Mining & LATAM: A Love-Hate Relationship

By Eduardo Vale
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RIO DE JANEIRO (ResourceInvestor.com) -- When focusing on a mineral viewpoint, Latin America has long been recognized as a region with very privileged geological wealth and potential. Its world class and known resources 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, despite the scarcity of appropriate geological information over large areas.

The last 15 years revealed the affluence and consolidation of LATAM as one of the most important destinations of the global flow of exploration resources. After 1997, parallel to the problems affecting gold and its influence on global exploration, the resurgence of macroeconomic disarrays and challenges to political stability has been degrading the regional business mood. Nonetheless, one of the primary aspects in this tradeoff has been an ever-increasing opposition to mining projects. This trend definitively included the region in the insidious global confront mining process, whatever the opportunity costs involved. In some cases it resembles a kind of *spate or cult* against mining. The mining industry has never been so stigmatized. At national levels, this trend could reduce the attraction of investments and prejudice the achievement of higher levels of mineral (*potential*) product most needed for the overall region.

Several events have impacted the image of the industry and caused growing concern about the regional climate for mining investments. Some projects in the group of emblematic projects characterizing the nature of these problems and the magnitude of opportunity costs involved are: Tambo Grande and Rio Blanco (PE), Esquel (AR), Bojuru (BR) and Cerro San Pedro (MX). Excluding Bojuru - a titanium project with investments of around $450 million - the others have been well covered by the press. At an aggregate level, this set of opportunities embraces a full first wave of investments of over $1.3 billion. On the side of goods and services procurement, Tambo Grande alone would require $526 million for its first 17 years of anticipated mine life.

The reasons for this situation vary and can, to a large extent, be traced to:

- the historic mining legacy of accumulated economic, social and environmental liabilities;
- the perceived risk and impacts associated with some projects, suggesting omissions and unjustifiable mistakes in the approach toward and conducting of community relations;
- and accidents followed by fragile initiatives, suggesting failure to adopt best practices (APELL[1]).

Unquestionably, the industry has a major share of the responsibilities and society will pay for it, one way or another. The obstruction or abortion of development is perhaps the most critical aspect of this opportunity cost. Nonetheless, it is well known that a large part of the problem belongs to the domain of public sector attributions and exclusive mandate. So, governments, especially at federal and state (provincial) levels, must assume it. For example, emphasis should be given to land use planning recognized as a critical government initiative, involving a fundamental interface with mineral policy. The noticeable lack of this planning instrument and/or the willingness to enforce it when in place combines with the natural rigidity of mining project locations to start disputes in a number of countries. At the same time, the intensity of capital and lag times involved drain the bargaining capacity of the industry when facing unrealistic demands, exacerbating risk perceptions, and ultimately looking to compromise the flow of funds to the region.

Confronting this problem, not only junior companies are put under pressure but also majors are susceptible to face the same challenges. Let us look, for example, at the acute problems involving the exploration of the Cerro Quilish deposit since 2002, culminating with its being struck off Newmont's reserves inventory. Even the Las Bambas takeover by Xstrata for $121 million - about three times the minimum price fixed by the Peruvian government – was strongly opposed during the auction process. It should be mentioned that about $46 million of this sum was labeled as a social contribution to the community.

Bearing in mind this actual situation, many more problems later in the project development stage were not a surprise. Therefore, the proactive stand of Xstrata recently announcing the Las Bambas community relations strategy is a remarkable and most welcome initiative.

Anyway, it is a global reality that, despite adopting best practices and even contracts signed by government and communities, the industry lies ultimately under a kind of local community empire. At present, one of the most important issues in developing a mine is obtaining what is called the social license, and hundreds of papers have been written about what it means and the best practices to obtain and maintain it. But for clarity's sake, what exactly does this mean? Someone who is not intimate with the term could ask:

- What is the term of the license?
- Is it renewed annually or granted on a permanent basis?
- Is it susceptible to change in the advancement of local – political, social and economic - interests?

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Perhaps, for a mining pro the appropriate questions would be:

- Is the local interest more important than the national one?
- Under what circumstances? Or doesn't it matter?
- What about setting restraints for local interest in confronting state and national levels of interest?
- What government level has the supreme mandate to arbitrate State Policy?
- Or is the outcome somewhat random and susceptible to three fundamental dimensions: political bargains, economic interests, and extensive grey areas of the legal framework (written & practiced)?
- How do we reach a compromise solution from among so many uncertainties and mineral sector specificities, when focusing on the allocation of capital from a long-term viewpoint?

As a matter of fact, despite comprehensive efforts to formalize and provide substance to the concept, a social license **is at best only a process where nothing is really granted**. In this process, national governments have a crucial whole. Yet in practice the public sector has been an absent stakeholder on many occasions by lacking political desire to do its homework and guarantee the effective legal compliance of contracts.

On the side of the private sector, concerning self-regulating contributions, in addition to Global Reporting Initiative and Equator Principles, at mining industry level the following should be mentioned:

- E3 - Environmental Excellence in Exploration (PDAC);
- MCEP - Mining Certification Evaluation Project (CSIRO); and
- The setting up of a Good Practice web site.

Considering the status of the local community authority and interests, it seems appropriate to suggest launching a kind of **Local Reporting Initiative,** tackling the communication at four institutional levels of public interest: federal, state and local governments, and community.

On the other hand, the economic aspect has been largely ignored and is open to assessment as a crucial vector in support of the selection between mutually exclusive uses and approach opportunity costs at stake. This is especially critical after the experience accumulated with MMSD and EIR initiatives where, beyond the low density of quantitative analysis leading to superficial conclusions, on many occasions the arguments presented a strong bias against mining, and failed to adequately portray the importance of the industry. Now it is time to return to the basics, looking for a balanced view with emphasis on the quantitative aspect as a means to preclude the rhetoric and confront insidious NGO campaigns in the forefront. In this sense, one important area to be explored is ex-post evaluation of projects from an economic and social point of view. An interesting example is a study sponsored by the World Bank[2] that should be reinforced and reproduced.

[1] APELL – Awareness and Preparedness for Emergencies at Local Level
[2] MACMAHON, Gary; REMY, Felix. Large Mines and the Community – Socioeconomic and Environmental Effects in Latin America, Canada and Spain. IDRC/World Bank 2001. 342p.

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