

ANALYSIS

Fears China may snap up last remaining large Latin American mines

As Chinese miners scour the globe for the last remaining big deposits, Latin American mining projects have proven to be an attractive and cost-effective solution.

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MEXICO CITY (REUTERS) - Chinese miners eager to feed a roaring economy with raw materials are buying some of the last remaining big mines in Latin America, where risks are lower than China's other commodities sources like Africa.

Still, there are pitfalls ahead. The choicest known mining resources in the region have already been snapped up, while labor unions are independent and quick to strike for a greater share of the boom in commodity prices.

The Chinese are scouring the globe for the few remaining mineral deposits since they produce less than half the iron and copper and less than 70 percent of the alumina needed to build huge infrastructure projects from highways to power grids to airports.

Earlier this month, China's largest nickel producer, Jinchuan Group Ltd, bought Mexico's biggest untapped copper-zinc deposit from Canadian company Tyler Resources Inc, the latest in a spate of acquisitions across the region.

China has invested billions of dollars in Africa in recent years but civil war, coups d'etat, lack of infrastructure and disease hinder mining companies there.

Latin America, by contrast, has a long mining history and a well-developed regulatory framework to deal with foreign companies, making it a "natural hunting ground" for Chinese investors, said mining analyst Charles Kernot from investment bank Seymour Pierce.

"Latin America is very attractive given the geological potential and the ability to transport straight across the Pacific Ocean," said Kernot.

"The logistics are easier than trying to get stuff out of central Africa," he said.

Chinese state-owned companies can open new mines at up to 50 percent less cost than Western companies, importing everything from Chinese-made vehicles to lower-paid, highly experienced engineers, giving them an advantage in these emerging markets.

Beijing's foreign reserves of \$1.3 trillion give state-owned companies a massive war chest, allowing them to buy up companies as they gain experience in the sector and graduate from earlier joint ventures.

FEW RESOURCES LEFT

But with dwindling mineral resources around the world, China has already bought some of the biggest remaining targets in Latin America this past year.

In December, China's Minmetals and Jiangxi Copper acquired Canadian miner Northern Peru Copper Corp for about \$450 million, the third time last year that Chinese miners bought assets in Peru.

Aluminum Corp of China (Chalco) agreed in June to pay \$790 million for Peru Copper, owner of the Toromocho property, which could be one of the country's largest copper mines by 2011 or 2012.

"These are the types of projects where if the Chinese put in the infrastructure they are going to reap the rewards for some time," said Vaughan Wickins, an analyst at Standard Bank in London.

"With their demand requirements there is no point in them going out and securing a couple 100,000 tonne copper operations, they need some big resources," said Wickins, whose bank has advised Chinese companies interested in buying Latin American assets.

The Jinchuan Group is currently in talks with Petaquilla Minerals about its project in Panama, one of the largest undeveloped copper properties in the world, said a Petaquilla spokesman.

Tyler's Bahuerachi project in northern Mexico has an estimated resource of over 500 million tonnes of metal and will cost about \$600 million to develop, said the company's chief executive, Jean Pierre Jutras.

"I think what Jinchuan saw in Mexico made them very optimistic ... that the climate in Mexico may be very favorable for expanded activities," said Jutras.

But investing in Latin America, while not as risky as Africa, could potentially be complicated for Chinese companies.

Mining projects in the region have been plagued by labor disputes and environmental complaints from local communities.

"The last thing the local population would want would be boatloads of Chinese workers coming over to operate mines," said Kernot.

"If you are going to use a local work force you will have to be subject to all the local rules and regulations," he said.

Striking miners have shut down mines in Mexico repeatedly over the past couple of years, costing the industry some \$2.4 billion, according to the country's mining chamber.

And Latin American locals are wary of Chinese mining companies operating with poor environmental practices.

Last September, three towns in northern Peru voted to reject the \$1.4 billion development of the Rio Blanco copper project by China's Zijin Mining Group's, fearing the company would pollute the area's rich agricultural lands.

Peru's government is siding with the company in the dispute, but concerns from indigenous communities in the region have forced foreign miners to scrap mining projects in the past. (Additional reporting by Lucy Hornby in Beijing and Terry Wade in Peru; editing by Matthew Lewis)