China not to be written-off in copper growth story

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China should not be written-off as a major factor in the growth of the copper market Dr Alex Schmitt, head of base metals marketing at Anglo American (LSE:AAL) has told Mining Journal.

Schmidt said while growth in China had stuttered, urbanisation still represented one of the biggest growth drivers over the next decade.

"China is a big offtaker for copper, and I think a lot of analysts underestimate its future growth potential as there will continue to be urbanisation," he said.

"300 million people in China live in tier 1 and 2 cities like in the Western world. But there are 1.1 billion people, twice the amount as in Europe, living in tier 3 and 4 cities or rural areas that are not yet middle class. China is pushing for the growth of the middle class as it seeks social stability, so I don't see its growth slowing down."

Additional growth drivers include actions to meet the Paris accords on climate change and the growth in uptake of electric vehicles (EVs).

"For the Paris climate change targets to be met, engines need more copper to be more efficient. China has just started an incentive programme whereby people can replace old electrical applications for newer, more efficient ones.," Schmitt said.

"The EV story is part of the change in the energy mix and the drive to renewable energy. For every megawatt, renewable energy needs 4-12 times the copper than fossil fuel energy generation."

The Anglo American executive said the 100-year average growth in copper demand was about 3.2% a year, which would require an incredible amount of new copper production capacity to sustain.

"With continuing urbanisation, 2-3% growth a year going forward is not unreasonable. At 2% growth, and keeping the supply side constant—which is a challenge in itself—by 2030, the world will need 7 million tonnes a year more copper. That is the output of 14 Collahausi's," he said, referring to the mine in Chile that produces about 500,000tpy of copper. The mine is a joint venture between Anglo American, Glencore and Mitsui.

With robust demand growth coming in the years ahead, Schimdt said a significant supply gap would open up which producers would struggle to fill, which was why Anglo American was advancing development and expansion projects at Quellaveco in Peru, and Collahausi and Los Bronces in Chile.

"A lot of copper investment projects are basically the replacement of current operations. This is why Anglo American made a production decision for Quellaveco in Peru. There are five or six projects like this that can come on stream in the next five years and they will certainly not be enough. We also have expansions planned at Los Bronces and Collahuasi where there is a huge mineral endowment and brownfield potential," he said.

Anglo American and Japan's Mitsubishi will invest about US$4.5 billion to build Quellaveco, which will produce 300,000tpy of copper from 2022. Up to $1.5 billion will be spent in 2019. Anglo American holds a 60% interest in the project and Mitsubishi 40%. The company is looking at expanding production at Los Bronces from 365,000tpy to up to 500,000tpy.

While it is currently unclear how the supply gap will be filled, Schimdt said the sector had to be able to make money at lower grades.

"One hundred years ago, the average copper production grade was 4%. Ten years it was about 1% and it is now 0.5%. There needs to be new technology to reduce the cut -off grade and make mines economic at lower grades," Schmitt said.

Anglo American is also working to make mines more sustainable by reducing their water consumption and footprint to reduce their impacts and so get greater acceptance from host communities. "Making production more sustainable may mean we are able to get access to orebodies we historically weren't able to access," Schmitt said.