

The financial crisis and its impact on the extractive industry

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I. Introduction

Financial crisis began as housing crisis in the US in summer 2007

- Crisis expressed in losses and insolvencies
- First hit to subprime credits
- Low credit ratings

⇒ IMF calculated an abnormal depreciation for the US-banking sector of 2.2 trillions US\$



II. Chronology

Summer 2007 Breakdown of Bear Stearns

Summer 2008

- Negative Stock Exchange reaction
- US government takes control of Fannie Mae and Freddie Mac
- Black Monday: Lehman Brothers is insolvent

Autumn 2008

- In Germany the HRE, Commerzbank and Schaeffler group are in deep trouble



II. Chronology

End of 2008

- Iceland and Hungary are facing the financial collapse
- China determined a 600 Billion economic stimulus package
- Global car industry begins to suffer

2009

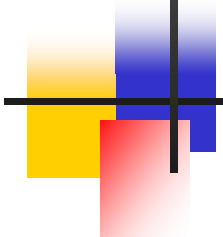
- Nationalisation period: CoBa, HRE
- « Buy-American »
- US: 700 Billion rescue package



III. Causes of the financial crisis

- Low rate of interest
- Increase of the extension of credits
- Loss of solvency
- Breakdown of the interbanking market (loss of reliability)

⇒ **We are in the middle of a world economic crisis!**



*'Your card is fine. I'm just checking
that your bank hasn't expired'*



IV. Deep impact on the economy

Consumers

Consuming less

Companies

Economic growth and
profitability under pressure
Share prices under pressure

Global Economy

Significant decrease

⇒ **Governments** are the only ones who are
able to spend money – «**deficit spending**»



V. And the extractive industry?

- Decrease in the demand of raw materials:
 - ⇒ reduction of stockpiles
 - ⇒ production cutbacks, 50%
 - ⇒ first job cuts for contractors
 - ⇒ commodity prices drop
- Drop in share prices
- Foreign investments (China)
- Consequence: Job losses
 - BHP Billiton: 6000
 - Rio Tinto: 14000
 - Anglo American: 19000
 - Many European companies have cancel contractor contracts,
Now core staff is being made redundant.



V. And the exploration sector?

- No access to risk capital
 - Insolvency of many exploration companies
 - Many projects on hold or abandoned
 - No further investment into development of new resources
- ➔ Additional shortage of mineral resources is predictable for the future

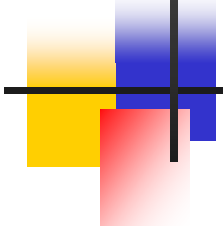


V. And downstream?

Non-ferrous Metals

Production cuts will eventually reduce excess capacities and facilitate an upturn in prices. This might avoid the closure of some production sites. However,

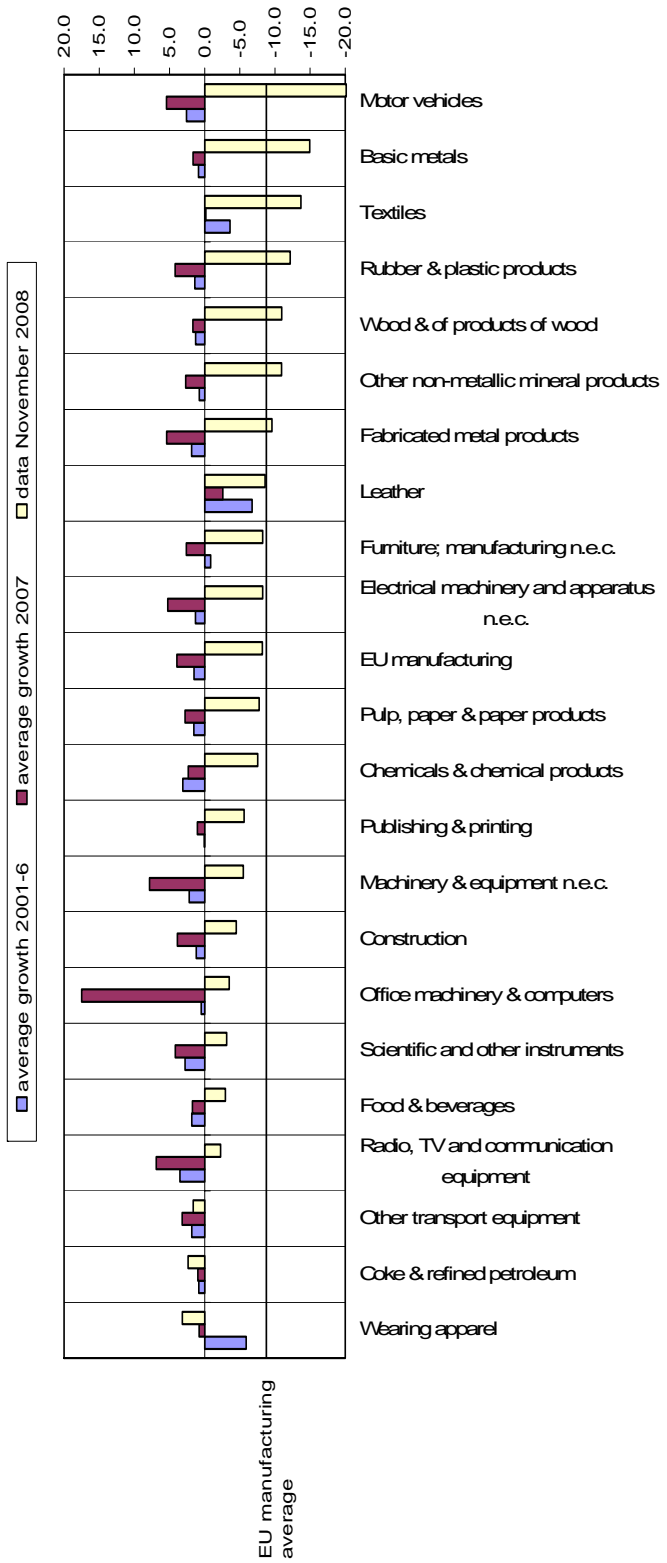
- in mid-January, a Polish aluminium smelter has already announced its definite closure in the first half of 2009.
- Norsk Hydro will cut production by 13% by the end of January or even close Neuss smelter in Germany.
- Producers of extrusion products (the first transformers of aluminium) are expecting to work at only 50% of their capacity until there is an upturn in the economy.
- There is an eminent threat to zinc production cuts at Nyrstar smelter in Belgium.
- The Ruhr Zinc in Germany will shut down.
- Boliden has announced a cut in zinc production at its Finnish and Norwegian smelter with a loss of 50 jobs.



V. And downstream?

The crisis has affected all manufacturing sectors, although not evenly across sectors and countries:

Graph 2: Growth of EU Manufacturing Production Sectors and Construction





VI. And when is this crisis going to end?

Is there a light at the end of the tunnel?

- Stabilisation
- Debt relief
- Back to a realistic base
- Creation of a « bad bank »



VI. And when is this crisis going to end?

➤ The EU's Raw Materials Initiative

- Long-term
- Creating better conditions for the operators?
 - Land access
 - Better regulation
- Creating better investment conditions
- Creating more confidence in the security of supply of raw materials for European growth again

