

Latin America Mining: Some Trends

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Since the time of the Incas and related civilizations, Latin America has seen significant activity in the mining sector. Indeed, the bountiful natural resources of the continent were one of the principal causes of colonial expansion by Spain, Portugal and others. Over the centuries, the industry has continued to develop.

Overview of Industry

Statistics published by World Mining Data 2019 indicate that 6.6% of total global mining production in that year originated from Latin America (compared with, for example, 5.6% from Africa; although, placing that in context, 57.9% of global production originated from Asia). The trend in Latin America, though, is for increased production. During the period 2000–2017, production increased by 24.3%. Of course, production has been slowed by the COVID-19 pandemic, but while the virus has been particularly impactful in Latin America, there is no reason to believe that the long-term trend will not continue.

The contribution of revenue sourced from commodities exploitation to the economies of many countries in Latin America is significant. For example, based on the most recently available

statistics, total annual commodity production in Brazil generated in excess of \$95 billion. The equivalent number for Mexico is in the region of \$65 billion. However, the numbers for both countries include a significant amount of oil and gas-mining exports from Brazil in 2019 were in the region of \$32.5 billion; the percentage contribution in Mexico is significantly lower. Contrast that with Chile where the number was in the region of \$41 billion—with a very high concentration of \$34 billion coming from non-ferrous metals. Other countries, such as Ecuador and Peru, are highly reliant on the mining industry for its contribution to overall GDP.

Available Minerals

While most countries in the region have some mineral resources, Chile, Peru, Brazil and Mexico account for 85% of mineral and metal exports overall. Probably the most widely exploited metals in Latin America are copper, iron ore, gold and silver. Copper is particularly important with Chile being responsible for around 25% of global production. At that level, Chile is the world's leading exporter of copper with Peru being positioned immediately behind. Brazil

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is the third-largest global producer of iron ore, and Mexico is the largest producer of silver (although Peru has larger reserves). The continent was responsible for more than half of the global production of silver in 2018. In several minerals, therefore, Latin America is the dominant producer.

Investment Environment

Mining companies have multiple options when it comes to investing in new mining projects. The long-term nature of the development of any project make stability and confidence in local mining policy and the legislative/regulatory environment an important consideration in any new investment decision. The Canada-based Fraser Institute produces an annual survey which analyzes the views of senior mining executives on these issues in the principal mining jurisdictions. The survey produces an Investment Attractiveness Index which takes into account both mineral and policy perception. The most recent survey (in 2019) suggested that, in making investment decisions, 40% of the overall decision process was devoted to these policy considerations. The survey covers 76 jurisdictions—including all of the major Latin American countries—and is based on the answers to questions such as the certainty of regulation, efficiency of the legal system, taxation regime, political stability, availability of skills, etc. There was no Latin American jurisdiction in the top 10 countries named in the overall index. Chile came highest, at 17th in the table, followed by Peru in 24th. The remainder of the countries were by and large in the bottom half of the index, but, with the exception of a couple of provinces in Argentina (where there is wide variation by province), Venezuela and some Central American countries, there was little representation in the bottom quartile. It is fair to say that in virtually every policy category, Chile led the Latin American contingent. What is clear, though, is that Latin America lags behind Europe, Australia, certain provinces of Canada and several US states in terms of overall policy attraction.

Battery Metals

The race to secure supplies of battery metals has received much attention recently—particularly as the supply chain for several of the metals is so

concentrated in particular countries (frequently China, which raises geo-political concerns). The availability of these so-called strategic metals has led to both the Trump administration and the European Union announcing several initiatives to secure the supply of those minerals which will be essential for the development of both electric vehicles and emerging battery technology. The key commodities for battery technology are lithium, cobalt, manganese and graphite. Lithium is found in both hard rock and brine format, with the latter being generally considered easier to exploit. Latin America is particularly rich in lithium brines, with Chile and Argentina host to 30.3% and 11.5%, respectively, of global resource estimates. There are very few current battery technologies which contemplate production without lithium. The UN Economic Commission for Latin America and the Caribbean has estimated that the region as a whole holds 61% of global lithium reserves, clearly a strategic position.

Socioeconomic Issues

According to the UN Economic Commission, Latin America is the region with the most mining-related socioeconomic conflicts worldwide. There are several reasons for this. Given the arid nature of large parts of the areas where mining activity occurs, conflict with local communities over access to water resources is common. The nomadic nature of many remote communities and uncertainties over land entitlement, land access and surface rights also create constant issues for mining companies. For example, the local population in Arequipa, an agricultural area of Peru, have challenged the development of the Tia Maria project for many years. Seven people have lost their lives in pursuing that challenge.

A recent related issue has been the loss of life and the impact on local economic activity arising out of the failure of tailings dams. While mining is at times both a dangerous and environmentally contentious activity, the Latin America region seems to have had more than its fair share of disastrous events in recent times. Two relatively recent tailings dam collapses in Brazil—the Mariana dam in 2015 and the Brumadinho dam in 2019—have attracted possibly the most attention given the significant loss of lives

(19 and 270, respectively). The impact of increased mining activity in the Amazon rain forest is also attracting much attention. Many of these issues are viewed through the prism of perceived lax controls and ineffective government regulation.

Concluding Thoughts

First and foremost, Latin America hosts significant quantities of minerals and related resources. As such, and notwithstanding perceived regulatory, political and environmental issues, the continent is always going to remain under active consideration for investment by those active in the international resources sector.

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