Investors await peace before re-entering Ukraine

AFP, *London*

Far from the sound of guns and artillery, an "invest in Ukraine" conference opened in London this week to lure the Western business community back once peace returns.

A few dozen investors, middlemen and promotion agencies are to meet until Thursday in the opulent rooms of an old building in the heart of the City of London financial hub.

Attendees from both Ukraine and the West agreed on the development potential of the former Soviet republic, which recently signed an association agreement with the European Union, but said investment can only begin once the guns fall silent.

"I am fairly optimistic about the future of Ukraine... once the ongoing conflict is resolved," said Richard Segal, analyst at financial services group Jefferies International.

Economic activity in Ukraine has sharply contracted since the conflict began five months ago in the east of the country between pro-Russian rebels and forces loyal to Kiev, and Ukraine's gross domestic product is expected to shrink 6-7 percent this year.

But Kiev is hoping for a slight rebound next year, and a faster recovery in 2016 and 2017, assuming that the fighting has stopped.

"Nobody wants to invest right now. Everybody is waiting for the war, to call it by its name, is over," said Nazar Chernyavsky, a business lawyer with Sayenko Kharenko.

Nevertheless, he sees "Western funds eyeing Ukrainian enterprises in agriculture and infrastructure," which "in the current situation, they can buy for a very good price."

REUTERS

Pro-Russian separatists stand guard at a checkpoint outside the village of Kreminets near the city of Donetsk, eastern Ukraine yesterday.

The two sectors are attractive for opposite reasons. Agriculture has hardly been affected by the conflict, while infrastructure, including in transport and energy, has been damaged by bombing in the east and is in urgent need of capital.

GESS Consulting Ukraine, a US company specialising in electricity and energy, has investments in the west and centre of Ukraine in areas less affected by the fighting. Moving eastward to less secure areas is out of the question.

"There aren't the conditions to invest in eastern Ukraine," said its chief executive officer Shaun Lee, adding that it could take five to ten years for investors to return.

Foreign investors who have interests in the east of Ukraine have seen their investments run into difficulty, according to a Ukrainian business professional who did not give his name.

Selling their stakes is difficult due to the difficulty of valuing assets in areas where there is ongoing fighting.

Even more peaceful regions have suffered due to the uncertainty over the future of the country, which has devalued the local currency the hryvnia, leading to a 60-70 percent rise on the price of imports.

International organisations the IMF and European Bank for Reconstruction and Development (EBRD) have provided liquidity to make up for the lack of private investment.

The EBRD is aiming to increase its investment in Ukraine by a quarter to one billion euros ($1.3 billion) this year, mainly in the form of loans and equities.

"We are keen to support the (Kiev) government, which is clearly committed to the path of economic reform," said Sevki Acuner, head of the EBRD's Ukraine operations, which has just provided $60 million (45.6 million euros) to help upgrade the terminal of the southern port of Odessa to handle grain exports.

Among the reforms agreed with the West, Kiev has promised to boost the fight against endemic corruption and cut back on complex bureaucracy.

Modi could do more to curb inflation: poll

REUTERS, *New Delhi*

India's Prime Minister Narendra Modi has scored high on overall performance during his first three months in office, but many are disappointed with his new administration's efforts to bring down inflation, an opinion poll showed.

The poll conducted by Today's Chanakya, the only pollster that accurately predicted the scale of Modi's election victory in May, showed almost half of the respondents felt the Hindu nationalist leader could have taken more stringent steps to curb inflation.

Modi rose to power with promises of reviving India's flagging economy and reducing prices of essential commodities, but consumer price inflation touched a two-month high of nearly 8 percent in July while food price inflation neared double digits.

More than two-thirds of those polled said the government's efforts to tackle price rise have remained unchanged or weakened over the last three months, the survey results released in two parts over late Tuesday and Wednesday showed.

Though the Indian economy grew 5.7 percent in the April-June quarter and recorded its strongest growth in 2-1/2 years, analysts say there is little hard evidence to indicate a sustained rebound.

Ratings agency Moody's on Wednesday said any upgrade to India's sovereign rating is limited by the country's fiscal deficit and inflation outlook.

While 41 percent of the respondents said the economy is back on track, 34 percent said it is still not out of the woods.

Still, echoing the sentiment of several other recent opinion polls, a large majority of respondents - 66 percent - said they were satisfied with the new government's performance so far.

On the issue of corruption, that cost Modi's predecessors dearly in the national elections, 54 percent surveyed expressed confidence the current government can effectively curb graft that plagues Asia's third-largest economy.

Today's Chanakya, part of a family-run research firm started two decades ago in New Delhi, interviewed 6,280 people across 14 Indian cities between Aug. 26 and Aug. 31 for the poll.

Fiat says Chrysler merger on track after exit rights count

REUTERS, *Milan*

Fiat said most of its shareholders had chosen not to exercise an option that could have derailed a merger with US affiliate Chrysler, a tie-up that is a vital step in the Italian carmaker's turnaround efforts.

Chief Executive Sergio Marchionne wants to incorporate the two firms into a Dutch-registered company called Fiat Chrysler Automobiles (FCA), paving the way for a US stock market listing that would help fund an ambitious investment plan.

But the plan could have failed if Fiat had been asked to pay more than 500 million euros ($657.1 million) to investors who chose to sell their shares, exercising a legal right triggered by the company's decision to move its registered offices away from Italy.

The carmaker said on Thursday that shareholders opposing the deal had exercised exit rights for 60 million shares, equivalent to about 463.6 million euros - just shy of the 500 million euro threshold set by Fiat.

Those 60 million shares are equivalent to around 6.3 percent of Fiat's 9.5 billion euro share capital.

Last week the company had said it did not expect shareholders to derail the merger, which is expected to be completed around the middle of October.

Creditors, including bondholders, still have the right to exercise exit rights. Fiat has said it does not expect creditor opposition to stand in the way of the merger.

Coal India unions threaten strike, demand return of blocks

REUTERS, *New Delhi*

Coal India Ltd said its worker unions have threatened a three-day "work to rule" strike this month demanding the return of coal blocks allocated by the government to private firms and withdrawal of plans to sell a stake in the company.

The "work-to-rule" strike would mean a limited number of miners will attend work with minimum disruption to daily activities. However, it would still aggravate an already severe shortage of the fuel in the country.

More than half of India's thermal power plants, which source most of their coal from state behemoth Coal India, have stocks enough to last for only less than a week.

Coal India said in a statement that five unions representing more than 350,000 workers of the world's largest coal producer will resort to "work to rule" from Sept. 18.

They want the government to allocate to Coal India the 218 coal blocks awarded mostly to private firms over the past two decades and ruled illegal by the Supreme Court last month.

The top court is expected to decide on the fate of the blocks in a hearing on Tuesday.

The coal workers have also asked the new government of Prime Minister Narendra Modi to withdraw its planned sale of a 10 percent stake in Coal India and stop restructuring the company without consulting with the unions.

Last year the unions successfully blocked the previous government's move to sell a stake in the company. Workers fear divestment or any restructuring of the company would eventually lead to jobs cuts.

They have also opposed investments by Coal India in mines abroad and urged instead to use the money to start coal projects in India which may also generate employment within the country. "Efforts are being made to reconcile the same," Coal India said. The coal ministry could not be reached for a comment.

Maruti Suzuki to pay Japanese parent royalties for future cars

REUTERS, *New Delhi*

Maruti Suzuki India Ltd, the nation's top carmaker, said on Thursday it would make royalty payments due to parent Suzuki Motor Corp for all future models in rupees to limit risks from foreign exchange fluctuations.

"On all future models the royalty will be expressed in rupees...and not (in) the yen so that we are not exposed to the variation in the exchange rate which has been happening in the past," Maruti Chairman RC Bhargava told shareholders at the company's annual general meeting in the Indian capital.

Maruti, over 56 percent-owned by Suzuki, currently pays royalties in yen for use of technical know-how and its Japanese parent brand name. The company paid 24.86 billion rupees ($412 million), or nearly 6 percent of its net sales, in royalties for the year to March, according to its annual report for the year.

In February, some large Indian investment funds, challenging a plan by Maruti to source cars from a plant in western India to be built by Suzuki, saying the royalty paid by Maruti to its Japanese parent was too high, a complaint made previously by minority investors.

Maruti, which has said it will take minority shareholders on board before progressing on the new Gujarat plant, expects the factory to be commissioned in 2017, chairman Bhargava said at the shareholder meeting.

Bhargava also said Maruti would invest in increasing its research and development capabilities, and the work done locally would be taken into account while calculating royalty payments.

"That will mean that our expenditure on R&D will get rewarded in terms of lower royalty rates," he said.

A customer holds a box containing Microsoft's video game console "Xbox One" next to a campaign girl at a household appliance shop in Tokyo yesterday. Microsoft Japan launched the company's latest video game console to the Japanese market on the same day.

AFP

Deep cost-cuts put gold miners between rock and a hard place

REUTERS

Deep cost cuts have helped to restore profits at gold miners pummeled by a one-third slide in bullion prices in the past three years, but the fix may only be short term and could be setting the industry up for even more long-term pain.

The all-in cost of producing an ounce of gold dropped by 23 percent to $1,331 an ounce in the year to end-March, according to data from Citigroup. The data, published on Aug. 13, covers miners producing about half of the world's gold.

Data from five of the world's biggest gold producers, including Canada's Barrick Gold Corp, South Africa's AngloGold Ashanti Ltd and Australia's Newcrest Mining Ltd, show this trend continuing to the end of the latest quarter.

A closer look at the numbers reveal, however, that almost all of the cost reduction is due to miners pulling easy levers: slashing capital and exploration spending, cutting head office costs and shrinking mine plans to focus on extracting higher-grade gold.

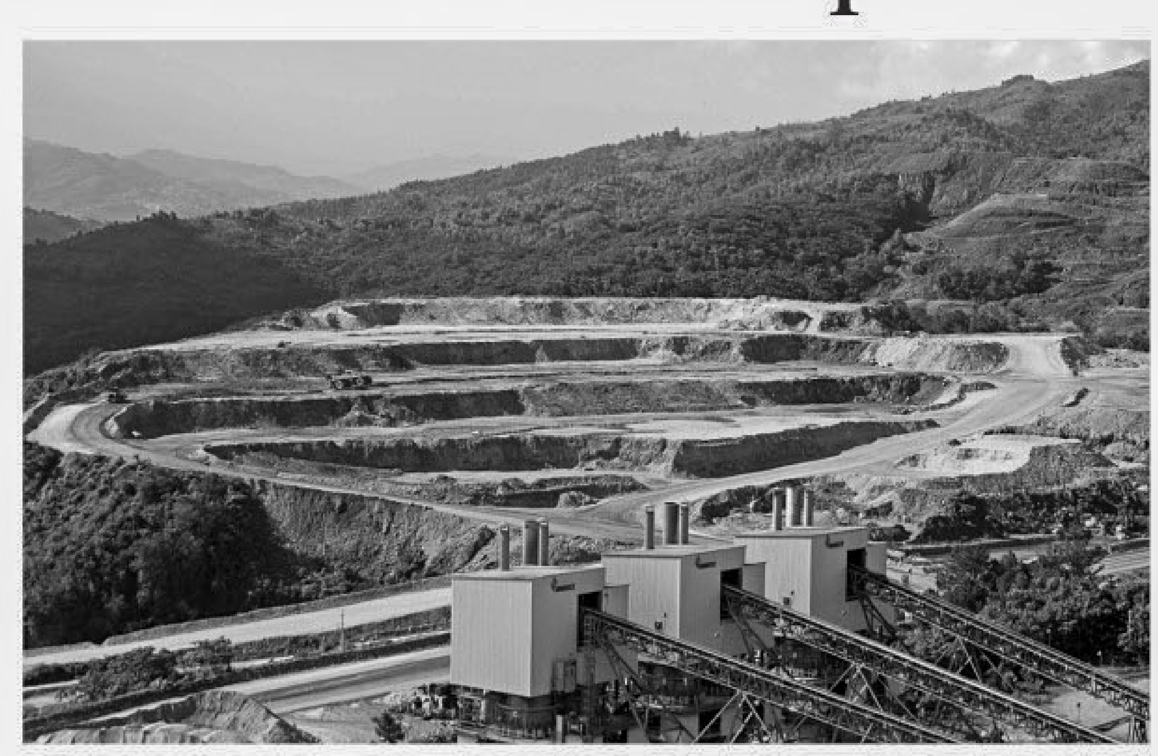
"Even though this is a good short-term thing for the gold sector it is exactly the worst thing that they can do from a long-term value perspective," said Johann Steyn, an analyst with Citigroup in Johannesburg.

As the gold price tanked and miners were forced to write down billions on underperforming assets, once growth-hungry investors demanded a new era of austerity. The subsequent cuts to exploration and capital spending threaten to shrink current output and future growth.

When gold starts to rise again, miners will find it harder to benefit if they have under-invested in new projects. Lower grade ounces will again become economic, and if mined as in previous upturns, will once again raise unit costs.

What miners have found much harder to dent are mine site operating costs such as labour, fuel and power, which soared 60 percent between 2008 and 2012 when demand for these inputs surged during a global gold mining boom. Falling gold grades, which have nearly halved to 1.5 grams per tonne since 2000 as rich deposits become scarcer, have also hiked costs.

Mine site costs, known in the industry as cash costs, fell 5 percent to $696 an ounce in the past 18 months, quarterly data from the world's seven



Barrick Gold Corporation's Pueblo Viejo gold mine

biggest gold miners show, as miners cut jobs, implemented efficiency programs and pressured suppliers.

While that represents a sharp turnaround from the cost inflation before it also shows the difficulty of making deep cuts. And some say this might be the end of the road.

"Most of the gains come in the first year after a company has made major decisions on cutting employee numbers or benefits," said Sean Boyd, chief executive of Agnico-Eagle Mines, a mid-sized producer with mines in Canada and Mexico.

Agnico was able to slash about $40 million in costs at its Arctic operations in the second half of 2013, mostly through reducing employee benefits, Boyd said. "You can only do that once on the labour cost side," he said.

Employee salaries are "sticky" and hard to reduce, said Adam Graf, an analyst with Cowen and Co. in New York. So is the price of fuel, which makes up about a third of mining costs and is set by the market.

Others in the industry are optimistic that miners can squeeze out more cost cuts at mine sites from better labor productivity and eliminating lower-grade ounces.

"There is more room to cut fat than there is muscle. I don't think they are cutting into the muscle right now to demonstrate profitability. The companies have been so bloated," said Chris Beer, who co-manages the RBC Global Precious Metals and Global Resource Funds.

And lower production is not necessarily a bad thing, especially if each ounce is more profitable.

Although bullion prices are not always driven by supply and demand, a drop in production could be a boon for producers as it could help to establish a floor for the gold price, said Imaru Casanova, senior gold analyst at US-based fund managers Van Eck, a major gold stock investor.

Bullion was last trading at $1,268 an ounce.

Today's capex and other cuts are similar to those that miners made between 1996 and 2001, the last time gold was in a bear market, Citi's Steyn said.

"That was exactly why they couldn't capitalise on the gold price rally that came after," he said. Even though capex at the world's 10 biggest gold companies increased seven-fold between 2000 and 2013 to $16.6 billion, production decreased 10 percent, he said.

What is different this time around is that lower gold grades have made it that much harder to reduce mining costs.

Not all miners are slashing capex to the same degree though. At $1,486 an ounce at end-June, Goldcorp, the world's top gold miner by market value, has the highest all-in costs of the five biggest miners who publish this data as the Vancouver-based company presses on with building two mines.

"It's very easy to simply cancel or defer capital programs at a mine site," Chuck Jeannes, Goldcorp's CEO said in an interview.

"I just know that we are being very careful not to get carried away with cost reduction and find ourselves having not made the investments we need to for the long-term health of the mine."