EXCLUSIVE-Chile's Codelco set for copper output hit as key mine goes underground

Codelco's giant Chuquicamata mine is set for a 40% drop in production over the next two years, an internal forecast seen by Reuters shows, pointing to the sharp challenge facing the world's top copper miner as it scrambles to maintain output.

The giant open-pit mine, set to be the Chilean state-run miner's biggest by output this year, is undergoing a complex $5 billion-plus transformation into an underground shaft mine in a bid to extend the century-old prospect's lifespan.

Chile's President Sebastian Pinera is expected to formally cut the ribbon on the revamped copper mine, often referred to as 'Chuqui', in coming months.

This year, ores from the new project will be added to the existing open-pit operations, giving Chuqui overall production of 459,000 tonnes - its highest since 2010 - the previously unreported 2019 forecast shows.

But as Codelco scales down and ultimately shutters open pit extraction next year, while the underground project still ramps up, output will drop sharply, the figures show - down 182,000 tonnes by 2021 versus 2019.

That will drive overall Codelco production down 4% by 2021, according to the long-term business development plan. That would be steeper were it not for a planned production hike at the miner's Radomiro Tomic prospect.

Codelco declined to comment on the forecast data, saying the numbers were confidential.

The changes at Chuqui underscore the risk to Codelco's global dominance amid a $39 billion overhaul of its key operations to try and counteract rapidly falling ore grades that are hitting top copper exporter Chile more broadly.

"We're going to see a lengthy process to bring production to a level similar to that of the pit," said Juan Carlos Guajardo, head of consultancy Plusmining. The above-ground 'pit' is the size of over 3,000 American football fields.

Guajardo projected a seven-year "ramp up" period. The internal presentation seen by Reuters shows production at Chuqui dropping sharply to 277,000 tonnes by 2021 before climbing back to a peak of 416,000 tonnes in 2024.

"SCISSOR HANDS"

Chuqui is also facing a battle with simmering worker tensions and technical delays, hampering prospects at the mine.

Plans for the underground project were drawn up early in the decade when copper prices were hitting all-time highs, then scaled back by chief executive Nelson Pizarro, known as "scissor-hands" for his focus on costs.

Copper prices are now being hit by a whipsawing trade standoff between the United States and China. They have fallen for five straight weeks and are near several-month lows.

"The challenge remains to ensure future viability, modifying the work culture and applying new work practices and technology," Pizarro told Reuters in a recent interview, adding Codelco needed to improve productivity without lifting costs.

That could mean pain for Chuqui workers, with some 1,700 expected to lose their jobs in coming years, putting Codelco's powerful unions on edge.

A January negotiation round on the layoffs ended in an impasse and differences still loom large during an ongoing second round of talks with top unions. Some fear the conflict will provoke strikes, further hitting production.

Unions at Chuqui rejected on Sunday a management proposal for a quick end to contract negotiations.

"The old workers of Chuqui have benefits that are above the rest of the entire company and the cost is immense," said Gustavo Lagos, a Santiago-based professor at the mining center of the Pontifical Catholic University of Chile.

MUTED START

The first extraction of copper ore from the underground mine, a major milestone for the project, was announced in April via a brief statement, a low-profile start sources at or close to the firm said was due to the tough environment at Chuqui.

An automated conveyor belt system to transport the extracted material to a concentrator plant will only be ready by the last quarter of 2019, according to Pizarro, forcing the firm to use slower trucks to move the ore.

With the lower output at Chuqui, Codelco's total copper production is expected to fall to 1.66 million tonnes in 2021, from the 1.73 million expected this year, the firm's internal forecast shows. Only by 2027 would it again top 2019 levels.

The forecast also showed that Codelco's short-term estimate for the period 2019-2025 had slipped versus its outlook in 2018, though it had raised its longer term production estimate.

Barbara Mattos, an analyst at ratings agency Moody's, said the overhaul was nonetheless key for Codelco to support its levels of production and ensure "the viability of the company as a relevant actor in the copper industry in the long term."

China rare earth prices surge on Myanmar crackdown

Spot prices for rare earths in China rose sharply on Wednesday, with dysprosium, used in magnets, lasers and nuclear reactors, hitting a four-year high, as the country feels the pinch from a reported ban on imports from neighbouring Myanmar.

The latest surge in prices came two days after Chinese President Xi Jinping visited a rare earth company in Jiangxi, sparking speculation that China, the world's dominant producer, could restrict exports to the United States as part of a trade war between the two countries.

Customs in southwest China's Yunnan province, which borders Myanmar, has prohibited rare earth mineral imports from the Southeast Asian country from May 15, the state-run Securities Times reported on May 13.

Myanmar accounted for 50% of China's medium-heavy rare earth feedstock in 2018, the newspaper said. Analysts believe the ban is an attempt to stop smuggling.

Chinese prices for the metal form of dysprosium, one of the middle-heavy rare earths used in permanent magnets, rose by 16.4 percent to as much as 2,300 yuan ($333.25) per kg, the highest since May 2015, on Wednesday and are up more than 25 percent since the Securities Times report was published.

Terbium metal has soared to 4,500 yuan per kg, the highest since November 2017, and gadolinium oxide prices are up 19 percent this month, hitting 175,000 yuan per tonne on Wednesday, the highest since August 2017.

"Prices of middle and heavy rare earths have enjoyed steady gains since the start of the year," Ryan Castilloux, managing director of Adamas Intelligence, said in an email. "In recent days the rally has turned to a race on the back of the import ban from Myanmar and ongoing trade war-related speculation."

Shares in companies that make rare earth products, used in everything from mobile phones and medical equipment to jet engines and electric vehicles, have soared since Xi's visit. Australia-listed Lynas Corp, the only major rare earths producer outside of China, which stands to gain from the Myanmar ban, hit a six-month peak on Wednesday.

Yunnan customs referred questions on the Myanmar ban to the General Administration of Customs in Beijing, which did not respond to a faxed request for comment.

Barrick's buyout offer for Acacia unit irks minority shareholders

Barrick Gold Corp's proposal to take full control of its Acacia Mining Plc unit to resolve a long-standing tax dispute with Tanzania has drawn the ire of Acacia's minority shareholders, who may have the ultimate vote on a deal.

Barrick's offer values Acacia at $787 million, a near 11% discount to its Tuesday close and 42% below Barrick's own audited valuation of Acacia's assets in its 2018 annual report.

"Either their auditors are not doing their job properly and they should have taken an impairment at the 2018 year end, or this is a false statement. Which is it?” an Acacia shareholder, speaking on condition of anonymity, told Reuters.

Barrick spun off Acacia into a separate company in 2010, but owns 63.9% of the company.

Barrick's offer follows two years of wrangling over a $190 billion Tanzanian tax bill, which has since been reduced to $300 million.

Even as Barrick has negotiated with the Tanzanian government to resolve the tax dispute on Acacia's behalf, relations between the two companies have soured. Acacia has blamed Barrick for being shut out of the talks, while Barrick has accused Acacia of failing to cooperate with its efforts.

Following Barrick's offer on Tuesday, Acacia said in a statement the government of Tanzania had refused to execute final agreements if Acacia is one of the counterparties.

Under UK rules, an offer for more than 30% of a company's shares requires approval by at least 50% of shareholders unrelated to the deal. But that requirement may be waived if over 50% of the target is held by one shareholder. Barrick did not respond to requests for comment on the matter.

One Barrick shareholder, speaking on condition of anonymity, said Acacia's minority shareholders appeared to have few other options than to accept the offer.

"Take this deal or the company goes on being harassed by the Tanzanian government," the investor said, noting Acacia's minority shareholders may have a little leverage since Barrick "can't do anything with the status quo either...Barrick can't sell to a third party, because nobody's going to buy Acacia without an agreement in place."

Shares of Acacia, which owns three mines in north-west Tanzania, opened down 8.4% in London but recovered to close 3% lower at 154.9 pence.

Barrick shares closed 1.5% lower at C$16.01 in Toronto, broadly in line with the S&P/TSX Global Gold Index.

With much of the tax dispute stemming from the period when Barrick fully owned the Acacia assets, a deal by Barrick with the government of Tanzania to retake ownership "feels like bare-faced cheek to us," analysts at

Peel Hunt wrote in a note.

Acacia's troubles in Tanzania began after President John Magufuli, nicknamed "The Bulldozer," swept to power in 2015 pledging to secure a bigger share of resource wealth and cut corruption.

The Tanzanian government accused the company of evading taxes for years by under-declaring exports, a claim Acacia has dismissed.

In February, weeks after Mark Bristow, known as a seasoned African operator, became chief executive of Barrick, the company outlined details of a deal with the Tanzanian government to settle the Acacia dispute, including a $300 million payment and a 50-50 split of economic benefits.

The news sent Acacia shares surging to their highest since October 2017, when an initial framework deal was announced, but they have since declined 42%, as a final agreement failed to materialize.

Barrick has offered 0.153 of its own share for each Acacia share, which implies a total consideration of $285 million to the minority shareholders of Acacia.

Barrick has until June 18 to make a firm offer for Acacia or walk away from the deal.

British Steel collapses after failing to secure extra funding

British Steel, the country's second largest steel producer, has collapsed and put 25,000 jobs at risk after failing to secure emergency government funding, Britain's Official Receiver said on Wednesday.

The High Court ordered the compulsory liquidation of the company, although staff will remain employed for now as the liquidator oversees the operation of the main site in Scunthorpe, northern England.

Business Minister Greg Clark said British Steel was open to new buyers, while the opposition Labour Party called on the government to bring it back into public ownership.

Owned by investment firm Greybull Capital, British Steel employs around 5,000 people, mostly in Scunthorpe, while 20,000 more depend on its supply chain.

Greybull Capital, which specialises in trying to turn around distressed businesses, said it had tried to keep British Steel alive but the challenges of Britain's looming exit from the European Union proved insurmountable.

Greybull paid former owners Tata Steel a nominal one pound for the company three years ago.

After being renamed as British Steel, the company made a profit in 2017 but cut around 400 jobs last year, blaming factors such as the weak pound and uncertainties surrounding Brexit, which it said hammered its order book.

TARNISHED STEEL

EU steel company shares are currently trading at their lowest in nearly three years, driven down by weak demand, high raw materials costs and cheap imports that can no longer reach the United States due to trade tariffs.

Turning a profit in steel is particularly difficult in Britain, where steelmakers pay some of the highest green taxes and energy costs in the world, as well as facing high labour costs and business rates.

Jeff Kabel, chairman emeritus of the International Steel Trade Association (ISTA), said the government is paralysed by Brexit and unable to address the steel sector's challenges.

The collapse of British Steel comes after Germany's Thyssenkrupp and India's Tata Steel ditched a plan this month to merge their European steel assets to create the EU's second largest steelmaker after ArcelorMittal.

That failed merger left the wider EU steel sector fragmented and vulnerable to economic downturns. It also called into question the fate of Britain's largest steelworks in Port Talbot, Wales, owned by Tata Steel.

Ratings agency Moody's lowered its outlook on the European steel sector to negative on Wednesday, adding operating conditions would likely worsen in the next 12-18 months. The outlook had been stable since April 2017.

SEEKING CASH

Signs of the ripple effect of British Steel's collapse are already beginning to emerge.

Hargreaves Services, a materials services company based in Durham, northern England, said earlier if the steelmaker ceases to trade, this could reduce its profit before tax in the next full year by about 1.3 million.

Accountants UHY Hacker Young said the three worst UK areas for increasing personal insolvencies over the last five years were all steel towns, raising concerns over the impact of the British Steel collapse on local economies.

British Steel had asked the government for a 75 million pound loan, later reducing its demand to 30 million pounds after Greybull agreed to put up more money, according to a source close to the negotiations.

It had already secured a government loan of around 120 million pounds ($154 million) this month for its liabilities under the EU's Emissions Trading System rules which taxes carbon emissions.

Law firm Mayer Brown said the fact that the Official Receiver has taken control of the British Steel liquidation suggests administration was not an option due to a lack of secure funding.
Britain's business minister said it would have been unlawful to provide a loan to British Steel on the terms the company or any other party had made.
The European Commission said it had not been formally notified of any concrete plans by the UK authorities to provide additional public finance to the company.
British Steel also operates a business in France producing rail, and a wire and processing unit in the Netherlands.
Greybull had been negotiating with the government for the loan, a source said, adding the government wanted Greybull out of the picture before putting more money into the business for fear those funds would eventually end up in Greybull's hands should the steelmaker collapse.
Greybull are British Steel's only creditor at the holding company level and have secured their loans against its assets.
The UK government has a chequered history with Greybull, after the collapse of the firm's airline Monarch in 2017 forced the government to repatriate more than 100,000 stranded tourists at a cost of about 60 million pounds.
"In light of events over the past few weeks, it is clear Greybull needs to do the right thing by getting out of the road and let those who are committed to our industry work to save the business," the union Community said in a statement.

Zimbabwe mine output subdued in first quarter as dollar crunch bites
Zimbabwe's mining sector was subdued in the first quarter due to a severe dollar crunch that affected production, with gold the most hit, the mining chamber said, adding some bullion miners had experienced recently introduced power cuts.
Mining generates most of the export earnings for the southern African nation, which faces a severe shortage of dollars that has led to a scarcity of fuel and medicines.
Isaac Kwesu, CEO of Chamber of Mines, which represents large mining companies, said mines had during the first quarter to March faced delays in getting their dollar payments from the central bank.
Miners, including those of gold and platinum, are paid dollars for half of their output while the balance is paid in the local RTGS dollar currency.
Initially, miners faced delays of up to 12 weeks to get their U.S. dollars but the time leg had been reduced to 2 weeks, although miners want to be paid in one week, Kwesu said.
"Preliminary figures indicate that the first quarter was not a good performing period for our mining industry as most key minerals recorded some negative growth," Kwesu told reporters.
Kwesu said he expected mining production to improve as mining firms receive their dollars quicker and get more in local currency as the RTGS dollar continues to weaken.
Miners say they want to be allowed to keep 70 percent of their dollar earnings to allow them to import equipment and mining consumables, including fuel, in a timely manner.
Gold deliveries to central bank unit Fidelity Printers and Refiners, which buys all the country's gold, declined to 6.5 tonnes from 7.3 tonnes during the January-March quarter.
Zimbabwe produced a record 33 tonnes last year and has set a target of 40 tonnes this year.
The mining chamber's president Batsirai Manhando said mining companies were for now spared from the indefinite rolling power cuts, known locally as load shedding, throughout the country.
"There has been some loading shedding in some of the gold mining houses but not that significant to affect performance yet because this is a recent problem," Manhando said.

Gold miners must focus on returns, mergers to attract investment -Barrick CEO
Gold miners must focus on maximising returns and more mergers to attract investors seeking to diversify after years of under-investing in mines, Barrick Gold's chief executive said on Wednesday.
"The industry is in decline and we have put ourselves in a very a tight spot because we haven't invested in exploration and our future," said Mark Bristow, who took the helm in January at Barrick after its takeover of Africa's Randgold.
"The supply side of our industry is very tight."
Gold miners have for years been accused of eroding profits through expensive deals but the takeovers of Randgold by Barrick and Goldcorp by Newmont Mining has spurred speculation about a pick up in long-dormant gold M&A.
Bristow said of the recent consolidation "while (it) is important, we have got to become relevant."
Barrick in March pulled its $18 billion offer for Newmont and agreed instead to form a joint venture in Nevada with its rival, ending a hostile takeover bid that sought to unite the world's two largest gold producers.
On Tuesday, Barrick offered to buyout the remaining 36.1% of shares it does not already own in London-listed

Acacia Mining at a discount to its current share price.
Bristow declined to comment on the issue further.
The Nevada operation, which will be 61.5% owned by Barrick, will be reviewing mine plans and based on geological and geotechnical modelling will be reviewing mining methods and along with other assets in the miner's portfolio will be focusing the combined team on driving efficiency improvements, Bristow said.
"We have to be better we have to be more focused on returns if we going to attract investment around our industry," Bristow told delegates at a conference.
"The world has never been more chaotic economically than it is today ... people are searching for alternative reserve currencies and gold will play a natural role as it has done."
Analysts say gold has recently failed to fully capitalise on its traditional role as a hedge against financial and political uncertainties with investors betting more on a run in riskier assets such as stocks.
But analysts at Swiss bank Julius Baer said investors seeking safe havens would be lured into gold by expectations of a U.S. recession and a related cooling of global growth towards the end of next year.

Aurubis buys recycler Metallo in move beyond copper

Aurubis, Europe's biggest copper smelter, said on Wednesday it had agreed to buy Belgian-Spanish recycling company Metallo Group for 380 million euros ($424 million) as part of an acquisition-led shift into other metals.
"Due to megatrends such as smart homes, e-mobility, digitalisation and renewable energies, both the quantity and the complexity of secondary raw materials will increase significantly," Aurubis Chief Executive Juergen Schachler said.
Metallo, which is being sold by funds managed by investment firm TowerBrook Capital Partners, specialises in recycling difficult materials with low metal content and has attractive growth potential, Aurubis said.
With around 530 employees at its main sites in Belgium and Spain, Metallo generated revenues of about 985 million euros in fiscal year 2018, the German company added.
Aurubis completed its purchase of the remaining shares in copper wire and rod maker Deutsche Giessdraht last July and Schachler said in February it was still seeking acquisitions.
Schachler, who leaves Aurubis at the end of June, has begun an expansion into other metals alongside copper and Metallo's recycling includes nickel, tin, zinc and lead as well as copper.
Metallo processes about 220,000 tonnes of scrap and recycling materials annually at its plant in Beerse in Belgium and another 95,000 tonnes is processed at its plant in Berango in Spain, Aurubis said in a presentation on a conference call.
The tonnage of new metals produced by Metallo is not being revealed.
"Metallo's processing expertise and specific metallurgical know-how provide an excellent complement to Aurubis' own strengths," Schachler said.
Aurubis said the closing of the deal was subject to clearance by merger control authorities including the European Union, and was expected towards the end of 2019.
The company added it was confident of getting regulatory approval. The EU in February blocked Aurubis' plan to sell its flat rolled products business to a German producer.
BNP Paribas acted as adviser to Aurubis on the Metallo deal.

Australia's Kidman Resources backs $534 mln Wesfarmers takeover

Australian lithium miner Kidman Resources on Thursday agreed to be acquired by Wesfarmers for A$776 million ($534 million) in a deal that will give the retail conglomerate entry into the booming electric vehicle market.
The two companies entered into a scheme implementation deed after Wesfarmers, which launched its bid for Kidman earlier this month, completed due diligence, the parties said in separate statements.
The A$1.90 per share bid is subject to a shareholder vote, which is likely to be held in August, the lithium miner said. Kidman directors and major shareholders plan to support to the deal.
"The Kidman Board has concluded unanimously that realisation of a significant premium to the undisturbed market value ... is in the best interests of all our shareholders," Kidman Chairman John Pizzey said.
The offer was pitched at a 47 percent premium to Kidman's last closing price on May 1.
Wesfarmers said it expects to spend about A$700 million to develop Kidman's Mt Holland lithium project, with first production of lithium hydroxide targeted in the second half of 2022.

The conglomerate has also signed an agreement with Sociedad Química y Minera de Chile S.A (SQM), Kidman's joint venture partner at Mt Holland, which would prevent the Chilean company from entering talks with any party proposing to make a competing offer for Kidman.
Wesfarmers' bid for Kidman followed closely on a $1.1 billion offer for rare earths producer Lynas Corp, which has so far strenuously fended off its suitor.

Zimbabwe awards platinum concession to firm linked to Nigerian billionaire
Zimbabwe has awarded a concession to explore for and mine platinum to a company linked to a Nigerian billionaire as the country speeds up investment in a mining sector it hopes will transform the country's struggling economy.
The concession comes just over a year after President Emmerson Mnangagwa's government signed an agreement with Cyprus-based Karo Resources to develop a $4.2 billion integrated platinum mine.
Zimbabwe is seeking to quickly exploit its reserves of platinum, which is used in catalytic converters for limiting emissions at a time vehicle manufacturers are moving to electric cars powered by lithium batteries.
The information ministry said Bavura Holdings, in which Nigerian billionaire Benedict Peters is a major shareholder, would on Thursday sign an agreement to mine platinum on Zimbabwe's mineral-rich Greak Dyke. It did not give details.
Peters, who is based in Ghana, is the founder of Aiteo Group, which has interests in oil.
Mines Minister Winston Chitando said last month the government would name two new investors to develop separate platinum mining projects west of the capital.
Anglo Platinum and Impala Platinum Holdings already mine platinum in Zimbabwe. Impala also owns a joint-venture mine with Sibanye-Stillwater.
A Russian consortium and Zimbabwean investors are developing a platinum project in Darwendale near Harare.

COLUMN-Adani's coal hopes look increasingly isolated as BHP joins naysayers: Russell
How's this for a study in contrasts: One of the world's biggest coal miners effectively says the industry is dying just days after Australia's opposition party suffered a shock election loss, partly blamed on its failure to unambiguously back a new coal mine.
BHP Group Chief Financial Officer Peter Beavan told a strategy briefing on Wednesday that the world's biggest mining company has "no appetite" to grow its thermal coal assets and that the polluting fuel will be phased out "potentially sooner than expected".
To be sure, Beavan was talking about the type of coal used mainly in power generation, and this forms a tiny part of BHP's total coal portfolio, which is dominated by coking coal used mainly for steelmaking.
BHP's only thermal coal assets are the Mount Arthur thermal coal mine in Australia's New South Wales state, and a one-third stake in Colombia's biggest producer, Cerrejon, valued at about $2.5 billion.
The company's joint venture with Japan's Mitsubishi Corp in Australia's Queensland state is the world's largest shipper of coking coal.
Beavan's comments came days after the opposition Labor Party lost an election they had been overwhelmingly expected to win, with a contentious coal mine playing a part in the defeat.
The Labor opposition failed to unseat the conservative government of Prime Minister Scott Morrison largely because it lost seats in Queensland state, home to the Carmichael thermal coal mine being planned by India's Adani Enterprises.
If the 8-10 million tonnes a year project does proceed, it would be the largest new coal mine project globally at an expected cost of at least $4 billion.
The failure of Labor's bold climate action plans to resonate with Australian voters, particularly those in regional areas with strong mining sectors, has given the Adani project a new lease of life.
The Labor premier of Queensland state, which also has to approve the mine in tandem with the federal government, appeared to read the election tea leaves very quickly, calling on Wednesday for Adani to sit down with the state's regulator to work out a timetable for final approvals.
But even if Adani does secure final approvals, the mine is still facing serious challenges.

SHOW ME THE MONEY
It will no doubt be subject to a sustained campaign by environmental activists, but even this may prove to be the least of its worries.
Adani has battled to secure financing for the mine as more and more banks and development institutions pull back from the coal mining industry, partly to improve their green credentials but also because of the rising risk of coal assets becoming stranded, while still owing millions of dollars.
Adani has said it can finance Carmichael off its own balance sheet, and assuming it can, the mine still faces

challenging economics, given the current price for the type of thermal coal it produces.
Adani estimated in January that total costs of bringing the coal to port via rail would be about A$54 a tonne ($38).
Based on current market prices for other types of coal similar to Carmichael's 5,000-5,800 kilocalories per kg coal, it's possible that Adani could enjoy a margin of as much as $15 a tonne.
But this doesn't include the cost of repaying the capital, or holding back funds for rehabilitating the mine once it reaches the end of its life.
There are also questions over whether Adani can actually mine and transport its coal, and pay all royalties for just A$54 a tonne, as this figure seems low when compared to other similar mines in Queensland, the majority of which are closer to ports than Carmichael.
It does seem that the backers of the Adani mine seem to be taking a risk that virtually nobody else is now prepared to.
If financing is secured, whoever provides it runs the risk of not getting repaid.
The victorious Liberal Party government is risking a prolonged and damaging fight between environmentalists and pro-mining groups, one that threatens to further divide Australia along climate lines.
The regional areas in Queensland that gave their votes to Liberal government run the risk that the mine fails to generate the level of employment they hope for, and if it runs at a loss it could become a millstone for local and state governments as they will be tempted to throw money at it to keep it going.

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(Inside Metals is compiled by Shaina Ahluwalia in Bengaluru)

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