

Mining: Digging deeper into the downturn

Mr George Edwards, Chairman of the **Australian Mining Association** (AMA) and mining industry veteran who formerly owned three coal mines in Australia and serves as a senior adviser for mining to the Chinese government tells us that most commodities will remain downtrodden for the rest of this decade.

By Chia Wan Fen

The mining industry is presently seeing a downturn, said Mr Edwards, and it is the fourth since the 1970s and probably the longest in his over 40 years of experience.

Noting that just a few years ago, with global euphoria over China's growth and its demand for resources, he said mining companies had invested heavily, taking loans and acquiring companies. Now with the giant economy on the wane, most commodities are seeing lower demand.

Prices have plummeted. The price of coking coal and thermal coal are now about US\$80 and \$50 a ton respectively, a third of what they were three years ago. "Gold is the only commodity that's doing well – up over \$1,260 an ounce, with every other commodity doing badly. My guess is this downturn will be four to five years long," he said.

Political and regulatory risks

In addition to slow global economic growth, regulatory changes have also caused long-term declining prospects in certain commodities. For instance, the Chinese government had decided recently to cut capacity in steel and coal with the view to further develop the service sector in the years ahead. While in the US, with the strong movement to stem climate change, the Obama administration had recently put a stop to all new coal mining.

Mining companies also face shorter-term regulatory vacillations in less

mature economies which make long-term planning difficult. He cited the example of Indonesia, which banned raw metal ore exports in 2014 so that firms would invest in local processing plants to add value to resources and create jobs. However, these curbs failed to attract investments and cost billions in lost revenue, and the government is now working to reverse its decision.

Political risks are also a major issue for a sector whose future – a lot of it at least – lies in Africa, where many of the countries are up-and-coming new sources of minerals, but where many governments are not stable. "It's a brave person who invests a lot in these countries, and also in South America," he said. Corruption from directors or the board is also an issue, especially in these emerging markets.

A challenge to stay the course

Mr Edwards pointed out that mining firms who have been around longer will weather uncertain times better. Older firms like BHP Billiton, Rio Tinto and Vale which invested in their facilities decades earlier than newer players like Fortescue and Roy Hill enjoyed lower costs of production. They could produce iron ore for as low as \$30 a ton, while the latter would suffer losses once prices dipped below \$50.

He noted that another long-term challenge mining firms found hard to cope with was not damaging the



environment they operated in. Alluding to recent pollution cases in Brazil and Papua New Guinea that affected the "lifblood of a lot of locals", Mr Edwards noted that large MNCs struggled with their corporate ethics and the need to do business amid difficult local regulations.

And the ultimate issue when it comes to any non-renewable resource – how long is it going to last? His optimistic view is that the industry will endure despite difficulties. He noted that Africa, Latin America and Australia are regions containing huge amounts of resources yet to be mined. The industry's growing efficiency and benefits from exchange rates due to US-dollar transactions are its salvation.

Investing in the future

Despite improved productivity, he said companies still had to continue to invest in the future. A huge threat with each downturn is that companies stop prospecting – he advised that it is exactly what they need to do to boost their reserves.

"Mining will last hundreds of years. You deplete reserves but people are still discovering, and the demand for minerals will go on for ages," he concluded. ■