Chile's Codelco unveils plan to cut costs by $1 bn in 2015

Chilean state-owned miner Codelco, the world's largest copper producer, said Friday it will slash its costs by $1 billion this year in response to a recent sharp drop in the price of the red metal.

The cost-cutting plan will not include layoffs, Codelco CEO Nelson Pizarro said in a press conference, adding that the state-run company is adopting other measures that will enable it to increase fine copper output by 35,000 tons this year.

The three-level plan includes boosting production by optimizing metal recovery at its Chuquicamata and Potrerillos smelters, thereby generating some $200 million in additional revenue at the current copper price of $2.50 a pound, which is down from an average of just over $3 a pound last year.

Each one-cent rise in the average annual price of copper translates into more than $40 million in taxes paid into the Chilean government coffers and a roughly $92 million improvement in the country's balance of payments.

The second level will seek to generate $500 million in savings with measures aimed at boosting the efficiency and productivity of Codelco, which produces around 1.6 million tons of copper annually.

The third involves capitalizing on opportunities stemming from the drop in the price of some key inputs, particularly oil, and the compensatory effect of a weaker peso relative to the U.S. dollar for Codelco, most of whose revenues are denominated in the greenback.

In that regard, Pizarro said an additional $500 million in costs can be cut via contract renegotiations.

The chief executive said there will be no layoffs and that the company's workers "will play an essential role" in identifying opportunities and implementing cost-cutting measures.

That effort will mean reducing total production costs from $2.26 per pound of copper to $2.15 a pound, he said, adding that the current dip in the price of copper "is an opportunity to make Codelco a more efficient and productive company."