

# LBMA WEBINARS

2 July 2020

## The New Normal in Mining. Is there a Future?

### Speakers:

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Ruth Crowell, Chief Executive, LBMA/Speaker 2

Victor Flores, Director of Strategic Projects, Orion Resources Partners/Speaker 3

### Summary:

Victor Flores and Ruth Crowell discussed how COVID-19 has impacted the mining industry. Victor draws on his years of expertise to provide an update on the current state of mining - the challenges faced on the ground, around the globe - and predicts the changes in trends we could expect to see in the future.

### Speaker 1:

Good afternoon. Welcome to LBMA Webinars. This week, we'll be looking at the mining industry. What is the new normal? And is there a future? We welcome Ruth Crowell, Chief Executive at LBMA and Victor Flores, Director of Strategic Projects at Orion Resource Partners. Please let us know if you have any questions throughout the recording and we will try to address any at the end. Over to you Ruth.

### Speaker 2:

Thank you so much, Tayler and thank you to all of our listeners and viewers joining us from around the world. Good evening. Good afternoon. And good morning. Just a reminder, please feel free to submit questions via the chat function or via email if you're having any trouble with that. So, we're wanting to spend some time for questions at the end with Victor. A big thank you to Victor too, for joining us live from New York. Who's back in the office - as I join from my home office here in London. For those of you who don't know Victor, he's a director at Orion Resources, responsible for Strategic Projects, and he brings with him a wealth of knowledge when it comes to the gold mining sector and the mining sector generally. Previous to joining Orion, he actually worked for nearly a decade as one of the partners responsible for the gold investments at Paulson & Co., also in New York. He was also at HSBC as Managing Director and a Senior Mining Analyst. And if you're wondering if you've seen him before on the LBMA stage, just a couple years ago, he was at our San Francisco conference. So, Victor, delighted to have you back and delighted to have a bit of a new subject for the webinar series. We've been talking a lot about how the financial markets for precious metals have been affected, gold in a portfolio, et cetera, but we haven't really gotten into that level of detail when it comes to how COVID is affecting the miners. And really, most importantly, what the



future looks like. So, I think with that introduction, I'm going to turn it over to Victor. Thank you so much again.

### Speaker 3:

Thank you. Thank you, Ruth. Thank you. Thank you, Tayler, for inviting me to speak this afternoon, or this morning. Thanks to everybody for dialling in. Let me run through a few, through – quickly through a few slides about mining in the age of COVID. And the question in the new normal of mining: 'Is there a future?' I mean, it sounds a bit ominous, I'll sort of go to the punchline. Of course, there's a future – we just have to figure it out. So, with that, let me – let me run through a few slides quickly and then hopefully we'll have some time for questions. This is, this is a slide that I think many people are probably not familiar with. This is called the Nowcast, and it's put together by the Federal Reserve Bank of New York and it basically attempts to catch or capture on a weekly basis the GDP of the United States. And what's surprising about this slide is that it puts into stark contrast the impact of the coronavirus pandemic on the economy here in the U.S., and the numbers would be similar for many other parts of the world – certainly Europe, and the rest of the world. And you can see that the U.S. economy was moving along post financial crisis, somewhere around the, sort of, 2-3% level. And then towards the end of March, the bottom fell out of the U.S. economy. And you can see that the – there was a reading at the end of May. It's hard to tell from the graph, but that worst point on the graph at minus 35% - that's annualized GDP based on a week's worth of data, minus 35%. It's rebounded since, but once again, it gives you a sense of the impact of this pandemic in real time on the economy. Next slide, please. This is probably a slide you are a bit more familiar with, which shows the U.S. Unemployment Rate and how it's falling – sorry, falling – well, it's risen from, you know, just over 3%-3 ½% to close to 15%. And then at the last reading 13.3%. Now the updated unemployment numbers were released probably about five minutes ago. So, because we're presenting here, I haven't had a chance to look at it. We'll see where it ends up, but the point here being that this is another indicator of how sharp the pandemic has been on the economy. Next slide, please. Turning to the impact globally, this chart here shows IMF GDP growth. Once again, you can see that the global economy was chugging along, you know, somewhere between 3 and 4% post financial crisis. This year, the new numbers that were just published, came out at -4½% for this year, and with the potential for a V shape recovery looking at 5.4. But even these numbers in the past month have deteriorated. And of course, this is the global economy. If you look at the United States, the IMF is now forecasting a decline of 8% and a decline of 10.2% in the Eurozone. Next slide, please. Obviously, China being a very important driver of the global economy, a big driver of gold demand, a big driver of pretty much everything is very important. This chart puts into context the hit that China's economy is going to take this year as a result of the pandemic. I guess you could say the one good thing is that growth will be positive, maybe about 1% - if the latest IMF forecasts are correct – and a big rebound next year. But once again, this depends on there being a V shaped recovery, and I think that as this pandemic progresses, that's being brought into question. Next slide, please.

So, having talked about, sort of, the macro backdrop, let me jump into the world of gold mining and mining in general. So, we're going from macro to mining here and then, this slide – I just walked through some examples of what's happened around the world of mining in response to the pandemic and how different countries have handled dealing with the pandemic with regards to the mining industry. In Canada, for instance, the decisions on closing down were provincial. So, each province decided what to do. Ontario and Quebec both shut down for a while until it looked like the worst had past, others such as British Columbia continued. So, there will be some impact on Canadian gold production this year, although I don't think it's going to be significant. Russia which, as you know, is also a big gold producer has not seen any shutdowns despite the growth in COVID cases, and despite the fact that there was a big outbreak at Polyus's Olimpiada mine, which affected more than 300 employees. But the government there has – despite a broader shutdown and a lot of work from home – the mining industry continued. In the U.S., things have also been managed at a state level, but Nevada's gold mines have operated without interruption, so, we don't expect that to impact gold production in the U.S. South Africa, did decree a shutdown that will have an impact on gold production there. And then there was a restart, that we've see in some cases that they restarted too early, there were infections, they've had to shut down again, in some cases. South



Africa is very unique in the sense that it's very labour intensive, very difficult to impose social distancing when, you know, you have 120 people crowding into a cage to go down the shaft. Couple other countries, more silver oriented rather than gold. Mexico decided, toward the end of March, that mining was not essential and forced the mines to shut down. In mid-May, they changed their mind, they decided that mining was essential after all, and a lot of the mines opened back up on June 1st and, so far, things seem to be going pretty well. Peru shut down very quickly and very early, but they also reopened quickly. That's led to some instances of infections at sites and concerns that have led to shutdowns again. So, overall, I would say that production globally this year is not going to be greatly affected by the pandemic and I'm referring to primarily gold, silver and PGM production. The impact, certainly on the more industrial type metals, has been more on the demand side, gold being the one exception where demand from financial investors has been very hot. Next slide please.

So, what has the industry done in order to manage through the pandemic, especially with regards to the labour force? And in this slide, I list the number of things that the industry has had to do as it's reopened its mines. Some of these will be very familiar to anybody, you know, who works in an office setting, you know, you modify your work shifts, you work from home, flex hours, elimination of all non-essential travel, restricted access, lots of cleaning and disinfecting, and, of course, the use of social distancing were possible. Now, some of the things that the industry has had to do, that you can't do when you work in an office, in some cases on remote sites, made employees go through a health check, the questionnaire, take a COVID test and then go through a mandatory quarantine followed by an additional test that makes sure that the employee is completely healthy and then resuming work duty. So, you can imagine the impact that that has on a remote operation where you have to go through all those protocols. In addition, the industry has had to help nearby communities deal with the impact of the pandemic. A lot of food support being provided by the industry, and financial support for local governments, for NGOs, for medical aid institutions and, in some cases, a very strong financial support for employees, where during the shutdown they received full salaries. So, there's been a number of initiatives that the mining industry has had to take to deal with its labour force. Next slide, please.

Thank you. So switching for a moment back to the macro side of things, we're talking about gold and the fact that financial investors have been very interested in gold as a hedge, possibly due to very low interest rates, possibly due to the monetary stimulus that's been provided by a number of governments printing money through quantitative easing and bond buying. But this slide here is a bit, the other side of the coin in monetary theory. An increase in the monetary base should lead to an increase of inflation – assuming production levels don't change. So why – with all this queuing – why there hasn't been a bout of inflation over the past 10 years? Well, this slide here gives part of the answer, which is that the velocity of M2 has continued to decline, and that has in a sense arrested, or counteracted, the impact of money printing. Now the inflationist will argue that this is a temporary phenomenon, and eventually money printing will lead to inflation. But I think this is a reminder that in all things related to economics, it's not always easy to just pick one indicator and say, 'Oh, well, that will be the effect of that'. And, so, I think that's why we're seeing some interest in gold and gold has risen, but it hasn't perhaps risen to the extent that some people would have expected. Next slide, please. Now, the other argument for gold is that, as a result of the increase in debt that's happening because governments have had to borrow to deal with coronavirus crisis, is that there will be another period of financial repression such as we saw during the post-war period when the United States and the United Kingdom had to bring down their debts amassed as a result of the Second World War, and the means by which they brought these debt levels down was through financial repression, low interest rates, and inflating away that debt. So, of course, investors today, peering the same potential for financial repression, have turned to gold as an investment. Next slide, please. Now, even though precious metals and gold in particular have recovered, the one thing that has not recovered is the market for mining equities, and here's some data courtesy of Jefferies here in New York. And you can see that mining equities placed on North American markets are a fraction of what they were, say, 10 years ago. And even year to date, with the improvement certainly in gold prices, we have not seen a big impact on the market for mining equities. Next slide, please



So, coming back to mining and the challenge of the so-called new normal. So, how will mining deal with a number of trends that are taking place in the world? And what are the challenges that the industry will face? I think that in terms of geopolitics, the trends that we're seeing towards ideological and commercial rivalries are going to impact the patterns of commerce leading to higher protectionism and higher tariffs, which obviously will impact the mining industry. Changes in the patterns of globalization may make it more expensive for the industry to source its inputs, and it may have to rely on local or national suppliers that don't have the same quality as could have been purchased on the international market. Low interest rates are a good thing for the industry – it reduces the industry's cost of capital – but all the fiscal and monetary stimulus that's taken place could lead to significant inflation, which obviously will affect cost. In terms of technology, the mining industry has been a leader in the use of telecommunications but it's going to have to step up its game and, certainly, remote control mining, and trying to do things without traveling the site is going to be required. And one of the most interesting things that I'm looking to see is how companies carry out due diligence in the case of mergers, when you can't travel the site. We've seen a few instances where deals have been done on the basis of virtual due diligence, and it'll be a test for the industry to see whether this actually works or not. Personally, I'm a bit sceptical. As far as governments, I think we're going to see increased calls for a reduction in inequality, and governments are going to have to figure out how to pay for this, and that could increase the tax burden on the industry. In terms of health care, some of the things that I mentioned earlier with respect to how the industry ensures that its workforce is safe and doesn't bring coronavirus onto the sites where it can spread – and, obviously there's a race on finding the vaccine, and maybe this will help deal with this but, in the interim, the industry is going to be spending more on healthcare. And I think that while the pandemic isn't necessarily related to climate change – or, isn't related to climate change in my view – that doesn't mean that people aren't becoming much more aware of the environment and people thinking about the impact of climate change, and I think that that is going to put additional pressure on the mining industry. Next slide, please.

So, to conclude, is there a future in the new normal for mining? Yes, of course, but the industry has to be prepared. And the industry has faced many challenges before and has managed to get ahead, but I think that there's a few things that successful miners will have to do, recognizing that we're in a new paradigm that is much more concerned with the environment and, of course, this is going to benefit some metals and disadvantage others. I think the industry needs to prepare for an increase in labour and social costs, as a result of handling the pandemic, and there is going to be additional costs with respect to local communities. Automation is going to become a greater part of the industry, you know, as a need to ensure safety and also to control labour costs. Clearly, there's going to have to be greater flexibility in how organizations are managed. I think the mining industry, as mentioned, needs to accept that societies and governments are going to demand more as they always have. The mining industry is called upon by governments to produce or – sorry, to provide for – the health and welfare of local communities, and I think that's going to increase. The industry needs to make sure it's protected against the inflation that might come from monetary stimulus and financial repression. And I think, in conclusion, it has to promote its environmental credentials and introduce programmes – if they haven't already – to reduce their carbon footprint. So, with that, I'd like to thank you and open it up for questions.

### Speaker 2:

Thank you so much, Victor, thank you for those remarks, and we've had a few questions come through, so I just wanted to bring some of them in. I mean, I think, one of your last points you were talking about, obviously we're all experiencing directly the impact on COVID and labour and how it's changing work environments. But, certainly, I think from the mining side of things, there's a lot of specific impacts that go well beyond everybody having to download Zoom, GoToMeeting, Teams, et cetera. And, certainly, you know, I think that's where some of the – probably the biggest challenges – you've pointed out comes in, is dealing with a labour intensive workforce, the controls that you need to put in place in order to continue on. So, it's a long way to say, I think it's interesting in terms of operating in countries around the world where miners play a quasi-governmental role, and certainly we're looking to governments around the world for action and protection in COVID. So, while there's benefits for gold, you know – what's bad for humanity tends to be good for the gold price. You know,



you've got this human side of mining, so while the price might be going up, I do worry about the impact of mining operations and their ability to continue in jurisdictions because of this human side of things. Do you have concerns about that quasi-governmental role becoming too much for some mining companies to be able to sustain in this, sort of, medium to long-term?

### Speaker 3:

Well, thank you. And unfortunately as you know, and in many many places, you know – not so much in the developed world, but in the developing world – the mining companies have taken over many of the responsibilities that one would say really belong to the state, in terms of providing for local communities in and around mine sites. So that goes from, you know, education, health care, social programmes, amenities, et cetera. And the trend over time, I would say, you know, is the same. That, you know, once the mining industry takes over some of those functions from government, government is happy to just step back and let the industry do what it does. And whenever there's a situation like a pandemic, they will turn once again to the mining companies and ask them to do more. So, I think that is going to be a feature of the pandemic going forward.

### Speaker 2:

Sure. I mean, I always find it interesting talking to the mining side of the industry, mostly because when we're dealing with the banks and the trading side, trying to get people to think beyond six weeks at a time can be a challenge. And so, you know, one thing that's really interesting on the mining side is obviously, you guys take a long-term view. And I think that's certainly reassuring for the humans involved, I would have thought, probably even beyond COVID – mining companies thinking of eventually there'll be end of life for the mine, and what does that mean for the communities who are there in terms of what are – trying to create other industries and alternative sources of income? I guess that maybe gets sped up a little bit when you turn to the technology side and automation. If there is a real drive – and you can understand why, given that you're trying to reduce some of this human interaction – there starts to be a push for automation, but does that sort of really refocus mining companies thinking about, what does this mean for the labour force, and since some challenges that we're certainly not there six to, six months to a year ago?

### Speaker 3:

Yes, that's a great question. And I think there's, sort of, there's two answers to that. One is that there's definitely a push for automation because it reduces the safety risk. If you can have someone, you know, operating a piece of equipment from surface, whether it's you know, at surface near the mine, or at surface 2000 miles away from the mine, then that individual is not being put in harm's way by being underground. So, the push for automation, you know, starts with including safety statistics and the safety situation at the mine, reducing the risk of injury. Now secondarily, with the pandemic, if you can have someone far away from the mine in a healthy environment where he or she can't contract COVID. then so much the better. And I think that this is only going to accelerate the trend towards automation. Now, you know, keep in mind, you know, you move that argument to the developing world, and there is definitely a pushback, because if it's automation in order to reduce jobs, then unions and governments and communities will push back against that. But I think it's an inevitable trend, and that sort of flows into the other part of your question, which is the whole issue of closure and making sure that, you know, something is left behind where communities can, you know, can continue to survive without the mining operation there. And I think quite frankly, that is an aspect that the industry has not fully addressed. You know, the industry has become much better at responsibly closing mines, but I think there's, you know, probably more work to be done on responsibly closing mines and ensuring that there is a future for local populations.

### Speaker 2:

Yeah, ok. No that, I mean, that's really insightful and certainly it's something that, it's always tricky to do, but it becomes more important than ever, but even harder than ever, so I think sympathies on that side in terms of trying to find a strategic and positive way forward on that. I mean, you mentioned, switching gears a little bit, because I'm conscious of the time as well. I wanted to ask you two questions. One was about the due diligence point and the other about your slide on mining equities and what's happening there in terms of investment trends. I mean, due diligence is always



going to be something that's close to our heart here at LBMA. And you know, I think the challenge that we're certainly faced with, looking after responsible gold program and the auditors who need to come in – identifying what's obviously first best, and then also identifying what's second best, in terms of due diligence. I would agree with you in terms of, there are certain things that can only be done in person, to be done with integrity and credibility, but I think we've been trying to explore partly because we do an annual audit program. We gave initial delays, but what we don't want is there not to have been an audit for 18 months to two years. You know, something needs to happen in the interim that is second best and having a practical discussion about what that is. And, I suppose, what we're starting to see – and we're hopeful – is that, you know, I think for existing business relationships, there's the opportunity to almost have more engagement than you would have normally with the onsite visit. It is trying to think of the technology as ways that we can have more interactions. Or, even from our perspective at LBMA, if we were looking at the controls around, and the situations, where a virtual audit would be appropriate. You know, what would we require the next year? Probably a mandatory, bigger in-person audit. Then it would also have to be looking at other factors in terms of what the risk levels were, etcetera. So, it was just really a point on the due diligence. And I guess, yes, in terms of there's certain things that you can't do, but would you see opportunities that technology could bring, in the interim to help with some of those, at least so things don't get shut down?

### Speaker 3:

Right. Well, you know, if you – and my comment on due diligence was specifically with respect to M&A in the mining industry and, you know, somebody buying somebody else's mining company or mining project and needing to do due diligence. A lot of the due diligence is already done through virtual data rooms where, you know, for example, the geologic databases, you know, is loaded onto a computer and wherever you're sitting, you can look at it. You don't actually need to go to site but, you know, that final piece of the due diligence was that – which is actually visiting the operation and getting an understanding on the ground of how the mine operates. And, you know, what things are working well, and maybe what things aren't working so well and those specific items that you're not going to pick up in a virtual data room is very important. And, clearly, technology is going to have to play a role, and, you know, people on site will have to, you know, basically hold cameras and in real time, you know, walk a virtual visitor through the operation. I think the question and the jury is still out, as to whether this is enough of a substitute for actually being on the ground. And as I said, the jury is out, I think it's going to be very difficult but, you know, once again, we figure out how to do things. I thought it was impossible to work from home at the beginning of this, and, you know, you get used to it and it works. So, you know, it's, you know, stay tuned.

### Speaker 2:

No, absolutely. Well, it sounds like you're already, in some ways, using technology on the due diligence from an M&A perspective more than what we're doing, you know, because I think auditors going to visit DOTs, you know, having a virtual data room is something that isn't the case at the moment but that could obviously – that's been used in other sectors. So, that's interesting. And I think, so my final question, and I'll have to wrap up, is just in terms of, you mentioned there's been a trend downwards in terms of mining equities, do you think that's because investors are diverting away from precious metals, or are they finding different ways to invest?

### Speaker 3:

Well, I think, it's a bit of both. I think in terms of precious metals and precious metals funds, there has been a transition from actively managed funds to passively managed funds. And since passively managed funds aren't suppliers of capital – they're passive investments – you're seeing overall placements of mining equities on, at least, and I showed North American markets, but the pattern is the same globally. So, you're seeing a decline as a result of that. I think the other reason for that decline is that, you know, the truth is the industry hasn't covered itself in glory in terms of delivering returns to shareholders. And, certainly, post-GFC, there was great expectation with high commodity prices, that the industry would deliver phenomenal returns. And that turned out not to be the case, so we've basically had to live through a decade where investors were shunning the space and, you know, perhaps now with renewed interest in the space and higher commodity prices – certainly gold



prices doing much better – you know, there will be renewed interest in the space, but I think it's going to be up to the industry to deliver those returns, that investor demand, in order to, you know, in order that we capture some of that former glory.

**Speaker 2:**

Yeah. Well, it sounds like they need to be addressing the points you outlined in your remarks today in terms of how do they get ready, not just for the effects of COVID now, but looking those further down the road and demonstrating that. So I think that's our prompt that we need to close down, but I just wanted to say thank you so much for joining us, really appreciate your remarks and your time today, and also thanks to the audience. We've got our upcoming webinars; you've got the schedule there. Hope to see you again soon, please stay well, and stay safe. Cheers.

**Speaker 3:**

Thank you. Thank you.

**Interested in contributing?**

For information, suggestions, or comments about content of LBMA Webinars, or our Virtual Summit, please contact:

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**July 2020**