Why epidemic risk is going to be important for the mining industry

By the time this edit piece will go to be out for circulation, one fervently wishes that the threat of the Corona virus or COVID-19 is long gone. But as on March, 2020 the global GDP loss was about 10 trillion USD – almost a quarter of the world GDP and rising. It may go away some day, but, it will not and should not go from the mind of the people dealing with minerals, oil and gas.

The short term challenges of such an epidemic is quite significant. The mines already running will have increasing cost of stockpiling, absenteeism, rental charges, process stoppages and many more. At the corporate level, there will be stuck shipments, reduced order, market imbalances, delayed or even lost payments, increasing circular debts and cash crunch – all that might lead to bankruptcies. Even if the situation improves, it will take a long time before the demand will pick up again. And of the market structure and the supporting institutions? There will be disparaging effects on the market structure as opportunistic sellers of dark market will make inroads in the fair market. These will affect institutionalized and regulated market – perhaps, elastically in the short term, returning to fair market when the threat is gone, but if it extends – it will break the institutions, leading to greater uncertainties.

CRU Group's current forecast for a basket of 38 commodities sees a 5% price decline for 2020 overall. Palladium is expected to do the best this year, with prices increasing at least 15% over 2019, and only the lithium is expected to perform the worst, with prices falling at least 15%.

Take example of a worldwide macro-market of oil and gas. Global exploration and production (E&P) investments would take a substantial hit this year because of the coronavirus, as staffing and supply shortages at key construction yards in Asia and beyond would delay project deliveries by up to a year.

The global markets are poised to extend the worst losing streak since the 2008 financial crisis, with the virus, forecast to pound productivity levels. "Our current assessment forecasts that COVID-19 could result in global E&P investments falling by around $30 billion in 2020 – a significant hit to the industry," said Rystad Energy's Audun Martinsen, Head of oilfield service research.

How to respond to such events of pandemic proportions? Institutional strength will matter now. What does it mean? It means decision making needs to be more participative where the engineers, planners, trade and business makers, and risk specialists will jointly take major decisions. The decision making will be more specialized; one or two persons taking all decisions will be discouraged. If the expertise is not there in the organization that can be sought from outside. Dependable and accountable organizations within or outside the structure should be relied on. Diversity, transparency and alacrity will be the trademarks of such mining organizations.

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