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Latin American Mining Industry: Highlights and Outlook

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Latin American Mining Industry Highlights & Outlook

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1. A Brief Retrospective



The political, economical and social profile of Latin America was traditionally characterized like a region with great potential and opportunities, but so many challenges, impressive social and economic inequalities and high political instability exacerbated in some occasions by a dubious and ever changing political sympathy in relation to foreign investment. In fact, the history of some countries is permeated by several cases of conflict with foreign mining companies. From a regional retrospective, the last years of 1980 decade configure a notable discontinuity representing a remarkable reference date to approach several changes in the general climate of investments in the region, and to the mining industry in particular. In this period, without minimizing the influence exerted from the increasing degradation of mine business climate in traditional mining centers, as a matter of fact many Latin American countries start up a admirable process of implementation of macroeconomic policies aimed to insert competitively these economies into the international scene on behalf to launch a fast and more equitable development path.

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In the macroeconomic level, the most remarkable traces of this array of development policies, among others, were:

- the reengineering of the role, size and structure of the government, redirecting its functions to focusing on the most demanded social investments;
- the attraction of foreign capital;
- the privatization of important infrastructure sectors; and
- the commercial openness of the national economies.

At mining industry level, and in fine tuning articulation with the above-mentioned changes, it was launched a comprehensive revision of the legal and taxation rules and procedures applied to the industry. The changes in the mineral policy were fundamentally committed to improve the attractiveness of the sector operational framework in terms of transparency, stability and security, minimizing bureaucracy, costs and risks. Despite off the differences in intensity and date this concerted movement was observed in an ample arch of countries such as Argentine, Brazil, Bolivia, Chile, Ecuador, Mexico and Peru, to mention the principals. This cross-country trend let implicit as a common trace of consensus embedded in the national mineral policies the following aspects:

- The strategic role attributed to the mining industry as a vector to achieved higher levels of social and economic development, by means of attracting technology and foreign investments, accessing new markets, generating fiscal and foreign currency and expanding and decentralizing infrastructure;
- The high level of awareness to the importance of being well positioned in the attractiveness ranking of foreign companies;

2. The Actual Mineral Status

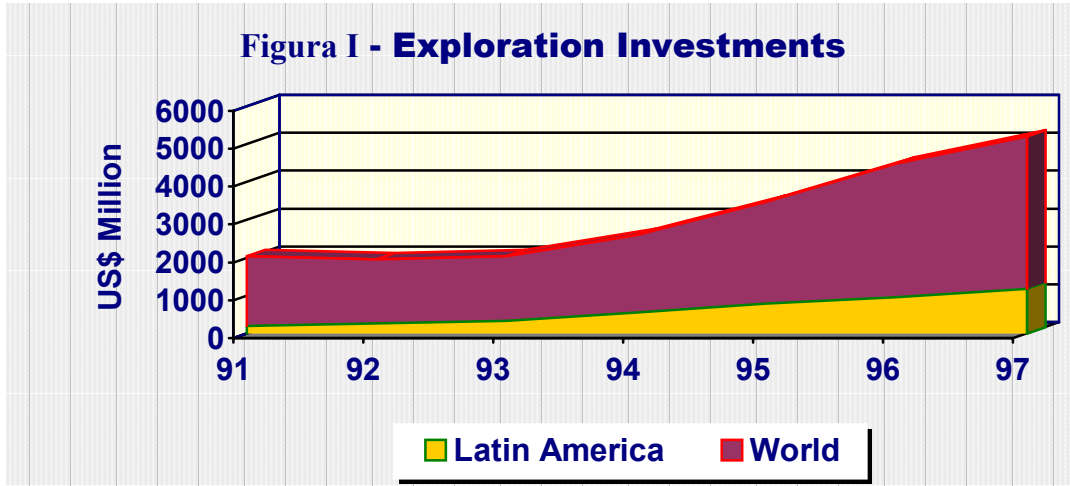
The Latin American when focused from a retrospective point of view has long been recognized as a region of most favorable geological endowment and potentiality despite of the scarcity of appropriated geological information over large (millions km²) tracks of land. Its world class and impressive known resources and reserves of silver, copper, nickel, niobium, zinc, iron ore, manganese, bauxite, tin and gold, not to mention a comprehensive suite of industrial minerals and fuels, support this statement.

The remarkable mineral production growth and unquestionably achieved status as the most prominent region in the actual designed portfolios of mining companies can be traced to beginning of 90's decade. The affluence of Latin America as a top priority region in the process of global allocation of mining investments may be approached by analyzing its relative importance in attracting parcels of the flow of foreign capital directed to exploration and development of mining business opportunities in emerging countries. At the beginning of this decade with the illusion of a fast transition in the economic systems of Eastern European countries fading away combined with the consolidation of a somewhat hostile mining business environment in industrialized countries brought about the reinforcement and/or redirection of important flows of investments committed to mineral exploration and development in Latin America.

We can approximate the upward trend in Latin American mining industry importance taking as a proxy the relative behavior of exploration investments. According statistics compiled by Metals Economic Group in its yearly worldwide survey during the period 1991/1997 the regional countries had received about 24% of the global stock of capital applied to mineral exploration. In this period the Latin American exploration investments had increased at an impressive average yearly growth rate of 34% while in a global scale the observed annual rate was considerably less, although robust, around 14%.

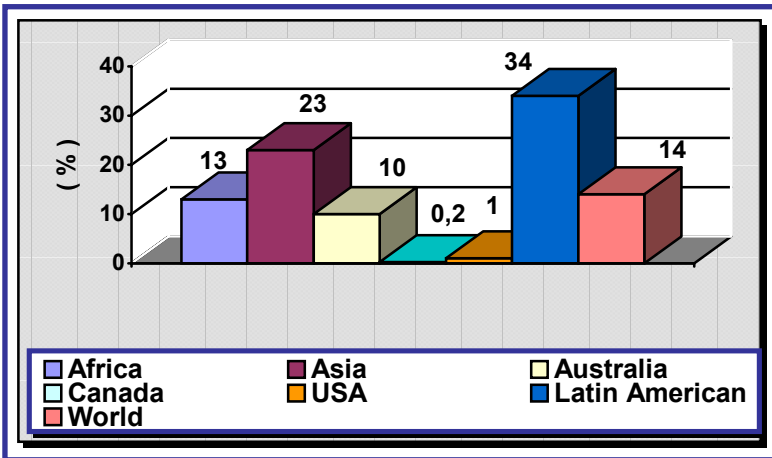
As a result the annual share of the region in exploration in a worldwide context evolved from 11% to 29%. The historical trend of exploration

investments is the matter of Figure I. The annual average rates for each region is shown in Figure II.



Source: Metals Economic Group (PDAC's survey)

Figure II - Exploration Investments:
Average Growth Rates



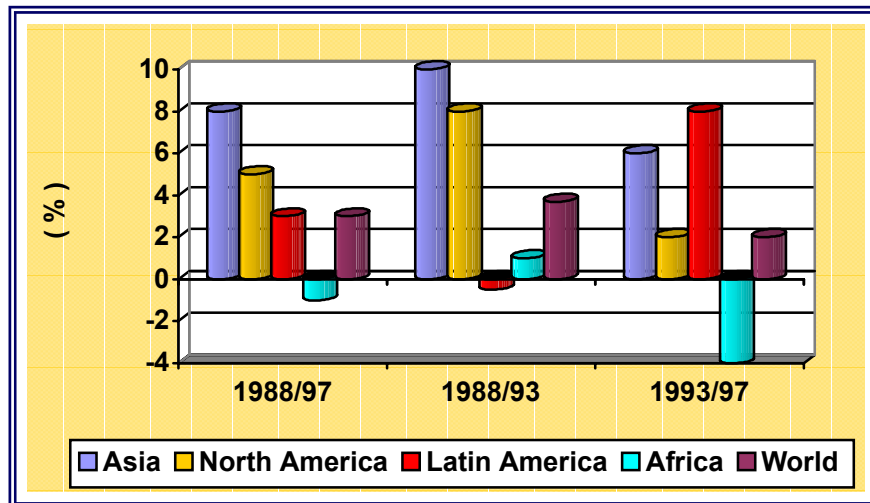
The fundamental vector to consolidate this trend was the manifested commitment of Canadian junior mining companies to Latin America. Taking into consideration the results of the survey conducted by Gamah International Ltd. to PDAC -

Prospectors and Developers Association of Canada, in the period 1991/1997 the aggregated investments of Canadian junior mining companies in the region were Can\$ 805 million representing about 36% of their total exploration investments when referred to the global amount.

In terms of average annual rates of growth the implicit rates were both impressive, respectively 49.5% and 53.7% to world and Latin America.

Additionally, according to the results of PDAC's survey, it deserves mentioning the prominent role of precious metals in the array of investment preferences. As an example, their share in the total regional exploration ranged from 79% in 1995 to 87% in 1997. The expressive growth of regional gold production after 1993 suggested the impact of these massive investments and the primary minable land available in Latin America. Figure III focuses on this trend.

Figure III
Gold Production:
Average Annual Growth Rates



Source: Gold Fields Mineral Services Ltd. (ANORO Report)

3. Outlook

Independently from the medium-term anticipated behavior of the mineral commodities markets, especially gold and base metals, our expectancy in relation to the future of the Latin American mining industry is very auspicious.

On a time of fast path consolidation of the globalization process the climate of business of any region and sector of activity receives a comprehensive and ever increasing influence from the relative attractiveness of alternative producing regions. When confronted with the set of opportunities and challenges offered by Africa, Asia and the transitional economies from Eastern Europe, the array of competitive and comparative advantages brought together by Latin America are excellent.

General Aspects

- **Higher political and economic stability;**
- **Good tradition as a good guest to foreign capital,**
- **Actual and potential size of the regional domestic market;**
- **Diversity and increasing sophistication of the industrial and technological base;**
- **Speed and scope of the privatization programs granting a decisive leap in extension and quality of the infrastructure;**
- **Its competitive advantages as a launching pad to global exports;**
- **Competitive taxation systems;**
- **Modernization of the regional financial markets and increasing integration with developed centers;**
- **Clear and liberal legal frame regulating the different flows of foreign capital;**

Sectoral Aspects

- ♦ Extension and diversity of geological environments of interest;
- ♦ Impressive tracks of primary minable areas with lower to no levels of exploration works;
- ♦ Secular tradition of the mining industry;
- ♦ General Mining legislation that is clear and transparent in granting exploration permits and mining concessions;
- ♦ Good flexibility in transferring exploration and exploitation rights;
- ♦ Great number of national mining companies, specialized suppliers and consulting companies composing an expressive network of potential partners, sellers, buyers and customers;
- ♦ Modern and seasoned institutional frame of specialized government agencies especially in Brazil, Chile and Peru;
- Multitude of regional and sectoral incentives.

These aspects when evaluated from the mining industry global players expectancies and interests position the region as a top priority to mining houses, majors and juniors mining companies, institutional investors, financiers, suppliers and consulting services companies.

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