

THE PHILIPPINES

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The Philippine economy managed to post higher growth in 2000 amidst the political crisis experienced during the last quarter of the year. President Joseph Estrada was charged with graft and corruption and plunder by the House of Representatives and hearings were heard in the Senate during the months of November and December. By mid-January 2001, owing to an unpopular Senate decision, People Power II again converged in EDSA and forced Estrada to resign. He was replaced by Vice-President Gloria Macapagal Arroyo and a new administration took over the government on January 20, 2001.

Almost meeting the government's growth target of 4.0%, GDP in 2000 grew by 3.9%, improving from the 3.3% growth recorded in 1999. GNP likewise improved from 3.7% in 1999 to 4.2% in 2000. Manufacturing lead aggregate industry recovery with a 3.5% increase in growth over that of 1999. Accounting for almost a quarter of the total production of the entire economy, manufacturing has slowly recovered over the past three years from the impact of the 1997 Asian financial crisis.

Setting the pace for the country's economic expansion, merchandise exports grew by 8.7% valued at US\$38.08 billion from US\$35.04 billion in 1999. Philippine exports remained concentrated on electronic products, which account for about 60% of the merchandise exports. Imports on the other hand grew by 8.4% compared to the previous year. Inflation rate was 6.7% and the average exchange rate was recorded at PP43.81 to US\$1.00.

Mining and quarrying recovered from the 8.4% contraction in 1999, growing by 8.7% in 2000 and contributing 3.2% of the total industrial GVA. The operation of Lepanto's

Victoria gold mine, the re-operation of Benguet's Masinloc Chromite and the added nickel production from Cagdianao mine, plus some positive developments in the oil sector, all contributed to the industry's recovery.

Mineral exports during the year remained static, brought about by low metal prices. Overall contribution of the mining and quarrying sector to GDP was 1.1% and total mineral production was valued at PP30.63 billion. The metallic sector accounted for 58% while the non-metallic sector contributed 42%.

Meanwhile, in spite of government's efforts to liberalise the rules and regulations to encourage exploration and mine development, foreign investments remained sluggish during the year. Further expansion and new investments for the development of new mining areas were constrained by a vague ruling on the Indigenous Peoples Rights Act and the stalemate in the constitutionality of the Financial or Technical Assistance Agreement (FTAA) that hinders the Department of Energy and Natural Resources (DENR) in processing FTAA applications. Additionally, a study commissioned by the Philippines Exporters Confederation (PHILEXPORT) pinpointed the 'social acceptability' requirement imposed on new projects under the EIA system as the number one problem of potential investors.

Copper

Total production during the year dropped by 11.26% from 34,538 t to 30,644 t. A drastic fall in the production Maricalum from 11,489 t to 7,806 t and its eventual suspension of operations in November contributed to the shortfall in production. Philex Mining Co.'s increased output from 20,922 t to 21,072 t in 2000 failed to counter the decline in the production of Maricalum. Philex contributes

more than two thirds of the copper production in the country with only three copper mines operating during the year.

PASAR's copper cathode/anode production suffered a decline of 6.27% from 147,982 t to 138,702 t. This was caused by the bi-annual maintenance of the smelter and refinery to make it more environment-friendly and economically efficient.

The most significant discovery for the year was the Philex/Anglo American joint venture drilling in Boyungan Surigao that yielded gold and copper deposits. One hole showed an average grade of 0.9% Cu and 2.07% g/t Au for a 329 m intersection. Geologists believe that the prospect is a diorite porphyry intrusive associated with the major Philippine Fault structure. Genetically, this is similar to many of the porphyry deposits previously discovered in the country such as the Tampakan copper-gold deposits in Cotabato where early indications revealed a significantly higher grade of gold.

South Korea's LG International Corp. has plans to develop Climax-Arimco's copper-gold mine. LG International is part of a multi-national consortium led by Australia's Climax Mining which holds a 42% share in the project. The South Korean trading company holds a 24% share in the US\$150 million project after investing US\$18 million last year. Korea Resources Corp. holds a 9% share. A consortium of 15 international banks, including Standard Chartered Bank and Rothschild, holds a 17% share in the project. LG International expects to see profits worth US\$100 million during the first ten years of production. The project is based on proved reserves of 17.7 Mt of ore at an average 0.67% Cu and 2.37 g/t Au. Annual metal production will be up to 205,000 oz of gold and 36 Mlb of copper in the form of copper-gold concentrates.

Lafayette Philippines Inc. is continuing further drilling at its polymetallic sulphide project. A resource of 6.6 Mt with an average grade of

1.3% Cu, 2.14% Zn and 2.6 g/t Au has been outlined, which is estimated to generate an annual gross revenue of PP1.4 billion.

Meanwhile, the deal between Lepanto and WMC over the Tampakan copper project has hit a snag owing to the presence of other claim owners in the said area. While an agreement has been signed between the two parties, the agreement was subject to certain conditions including the right of the claim owners to exercise a right of first refusal to purchase the properties. The Tampakan site has been estimated to contain some US\$20 billion worth of recoverable copper and gold.

Gold

Following the trend in copper, total production of gold has also declined, by 16%, from 34,038 kg to 31,050 kg. Primary producers suffered an 18% shortfall in production while a 14% deficit was likewise registered in terms of panned gold purchases by the Central Bank, indicating that small-scale gold mining activities were also affected by the lower gold prices.

Lepanto's Victoria Gold project and Manila Mining carried the gold mining industry during the year, producing 5,177 kg and 1,338 kg, respectively, up by 33% and 80% from the output in 1999. Production from Philex Gold's Bulawan operation, however, declined by 28% from 2,213 kg to 1,585 kg owing to the decision to slow down on production to cut costs of operations.

Among the secondary producers, Philex Mining's Padcal operations produced 6,153 kg, up 9% from its production of 5,636 kg in 1999.

Nickel

Despite encouraging nickel prices in the world market, nickel production in 2000 declined by 16% from 903,451 t to 759,354 t. Rio Tuba's production slightly decreased, from 231,502 t to 227,100 t. Taganito's production declined by half and the operation of a new mine, Cagdianao, failed to make up

for the decline in production. The latter contributed 172,754 t of nickel ore. Bad weather conditions hampered production from these mines.

Energy

Coal production in 2000 was reported at 1.354 Mt, an increase of 15% from the 1.177 Mt produced in 1999. Imports totalled 6.130 Mt, coming mostly from Australia, Indonesia, China and Vietnam.

Oil production rose by 40% from 298,142 bbl in 1999 to 417,866 bbl. Crude and petroleum imports reached 139.7 Mbbl in 2000, or 2.4% over the total import volume of 136.5 Mbbl in 1999. Crude oil accounted for 81% of the total oil imports while petroleum products' share was 18%.

The contribution of indigenous energy to the total energy mix improved in 2000 as the country used more of its geothermal and coal resources. The country remains the world's second largest producer of geothermal energy after the US. With the commencement of the

Malampaya Project by Shell Exploration BV last year, and its operation by October 2001, the country would be able to displace more oil with natural gas. When fully operational, Malampaya will supply fuel to power plants with a combined capacity of 2,700 MW. Malampaya's discovery has encouraged more exploration activities which are currently being undertaken in Northern Leyte, Sulu Sea, Fuga Island, Cotabato Basin and Cebu.

Meanwhile, the Energy Department is pushing for the restructuring of the electric power industry to encourage greater private sector participation and promote efficiency and consumer welfare. The Arroyo administration has certified the Power Reform Bill as urgent and this is expected to be discussed in Congress when it resumes in June.

Philippine Metal Output (t except where stated)			
	1998	1999	2000
Gold kg	36,513	34,038	31,050
Silver kg	18,220	18,214	23,534
Copper in Concentrate	46,548	34,538	30,644
Nickel Beneficiated Ore	1,035,483	625,276	1,023,382
Metallurgical Chromite Ore	9,941	3,142	301