



Chile, Codelco and the Copper Slump

by Cecilia Jamasmie

Copper production in Chile is still profitable, say experts. (Photo by Matt Hints, courtesy of Codelco)

In early January 2009, [Chilean President Michelle Bachelet](#) announced a [\\$4 billion plan](#) to help Chile fight the global economic crisis and create as many as 100,000 jobs. The so-called "Anti-Crisis Plan" is based on [windfall copper earnings saved up](#) over the last few years.

Soaring copper prices, however, are a thing of the past, due to the [global economic meltdown](#) that originated in the [United States](#). Aware of this fact, the Chilean government announced that [Codelco](#), the world's largest copper mining company, will invest \$12 billion in the next five years to boost production as metal prices rise.

In an interview with MINING.com Magazine, Chilean Mining [Minister Santiago González](#), who is also chairman of state-owned Codelco, said that there will be a "slight" price increase in the next few years caused by speculation that global economic growth will rebound. "Still, worldwide usage of the metal will remain flat in that period," he added.

Codelco, which owns about a fifth of the world's copper deposits, plans to pump \$2 billion into expansion this year as it tries to halt a four-year drop in output at century-old mines. Output slid 6.6 percent in 2007

to 1.67 million metric tons, and dropped 11 percent in the first 10 months of 2008 from the previous year's output, according to [Chile's State Copper Commission, COCHILCO](#).

Codelco needs "these investments to increase efficiency and reduce costs," according to Juan José Ponce, an analyst at brokerage [Larrain Vial SA](#) in Santiago.

In 2008, Codelco's earnings amounted to nearly five billion dollars. This year, earnings will plummet to only 600 million dollars.

Average Prices

In its annual report on the state of the international copper market and prospects for 2009-2010, Cochilco said that copper prices will average 1.60 dollars a pound this year and 1.50 dollars a pound in 2010, a far cry from the 3.15 a pound average for 2008 on the [London Metal Exchange](#).

Although the crisis is expected to worsen over the coming months, which will have an impact on projected demand, so far, supplies -- especially from small and medium-sized mining projects -- have responded quickly to the drop in demand

with announcements of reduced production, the report says.

Despite the economic crisis, copper output will reach 5.5 million metric tons in 2009, which is 3.7 percent higher than in 2008, and will be six percent higher in 2010 than in 2009, Cochilco projects, while forecasting a 0.1 percent growth in global demand this year. In 2008, the average annual price of copper fell for the first time since 2002, when it stood at 70.6 cents of a dollar per pound.

"The price began to drop in the second half of 2008, when the U.S. financial crisis broke out," said Cochilco Vice-President Eduardo Titelman.

All [base metals](#) are down, he said, including copper, aluminum, lead, zinc, tin, nickel and molybdenum.

This situation will have a great impact on fiscal revenue, due to reduced direct contributions by Codelco and lower tax payments by private mining companies that experience a drop in earnings.

In 2008, Codelco's earnings amounted to nearly five billion dollars, according to Mining Minister Santiago González. This year, by contrast, earnings will plummet to around 600 million dollars, he estimated.

The director of the [Catholic University's Mining Centre](#), Gustavo Lagos, said, how-



Chilean Mining Minister Santiago González

ever, that Cochilco's projected price of 1.60 dollars a pound is "optimistic."

"It is too early to make realistic forecasts because of the prevailing uncertainty with respect to the magnitude of the crisis and, particularly, the future growth of the economy of China, which consumes one-quarter of the world's total copper output," Lagos said.

"There is enormous variation in projections for the future, which range from 1.10 to 2.50 dollars per pound," said Lagos, who added that the outlook for 2009 will only start to become clear in the second quarter of the year.

Still Profitable

Experts, such as Lagos, agree that copper production in Chile is still profitable at the current price, since costs per pound are below one dollar and because the prices

of the inputs used by the industry continue to drop.

"In the scenario of export prices of over one dollar, Chile's copper industry can rest easy because, in general, costs will be below one dollar. Only those who cut output may have costs above a dollar," said Lagos.

"Big copper companies are on a sound footing. They won't lose money in 2009. In the most pessimistic scenario, things will be tight. If the price hangs around 1.60 dollars a pound, they will earn money, and quite a lot of it," he said.

However, "some companies are delaying projects because of concern that demand may weaken," said Francisco Costabal, president of [Chile's Mining Council](#), an industry group. Costabal is also chief executive of [BHP Billiton Ltd.'s Spence](#) copper mine in Chile.

"It's hard to forecast a price given all the economic uncertainty," he said.

In December, [BHP](#) delayed development of an energy plant to supply [Escondida](#), the world's biggest copper mine, while [Anglo American plc](#) postponed expansion at a copper mine.

Worries

The outlook for small and medium companies is no better. Minister González has already warned that "job loss in this sector is absolutely inevitable," because many informal sector workers got involved in mining as a result of the copper boom and were only able to make a living thanks to the high prices.

Titelman said that the lower prices should be seen as an opportunity for

mining companies to become more efficient and innovative.

The Chilean government is also worried about the situation of molybdenum, a sub-product of copper production of which the country is also a major producer. The price of molybdenum plummeted in 2008, from 34 to 9 dollars a pound. This year's price is expected to average 11 dollars a pound, according to Cochilco. ■

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