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FEATURED Q&A

Does Colombia's Mining Future Lie in Metals Output?



Colombia's mining minister has said metals, not coal, will be key to the country's mining sector. A project of Gran Colombia Gold is pictured above. // File Photo: Gran Colombia Gold.

Q Colombian Mines and Energy Minister Diego Mesa this month said the country's mining future lies in metals and not coal, citing the coronavirus pandemic as intensifying longstanding problems in the coal industry. What issues has Colombia's coal sector been facing, and how have its problems gotten worse? To what extent should the coal-exporting nation increase its focus on metals? What can Colombia do to ensure that the exploitation of metals including gold, copper and nickel is done in the most responsible ways possible?

A Karla Schiaffino, senior analyst of Latin America insights at Verisk Maplecroft: "Colombia remains heavily dependent on the mining sector—worth about 2 percent of GDP and 10 percent of fiscal revenues—with the authorities recently resuming a push for diversification of the mineral matrix. President Iván Duque sees mining as one of the engines of economic recovery in 2021. Notwithstanding a relatively stable regulatory framework, mining companies face significant challenges to their social license to operate (SLO). Community rejection of projects has not only triggered disruptive unrest, but also persistent legal challenges. Despite an October 2018 Constitutional Court ruling that local referendums cannot stop energy projects, continued complaints about the potential environmental and social impacts of mining have resulted in adverse judicial decisions, exacerbating uncertainty for operators. Recently, the Senate asked the Duque government to ensure the protection of the Santurbán wetland and prevent the development of a large-scale gold project in the area. The Covid-19

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TODAY'S NEWS

POLITICAL

Nicaraguan Lawmakers Approve 'Foreign Agents' Measure

Nicaragua's National Assembly, which is controlled by President Daniel Ortega's Sandinista Party, approved controversial legislation requiring citizens working for foreign-based companies to register as foreign agents.

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ECONOMIC

Fitch Downgrades Ratings for Chile

Fitch Ratings downgraded its ratings for Chile, citing weakening public finances amid pressure to increase social spending in the country.

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POLITICAL

Former Mexican Defense Minister Arrested in U.S.

Former Mexican Defense Minister Gen. Salvador Cienfuegos was arrested after arriving at Los Angeles International Airport, reportedly on drug trafficking and money laundering charges.

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Cienfuegos // File Photo: Mexican Government.

POLITICAL NEWS

Nicaragua Assembly Passes Law Criticized as Restricting Speech

Nicaragua's National Assembly, which is controlled by President Daniel Ortega's Sandinista Party, on Thursday approved controversial legislation that critics say would clamp down on journalists, restricting freedom of the press and expression, the Associated Press reported. The legislation, which passed by a wide margin, would require Nicaraguan citizens working for "governments, companies, foundations or foreign organizations" to register as foreign agents with the Interior Ministry, the wire service reported. People subject to the law would have to report their monthly income and spending and also provide advance notice about what the foreign income is spent on. Anyone who does not comply would be subject to sanctions. Nicaraguans who are registered as foreign agents would be prohibited from activity to "finance or promote the financing of any type of organization, movement, political party, coalition or political alliance or association" that is involved in the political affairs of Nicaragua. The measure also appears to bar people registered as foreign agents from running for office in the Central American country, which has elections scheduled for next year. Included in the law are exceptions for retirees, Nicaraguans who receive money from relatives abroad, as well as businesspeople, supermarkets and factories that foreign companies run. Additionally, there are exceptions for intergovernmental humanitarian organizations, accredited religious groups, international cooperation organizations and international media outlets that have correspondents in Nicaragua, the AP reported. The exception for the international media organizations was not part of the original draft legislation, leading to international criticism. Despite the inclusion of that exception, the approved legislation says that people who receive exemptions cannot participate in activities that interfere in Nicaragua's affairs. Last week, the Euro-

pean Parliament overwhelmingly approved a resolution that threatened to impose sanctions on Nicaragua's government if it proceeded with the legislation. Before the vote on Thursday, the General Secretariat of the Organization of American States issued a statement condemning "the persistent human rights violations that occur in Nicaragua." The statement said there are 113 political prisoners in Nicaragua who have been on a hunger strike for 14 days. "In protest of their situation, political prisoners have sewn their lips shut and have discussed taking the measure of stitching up their eyelids as well," the OAS said in the statement. "This situation is intolerable and inhumane. All have been publicly presented as criminals and have not had access to a fair judicial process, thus violating the principle of the presumption of innocence and all their fundamental freedoms." [Editor's note: See [Q&A](#) on U.S.-Nicaragua relations in the Sept. 25 issue of the Advisor.]

Ex-Mexican Defense Minister Arrested in U.S. on Drug Charges

Former Mexican Defense Minister Gen. Salvador Cienfuegos, who led the country's military for six years under then-President Enrique Peña Nieto, was arrested at Los Angeles International Airport, Mexican Foreign Minister Marcelo Ebrard said Thursday in a posting on Twitter. "The consul in Los Angeles will be informing me of the charges in the next few hours. We will offer the consular assistance to which he is entitled," said Ebrard, who added that the U.S. ambassador to Mexico, Christopher Landau, had informed him of the arrest. Two people with knowledge of the matter told the Associated Press that Cienfuegos was detained on a warrant from the U.S. Drug Enforcement Administration, and one of the people told the wire service that the warrant was related to drug trafficking and money laundering charges. Both were unnamed because they did not have authorization to publicly discuss the case. The DEA declined a request for comment by the AP late Thursday. Cienfuegos was arrested when he arrived at the airport with family members,

NEWS BRIEFS

Bolivians Head to Polls Sunday in Redo of Disputed 2019 Vote

Bolivians head to the polls Sunday in a redo of the country's disputed 2019 presidential election, which was marred by claims of fraud and resulted in the resignation and self-exile of longtime President Evo Morales. Leading the race are former Economy Minister Luis Arce of Morales' leftist MAS party and centrist former President Carlos Mesa. Most polls show Arce in the lead, but not with enough support to avoid a runoff in November. [Editor's note: See related [Q&A](#) in the Oct. 5 issue of the Advisor.]

Herrera Expected to Prioritize Poor Countries in IMF, World Bank Role

Mexican Finance Minister Arturo Herrera is expected to assume a new role as president of the board of governors for the International Monetary Fund and the World Bank next year, in which he would prioritize poorer countries struggling amid the coronavirus pandemic, Herrera's office said Thursday, Reuters reported. The World Bank has already approved his appointment, while the IMF is scheduled to finalize the process early next month, according to the report.

Chile's Codelco Resumes Normal Operations

Chilean state-run copper miner Codelco has restarted operations normally again following several months of turbulence due to Covid-19, chief executive officer Octavio Araneda said on Thursday, Reuters reported. Araneda added that the company is aiming to still meet its annual production targets. Codelco had to cut its work force, adjust shift schedules and pause expansion projects in March, when the novel coronavirus hit the Andean nation. Even with restrictions, the company's production grew 4.7 percent in the first half of the year.

a senior Mexican official told the AP. He was taken to the Metropolitan Detention Center, and his family members were released, the wire service reported. Cienfuegos, 72, was Mexico's defense minister from 2012 to 2018. He is the country's highest-ranking former cabinet official to have been arrested since former Secretary of Public Security Genaro García Luna was arrested in Texas last year. He has pleaded not guilty to drug trafficking charges.

ECONOMIC NEWS

Fitch Downgrades Chile's Ratings

Fitch Ratings on Thursday downgraded Chile's long-term foreign currency issuer default rating to A- from A and revised its outlook to stable from negative. Additionally, the credit ratings agency lowered Chile's long-term local currency to A- from A+ and revised its outlook to stable from negative. Fitch said in a statement that the downgrade is due to the "weakening of public finances in the wake of secular pressures to increase social spending" following the nationwide protests that started in October of last year and which have been exacerbated by the economic situation brought by the Covid-19 pandemic this year. The agency said it expects the government debt burden to continue to rise over the medium term, citing Chile's lower trend growth prospects and difficulties in consolidating fiscal accounts given "a heavy political calendar and social pressures." However, the stable outlook reflects the country's "credible macroeconomic framework" and "still-low" government debt burden, relative to other countries with A ratings. Earlier this month, the International Monetary Fund revised its economic forecasts for the region, with Chile's economy expected to contract 6 percent this year, less than the 7.5 percent contraction the IMF had predicted in June, *Diario Financiero* reported. The IMF expects the South American economy to grow negative 9.5 percent this year, with Venezuela, Peru and Argentina taking the biggest hits.

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pandemic has further hindered mining development. For example, coal production and exports have fallen by 50 percent in 2020, weighing on the country's deteriorating finances. Notably, the pandemic has exacerbated the country's social tensions, which will likely feed community mistrust of mining. In our view, to promote the industry, the Duque government will need to balance its investor-friendly offer (in terms of regulations and attractive fiscal terms) with efforts to improve transparency in the management and execution of mining revenues. It will also need to foster greater engagement between operators, communities and regional governments. Recent changes to the royalty system, allowing mines to assume more direct ownership of community development projects, are positive first steps."

A **Leni Berliner, president and CEO of Energy Farms International:** "The privatization of CarboCol in 2000, although done to encourage modernization and expansion of production, indicated some awareness that Colombia's future does not lie in coal production. Worldwide demand for and willingness to finance coal has slowed as it is increasingly understood that emissions from the mining, shipping and burning of coal are indeed bad for people and the planet. While Colombia could have a future in metal mining, exploration drives mining investment, and Colombian exploration has been underinvested for decades due to violence. It has picked up with the participation of Canadian and Chinese companies, which are presently exploring under Covid-19 procedures promulgated in April. Private Canadian companies in Colombia are producing; they have proven and probable reserves of gold and copper and appear to be good operators. They will need to extend mine life in order to continue. While mining education opportunities in Colombia are good, Colombian towns have blocked new coal and gold mining operations for several years. They seem not to

perceive the economic and social benefits that should outweigh any environmental damage, which can be avoided, mitigated and repaired. Artisanal miners should be further encouraged to regularize their oper-

“ Worldwide demand for and willingness to finance coal has slowed...”

– Leni Berliner

ations, so they contribute to the economy. Minister Mesa should coordinate with other ministries and their municipal counterparts to demonstrate the benefits of mining and encourage exploration in Colombia's mining reserve areas. Also, he should encourage Colombia's cement makers to adopt low-carbon production methods, so they remain competitive in world and national markets."

A **Ines Vesga, senior counsel at Holland & Knight:** "The international carbon market is facing a crisis resulting from, among other things, the fall in prices associated with the drop in consumption due to the effects of the pandemic and the difficulties in financing carbon-based projects due to the global trend toward lower emissions after the Paris Agreement. For example, in Colombia, no carbon-based generation project participated in the country's Reliability Charge (Cargo por Confiabilidad) auction carried out in 2019, because they could not obtain financing. Coal continues to be a product of great importance to the Colombian economy given its participation in exports, and mining production will continue to have a majority component of this mineral, as Colombian coal is high quality and highly appreciated in the international market for its calorific value. Moreover, metals are key components of the world's energy transition, since they provide the raw material for the technology

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used in generation and storage of solar and wind energy. This is the primary reason why metals are so important in the current market and why the Colombian government is interested in diversifying the mining basket to prepare for the future. The lessons from coal and gold mining can provide a basis for the government and regulators to demand the highest environmental and social responsibility standards in new projects. Controls have gradually been tightened to ensure responsible and sustainable exploitation, and similar controls should apply to any new mining operations.”

A **Marianna Boza, director of Brigard Urrutia in Bogotá:**
“Colombia already enjoys a very robust legal, environmental and technical framework and industry standards to carry out mining in a reliable and sustainable way. However, assuring that the relevant government authorities act in a coordinated matter by seeking the country’s interest is a task that Colombia needs to do. Likewise, reinforcing the knowledge and understanding of the sector—in particular mining operations—by the authorities that analyze and oversee the activity is a must, as is setting clear guidelines in citizen participation and territorial coordination. The

mining diversification that results in a complete transition from coal mining to metal mining is still vague and depends on several factors, mainly on the behavior of international coal markets and Colombia’s energy matrix transition to sources other than coal

“**Metals are used for the energy transition that the country is seeking to reach and that the world is demanding...**”

— Marianna Boza

power generation. However, the development of metals mining in Colombia will guarantee self-sufficiency, jobs, royalties that translate into regional developments and investments that will result in progress. In addition, metals are used for the energy transition that the country is seeking to reach and that the world is demanding. Colombia is ready to start industrial metal mining.”

The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at gene.kuleta@thedialogue.org.

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Advisor Video

The ‘Brussels Effect’ in Latin America

A Latin America Advisor interview with Ana Heeren, senior managing director at FTI Consulting

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