Venezuelan can not keep its fingers out of metals sector - Report

Monday, 14 Sep, 2009

Agmetal Miner reported that to paraphrase a recent article in vheadline.com Venezuela may not be the only country in Latin America where government policy and rhetoric have served to discourage the participation of major multi national companies in the mining and oil industries but it is certainly one of the overtly hostile to inward investment by foreign companies.

The iron ore industry was nationalized this year, kicking out several Japanese firms. And Tenaris' remaining 10% shareholding in the steel producer Sidor was transferred to the government even though the USD 2 billion compensation for the earlier nationalization in 2008 of the steel firm has still not been settled. Compensation is slow to be paid out and the decision on what to nationalize and when appears to be driven as much by political and social issues as commercial.

So it is interesting that when the government is offered the opportunity to buy out foreign investors it is sometimes reluctant to do so, as with the recent offer by 6 Japanese companies to sell their 20% stake in the 436,000 tonnes aluminum smelter Venalum. Showa Denko, Marubeni, Kobe Steel, Sumitomo Chemical, Mitsubishi Materials and Mitsubishi Aluminium have offered to sell their stake for a reported USD 510 million but the government is non committal about when or at what price they would be prepared to complete the nationalization the state already owns 80%. The reason could be that Venalum's cost of production is estimated to be USD 2,500 per tonne. With world aluminum prices at around USD 1850 per tonne the mill is losing at least USD 650 on every tonne it sells.

Meanwhile, the Chavez government continues to harm foreign investors out of sectors it sees a good return in, such as gold production. Venezuela is rich in energy but comparatively poor in minerals with the exception of the above mentioned iron ore and some good quality gold reserves. The government seems to have some kind of deal going with a Russian owned but Canadian listed gold miner called Rusoro Mining which is getting all the choice gold deposits steered its way. Rusoro recently published its Q2 results with record production of 48,523 ounces and a cost of production at just USD 322 per oz. Meanwhile Canadian miner Crystallex and US based Gold Reserve, 2 companies with operating licenses for potentially rich sites adjacent to Rusoro mines have been told they should share development with Rusoro or risk losing them following the miners rejection of a hostile takeover attempt by Rusoro late 2008. The miners have been repeatedly denied authorization to develop the reserves at Las Cristinas and Las Brisas after having completed drilling projects to establish the viability.

Why any foreign mining company even contemplates putting money into Venezuela is a mystery, maybe for companies with a government on friendly terms with the Chavez administration, like Russia, there is a window of opportunity that they seek to exploit but history suggests such friends are friends only for a while.

(Sourced from Agmetalminer.com)