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Morocco Mining Report Q1 2013

https://marketpublishers.com/r/MB8925179BFEN.html
Date: January 2013
Pages: 56
Price: US$ 1,295.00 (Single User License)
ID: MB8925179BFEN

Abstracts

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EXECUTIVE SUMMARY

For Q113, we are sticking with our existing forecasts for Morocco's mining sector. We expect growth to speed-up in 2013 as a result of new phosphate fertilizer plants in the country, rising to 8.2% y-o-y. We expect growth to average 3.6% y-o-y from 2012 to 2017 reaching US$1.61bn by the end of the period.

For 2017, we are forecasting a conservative growth rate as it remains to be seen how the effect of Saudi Arabia's large investments in phosphate production capacity and China's drive towards self-sufficiency in key raw material inputs will affect Morocco's mining prospects.

Export Production Growth To Come From Saudi Arabia and Morocco

The vast majority of capacity additions in the coming years will be coming from Saudi Arabia and Morocco. Ma'aden in Saudi Arabia began DAP production in 2011 and will reach the steady-state production rate of 3mnt DAP by 2013. As mentioned in the previous section, OCP will also be adding significant new capacity to the market between 2013 and 2015. As producers from Saudi Arabia and Morocco generally sit on the left side of the cost curve, some high-cost capacity (typically Chinese producers) who do not have access to lower-cost rock, may be displaced.

Bucking the trend in mined minerals and metals, the fertilizer market was strong in 2012 as food and agriculture remain key needs in the global economy. Despite the sharp downturn in Chinese demand for bulk and base metals, strong demand for fertilizers, delayed expansion projects and announced plant closures led to a strong year for phosphate producers. We do not expect this market tightness to continue though as additional supply from Saudi Arabia and Morocco ramp up to full capacity. Global phosphoric acid production is expected to reach 43mnt by 2015.

BUSINESS ENVIRONMENT

Morocco has a well-developed mining industry. However, the majority of the industry remains under state control, which acts as a major limitation on potential opportunities for foreign investors. In addition, an inefficient tax regime and under-developed labour infrastructure also act as constraints on growth, although the situation should see improvement through the expected introduction of a new mining code in 2013. Morocco currently ranks fourth from the bottom of our Business Environment Ratings for the African mining industry with a score of 43.2 out of 100. Outside of phosphate where the state has a monopoly, the country's mining industry is virtually non-existent.

On the positive side, energy and transport infrastructure is improving, following recent investments. Furthermore, the state provides mining investors with a safe operating environment alongside security of investment. Also there are a number of incentives for mining companies. These include a 50% reduction in tax for miners that export their products. There are also exemptions on customs duties and some tax exemptions for imported equipment.

KEY PLAYERS

Mining activity in Morocco is dominated by state-run OCP and other state-run concerns such as ResidInvest and Managem. Managem subsidiary Société Metallurgique d'Imiter (SMI) operates the Imiter silver mine, the ninth-largest silver mine in the world. However, there is also a burgeoning private sector with foreign players leading the way in exploration for tin, gold, diamonds and other smaller mineral groups. The most important operators include Kasbah Resources, Maya Gold & Silver and Metalex Ventures.

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