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## Overview of China's Mining Industry

The mining industry is the basic industry of China's national economy, which provides abundant mineral raw materials, therefore plays a support role in the development of national economy.

In accordance with the demand for endowment conditions of mineral resources and local economic development, currently Chinese mining investment has gradually shifted to central and western areas which are abundant in mineral resources. China puts forward the stabilization of mineral resource exploration in eastern and central China areas and simultaneously boosts the advantageous mineral resource exploration in western China. The investigations and assessments, prospecting, development and utilization on the top ten western mineral- concentrated zones will be continuously strengthened in a bid to promote the construction of the replacement zones of mineral resources and mining economic zones. According to the requirements for adjusting measures to suit local conditions, scale development and intensive utilization, the state will scientifically divide the planning zones of all sorts of mineral resources, perfect the administration systems in planning sub-districts, coordinate the relationship of the layout of resources prospecting, development and utilization and all kinds of subjects of interests and profits, reasonably divide projects zones and blocks, and scientifically establish the mining rights to facilitate the reasonable layout and optimization allocation of resource development. The state planned mining sits and those having an important value for national economy shall be developed orderly in strict accordance with the plan.

### Progress achieved in 2008 with respect to China's mining industry

In 2008, the number of China's newly discovered large and medium-sized mineral reserves reached 209. Among them, there are 38 energy mineral resources, 90 metal mineral, 79 non-metal mineral and 2 hydrosphere reserves. There were 57 mineral resources newly added and that had proved resource reserves. Among them, petroleum reserve amounted to 1.34 billion tons, 130 million tons more than 2007; the natural gas stood at 647.2 billion cubic meters, 50.2 billion cubic meters less than 2007; crude coal 23.11 billion tons, 17.51 billion tons less than 2007. In the discovered and proven 15 oil and natural gas reserves zones at 100-million-ton level, the newly added and proven geological reserve petroleum stood at 1.34 billion tons, the natural gas

647.2 billion cubic meters and the crude coal 23.11 billion tons. The output of crude steel broke through 500 million tons, hitting a new record high; the output of gold ranked first in the world for the first time.

The output and import- export trade of the nationwide major minerals continuously grew. In 2008, the output of the natural crude oil amounted to 189.7281 million tons, up by 2.3% year-on-year, with the growth rising by 0.69% from the same period of 2007; the output of the natural gas 76.081 billion cubic meters, up by 12.32% year-on-year, with the growth down 5.95% from the same period of 2007; the coal output completed 2.716 billion tons, up by 7.65% year-on-year, with the growth 193 million tons more than the same period of 2007.

In 2008, China transferred 542 exploration rights through bid and auction, with transfer revenues of RMB6.319billion;

7696 mining rights were transferred through bid and auction, with transfer revenues of RMB4.034billion. Investment in geological prospecting slightly rose but still maintained a high level. In 2008, China input expenditures of RMB71.72billion in geological prospecting, up by 4.1% year-on-year, among which the state finance appropriated RMB9.26billion, up by 0.6% year-on-year, accounting for 12.9% of the total investment in geological prospecting, down 0.5% compared with 2007.

### Foreign investment in China's mining industry

With respect to the utilization of foreign capital, in 2008, the number of contracts utilizing foreign capital in the mining industry amounted to 149, falling by 36.32% compared with 2007; the actually utilized foreign capital stood at USD 572.83million, up by 17.04% compared with 2007.

According to the statistics of MOFCOM, 59 foreign investment projects in Mining industry were newly set up in 2008, and the amount of the actual utilized foreign capital reached USD 246,420,000, up by 8.85% year-on-year. The number of newly established foreign invested enterprises and the amount of the actual utilized foreign capital accounted for 0.21% and 0.27% of the national total number or amount of foreign capital absorption in the Mining industry during the same period.

According to the source of foreign capital, calculated by the amount of the actual utilized foreign capital, in 2008, countries or regions: Hong Kong, Korea Rep, Br. Virgin Is, Cayman Is, Mauritius ranked No.1 to No. 5 in the Mining industry regarding the amount of FDI, accounting for 56.57%, 12.66%, 12.38%, 4.88%, 2.79% of the total amount of the actual utilized foreign capital of the industry respectively.

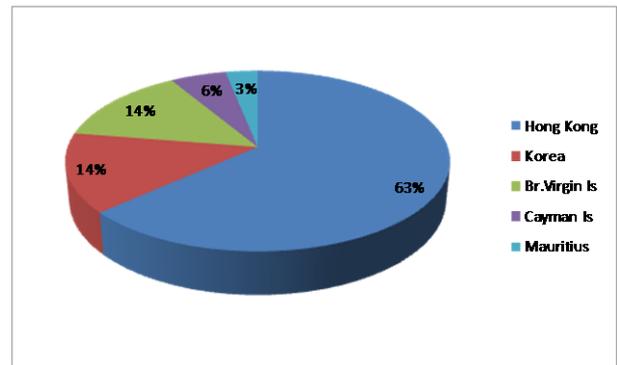


Figure 1 Main Source of FDI of the Mining Industry in 2008

In Mining industry in 2008, ten Asian countries/regions (Hong Kong, Macau, Taiwan, Japan, Philippines, Thailand, Malaysia, Singapore, Indonesia and Korea) newly set up 46 enterprises in China, with the actual utilized foreign capital of USD 180,860,000, down by 9.8% and up by 18.29% separately year-on-year. The number of the newly established enterprises and the actual utilized foreign capital accounted for 77.97% and 73.4% of the national total number or amount of actually utilized foreign capital in the same period.

The EU newly set up 1 enterprise in China, the actual utilized foreign capital reached USD 7,150,000, down by 45.87% year-on-year. The number of the newly established enterprises and the amount of the actual utilized capital accounted for 1.69% and 2.9% of the national total number or amount of foreign capital absorption in the same period.

The US newly set up 2 enterprises in China, down by 50% year-on-year; the actual utilized foreign capital reached USD 3,660,000, up by 114.04% year-on-year. The number of the newly established enterprises and the amount of the actual utilized capital accounted for 3.39% and 1.49% of the national total number or amount of utilizing foreign capital in the same period.

## Regional layout of foreign capital

According to regional foreign capital utilization, 15 foreign-invested mining enterprises were newly set up in the Eastern area, with actual utilized foreign capital of USD 71,730,000, accounting for 10.07% and 12.52% of the national total number or amount of foreign capital utilization in the same period. In the Eastern area, Shandong Province, Fujian Province and Hebei Province ranked among the top with respect to actually utilized foreign capital, separately had 1, 3 and 1 newly established foreign-invested enterprises, with the actual utilized foreign capital of USD 35,880,000, USD 18,360,000 and USD 8,000,000, accounting for 6.26%, 3.21% and 1.4% of the total amount of the actual utilized capital of the industry in the Eastern area respectively.

26 foreign-invested mining enterprises were newly set up in the Central region, with actual utilized foreign capital of USD 99,260,000, accounting for 17.45% and 17.33% of the national total number or amount of foreign capital utilization in the same period. In the Central region, Shanxi Province, Heilongjiang Province and Hunan Province ranked among the top with respect to actual utilized foreign capital, with the actual utilized foreign capital of USD 31,200,000, USD 22,000,000 and USD 13,890,000, accounting for 5.45%, 3.84% and 2.42% of the total amount of the actual utilized capital of the industry in the Central region separately. Among them, Shanxi Province and Hunan Province had 2 and 11 newly established foreign-invested enterprises respectively.

18 foreign-invested mining enterprises were newly set up in the Western area, with actual utilized foreign capital of USD 75,430,000, accounting for 12.08% and 13.17% of the national total number or amount of foreign capital utilization in the same period. Inner Mongolia Autonomous Region, Yunnan Province and Gansu Province ranked among the top with respect to actual utilized foreign capital,

with the actual utilized foreign capital of USD 19,670,000, USD 18,530,000 and USD 16,250,000, accounting for 3.43%, 3.23% and 2.84% of the total amount of the actual utilized capital of the industry in the Western area separately. Among them, Inner Mongolia Autonomous Region and Yunnan Province had 6 and 1 newly established foreign-invested enterprises respectively.

## Manners of utilizing foreign capital

According to manners of utilizing the foreign capital, newly established projects of Mining industry in 2008 are as follows: 23 Chinese-foreign equity joint venture projects, 10 wholly foreign-invested projects, 24 Chinese-foreign contractual joint venture projects. The amount of the actual utilized foreign capital reached 77.63 million USD, 65.36 million USD and 71.91 million USD respectively.

## China's Petroleum & Gas Industry Development

In 2008, the total industrial production of petroleum and natural gas exploitation industry achieved RMB1.0409trillion, up 32.22% year-on-year, with growth rate increasing by 24.27% compared with the same period in 2007. Within the industry, the total industrial production of joint-stock enterprises rose 25.7% year-on-year, with the growth rate increasing by 15.88% over the same period in 2007; that of the state-owned enterprises grew 33.56% year-on-year, with the growth rate rising 18.69% compared with the same period in 2007; that of the foreign-invested enterprises grew 44.26% year-on-year, with the growth rate increasing by 28.36% over the same period in 2007.

From the perspective of enterprises with different scales, in 2008, the total industrial production of small and medium enterprises in petroleum and natural gas exploitation industry grew 65.35% year-on-year, increasing by 55.08% over the same period in 2007; that of the medium-

## China's Coal Mining Industry Development

sized enterprises grew 31.52% over the same period in 2007, with the growth rate increasing by 19.57% year-on-year; that of the large enterprises grew 28.27% year-on-year, and the growth rate increased by 20.9% over the same period in 2007.

In 2008, the output of natural crude oil in the petroleum and natural gas exploitation industry reached 189.7281million tons, with an increase of 2.3% year-on-year, and the growth rate was 0.69% higher than the same period in 2007; the output of natural gas was 76.081billion cubic meters, with an increase of 12.32% year-on-year, and the growth rate declined 5.95% over the same period in 2007.

The sales value of petroleum and natural gas exploitation industry had a relatively rapid growth in 2008; the industrial sales value of the whole industry accumulatively totaled in RMB1.026914trillion, up 30.25% year-on-year, with a substantial increase of 23.15% over the same period in 2007. The price of crude oil increased dramatically, and a distinct increase was shown in the sales value of the industry.

From the exports perspective, there were 4.16 tons of crude oil exported in 2008, fell 28.4% year-on-year, and the exports declined substantially; the export amount of crude oil was USD2.979billion, up 16.9% year-on-year, with a remarkable increase in growth rate compared with the same period in 2007, and this mainly benefit from the rapid rise of the crude oil price.

From the imports perspective, China accumulatively imported a total of 178.88million tons of crude oil in 2008, increasing by 9.6% year-on-year, with the growth rate declining 2.8% over the same period in 2007; the import amount was USD129.335billion, up 62% year-on-year, with an substantial increase of 41.9 % in growth rate compared with the same period in 2007.

In the first three quarters of 2008, China's coal supply and demand basically maintained a balance. With the gradually deepened impact of international financial crisis on China's economy, since September, the coal demand declined, the prices fell back, and the pressure from the excessive coal productivity increased significantly. Under the severe downturn of economy, the growing pressure of policy costs increased and the economic benefits of coal industry fell sharply.

In 2008, China's coal output was 2.716billion tons, increasing 193million tons as compared with 2007, up 7.65% year-on-year. Among them, the output in eight provinces such as Shanxi, Inner Mongolia and Shaanxi was more than 100million tons; output of 35 large coal production enterprises such as Shenhua Group, China Coal and Datong Coal Mine exceeded 10million tons; output of 13 large coal production bases such as Shendong exceeded 2billion tons. Increased coal reserves was proved for 23.11billion tons, increasing 40.63billion tons as compared with 2007, down 43% year-on-year. The whole sets of fully mechanized technical equipments in large mining height with annual production capacity of 6million tons made a success in research and development, and the key technologies in joint mining of the coal of low-permeability coal seams without coal pillar and the gas also made a breakthrough. There were 268 safe and efficient pits (open) built around the country, with raw coal production of 836million tons, accounting for 33 % of the national output.

In 2008, the total industrial production of China's coal enterprises with large size was RMB1.410163trillion, up 53.71%, and the growth rate fell 2.2% over the previous 11 months; the industrial sales value was RMB1.38766trillion, up 53.73%, and the continuous downward was still shown in the market sales.

From January to November in 2008, the total profit of coal industry was RMB200billion, with an increase of 133.72%, and the growth rate decreased by 9% over the previous 8 months; the loss amount of enterprises running in the red was RMB2billion, decreasing 28.5% year-on-year.

Since the economic growth slowed down in the South, the shipment quantity of coal declined dramatically in the port. The internal trade total volume of coal and relevant products in the national large-scale ports was 87.337million tons, with an increase of 7.0%, down 11.3% over the same period in 2007. The foreign trade total volume of coal and relevant products in October was 3.239m tons, down 42.8%, which was the second lowest point in 2008.

From the import and export perspective, in 2008 China's total export of coal was 45.43m tons, declining 14.6% over the same period in 2007, of which, the export in December was 4.47m tons, reducing 22% of the same period in 2007. The annual coal export had a decrease in volumes and an increase in prices. Although the export volume had a decline year-on-year, the export amount rose from the USD3.3b in 2007 to the USD5.24b, with an increase of 58.9%. China's coal import in 2008 was 38.11million tons, with a decline of 18.4% year-on-year.

### **Superiority of China's minerals**

China is one of the countries abundant with mineral resources in the world. 171 kinds of minerals have been discovered with 158 species' reserves have been proven. There are 18000 deposits in all including ones that haven't been exploited, among them medium and large mineral deposits are more than 7000. In particular, coal, rare-earth mineral, tungsten, silicon, molybdenum, antimony, titanium, plaster, sodium sulfate, wollastonite, graphite etc. has much more advantages in the world.

### **Shortcomings of China's minerals**

Mineral resources always have contradiction with population growth and economic growth. First, in China, the total amount of mineral resources is large while the per capita possession is little. Per capita possession of mineral resources in China is less than half of the world average level, ranking 80th in the world; second, supply of mineral resources is uneven, 20 kinds of mineral resources including coal, tungsten, antimony, tin, rare earth, etc. are in full supply and in exchange for mineral resources in shortage reserves; iron, manganese, aluminum, zinc, lead, nickel, phosphorus, sulfur, uranium, asbestos and other mineral resources can basically meet the constructing needs; chromium, platinum, diamond, potash, etc. are in desperate need and the proven reserve cannot meet the demands. Besides, the proven reserves of petroleum, natural gas, copper, gold, silver and other minerals cannot meet the demand as well. It is predicted that by 2020, the proven reserves of coal, tungsten and aluminum can meet the constructing needs while the iron ore and phosphorite can only meet part of the constructing needs. Except for these resources, other major minerals are all in shortage.

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