

Venezuela Mining Report 2012

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Date: June 2012

Pages: 39

Price: US\$ 1,175.00 (Single User License)

ID: V84FCAB02EBEN

Abstracts

Sector To Remain Unfavourable For Mining BMI View: Despite promising mineral resources, Venezuela remains one of the least favourable mining countries in the Americas region. The country is a minimal producer of gold, coal and iron ore, and we do not expect additional investments into other minerals, such as base metals. Due primarily to political risks, we see Venezuela as the least favourable mining location in the Americas. We maintain our negative view towards Venezuela's mining sector, given the government's hostile stance towards private sector extractive resource industries. The current mining sector output relies on several mineral products, primarily coal, gold and bauxite. The bulk of mineral production is exported abroad and based on our outlook for the Venezuelan economy, we do not expect the country to increase domestic mineral demand significantly over our forecast period.

Oil and Gas Investment Dominates Resource Sector The mining industry in Venezuela is not well developed as extractive resource investment has focused overwhelmingly on the oil and gas sector. The country's reliance on oil and gas for fiscal revenues, has weighed on mining sector growth as it reduces the economic incentive to explore for and develop profitable mineral deposits. We do not expect this trend to change, however, and anticipate that minimal exploration and deposit appraisal investment will occur over our forecast period. That said, elevated gold prices may encourage the government to seek new mines for development in order to increase revenues.

The future of Venezuela's mining sector may hinge increasingly on the presidential election in 2012. Our Country Risk team has highlighted the increased likelihood of an opposition victory over President Hugo Chavez with the opposition having united behind a single candidate, Henrique Capriles Radonski. That said, we believe that the obstacles to any economic reforms would remain very significant in the case of an opposition victory. The outlook for mining sector liberalization therefore remains bleak over our forecast period and we do not expect to see Venezuela become an attractive

mining destination in the near future.

Chinese Relations May Bring Opportunity Previously, the Venezuelan government had allowed certain Russian mining companies to operate in the country, but with the recent expropriation of Rusoro Mining's gold assets, this appears to have ended.

Instead, the mining sector may receive some investment from Chinese backed mining companies. Chinese relations with Venezuela may allow state-owned companies to enter the market and either explore for new deposits or take control of deposits previously seized from other foreign mining companies.

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