Philequity Corner (April 19, 2021)

Mining boost

In a bold move last week, President Duterte signed Executive Order (EO) No. 130 to officially lift the moratorium on new mining projects. It is a law that will stimulate investments and create jobs which are both suffering severely during this pandemic. In his statement, the President said that the mining industry can aid government projects by providing raw materials for the Build, Build, Build infrastructure drive. This will likewise generate additional tax revenues and increase employment in rural areas in support of the government's Balik-Probinsya Program. A major transformation is unfolding, thereby boosting the performance of mining stocks in the Philippine stock market.

Lifting of nine-year ban on new projects

EO 130 overturns EO 79 which was issued in July 2012. EO 79 imposed a moratorium on new mining permits and mineral sharing agreements until a new revenue-sharing scheme was instituted. This condition was satisfied when excise taxes on mining were doubled to 4% with the passage of Tax Reform for Acceleration and Inclusion (TRAIN) in 2017. However, due to concerns on environmental impact and safety, the ban on new mining projects was kept in place until recently.

Balancing act

The newly-issued EO 130 tasks the Department of Natural Resources (DENR) to enter into new mining agreements subject to prevailing laws, with strict compliance to safety and environmental policies. It empowers the DENR to review or renegotiate existing contracts that would be acceptable to both the government and the mining contractors. Aside from these, the country can adopt and implement global best practices in countries such as Canada and Australia where mining significantly contributes to economic development. With regulations in place, it is up to the government to police violators while ensuring that the environment and various stakeholders are adequately protected.

Harnessing the country's resources

The Philippines possesses an abundant supply of minerals and is actually the fifth most mineralized country globally. In terms of mineral reserves, we are third highest in the world for gold, fourth for copper, and fifth for nickel. Despite possessing rich natural resources, our country's mining output only accounted for 0.7% of 2020 GDP last year. Over the past two decades, mining output on average equated to 1.1% of GDP. While the Philippines has done well in nickel mining and is one of the top producers in the world, our gold and copper production have significantly lagged and offer much room for growth.

Riding the world's most significant megatrend

The shift in the government's mining policy comes at an opportune time given recent developments. The massive global transition from fossil fuels to renewable energy is an ongoing megatrend that is driving the movement in industrial metals. The goals of increasing renewable capacity and reducing greenhouse emissions by 2030 under the Paris agreement should continue to push prices of metals such as copper and nickel to levels that are even higher than what we are seeing today.

Secular bull market in copper

In a research report entitled “Copper is the new oil”, Goldman stated that in the future, copper can replace oil as the most important commodity in the world. Copper is an important raw material that is utilized for various clean technologies such as wind turbines, electric vehicles, solar panels, charging stations, and batteries. As such, copper is poised to benefit from significant demand growth in the next decade as the whole world embraces renewable energy and green technology. Goldman expects copper prices to rise from $9,188/t to $11,000/t in twelve months and $15,000/t in five years. Incidentally, we wrote about copper which was up more than 100% in the past year and was trading at its highest level in a decade (see *Dr. Copper*, March 29, 2021). We explained that copper appears to be on a long-term secular bull market due to the global shift towards renewable energy and electric vehicles.

A new growth driver

The timely shift in the government’s mining policy has several positive implications for the Philippine economy. It provides a clearer policy framework for long-term projects and addresses a key overhang which hobbled the sector in the past decade. Mining has a multiplier effect because it creates additional jobs in the upstream and downstream industries. This should enable mining to contribute to countryside development while also helping to decongest the National Capital Region (NCR).

If implemented properly, the country could once again become a mining powerhouse like how it was in the 1970s. Presently, we have four large gold/copper mines which will necessitate billions of dollars in foreign direct investments (FDIs) to develop and will require thousands of employees to operate. Upon full operations, these projects can produce export revenues in excess of $5b per year and generate significant additional taxes for the government. In all, we view the revival of the mining industry as a major positive reform. We believe that mining can become a new engine of growth that can support numerous sectors and contribute to long-term economic development.