

THE PHILIPPINES

By A F Disini

Chairman, Chamber of Mines of the Philippines

The Philippine economy managed to post a positive growth rate in 2003, despite the combined effects of the SARS outbreak, political instability, El Niño and the war in Iraq. GDP grew by 4.5%, slightly higher than the 4.4% growth achieved in 2002, and GNP grew by 5.5% (4.4%). It was the robust growth of the 'Net Factor Income' from abroad (remittances from Filipinos working overseas) that sustained the economy.

On an industry-wide basis, the GDP growth was driven by strong performances by the services sector and by agriculture, fishing and forestry. The industry sector recorded lower growth, increasing by 3.0%, compared with 3.7% in 2002. Utilities and construction both exhibited decelerating growth.

Philippine exports of goods and services grew by 3.3% in 2003, down from 3.6% in the previous year, and totalled US\$35.75 billion. Merchandise exports grew by only 3.3%, against 5.0% growth in 2002, as a result of the poor performance of lower exports of electrical machinery, garments and semiconductors. Imports of goods and services grew by 10.3% (4.7%) to US\$37.45 billion.

Inflation grew by 3.1% and the peso depreciated during the years to an average rate of P54 to US\$1.00.

The mining and quarrying sector sustained its double-digit growth with a rise of 17.5%, although much lower than the huge 51.0% growth achieved in 2002, when the large increase in crude oil production in the Malampaya deepwater gas-to-power project was first recorded. Growth in 2003 was largely a result of higher prices for nickel, chromite, gold, copper and non-metallic minerals.

Estimated total country mineral production value was placed at P41.9 billion, up by 9.37% from P35.1 billion in 2002.

In November 2003, President Gloria Arroyo made a pronouncement that the government would promote the development of the mining industry and on January 16, 2004, she issued Executive Order No. 270, providing for a policy framework to revitalize the industry. The Department of the Environment and Natural Resources (DENR), in co-ordination with other relevant government agencies and the mining industry, is finalising a Minerals Action Plan (MAP) that would serve to implement the President's order to revitalize the industry. The MAP will include the simplification of permitting procedures in order to reduce the length of time for approval of Mineral Production Agreements, from three-five years to six months. The MAP will also attempt to harmonise the laws of local governments with forestry and lands legislation and the

Indigenous People Rights Act (IPRA). It has also been agreed that responsibilities for the environment will be separated from the DENR.

In spite of these efforts to revitalise the mining sector, there was a setback in January this year when the Philippine Supreme Court reached a decision that nullifies some provisions in the Philippine Mining Act that allow 100% foreign equity in mining through Financial and Technical Assistance Agreements (FTAAs). Directly affected by this decision are the FTAAs of WMC and Climax Mining of Australia. The Supreme Court also declared as null and void, provisions in the Mining Act relating to Exploration Permits and Mineral Processing Permits: under this ruling, the participation of foreign corporations in mineral exploration, development and mineral processing is no longer permitted. This has dealt a big blow to the mining sector and both the DENR, through the Office of the Solicitor General, and the Chamber of Mines have each filed a motion for reconsideration' to the High Court. The DENR has issued a memorandum saying that it will continue to implement the Mining Act (in its original form) and that a transition policy will be issued should the high court deny the motion for reconsideration.

In the meantime, the mining industry and the Philippine Government are still anticipating that foreign investment will be forthcoming and over the next ten years they are hoping that as much as US\$4.4 billion of foreign capital will be attracted to the mining sector. If all the projects currently under consideration are successfully realized, the companies involved are projected to derive annual sales revenue totaling US\$2.3 billion. If the legal and bureaucratic impediments are resolved this would provide a valuable boost for the minerals sector, and pave the way for further new investments.

Gold

Gold production in 2003 was recorded at 37 t, the bulk of which came from small-scale mining operations. Output by Lepanto Consolidated Mining Co, the only major gold producer, declined from 3.5 t to 2.8 t. Philex Mining's by-product gold output amounted to 2.8 t.

During the year, Lepanto obtained a Board of Investments registration for its Victoria II project. This will entitle the company to a further 4-6 years' income tax holiday for its gold operations.

Several smaller operations started production at a rate of less than 100 kg/y. TVI Resources in Canatuan, Zamboanga del Norte, is running an 80 t/d pilot plant, processing ore tailings from small-scale mining activities in the area. Benguet Corp's Acupan project and Philsaga Mining's Banahaw project are also processing the output of small-scale mining operations.

National Resource Mineral Development Corp (NRMDC), the Department of Environment and Natural Resource's corporate arm, operates the direct state utilisation project in Diwalwal, Davao del Norte, a gold-rush area for the past 20 years. A tailings dam is currently being constructed to impound the tailings of the small-scale miners, who have been issued mining permits. NRMDC has successfully negotiated the takeover of the lowest adit of one of the three

major small-scale contractors, and plans to undertake a diamond-drilling programme to check on the downward extensions of the two major veins, Balite and Buenas Tinago. In order to justify a 2,000 t/d underground operation and the installation of a CIP plant, the target tonnage and grade is 10 Mt at 9 g/t Au.

Lafayette Mining will soon commence operations at its US\$42 million Rapu Rapu gold-silver-copper-zinc project. Once operational, the project is expected to generate annually, foreign exchange earnings of US\$48 million and US\$7 million in taxes. Construction activities on housing and other campsite facilities are ongoing. The project is being financed through equity funding. The company has secured all necessary government permits and has also obtained Presidential approval for a Philippine Economic Zone Authority (PEZA) registration, which confers additional incentives. With these developments, the release of loans from two Australian Banks is now assured, enabling Lafayette to proceed with the project development.

The Masbate gold project of Filminera is a joint venture between Thistle Mining of Canada, President Mines of South Africa and other local investors. The project is designed to reopen the gold mine operated previously by Atlas Consolidated. Confirmatory drilling was completed last year and a bankable feasibility study is being prepared for at least a 10,000 t/d operation. Production is expected to begin in 2005.

Red 5 Ltd of Australia and Greenstone Resources Inc are actively exploring at their Siana gold project in Surigao del Norte. The mine shut down in the 1980s after a major slide occurred in the open pit, where remaining reserves are estimated to contain some 825,000 oz of gold. The companies are, however, drilling below the gold veins to check on the potential gold-copper porphyry deposit, which is at the same stratigraphic level as the Boyongan deposit.

Mindoro Resources of Canada has enlarged its claim holdings in Lobo, Batangas Province. During 2003, it concentrated its grid-pattern drilling in the southwest Breccia area to block out sufficient reserves in order to justify a small high-grade operation.

Copper

Philex Mining Co is currently the only copper producer in the country. The company reported production of 20,414 t compared with 18,365 t in 2002. By-product metals produced included 2.8 t of gold and 3.1 t of silver. Philex was able to secure a US\$15 million loan from Nippon Mining for the development of the lowest level of its underground block-caving mine. This should extend mine life by eight years.

Diamond drilling continued at the Boyongan copper-gold project, a joint venture between Philex Gold and Anglo-American Exploration Philippines, in Surigao del Norte, northeast of Mindanao Island. The Boyongan orebody has been fully delineated in terms of its resource potential and another orebody is

required in order to attain the target tonnage of 5,000 Mt at +1% Cu. Exploration is ongoing and during 2003 the partners announced the discovery of the Bayugo orebody, located 1.5 km north of Boyongan. Three drill holes intersected the southern edge of the orebody, which is of a similar high-grade to Boyongan, and joint venture negotiations were begun with the adjacent claim owner.

Now under new management, Climax-Arimco's US\$133 million Didipio copper project was further reviewed and modifications for the development plan were identified to optimise the project, reduce the environmental impact, increase the operating mine life and provide an improved return on capital and benefits to the Philippine Government. The mine is projected to produce 181,000 oz/y of gold, with an equivalent annual value of US\$69 million.

The Tampakan copper project was a joint venture between the Australian companies Indophil Resources, MIM and Lion Selection, and a consortium of local partners. The Financial and Technical Assistance Agreement (FTAA) for the project has been transferred recently to a Philippines corporation, where the local partners now hold 60% of the equity. Mineral resource estimates suggest the contained copper and gold could be worth US\$23 billion. The required capital investment could be of the order of US\$1 billion. A pre-feasibility study targeting 100 Mt of indicated resources under the JORC code, and consideration of the mining, processing and tailings disposal options, is planned for 2004. A bankable feasibility study and further drilling to outline at least 40 Mt of measured resources, together with geotechnical studies for underground mining and a pilot-plant operation, is scheduled for 2005.

Production of copper cathode and anode by Philippine Associated Smelting and Refining Corp (PASAR) totalled 171,152 t in 2003, up from 144,315 t in 2002. The smelter operated continuously throughout the year without any maintenance shutdown and was thus able to attain its rated capacity.

Nickel

Production of nickel ore in 2003 totalled 962,324 dry metric tonnes (dmt). Rio Tuba, Hinatuan, Cagdianao and Taganito contributed 205,694 dmt, 89,401 dmt, 290,802 dmt and 376,426 dmt respectively. They all produce direct shipping ore which is sent to Japan.

The Nonoc-V Sigbanog project located in the Philnico mining claims started operations in March 2003 with an initial shipment of nickel ore in August 2003. Hinatuan Mining is the mining operator engaged under a profit-sharing agreement.

Queensland Nickel is in an advanced state of project planning at its Adlai nickel project in Surigao del Norte. Its environmental compliance certificate has been approved and the target date for the start-up of operations is scheduled in 2005. The direct shipping ores will be sent to Queensland for processing.

Crew Minerals had its Mineral Production Sharing Agreement (MPSA) in Mindoro restored by the government in early 2004. It had been cancelled by the previous DENR Secretary because of environmental and safety concerns but the Chamber of Mines interceded, and President Arroyo reversed the earlier decision. The Mindoro Nickel Project is a high-tonnage, low-grade nickel laterite deposit. Crew Minerals intends to put up a US\$500 million pressure leach plant (PAL) that will produce annually 40,000 t of nickel metal, 3,050 t of cobalt and 126,000 t of fertiliser as by-product.

Coral Bay's US\$180 million high pressure acid leach (HPAL) nickel processing plant, a joint venture between Sumitomo Mining Corp, Nissho Iwai and Rio Tuba Nickel Mining Corp, is 80% completed. A trial run of the plant was scheduled for August 2004, with regular production to begin by the end of 2004. The project, located in Bataraza, southern Palawan, is designed to produce 10,000 t/y of nickel and 750 t/y of cobalt as a mixed sulphide. This intermediate product will be shipped to the Niihama nickel refinery in Japan to produce electrolytic nickel and cobalt. The Philippines HPAL plant will treat 22 Mt of low-grade nickel laterite ore stockpiled by Rio Tuba.

Energy

Production of coal in 2003 increased to 2.03 Mt from 1.67 Mt in 2002 as a result of higher production by Semirara Coal. Imports decreased to 5.94 Mt, from 6.92 Mt in 2002, imports being restricted by high coal prices. Coal exploration is continuously being undertaken by the Department of Energy, particularly in Mindanao.

Oil production was 148,000 bbl, down from the 2.0 Mbbl in 2002. Shell's Malampaya did not produce significant oil during the year, compared to the previous year when there was oil production from an extended well testing. Malampaya in 2003 produced 4.8 Mbbl of condensate, an increase from the previous year's 3.3 Mbbl. As the only gas producer, it registered an output of 94,800 million ft³ or 52% more than 2002. Oil production by Nido and Matinloc was 13,459 bbl and 9,873 bbl for the whole year of 2003

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Mineral Output (t unless stated)			
	2001	2002	2003
Gold (kgs)	36,800	35,800	37,800
Silver (kgs)	29,600	9,000	9,600
Copper	20,300	18,400	20,400
Nickel ore	1,282,000	1,200,000	962,000
Met chromite ore	---	17,300	13,300
Refractory chromite ore	25,700	4,700	13,200
Coal	1,230,000	1,645,000	2,029,000
Cement ('000)	284,458	334,915	326,670
Oil (bbl)	308,000	2,020,000	148,000
Condensate (bbl)	---	3,329,500	4,864,500
Gas (million ft ³)	---	62,200	94,800