

# South Korea Mining Report Q4 2010

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## Abstracts

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Korean's industrial sector is resource-hungry and requires materials in quantities far greater than it can produce from its domestic mining industry. As a result, it has been extremely active around the world in attempting to secure the long term resources to feed its factories. In this search it has had to compete with other resource consuming nations chiefly China and Japan. BMI believes that Korea will be successful in its resource acquisition strategy due to the availability of funds, well managed companies experienced in international business and the support of a proactive government with a clear vision of what is required for the future economic well being of the nation.

The Korean government has been pursuing the resource security policy through a series of Free Trade Agreements (FTA) and bilateral intergovernmental talks. An FTA with Peru could be finalised as early as November which should secure supplies of gold, zinc and tin as well as other minerals in the resource rich South American country. Advanced talks are also proceeding regarding an FTA with Australia, while in August a bilateral agreement with Bolivia will provide vast quantities of lithium for batteries for Korean electronic goods.

Government-owned Korea Resources (Kores) is leading the way with overseas mining acquisitions. The company has indicated that it will increase its acquisition spending in 2010 by over 80%, setting aside US\$500mn to secure essential supplies of coal, copper and uranium. The company is operating projects in 12 countries specifically targeting African and South American resources.

Kores is also involved in a consortium led by Korea Electric Power Corp (KEPCO) which has acquired five Australian coal fields worth a total of US\$488.2mn. Another major acquisition in Q410 is the purchase of a mine in Peru by Korea Zinc for

US\$47.5mn. Meanwhile, SK Networks are currently negotiating a massive US\$700mn investment in Brazilian iron ore producer MMX Mineracao & Metalicos SA which could secure up to 17% of Korea's annual iron ore requirements.

The steel-making giant POSCO is also making progress and is hopeful that the long running saga of its planned US\$12bn steel plant in Orissa should be resolved soon. Meanwhile, POSCO's US\$3.3bn joint venture (JV) steel mill with Indian state-owned Steel Authority of India Limited (SAIL) is likely to be signed in Q410. South Korea's July steel production was up 16.2% on the same month in 2009, with August showing a 6.4% increase. However, after reporting excellent Q210 earnings POSCO is more pessimistic about the results in H210, fearing that high ore prices and a slowing of demand may lead to a profit fall of up to 30%. Mining Forecast

BMI forecasts that while the Korean mining industry has improved in Q310, the rate of growth is stable and there is unlikely to be any unexpected growth spurts in the coming years. We forecast that by the end of 2010, the industry value will have increased to US\$2.98bn and will continue to grow until 2014 when we expect the total industry value to reach US\$4.26bn.

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