

Flake graphite price could spike as China orders production halt

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– One of China's primary flake graphite producing regions had been ordered to halt production on environmental grounds, which would take about 10% of the world's flake graphite supply off the market, the equivalent of 60 000 t/y, UK-based market research firm Industrial Minerals Data said this week.

Given that China produces almost 75% of the world's graphite and that 'flake' is the most sought-after form of natural graphite for value-added, high-technology carbon products, this was a significant development.

The last time a supply shortage close to this magnitude happened in China, was in 2009, which was seen as the catalyst for flake graphite prices reaching over \$2 500/t in a year.

Industrial Minerals Data manager **Simon Moores** said in a report published on Monday that up to 55 miners and processors of graphite in the town of Pingdu, located in the east-coast province of Shandong, had been ordered by the local government to stop production after failing to improve wastewater, dust and gas emissions.

He said it had been called the strictest environmental action in local history. The halt also wiped about 20% of the country's domestic output off the market.

"The government has been cutting off electricity and water supplies to those companies that fall foul of the new ban. All graphite companies in the region have signed a letter of commitment to cleaning up Pingdu's flake graphite industry.

"The action was a result of complaints by local residents dating back to the start of this year," Moores wrote.

The UK-based analyst said the loss of supply over the next six months had coincided with the yearly winter shutdown of China's graphite producers, which would close their doors between November and February until after the Spring Festival.

"This is expected to minimise the immediate impact, particularly as much of the buying for the Christmas period has now taken place," Moores said, adding that any potential rebound in demand in the first quarter of 2014 would be expected to add upward price pressures across the world, should the supply gap not be filled by extra production from elsewhere, especially Heilongjiang.

The strength of the demand rebound after February would dictate the future direction of prices.

Moores pointed to a similar situation with Inner Mongolia – when a number of its flake graphite mines were closed in 2008 – caused a short-term price spike. This equated to roughly half the production capacity of Pingdu.

Pingdu is China's oldest flake graphite producing region and has a capacity of 100 000 t. It is only second

to Heilongjiang province, in China, in terms of production power, which has a capacity of 280 000 t, and in 2013 produced 120 000 t to 140 000 t.

The closures were expected to last until at least June 2014, or until companies could prove an acceptable standard of environmental controls.

Moore noted that the action was seen as the first step in revolutionising the country's flake graphite industry, which had gone untouched since the 1980s.

"The region and the country's graphite industry are in need of modernisation. China sees an opportunity to turn itself into a production powerhouse of value-added, hi-tech carbon products to complement some of the richest graphite resources in the world.

"This move by the local government is a step change in the way it is approaching the industry. Until now, officials used to turn a blind eye to producers that fell below environmental standards because they relied on these companies for tax," Moore wrote.

The news, albeit pertaining to the short-term flake graphite outlook, could paint a rosy picture for flake graphite project developers including Energizer Resources, which is developing the Molo project, in Madagascar; Northern Graphite which is developing the Bissett Creek project, in Ontario; private project developer Ontario Graphite and its Kearney large-flake, high-carbon graphite mine in the province; and Talga Resources, with its Raitajarvi graphite project, in Sweden.

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