THE PHILIPPINES

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The Philippine economy showed resilience during 2001, notwithstanding the global economic slowdown and the impact of September 11. GNP grew, although at a slower pace, by 3% compared with 4% in 2000; likewise GDP grew at a lower rate of 3% compared with its 4% gain in 2000. Sustained positive growth was recorded by the services, agriculture and industry sectors, although at rates lower than those recorded in the previous year. While economic growth continued to outpace population growth, per capita GNP experienced a deceleration from a 2% growth in 2000 to 1% in 2001.

Exports suffered a major setback, contracting by 3% to US$30.08 billion during the year after a 17% strong growth in 2000. The adverse effect of the global recession contributed to the overall poor performance, causing the shrinkage of non-merchandise exports. The top three merchandise exports namely: semiconductors and electronic microchips, finished electrical machinery and garments suffered declines during the year after recording positive growth in 2000. Total imports of goods and services posted zero growth after a 4% upturn in the previous year. Merchandise imports, likewise, decelerated from 10% to 2% from the level recorded in 2000. Meanwhile, inflation was contained at 6% while the depreciation of the peso was managed at an average rate of PP50.99 to US$1.00 in 2001.

The growth momentum of the industrial sector, which grew by 3% in 2000, was arrested by the global recession, growing by only 1% during the year. Contributing to the slowdown was the weakened growth in manufacturing, mining and quarrying, and electricity gas and water. Mining and quarrying recorded a notable downswing, suffering a 5% decline in 2001 compared with its 10% upswing in 2000. The relatively low production of copper, gold, crude oil, stone quarrying, clay and other non-metallic minerals caused the overall decline in the sector. Cement production in 2001 was 284.47 million bags, a decrease of 5% from the 2000 output of 298.97 million bags.

As expected, mineral exports declined during the year in review because of operational difficulties and the low prices of metals in the world market. Total mineral export receipts were US$650 million, which is 1% of the US$38.08 billion total exports. Estimated total mineral production was valued at PP26.92 billion, down by 11% from the PP30.53 billion recorded in 2000.

The cancellation by the government of Crew Minerals' Aglubang Mineral Production-Sharing agreement (MPSA) with respect to the nickel project in Mindoro sent a wrong signal to investors concerning the security of tenure. This does not augur well for future mineral exploration investment and venture capital required in delineating mineral assets. Adding instability to the investment environment is the long delayed decision of the Supreme Court on the challenge to the constitutionality of the Mining Act of 1995. This Mining Act incorporates the Financial and Technical Assistance Agreement (FTAA) which allows 100% foreign equity ownership in large mining projects.

Gold
Only Philex Gold's Bulawan project managed an increase in production, by 11% from 1,585 kg to 1,770 kg. The higher output was the result of improved ore grades, which averaged 2.3 g/t, compared with only 1.6 g/t in 2000. While exploration drilling in the central block showed some gold and copper mineralisation, the company announced Bulawan's closure before year-end because operations have remained marginal in relation to the low price of gold. Meanwhile, Lepanto's

production went down from 5,177 kg to 4,654 kg. Manila Mining Corp. shut down operations during the latter part of the year.

A brighter prospect was the discovery by Lepanto of the Victoria II deposit. The Nayak twin decline had intersected some of its vein structures in 1999. The deposit is located southwest of the Victoria I deposit and extends southward for about 900 m into the Nayak area. A diamond-drilling programme and a few development drives confirmed that Victoria II is a new orebody that was formed from mineralising fluids coming from a different source. It is a low sulphidation-type epithermal deposit hosted in dacite and sediments. It has significantly less sulphides including copper than Victoria I. The deposit is estimated to contain 2.2 M oz of gold in 11.6 Mt of resource averaging 9.4 g/t Au.

Copper

Lepanto Consolidated Mining Corp.'s Victoria project performed well in 2001, almost doubling its output from 734 Mt to 1,267 Mt. Philex Mining Corp.'s Padcal operations, which contribute the bulk in total copper production, suffered a 63% decline from 21,072 t to 11,467 t. Maricalum's production was less than half of what it produced in 2000.

On the Boyongan project, a joint venture between Philex Gold Inc. and Anglo American Philippines Inc., diamond drilling activities continued throughout the year. The Boyongan ore deposit is a copper-gold orebody first discovered by a drill hole in September 2001, which had an intersect of 329 m averaging 0.9% Cu and 2.07 g/t Au from 93 m downhole. Subsequent holes gave similar encouraging results. For the year approximately 10,800 m were drilled. For the year 2002, 15,000 m of resource definition drilling is planned.

Anglo earned a 40% equity position in the project in 2001 by spending US$2.2 million on exploration. On December 2001, Philex Gold sold another 10% of its interest in the project for US$20 million. Anglo can earn another 30%, which would be 80% in total, by carrying the project through to feasibility stage.

Meanwhile, Climax Arimco Mining Corp. has postponed the development of the US$138 million Dinkidi copper gold mine in Kasibu, Nueva Vizcaya, stating that the "combination of political uncertainty in the Philippines and weakness in the gold and copper prices has conspired to halt the process". The commercial production of 205,000 oz of gold and 36 Mlb of copper per year was to have commenced in 2003. Incessant delays in the project have caused financial losses according to its company officials. The project was one of the two FTAA proposals approved by the government even before the signing of the Mining Act.

Lafayette Mining Ltd, meanwhile, announced that drilling on the Hixbar prospect of the Rapu Rapu project in Albay Province has confirmed the existence of oxide and sulphide mineralisation of potentially economic grade. Company officials say the prospect is significant given that Hixbar is only 2.5 km west of Ungay where a 5.9 Mt orebody is to be mined by open pit. The drilling has focused on two targets, a high grade shallow oxide cap to the west of the old Hixbar pit and massive sulphide mineralisation below the pit. The mineralisation remains open to the north and east and at depth. The project is expected to produce 35,000 t/y of copper and 30,000 t/y of zinc concentrate. The open pit will produce 4.56 Mt of sulphide ores for treatment through a conventional crushing, milling and flotation plant to produce separate copper and zinc concentrates.

Lafayette has obtained an environmental compliance certificate (ECC) from the government and is now in final discussion with its creditor, Standard Bank of London. Also, Lafayette has recently secured US$15 million investment from Jiangxi Copper, China's largest copper producer and smelter.

Philippine Associated Smelting and Refining Corp. reported normal operation during the year. From 540,400 t of copper concentrate feed, production was 164,000 t of copper cathode, 429,000 oz gold, 1.11 Moz silver and 458,000 t of sulphuric acid.

Nickel
Nickel ore was the only saving grace during the year with total production increasing by 54% from 642,468 t to 993,514 t. The decline in the production of Rio Tuba Mining Corp. was more than offset by the combined increases in the output of Taganito and Hinatuan's Cagdianano mining operations.

The Palawan Council for Sustainable Development (PCSD), an administrative body governing environmental projects in the province, has endorsed plans for a nickel refinery complex to be constructed at Rio Tuba's nickel mining operations in Palawan. The proposed plant, a joint venture between Rio Tuba and Sumitomo Mining Corp., aims to produce about 10,000 t/y of nickel and 700 t/y of cobalt utilising high pressure acid leaching technology to process the laterite ore.

Meanwhile, China Non-Ferrous Metals Corp. has expressed an interest in investing some US$110 million in the Nonoc refinery of Philnico Industrial Corp.'s nickel mine in Surigao. The amount will form part of the US$1 billion capital being raised to bring the Nonoc facilities back into operation. The Nonoc refinery complex, which used to be one of Asia's biggest nickel mining and processing facilities in the 1970s, closed down in 1986 owing to high oil prices, peso depreciation that affected the company's yen-denominated loan and the slump in nickel prices in the world market.

Earlier, South Africa's Impala Platinum Holdings signed up to invest in and take up, a 24% equity in Nonoc. Philnico has a government concession to explore the 25,000-ha Nonoc nickel mine and plans to reopen the mine by 2004. It is currently negotiating with prospective investors to secure the required US$2 billion capital.

QNI of Australia is expected to open a nickel mine project in Surigao del Sur by the second half of 2002. The Adlay prospect is estimated to have a resource of 5.58 Mt at 1% Ni. Commercial production is expected to begin by 2003. The Australian company will process ore at its Yabulu refinery in Queensland. The company has been exploring for nickel resources since the early 1990s.

Energy
Coal production in 2001 was reported by the Department of Energy at 1,230 Mt, a decrease of 9% from 1,354 Mt in 2000. Imports were up by 27%, and came from Australia, Indonesia, China and Vietnam. PNOC Coal Corp. is continuing its efforts to develop coal resources. The company has set aside PP120 million for its capital expenditure projects in 2002, including exploration and mining activities. About 22%, or PP26.5 million of total capital expenditures, will be used to finance exploration and mining ventures in the Mindanao areas of Zamboanga del Sur, Surigao del Sur and South Cotabato. The coal will be sold in raw form or blended with imported coal for power generation or cement manufacturing. The company will likewise expand the production of its coal briquette production facility in Batangas to 14 million bricks from the current seven million. A 200 MW coal-fired power plant will be built on a BOT contract with a 25-year tenure in Cagayan de Oro City in Mindanao. National Power Corp. (NAPOCOR) has signed a take-or-pay power purchasing agreement with STEAG Encotec of Germany and the State Investment Trust. Construction of the US$250 million plant will start in 2003 with commercial operation commencing in 2006.

Oil production in 2001 declined by 26% from 417,866 bbl to 308,364 bbl. Crude and petroleum product imports reached 136.06 Mbbl in 2001 or 2% less than the imports in 2001. Gas and other energy development projects are being given a big boost following the successful operation of the Malampaya deep water gas-to-power project.

Shell Philippines Exploration BV completed this remote deep-water gas project, located offshore northwest of Palawan, and started delivering natural gas for power plants in Batangas on October 2001. The Malampaya development comprises five subsea wells in 820 m of water, producing via a subsea manifold and two 30 km long, 16-inch flowlines to a platform in 43 m water depth. Gas is compressed and transported via a recently constructed 504 km long 24-inch pipeline to an onshore Shell gas plant in Batangas. The condensate will be stored in the platform substructure base and exported every two weeks via shuttle tankers.

The Philippine National Oil Co.-Energy Development Corp. recently started the Victoria 3 drilling project, its second gas exploration in Tarlac to prove the presence of 300 billion cubic feet of gas. PNOC-EDC, to be joined by Vulcan Industrial and Mining, Anglo Phils., Philodrill, San Jose Oil, Oriental Petroleum and Basic Consolidated, will invest US$4.8 million in the project. Two wells have already drilled the covered area.

