upset they were not consulted.

"If the Prime Minister thinks that the mining tax issue is dead and buried, she is wrong," said Simon Benison of the Association of Mining and Exploration Companies (AMEC), which is resuming an advertising campaign against the tax.

There are also concerns over the impact on miners from undecided climate change policies on the use of coal and energy. "I think most people are looking forward to getting this election out of the way and getting on with business," said Charles Fear of Perth-based Argonaut, a financial adviser to mining companies.

GOOD NEWS FOR COPPER MINERS?

A forecast by the International Copper Study Group (ICSG) sees world 2009-2013 copper mine capacity growth averaging more than 4 percent a year, 1 percent faster than in the decade to 2009.



Reuters/Mick Tsikas

"But the growth is skewed heavily towards the end of the period and the recent pattern has been for the ICSG to eventually lower its forecasts," BNP Paribas metals analyst Stephen Briggs said, cautioning against a rapid increase in capacity.

The impact on demand for resources from a slowdown in China is in the frame after economic growth cooled to 10.3 percent in the second quarter from 11.9 percent in the first quarter.

BHP Billiton and Rio Tinto, which rely on China for a quarter of annual sales, have warned that slower China demand would weaken sentiment and heighten market volatility.

Iron ore miners might regret this year's hard-won fight against steel mills to shift pricing to the spot market as prices drop off and new entrants face hurdles to development.

Spot prices are trading well below the new \$160 a tonne CIF third quarter contract price, with forecasts continuing to point south.

Hardest hit in the sector may be Australia's burgeoning magnetite iron ore sector, which has enjoyed growth in foreign investment, particularly from Chinese steel-makers.

Under the new mining tax, magnetite producers will be taxed at the same rate as the rest of the iron ore sector, despite shouldering additional processing costs of around \$15 per tonne to create a saleable product.

GOLD PROJECTS

Gold miners are in a better spot to parade new projects. Since the start of 2008, gold has stood head and shoulders above other major asset classes, appreciating 49 percent while equity markets and oil and copper price are still in negative territory over that period.

Still, take away the crisis mentality that makes bullion a safe-haven investment, and gold looks precarious, said Research Capital Group gold analyst Tony Parry.

"On balance we are cautious on the medium term outlook for gold, and see more chance of it trading below the \$1,200-mark than above it. Spot gold prices stand at \$1,160 an ounce." said Tony Parry

CHINA SEES GOLD LINING IN AUSTRALIA IRON ORE PROJECTS

By James Regan



Reuters/Vincent Du

Chinese steel producers are increasingly turning to Australia's magnetite iron ore sector, pouring in funds to explore and develop mines once considered uneconomic as they nurture new supply sources.

If the trend snowballs it could cut China's reliance on giants Rio Tinto and BHP Billiton, a critical move as the duo pursue a controversial iron ore merger that steel makers fear will create a near-monopoly in Australian material if left unchecked.

China has been mining and processing magnetite iron ore for decades, building up a wealth of knowledge and expertise in the area. This helps explain why overall investment in the Australian magnetite sector of around \$10 billion so far is set to increase.

A free fall in hematite iron ore prices, which lost 40 percent over the past three months as overall steel production recoils in China, has done little to sate appetite, with investors taking a longer-term bullish view.

"If you're a Chinese steelmaker and you want a direct say in how much iron ore you get, the magnetites are the best option because they offer ground-floor exposure at relatively low cost and include offtake agreements," said Eagle Mining Research analyst Keith Goode. "It's not something the big boys can offer."

Firms such as Baosteel, Anshan Iron & Steel Group (Ansteel), Sinosteel, Citic Pacific Mining, Shagang, China Metallurgical Corp and others are backing projects that promise to deliver 25 million tonnes over the next two years from only 3.3 million now.

CHINESE DEPOSITS FACE DEPLETION

Chinese steel mills have long fed on magnetite ores from once-abundant domestic deposits now facing depletion, while the focus in Australia has always been on plentiful supplies of hematite ores.

Magnetite, which accounts for just 1 percent of Australia's total iron ore production, has lower iron content -- around 36 percent versus 61 percent for hematite -- and must be upgraded, typically into pellet form, at an added cost of around \$15 per tonne, to make it suitable for steel making.

By contrast, hematite is known as "direct shipping ore" or "DSO" because it is mined and beneficiated via a simple crushing and screening process before export.

But in the last few years iron ore of any type has turned to gold for anyone able to mine it and transport it to a port for a relatively short journey to Asian shores.

This quarter alone, the fifth-biggest iron ore miner in Australia, Grange Resources, was able to raise magnetite iron ore pellet prices by 107 percent and forecasts are for pellet prices to continue to rise.

For now, all but a fraction of Australia's iron ore is still mined in the established Pilbara hematite iron belt, where Rio, BHP, Fortescue and Atlas Iron are forecast to produce a combined 440 million tonnes this year.

PURPOSE-BUILT PORTS

Traditionally, there has been minimal seaborne trade and steel mills were often built beside magnetite mines, but Chinese firms are displaying a willingness to fund new Australian ports purpose-built to service new magnetite mines.

Recent start-up Gindalbie Metals has a contract to deliver nearly 900 million tonnes of iron ore from its Karara magnetite deposits to China's No. 2 steelmaker, Ansteel, over three decades. Its first shipment of 10 million tonnes is due in 2011 via the Indian Ocean port in Geraldton.

Last month, the China Development Bank provided \$1.2 billion in loans for studies of a project for a second larger port to maximise production.

"The development of new ports is opening up vast opportunities that did not exist before," said Garret Dixon, managing director of Gindalbie. "For Ansteel, Karara becomes a strategic long-term cost effective source of iron ore for their expanding steel making facilities."

There are more than 20 identified magnetite deposits and prospects in Australia, making up an estimated 4.7 billion tonnes of the resource in Western Australia, 1.6 billion tonnes in South Australia and 700 million tonnes each in Tasmania and Queensland. Each state has attracted Chinese magnetite investment.

"The Chinese steel companies understand and appreciate the potential for Australia's magnetite industry to grow into a major force," Gindalbie's Dixon said. "We represent a real ground-level opportunity for long-term supply."

SCENARIOS-FATE OF MINING TAX POST AUSTRALIAN ELECTION

By James Regan

Australian Prime Minister Julia Gillard has called an election for August 21, a move which could seal the fate of the Labor government's proposed mining tax.

The government aims to raise A\$10.5 billion from 2012 under the watered-down 30 percent tax agreed by global miners BHP Billiton, Rio Tinto and Xstrata, but the conservative opposition has vowed to dump it.

Opinion polls published in Fairfax and News Ltd newspapers put Labor ahead of the conservative opposition at 52 percent versus 48 percent. Here are some scenarios:

LABOR WINS, SENATE TO VOTE ON TAX

If Labor is re-elected, Green senators are set to decide the fate of the tax. A Labor government is expected to present legislation to parliament by mid-2011. Green Senators are on course to be kingmakers in the upper house and are demanding examination of financial details of the tax, before backing it.

Greens have already said the tax revenue should be saved in a sovereign wealth fund for future generations.

WINNERS

The tax applies only to coal and iron ore mining and exploration companies earning more than A\$50 million in annual profit. More than 2,000 copper, silver, lead, zinc, gold, nickel and other minerals producers not covered by tax.

But Gillard has signalled a willingness for further concessions to junior miners, which lost exploration write-offs under the watered-down tax. This could lead to a doubling of the profit threshold to A\$100 million and a flow-through shares scheme based on a Canadian model that allows miners to pass on tax loss credits to investors.

Miners say flow-through shares encourage more investment in exploration and development when there is no cash flow.

If the government amends the tax proposal, key beneficiaries would include magnetite iron ore producers such as Atlas Iron, Gindalbie Metals, Citi Pacific Mining, Grange Resources, Fortescue Metals Group, Centrex Metals, Royal Resources, Murchison, Onesteel and Emergent Resources.

LOSERS

Mining heavyweights BHP Billiton, Rio Tinto and Fortescue fall squarely in the sights of the tax. Commodity diversification will enable BHP and Rio to

offset some of the heavier tax burden on its iron ore and coal divisions. Fortescue faces a more direct tax bill because it mines only iron ore.

UBS estimates the effective tax rate for companies affected would increase from 38 percent to 44 percent under the new tax.

An exploration rebate was also scrapped under the revised tax that would have equalled 30 percent of exploration costs and benefited large and small miners.

Magnetite iron ore producers are taxed at the same rate as the rest of the iron ore sector, despite shouldering additional processing costs of around \$15 per tonne to create a saleable product. Calls by the burgeoning magnetite sector for exemptions have met a lukewarm response from the government so far.

Similarly, producers of brown coal, which face additional costs of around \$25 per tonne to extract water from the mud-like coal, will be taxed at the same rate as black coal miners

Brown Coal producers include: Great Energy Alliance Corp, International Power Australia and TRUenergy Holdings.



Reuters/ Tim Wimbourne

Opposition leader Tony Abbott has indicated he would scrap the tax. BHP Billiton, Rio Tinto, and all other miners of coal and iron ore breathe a sigh of relief and removes any lingering threat that billions of dollars in new projects could be scrapped and investment diverted offshore.

Rio Tinto is already making plans to lift annual iron ore production in west Australia's Pilbara region by 100 million tonnes to 330 million tonnes in five years. Longer term, it wants to raise output to 600 million tonnes.

Fortescue would likely immediately reinstate its \$9 billion proposed investment in an iron mine with a capacity of 160 million tonnes a year put on hold under the original tax proposal. A further \$6 billion in proposed investment would also be reconsidered by the Fortescue board.

FACTBOX-AUSTRALIA'S DIGGERS & DEALERS MINING CONFERENCE

* The forum is the most widely attended of its kind in the Southern Hemisphere, with more than 1,900 mining and exploration companies, stock brokers, bankers, private investors, financiers and mining service industries due this year, the organisers say.

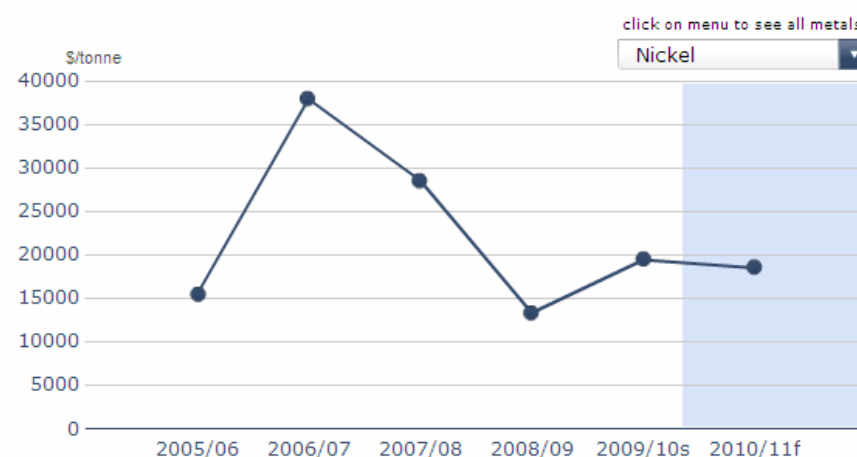
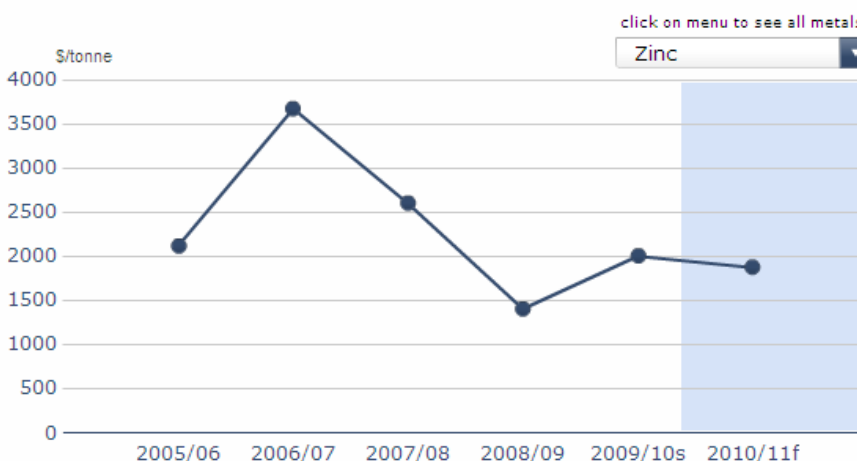
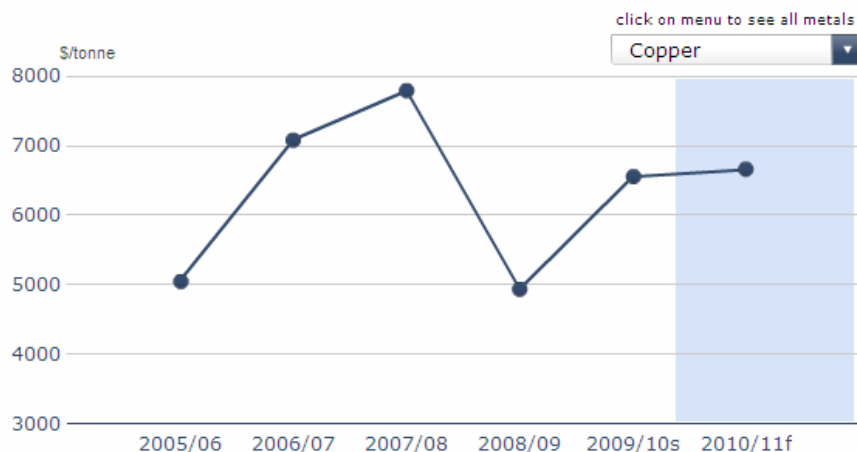
* Forty companies, from exploration juniors to top global gold producers, are due to make presentations.

* Diggers & Dealers was the brainchild of the late outback mining entrepreneur Geoffrey Stokes, who organised the first meeting in 1992 for 150 delegates.

* Senior executives from the following organisations are among those set to speak this year:

- World No. 1 gold producer Barrick Gold Corp
- Sino-Australian iron ore producer Grange Resources
- Nickel miner Western Areas
- World No. 2 gold producer Newmont Mining
- World No. 4 gold producer Anglo Gold Ashanti Ltd
- Copper miner OZ Minerals
- Zinc/copper/lead/gold miner Kagara
- Iron or miner Fortescue Metals
- No. 5 gold producer Gold Fields
- World No. 6 gold producer Newcrest Mining
- Oyu Tolgoi of Mongolia copper and gold miner Ivanhoe Mines

World indicator prices of base metals



Source: ABARE
CT23/07/10

s = Abare estimate f = Abare forecast

REUTERS

James Regan -Senior Mining and Commodities Correspondent.

jim.regan@thomsonreuters.com

(02) 9373 1814

Simon Wilson - Head of Commodities and Energy, Asia.

simon.wilson@thomsonreuters.com

(65) 6403 5555

REUTERS