



The Chamber of Mines of Namibia

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The Chamber of Mines of Namibia is concerned at the global financial crisis and the corresponding crash of the mineral prices at the international mineral commodity markets.

The international economy has started to feel the full impact of the financial crisis that has come to be known as the credit crunch. A problem that started in the US housing market has spread across the globe, affecting the prospects of virtually all businesses in both high income and emerging market economies. It is now clear that the global economy has already slowed down and is set to slow further into 2009. The IMF estimates that the US, the Euro Area, Japan and the UK will all experience negative growth in 2009.

This dramatic slowdown has already had a number of important implications for our mining industry. The price of oil has now dropped to below US\$50 a barrel from a peak of just under US\$150 a barrel in July which will help to reduce inflation in our economy and provide some relief on the operational expenditures. The current exchange rate offers some relief in the short term for any export oriented industry such as mining but is not favourable for the national economy in the long run as Namibia is a net importer.

However, the prices of many of our mineral exports such as uranium, zinc, copper, lead and gold have fallen significantly compared to this time last year. We have also taken note of the impact on the diamond industry – with Namdeb stating in its press release issued on 13 November 2008 that “the diamond business will be impacted in the short term and the environment will continue to be challenging and unpredictable.”

This will have a profound impact on our mining industry and it means that our mining companies will receive less for their exports of minerals. Reduced income from the exports of our minerals means less taxes and royalties that will be paid to the Government.

Clearly some minerals have been hit harder than others. The spot price of uranium oxide, for example, is starting to increase after falling from just under US\$ 137/lb in July 2007 to just over US\$ 40/lb at the end of October 2008. Copper is often seen as key gauge of real economic activity because of its vital role in the construction and electrical industries. Copper prices have crashed from US\$ 8000/t in the last 3 months to US\$ 3470/t (as of November 21, 2008), losing 56% in such a short time. Prices of most base metals have plummeted about 40% in the same period. Dimension stone

and industrial minerals have not been spared either. This has dire consequences for our exploration and mining operations, namely:

- Investments for exploration have diminished. Funding is normally raised on stock exchanges which have taken a direct blow of the global financial crisis.
- Exploration projects are being slowed down in the absence of capital flow. Some projects may even be shelved to wait for the financial markets to recover. This will deprive our mining industry with the much needed exploration investments.
- Many of our existing mines with approved expansion programs are experiencing drastic reductions of original capital budgets. This will result in slow implementation of expansion projects. In some cases, new capital projects are being shelved altogether.
- For our mines to survive this downturn various cost cutting measures are being considered and economic decisions are being taken accordingly.
- The Chamber is concerned that while jobs in the mining industry were expected to grow significantly, the current scenario means that some jobs will be lost with serious social consequences.
- Certain projects which were commercially viable at higher mineral prices may no longer be attractive, making it more difficult to justify new investments and raise the finance required.

At this stage, the degree of international economic uncertainty means that it is hard to predict when the crisis will end and when mineral prices will start recovering.

The drastic fall in mineral prices goes to show yet again that mining is a highly risky cyclical capital intensive business with booms and busts dependent on a wide range of factors outside Namibia's control. The Chamber of Mines has brought this fast unfolding situation to the attention of the Government through the Ministry of Mines and Energy. The Chamber believes that Namibia's mining industry is well-placed to weather the current storm, albeit the negative impacts outlined above. However, it may be some time before the industry can return to the stage it was at earlier this year when exploration was booming and finance was relatively easy to come by. Until such time the, Chamber of Mines will closely monitor the global situation and will do everything possible to ensure that uncertainty is minimised and investment is sustained.

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