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Panel 1

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# Recent geopolitical developments and the mining industry

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# Natural Resources GP

An international consulting company specialized in mining and energy  
Also acts as broker, bringing together projects and sources of capital

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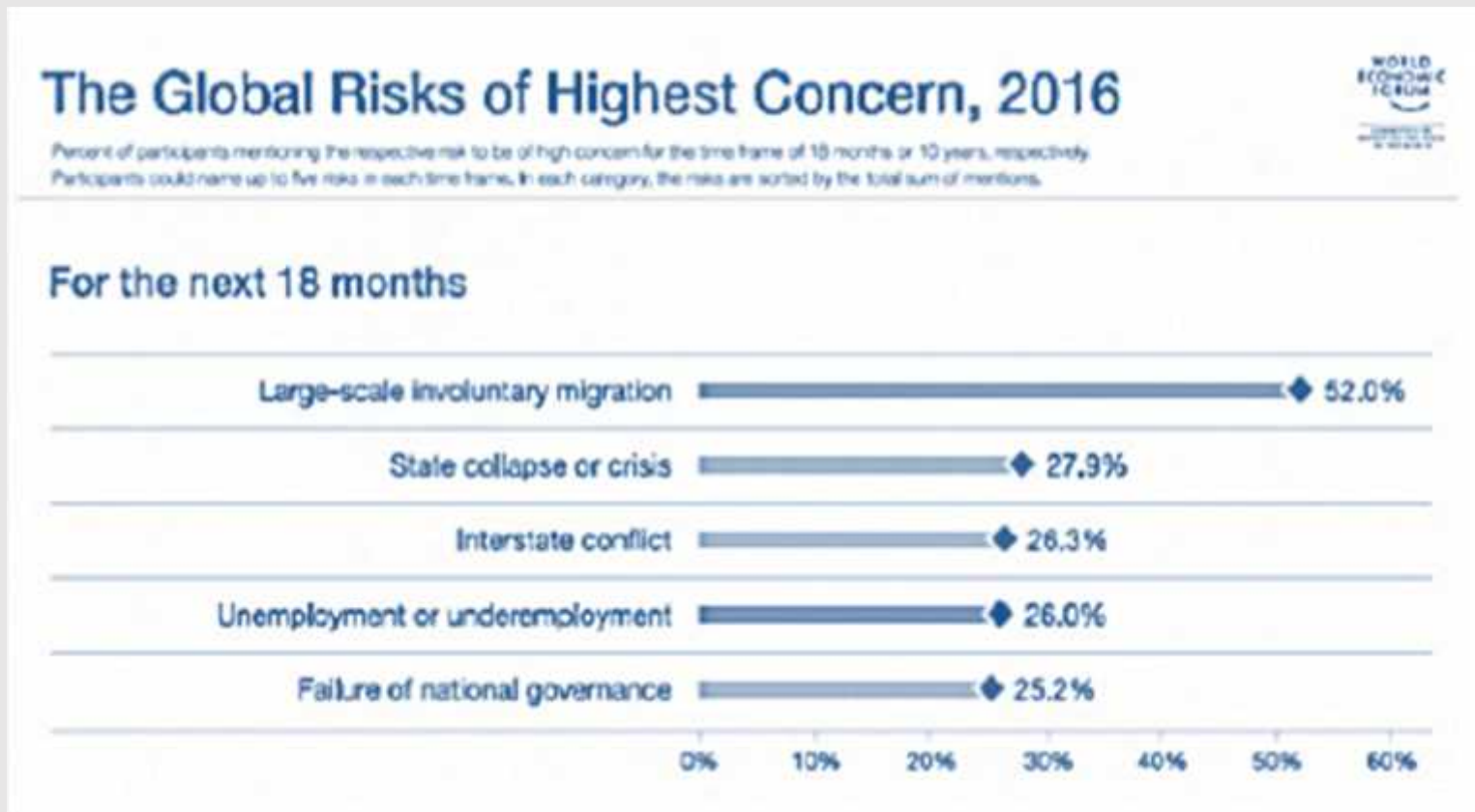
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# Recent geopolitical developments...

- A rapidly changing risk landscape
- Fragile/failing states
- Global refugee crisis, the rise of ISIS
- World economy China-lead, on trillion-\$ steroids: QE, negative interest rates,...
- EU in gravest difficulties ever
- Environmental issues, including global warming
- A renewed nationalism in Europe and elsewhere
- Inequalities
  
- Crisis of trust in governance...
- ...and in the judgement of the 'elites'

# ...Recent geopolitical developments



# International mining sensitive to geopolitical changes

- Mining often highly exposed: has always operated in fragile and/or conflict areas...
- ...and its value chains stretch across the globe and cut across sectors
- AON '16 report: extractive industry the 3rd most affected by terrorism & political violence in 2015, suffering 87 attacks
- Taliban, ISIS, FARC, Boko Haram
- As a result today: future growth, productivity and capital access are the top business risks for miners [Survey]
- Local-scale mining concerned with environmental & permitting problems, competition eg from China and, recently, slowing demand growth
- In both int'l & local mining, uncertainty leads to reduced investment
- Likewise, supply affected eg from some African countries, Afghanistan, Iraq and until very recently Iran

# The energy situation

- Access to energy — sustainable, cost-effective, uninterrupted: Rising energy prices in an environment of declining commodity prices and the resultant margin squeeze has kept this risk in the top 10 [Deloitte survey]. Falling oil prices have brought some relief to mining/metals companies, but current slump in oil prices is result of oversupply → the imbalance could be reversed through supplier discipline.
- Dec '15: 196 countries met & signed a climate change agreement in Paris to commence in 2020.
- Global action against climate change regaining momentum; mining/metals need to be more proactive in addressing the business risk -- directly affects likely cost of doing business – Sept '16 Blackrock: 'Adapting portfolios to climate change': 'Investors' personal views on climate change are irrelevant'
- What will happen in Saudi Arabia?

# China...

- No 1 trade partner for more than 100 countries
- How much do we really know about global trade's impacts? NYT Sept 6 '16
  - The downsides of globalization: 2016 academic economic paper 'The China Shock': between 1999- 2011, growth in imports fm China killed ~ 2.4 million US jobs, ~1 million of them in manufacturing...
  - [but] foreign demand for Chinese goods may have led to the creation of ~70 million jobs in China just in the 5 years after China joined the W.T.O. This 'export shock' was the most important factor in China's economic devt in the 2000s; foreign consumers were able to support higher wages than Chinese consumers could... The overall growth in 1999- 2011 helped raise 350 million Chinese above the country's poverty line of \$1.90 a day.
- Chinese direct investment in mining/metals in Africa but also LatAm, Australia → geopolitical influence
- Inside China: overcapacity in infrastructure, steel, cement, aluminum, refractories, most industrial minerals -- even in shipping
- At the same time, China the biggest **consumer** of copper, iron ore, bauxite etc; 60% of variance in metal prices attributed to changes in China's industrial production
- Some effort to protect/restore environment, reduce overcapacity & smuggling



## ...China, Market Economy Status

- EC aims to adapt the bloc's trade defense instruments to deal with industrial over-capacity – notably in the steel sector – and market distortions; the EU will have to speed up anti-dumping and anti-subsidy procedures while abiding by the WTO legal framework.
- May 12, the EU Parliament passed, by an overwhelming majority, a non-binding resolution against the acknowledgement of MES for Beijing
- EP Consultation: 91 pct against China market economy status, May 25 '16
- June 30 '16: Chinese steel sector damages the country's quest for Market Economy Status – MEPs
- 20 July : impact assessment undertaken by DG Trade on China MES:

3 options examined : (1) leaving EU legislation unchanged; (2) removing China fm list of “non-market economies” & applying the standard methodology for dumping calculations; (3) changing anti-dumping methodology with new approach which would maintain strong trade defense system while giving effect to EU's international obligations.

EC decided to abolish current method of assessing China's unfair trading practices [dumping, state subsidies] & replace it with a “country-neutral,” “non-standard” methodology that “would lead to approximately the same level of anti-dumping duties” as today.

# Brexit

- Pound and property values fall
- Large investment banks making plans to leave London
- Leaders of Italy, France, Germany to meet ahead of Brexit summit
- Southern Europe sees opportunity in UK going out of the EU
- Brexit uncertainty strengthens case for UK shale as Britain will need all its domestic resources
- Sept 7 : UK manufacturing output slumped in July as factories restricted production in immediate aftermath of the Brexit vote. Car industry among just a handful of sectors to expand; textiles, metal production fell, pharmaceutical manufacturing dived.
- Sept 8: OECD: Outlook for global economy has not changed as a result of UK's vote. OECD composite leading indicator for its 34 members steady at 99.7 in July. A reading below 100.0 points to growth that is slower than normal.
- Sept 12: Lloyds Regional Purchasing Managers Index shows recovery in output, after initial dip in the wake of Brexit
- All in all, so far Brexit's impact appears to have been **overrated** – but it might be slow & tortuous

# Turkey...

- A mining country and a large consumer
- Energy imports>>exports, Energy corridor
- July 15: Turkey's coup -- puts Europe in an awkward spot, July energy imports drop 31%
- Sept 1: Turkish military clearing mines from Syrian border
- Sept 8 : Industrial production dropped sharply in July, falling short of expectations, Mining output dropped 0.8% y-o-y, manufacturing output decreased 6.5%. Electricity output & distribution both increased 3.1% [Turkish Statistics Institute]
- How will Erdogan & his ruling party AKP re-establish much needed political/economic stability, in the midst of open conflicts in Syria and Kurdistan and rising threats from PKK & ISIS?
- Country risk, currency risk → investors weary

## ...Turkey

- Turkey's key energy role in SE Europe most unlikely to be questioned, esp. by companies involved in energy projects. If Turkey returns soon to stability & retains competent officials in energy-related agencies and ministries, the impact of the coup attempt on the energy sector will be minor.
- Such stability is key for smooth functioning of the economy & safeguarding growth. Hence, major part of govt effort over next few months expected to focus in strengthening role & operation of existing state institutions, incl. in energy sector [Ministry of Economy, EMRA, BOTAS, TEIAS] & rebuilding relations with major state-owned & private energy players, needed for investments. Challenge: govt determination under Erdogan's constant guidance, to "clean" the public domain fm politically reactionary or bothersome elements & deal w/ real or perceived threats.

IENE, 9 '16

# US elections

- US Nov elections shaping up to be among the most divisive in decades.
- Win by Clinton would signal broad policy continuity. However, a Trump presidency has the potential to bring major change, & the probability of such an outcome is being underestimated
- Main changes
  - national interest rather than world trade
  - new geopolitical relationships with Russia and China
- However, the US President does not have unlimited powers

# Conclusions

- The so-called free-world feels embattled
- The Belle Epoque of the West (1945-2008) is terminating...
- ...bringing an end to facile optimism about the future
- We are not prepared for such changes!



Thank you for your attention!

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