

Coronavirus, Mining and Latin America: A Baseless “Race to the Bottom”

Carlos Monge

Key messages

- Mining companies are asking governments to make consultation and environmental procedures more flexible to mitigate production risks and attract new investments. However, there is no real reason for slacken regulations in order to promote mining in Latin America. Conversely, the region should strengthen these standards to prepare for a possible new mining cycle fueled by the transition to clean energy.
- In the event of a new mining cycle, governments should safeguard against overreliance on commodity exports and the use of fossil fuels. Instead, governments and companies should explore ways in which the mining sector can contribute to economic diversifications and energy transitions.
- Demand and prices for minerals produced in the region have fallen as a result of the global recession. Logistical issues resultant from pandemic-related lockdowns have slowed internal production. Consequently, mining taxes and royalties will likely fall this year.
- Prices have not fallen enough to threaten the commercial feasibility of current projects, the global investment budget remains robust, and the region is attractive to mining investors. Furthermore, the global transition to clean and sustainable energies will most probably increase the demand and prices for the critical minerals (copper, silver, lithium and others) produced in the region.

INTRODUCTION

On 3 April 2020, a group of important Colombian business leaders, including Juan Camilo Nariño Alcocer, president of the Colombian Mining Association (ACM) and director of corporate affairs at AngloGold Ashanti, sent a letter to President Ivan Duque proposing measures that the Colombian government should take “to prevent real economic activity from falling drastically and persistently, affecting the productive apparatus, aggravating the situation of the most vulnerable sectors of the population and generating social and political instability.”¹

Soon after, ACM made its own point of view public, focusing its demands on simplifying environmental consultations and licenses to “capture most of this reduced investment in mining resources for the development of regions and the country, for which it is necessary to work on the various axes that are required to improve attracting investment in mining, to bring the economy back together.”²

1 “Empresarios piden simplificar la licencia ambiental y consulta previa,” *El Tiempo*, 10 April 2020, www.eltiempo.com/vida/medio-ambiente/cuarentena-empresarios-piden-simplificar-licencia-ambiental-y-consulta-previa-482604.

2 *La minería en tiempos de COVID/19 y su papel en la reactivación económica* (ACM, 2020), acmineria.com.co/acm/wp-content/uploads/2020/04/Mineria-Covid19.pdf.

These proposals are a good example of a “race to the bottom,” a set of misguided policies designed to maintain the competitiveness of a country’s productive sector and to attract new investments, including measures such as making the labor market more flexible and liberalized, allowing even hourly hiring; suspend contributions to compensation funds; abbreviated procedures for issues that “now stop development” such as royalties, prior consultation and environmental licensing, tax reduction on businesses and natural persons, among others.³

A forthcoming NRGi briefing will discuss ongoing negotiations between business leaders and the governments of Colombia, Mexico and Peru. The Natural Resource Governance Institute (NRGI) has also produced country-by-country analysis of the coronavirus pandemic’s impact on the extractive sectors of Mexico, Colombia and Peru.⁴

The question at the center of the debate is whether race-to-the-bottom type policies are necessary for these countries’ extractive sector to remain competitive and attract new investment.

PRODUCTION COSTS AND PRICES OF MINERALS IN THE LATIN AMERICA REGION

Except in the case of copper production in Panama, the current international prices for minerals are not below or near production costs. Copper prices for all countries are listed in table 1 and information on other relevant minerals in Peru and Colombia are in the subsequent tables.⁵ The annex to this report contains further details for each country’s mineral prices.

- 3 José de Echave in Juan Luis Dammert and Javier Arellano Yaguas, *Carrera hacia el fondo, Gobernanza de las Industrias Extractivas en América Latina Material de capacitación introductorio* (NRGI, 2020), resourcegovernance.org/sites/default/files/documents/gobernanza-de-las-industrias-extractivas-en-america-latina-introductorio.pdf.
- 4 Juan Luis Dammert, “¿Una nueva carrera hacia el fondo? Desafíos de gobernanza para el sector minero en América Latina en tiempos de COVID-19,” 11 June 2020, resourcegovernance.org/sites/default/files/documents/desafios_de_gobernanza_minera_covid-19_-_documento_de_trabajo.pdf; Fernando Patzy and Juan Luis Dammert, “Colombia: evaluación inicial del impacto de la pandemia del coronavirus en el sector extractivo y la gobernanza de recursos,” 9 June 2020, resourcegovernance.org/sites/default/files/documents/colombia-evaluacion-inicial-del-impacto-de-la-pandemia-de-coronavirus-en-el-sector-extractivo.pdf; Alonso Hidalgo and Juan Luis Dammert, *Mexico: Initial Assessment of the Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance* (NRGI, 2020), resourcegovernance.org/sites/default/files/documents/mexico-assessment-of-the-impact-of-coronavirus-pandemic-on-the-extractive-sector-and-resource-governance.pdf; Claudia Viale, Lorena de la Puente and Juan Luis Dammert, *Perú, evaluación inicial del impacto de la pandemia de coronavirus en el sector extractivo y la gobernanza de recursos* (NRGI, 2020), resourcegovernance.org/sites/default/files/documents/peru-evaluacion-inicial-del-impacto-de-la-pandemia-de-coronavirus-en-el-sector-extractivo.pdf;
- 5 Source for all minerals except coal: S&P Global Market Intelligence; for coal cost of production: Pao-Yu Oei and Roman Mendelevitch, *Perspectives on Colombian coal exports on the international steam coal market until 2030*, Rosa-Luxemburg-Stiftung, Berlin, August 2016, www.rosalux.de/en/publication/id/9251/perspectives-on-colombian-coal/; and for coal prices in the global markets: World Bank, *Commodity Markets Outlook 2020* (April 2020), openknowledge.worldbank.org/handle/10986/33624.

Countries	Production cost (USD) Copper (lb)	International market prices (USD)					
		2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Mexico	1.22	2.37	2.55	2.77	2.92	3.00	3.15
Peru	1.23						
Chile	1.45						
Brazil	1.52						
Ecuador	1.56						
Bolivia	1.88						
Panama	2.88						

Table 1. Copper. Production cost by county and international market price

Peru	Production cost (USD)	International market prices (USD)					
		2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Copper (lb)	1.23	2.37	2.55	2.77	2.92	3.00	3.15
Gold (oz)	654.65	1,604.00	1,640.00	1,660.00	1,700.00	1,680.00	1,640.00
Lead (lb)	0.62	0.80	0.84	0.83	0.84	0.85	0.84
Zinc (lb)	69.15	0.88	0.85	0.88	0.92	0.98	1.02
Molybdenum (lb)	4.47	9.15	9.15	9.20	9.00	8.50	8.00
Silver (oz)	7.72	15.57	16.24	16.84	17.50	17.93	18.64

Table 2. Peru minerals. Production cost and international market price

Colombia	Production cost (USD)	International market prices (USD)					
		2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Nickel (lb)	3.92	5.42	5.80	6.00	6.35	6.65	7.15
Coal (TM)	40.00	65.00		68.00		67.00	

Table 3. Colombia minerals. Production cost and international market price

Current investments are facing a temporarily lower demand and prices, and therefore providing lower returns on investments. However, none of these countries are at risk of having their minerals become "stranded assets," (resources that have lost their value due to shifting global energy consumption).⁶

Businesses asking governments to ease environmental and social procedures have now focused on the need for greater investment in mining exploration. They have built a narrative that blames what they deem excessive procedures, particularly those related to consultations and environmental licenses, for the decline in investments in mining exploration in these countries.

6 NRG; Andrés Arroyo, "Estado de situación y perspectivas de los hidrocarburos en la región," in *La bonanza de los recursos naturales para el desarrollo* (United Nations Economic Commission for Latin America and the Caribbean, 2019), repositorio.cepal.org/handle/11362/33406; James Cust, David Manley, and Giorgia Cecchinato, *The unburnable wealth of nations: Successful action to address climate change would diminish the value of fossil fuel resources in many of the world's poorest countries* (IMF 2017), www.imf.org/external/pubs/ft/fandd/2017/03/cust.htm.

While in many cases it is true that mining companies face a complex, overlapping and sometimes even incoherent sets of regulations-as much as companies in other economic sectors and citizens in general- it is unclear whether these regulations actually affect mining investments in Latin American countries or if they are merely a pretext used by companies to argue for more favorable conditions.

As figure 1 shows, investments in exploration grew steadily between 2000 and 2012, during the super cycle of high demand and prices for minerals. When the cycle ended, these investments fell along with the fall in demand and prices. They recovered after 2016 and fell again in 2019. In short, what we see is a direct relation between the pace of global growth, demand and prices and investors' interest in mining exploration.⁷

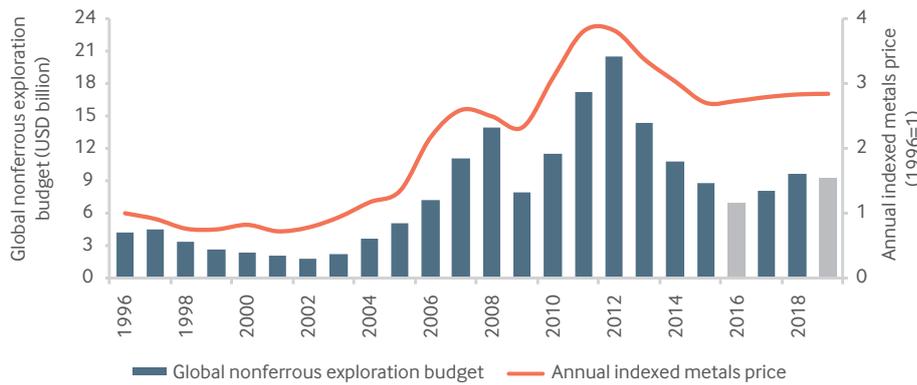


Figure 1. Global exploration budget, 1996-2019

Despite declining after their 2012 peak, exploration investments remained at higher levels than in the years prior to the super cycle, and higher even than in some years of the cycle itself. Latin American countries such as Chile, Peru, Mexico, Brazil, Argentina, Ecuador and Colombia are among those that were receiving the highest proportions of the world's investments in mining exploration before the crisis.⁸ They will surely fall now as a result of the crisis, but the eventual price and demand recovery will likely cause a recovery in mining exploration investment as well.

7 Luis Espejo, "El cobre y la inversión minera en un contexto de pandemia," *Cooperacion*, 2 April 2020, cooperacion.org.pe/el-cobre-y-la-inversion-minera-en-un-contexto-de-pandemia/.
 8 platform.mi.spglobal.com/web/client?auth=inherit&overridecdc=1&-industry/CommodityExplorationBudgetInPerspective

	Exploration budget (USD million)	Global budget share (percentage)	Company count (actual)
Australia	1,528.0	16.46	421
Canada	1,308.3	14.09	466
U.S.	944.8	10.18	223
Chile	653.5	7.04	76
Peru	549.4	5.92	80
Mexico	454.3	4.89	102
Russia	409.9	4.41	30
China	391.0	4.21	55
Brazil	261.6	2.82	39
Argentina	240.7	2.59	58
Ecuador	179.5	1.93	23
Dem. Rep. Congo	174.2	1.88	34
Burkina Faso	134.2	1.45	21
Colombia	110.0	1.18	24
Indonesia	109.4	1.18	18

Table 4. Exploration budgets in perspective (2019)

Although there are voices cautioning against exaggerated expectations,⁹ recent analyses of the demand for minerals needed for the generation, storage, transport and use of clean and sustainable energy speak of a substantive growth in demand for several of the minerals produced in Latin America, such as copper, iron, aluminum, zinc and lithium.¹⁰ This demand growth is expected to stimulate corresponding exploration for new reserves of these minerals.



Figure 2. Cumulative demand for minerals for energy technologies (without storage) through 2025 under three scenarios¹¹

9 Perrine Toledano, Martin Dietrich Brauch, Solina Kennedy and Howard Mann, *Don't Throw Caution to the Wind: In the green energy transition, not all critical minerals will be goldmines* (Columbia Center on Sustainable Investment, 2020), academiccommons.columbia.edu/doi/10.7916/d8-wjgr-kd02.

10 Kirsten Hund, Daniele La Porta, Thao P. Fabregas, Tim Laing and John Drexhage, *Climate – Smart Mining Facility, Minerals for Climate Action: The Mineral Intensity of the Clean Energy Transition* (World Bank, 2020), pubdocs.worldbank.org/en/961711588875536384/Minerals-for-Climate-Action-The-Mineral-Intensity-of-the-Clean-Energy-Transition.pdf.

11 Base scenario = 4-degree scenario, B2DS = beyond 2 degree scenario, IEA = International Energy Association, IRENA = International Renewable Energy Association, REmap = renewable energy roadmap scenario. Ibid.

CONCLUSION

In sum, demand and prices have fallen in the crisis, but the fall has not been significant enough to strand assets and a recovery is under way. Current projects continue to have lower production costs than sale prices in international markets, the overall budget for exploration investments remains relatively high and Latin American countries remain competitive in terms of their ability to attract investment. Moreover, the advancement of the global energy transition will surely stimulate this recovery and these investments.

Still, however, some companies may face short-term difficulties due to falling demand, prices and production challenges related to the internal and external shocks of the pandemic. As such, it may be reasonable for companies to ask for temporary measures, such as deferment of taxes or royalties for a few months. However, their demands for lower standards or permanent easing of environmental, social or fiscal procedures in the mining sector are not justified.

On the contrary, since demand and prices for Latin American minerals are likely to recover due to the transition to a clean and sustainable energy matrix, governments should instead strengthen these standards and procedures to ensure that Latin American countries do not become “areas of slaughter,” to justify the global need to curb global warming.

Finally, in addition to maintaining governance of the sector, countries should prepare themselves to effectively govern increased mining activity so that the sector contributes to environmental sustainability and socially inclusive diversification, instead of deepening our condition of commodity-led export economies highly dependent on volatile markets and concentrating productive job growth in limited sectors of the economy.

ABOUT THE AUTHOR

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ANNEX. COST OF MINERAL PRODUCTION BY COUNTRY AND PROJECTED PRICES IN THE GLOBAL MARKET

Countries	Cost (USD)	Price (USD)					
	Gold (oz)	2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Panama	257.35	1,604.00	1,640.00	1,660.00	1,700.00	1,680.00	1,640.00
Argentina	475.31						
Dominican Republic	529.85						
Bolivia	547.20						
Chile	653.99						
Peru	654.65						
Ecuador	685.03						
Suriname	692.83						
Brazil	701.26						
Mexico	769.04						
Nicaragua	832.90						
Honduras	1,009.58						

Table 5. Gold. Cost by country and projected global market prices

Countries	Cost (USD)	Price (USD)					
	Lead (lb)	2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Argentina	0.50	0.80	0.84	0.83	0.84	0.85	0.84
Peru	0.62						
Mexico	0.64						
Bolivia	0.65						
Honduras	0.84						

Table 6. Lead. Cost by country and projected global market prices

Countries	Cost (USD)	Price (USD)					
	Zinc (lb)	2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Brazil	0.48	0.88	0.85	0.88	0.92	0.98	1.02
Peru	0.69						
Argentina	0.70						
Mexico	0.87						
Bolivia	0.89						
Honduras	1.11						

Table 7. Zinc. Cost by country and projected global market prices

Countries	Cost (USD)	Price (USD)					
	Nickel (lb)	2020-I	2020-II	2021-I	2021-II	2022-I	2022-II
Cuba	3.37	5.42	5.80	6.00	6.35	6.65	7.15
Brazil	3.64						
Colombia	3.92						

Table 8. Nickel. Cost by country and projected global market prices

Countries	Cost (USD)	Price (USD)					
	Molybdenum (lb)	2020-I	2020-II	2020-III	2020-IV	2022-I	2022-II
Peru	4.47	9.15	9.15	9.20	9.00	8.50	8.00
Mexico	4.82						
Chile	5.78						
Panama	7.29						

Table 9. Molybdenum. Cost by country and projected global market prices

Countries	Cost (USD)	Price (USD)					
	Silver (oz)	2020-I	2020-II	2020-III	2020-IV	2022-I	2022-II
Argentina	7.44	15.57	16.24	16.84	17.50	17.93	18.64
Bolivia	10.26						
Brazil	10.79						
Chile	8.76						
Dominican Republic	5.12						
Mexico	8.82						
Peru	7.72						

Table 10. Silver. Cost by country and projected global market prices