

Copper Supply From Top Mine Threatened as Export Ban Looms

Exports from the world's second-largest copper mine in Indonesia are under threat as a government ban on overseas concentrate shipments is scheduled to come into force from the middle of January.

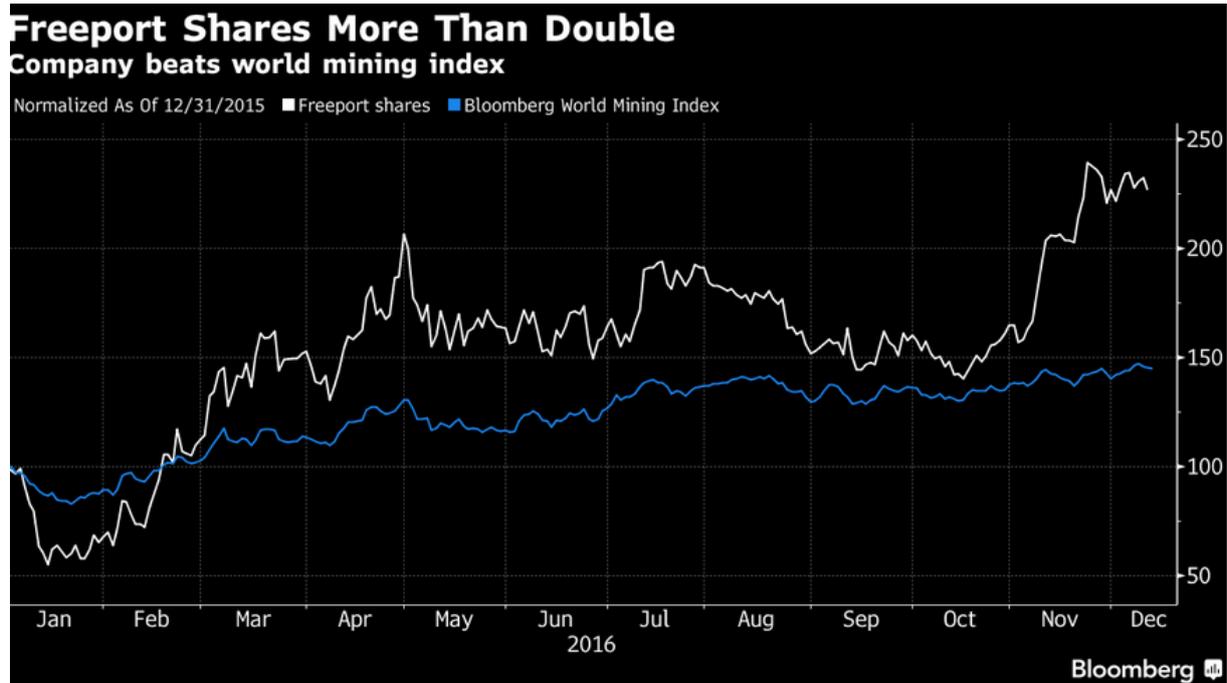
While ministers are rushing to revise the regulations so miners that have committed to build smelters can continue to export ore concentrates, an intermediate product used to make copper, there's no guarantee that the deadline will be met. The rules as they stand now only permit shipments of refined metal after Jan. 11.

Richard Adkerson, chief executive officer of Freeport-McMoRan Inc., the world's biggest publicly traded copper miner and owner of the massive Grasberg mine in Papua province, says he's confident the issue will be resolved. He told a conference in the U.S. last week that without a resolution the company would have to cut back operations and potentially curb development of the underground mine where it's spending \$1 billion a year. CRU Group, a consultancy, says the regulations will be changed.

"CRU's view is that the rules will be revised and Freeport McMoRan will be able to continue to export Grasberg concentrates," Christine Meilton, principal consultant, copper supply and raw materials, said by e-mail from London. "This may not happen before Jan. 11, when the current export licence is also due to expire, in which case we may see a disruption to exports. Our base case forecast assumes that any disruption does not continue long enough to result in a cutback in production."

Grasberg is the world's largest mine in terms of copper capacity after Escondida in Chile, according to the International Copper Study Group, while Freeport says the deposit has the single biggest reserves of gold. Any disruption could support prices of copper, which is the best performer among its peers this quarter, as banks from Goldman Sachs Group Inc. to Citigroup Inc. take a bullish view on the metal next year.

Indonesia, Southeast Asia's largest economy, prohibited exports of raw, unprocessed ores in January 2014 as it sought to build a processing industry and prevent its mineral wealth from disappearing overseas. While the rules allowed time for producers to build smelters, the government said that after three years shipments of semi-processed ores would no longer be permitted.



Progress building plants has been slow because of problems with investment, power supplies and falling prices for metals, which in January hit the lowest since 2009. Luhut Panjaitan, the co-ordinating minister of maritime affairs, said last month the government is expediting a revision to the law to allow semi-processed exports as long as miners are constructing smelters.

The outlook has been muddled by uncertainty over the role to be played by parliament. The head of a commission which oversees energy and mineral resources policy said in October parliament would only have time to consider a revision to the law next year. The government has said the changes could be made by revisions to regulations rather than to the law itself.

“It’s all still in discussion,” said Bambang Gatot Ariyono, director general of minerals and coal at the Energy & Mineral Resources Ministry. “We are still looking at things from all sides,” he told reporters in Jakarta on Friday.

Seeking Clarity

Whatever the process, this is an important moment for Freeport in Indonesia. The regulation as it stands prohibits the export of concentrates, Adkerson told the conference last week. “If that’s not resolved, that will have a significant impact on us in terms of our employment there, our investments that we’re making,” he said, according to a Bloomberg transcript.

It’s not just a question of concentrate exports. Freeport is also seeking clarity on the conditions that will permit it to operate in the country beyond 2021 when the 30-year term on

its contract expires. Then, there is also a requirement for the company to build a new smelter so it can continue to export concentrate under government rules.

“Building a copper smelter in Indonesia is hugely uneconomic because of the excess of smelters globally,” Adkerson said last week. “We’ll arrange project financing. We’ll bring in partners. The world will have a new smelter and we’ll do that. But we can’t start spending money on it until we get a contract extension. It’s a four-year or probably five-year construction project.”



All this is at a time when Freeport is aggressively selling assets to reduce debt, which stood at \$19 billion at end-September, and after its credit ratings were cut to junk earlier this year. It’s involved in a [tussle](#) over the sale of a copper mine in the Democratic Republic of Congo and is battling bondholder objections to the sale of its Gulf of Mexico assets. Cowen Group Inc., an investment firm, rates the producer as its top metals and mining pick for 2017.

Freeport has forecast sales from Grasberg next year will be 1.45 billion pounds of copper and 2.75 million ounces of gold.

The company’s shares slid to \$15.01 at 7:09 a.m. in New York, before the start of regular trading, from Tuesday’s close of \$15.04.