



Americas
Market
Intelligence

Managing mining risk in Latin America



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About AMI



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AMI is Latin America's leading independent market intelligence consultancy



02

Our founding partners helped pioneer the field of market intelligence in Latin America



03

Our consultants have advised a third of the region's 100 largest strategic investors over a span of two decades



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AMI consultants have conducted over 2,500 client engagements in Latin America since 1993



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Our holistic approach to market intelligence is unique. We combine market research, competitive intelligence, political analysis and economic forecasting in our studies. Few others do the same in Latin America

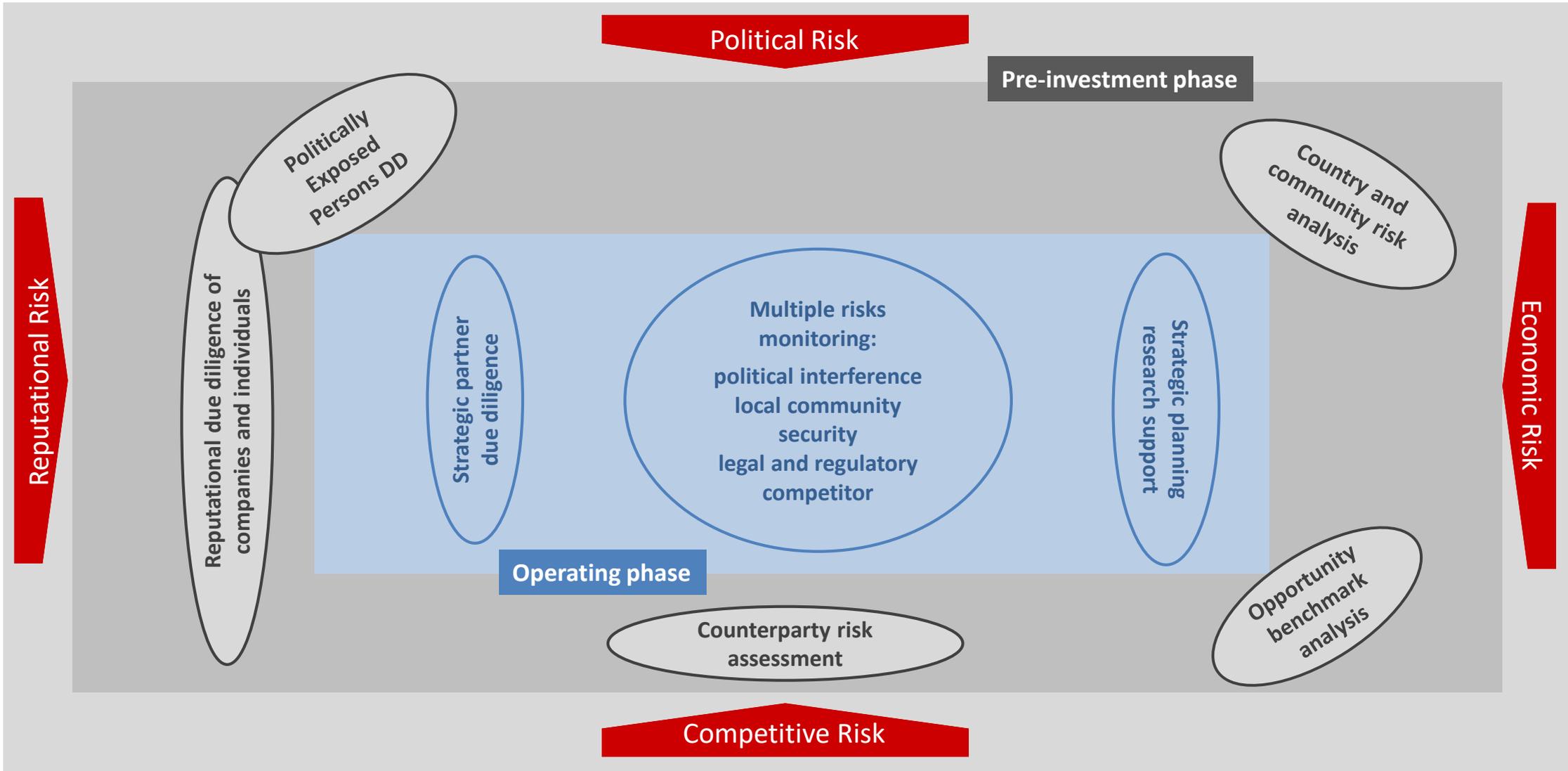


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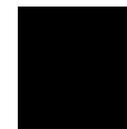
How AMI supports natural resources and infrastructure investors



Managing LTO (license-to-operate) mining risk in Latin America – best practices



Political Interference – definition and examples



Sub-risk areas

Political Ambition	Political Campaigns and Party Alliances	Local Political Power	International Interference	Nationalization / Expropriation
<p>Definition: Political actor putting his own ambition ahead of mining investments.</p> <p>Example: French Guianese mining regulations during the Hollande Presidency (Montebourg, Royal, Hulot, Macron).</p>	<p>Definition: Aligning with anti-mining interests to get elected.</p> <p>Example: Guillermo Lasso allying with indigenous groups in 2017 elections. Evo Morales campaign platform (Bolivia).</p>	<p>Definition: Federal government approves project but it is then challenged by local political agenda.</p> <p>Example: A coalition of local interests (formal and criminal) organised a referendum which halted AngloGold Ashanti La Colosa Mine in Colombia.</p>	<p>Definition: Border dispute or global international regime (such as ILO 169)</p> <p>Example: Ruling of the Guatemalan court on the ILO 169 Convention “Indigenous and Tribal People” application to the Tahoe Escobal Silver mine.</p>	<p>Definition: Expropriation of property or cancellation of operating license.</p> <p>Example: Six years long litigation procedure for Crystallex after its expropriation by the Venezuelan government (\$1.2 Bn settlement).</p>



Party alliances & Campaigns

- Guillermo Lasso, a pro-business, center-right candidate allied with indigenous groups and NGOs in the hopes of getting elected (2017). These groups, upset with Alianza Pais (Pres. Correa), were willing to support the opposition and bargained their support in exchange for restrictive mining regulations.
- President Moreno (Alianza Pais) supports mining but added a vaguely worded anti-mining question to his Feb '18 referendum to placate indigenous leaders.

Mitigation strategies:

- Maintain good relations with all major political parties regardless of their stance on investment and mining.
- Bring in local investors with ties to said parties to help gain local leverage, if needed.
- Develop strong ties and collaboration with high profile economic/social leader serving as advocate
- Ensure regular communication with local stakeholders



Economic Pressure – definitions & examples



Sub-risk areas

Rising resource prices

Definition:

High resource prices can trigger public and political outcry for higher royalties

Example:

Dominican Republic – President Danilo Medina elected in 2012 inherited a deficit in a time of high gold prices and pressed to renegotiate with Barrick their contract.

Absence of Local Funding options

Definition:

Absence of or underdeveloped local capital markets and private investors.

Example:

All three Guianas lack local funding options, which restricts international miner's ability to develop local political leverage.

Capital Controls

Definition:

The introduction of capital controls can render a mining project unviable.

Example:

Before security and expropriation threatened mining investment in Venezuela, F/X restrictions made projects untenable.

Currency Manipulation

Definition:

Propping up a domestic currency in order to stem capital flow or curb inflation.

Example:

A pegged currency in Suriname cost the country dearly and raised operating costs. In 2016, the currency was floated, triggering massive inflation.

External debt & creditor influence

Definition:

High foreign debt obligations to one creditor country exposes a country to external influence.

Example:

China is the largest bi-lateral lender in LAC. Chinese interests wield significant influence in Ecuador, Suriname, and Venezuela, among other mining jurisdictions.



Fiscal pressure

- Former President Ollanta Humala was elected in 2011 during a period of record mineral prices, especially gold.
- Originating from Peru's sierra, the heartland of mining, Humala targeted mining companies and proposed higher royalties during his campaign.
- Mining investment plans were placed on hold as the industry braced for much higher royalties via a windfall tax.



Mitigation strategy:

- Mining companies banded together in a *gremio* to preempt highly politicized negotiations.
- The miners proposed a new windfall tax on increased profits before the government could publicize its policy to raise royalties on sales. The strategy worked.

Local Community Opposition – definitions & examples



Sub risk categories

Legacy of Bad Mining practices	Overlapping economic activity	Local Procurement	Illegal Mining Interests	Environmental Concerns	Indigenous Claims
<p>Definition: Historically unscrupulous mining practices can turn a local community into permanent sceptics</p> <p>Example: Anglo-American Minas-Rio property in Brazil penalized by practices under previous ownership (Eike Batista), corruption and disinformation.</p>	<p>Definition: Neighbouring industries competing for resources (water, power) and political leverage</p> <p>Example: Guyana Goldfield's agreement with loggers to use/maintain infrastructure (positive), conflicts in Colombia with flower/rice industry over water use (negative)</p>	<p>Definition: The community demands that the mine source more of its product and service needs locally</p> <p>Example: Procurement policy set by Lundin Gold in Ecuador (Fruta del Norte). Catering service received United Nations Global Compact Best Practice Award.</p>	<p>Definition: Illegal miners use money and threats to convince local leaders to oppose industrial mining.</p> <p>Example: In Suriname and Ecuador, cooperation adapted to political/social context. In Mexico and Colombia, criminalization of illegal mining demands firm answers and protocols</p>	<p>Definition: Concerns of locals over the impact of a mine on their water, on pristine wilderness – which may generate tourism</p> <p>Example: Colombia's prohibition of mining in Paramo region (as opposed to Ecuador). Presidential candidates' populist call for ban ahead of elections.</p>	<p>Definition: Opposition from local indigenous communities to protect territory, resource or ancestral rites & rituals.</p> <p>Example: Manhattan Minerals dispute over watershed in the region of Tambogrande (Peru) as opposed to issue of land, political representation in Amapa and Para</p>

Local Community Opposition – case study – Gran Colombia Gold



Illegal mining

- To prevent the penetration of illegal miners onto its property, Gran Colombia Gold helped authorities crack down on an illegal explosives trafficking ring.
- Illegal miners retaliated by blocking the mine and locking down two mining towns for 42 days with the help of local criminal groups linked to cartels.
- The conflict gained national and international press coverage, damaging the miner's reputation.

Mitigation strategies:

- A compromise was found by incorporating additional small mining collectives into the Gran Colombia Gold contract mining model.
- Artisanal miners were allowed to operate within the company's mining title in accordance with the government's requirements for health, safety and environmental responsibility.
- The company retains between 10% and 60% of the spot price for each ounce of gold produced.

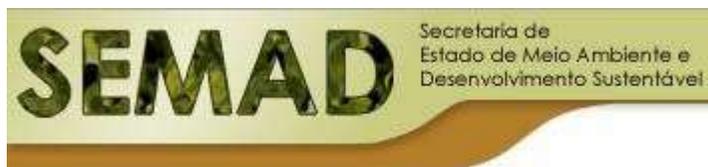


Regulatory & Legal – definitions & examples



Sub risk categories

Fiscal Regime and Revenue Distribution	Weak Regulatory Framework	Required environmental assessment	Red Tape	Land and mineral rights	Corrupted Rule of Law
<p>Definition: How miners are taxed and the re-distribution of royalties to state and municipal levels.</p>	<p>Definition: Under defined regulations can lead to sloppy mining practices and reputational damage.</p>	<p>Definition: Onerous environmental assessments can delay or jeopardize projects.</p>	<p>Definition: Bureaucratic red tape around permitting can delay projects by months, even years.</p>	<p>Definition: Competing land and mineral claims can risk the legal viability of a mine.</p>	<p>Definition: Powerful opponents (e.g. political leaders, agro-industry, litigators) bribe judges to interpret laws in their favour.</p>
<p>Example: Colombia – rewrote royalty distribution laws, effectively diluting the impact on local mining communities by up to 80%.</p>	<p>Example: Guyana – local regulators lean on miners to tell them what to do. Miners choose limited regulations. Can lead to accidents and reputational risk.</p>	<p>Example: Fr. Guiana – IamGold lost its license in 5 out of 6 concessions because their environmental assessment reporting was not accepted by French authorities.</p>	<p>Example: A problem across the region, driven by both lacking government resources and professionalism.</p>	<p>Example: Crystallex in Venezuela, a project with a history of competing land claims from previous miners.</p>	<p>Example: Ecuador Chevron case.</p>



Red tape - brazil

- State level regulators lack the resources to keep up with requests by mining companies for permits. Regulatory ambiguity leads to many questions posed by miners for regulator clarity and answers.
- Under Brazilian law, regulators are obliged to answer officially requested questions within 30 days and issue decisions on permits within a fixed time frame.
- Senior regulators are fearful of signing permits and other certificates because they may be cited in a future law suit.

Mitigation

- Brazil's judicial system (in some, not all states) operates relatively independently from political interference.
- In those states, miners will sue regulators that do not comply with the 30 day response rule. A law suit also obliges the regulator to sign the petition or certificate.
- Some state regulators receive over 20 law suits per month.

Reputation – definitions & examples



Sub risk categories

Environmental Concerns

Definition:

Environmental degradation from mining that damages corporate reputation

Example:

Veladero (Argentina) and Pascua Lama (Chile).

Indigenous rights

Definition:

Perceived trampling of indigenous land access or rituals can lead to uprising and protests picked up by media.

Example:

In Ecuador, the Chinese company Ecuacorriente broke away from existing CSR practices towards the Shuar community.

Worker Safety

Definition:

Lack of protocols and/or training can lead to miner deaths and reputational damage

Example:

33 miners were trapped at the Copiaco mine operated by San Esteban Mining. Codelco took over rescue operations, preventing further reputational damage

Unscrupulous press

Definition:

Journalists attempting to extort monies from miners or paid by opponents to target a miner.

Example:

Such journalists are found across the region.

International Scrutiny

Definition:

Pressure from the international community to adopt sustainable extractive practices.

Example:

Guyana receives \$50 mil annually from Norway to prevent deforestation.

Illegal Mining practices and policing

Definition:

Illegal mining impact on environment and criminalization. Violent crackdown from authorities.

Example:

In Venezuela, soldiers clashed with illegal miners leaving 18 dead. In Colombia, gold mining is synonymous with contamination, money laundering and criminality.

Reputation – case study – Ecuacorriente (Ecuador)



Indigenous opposition – Shuar people in Ecuador

- After taking over the Mirador mine in Morona Santiago (Ecuador), the Chinese company Ecuacorriente ignored the concerns of the local community and provided no funding for CSR activities.
- Previously established land usage protocols for the Shuar people were denied by Ecuacorriente.
- The ensuing indigenous uprising led to a state of emergency and a deep blow to the reputation of Chinese companies in the country.

Mitigation strategies:

- Begin by opening dialogue with local players, including indigenous groups. Regularly survey their opinions.
- Do not assume what is important to one local group is a priority for all.
- Tailor CSR to local needs – do not simply import “best” practices from other mines and jurisdictions.



Ecuacorriente S.A.



Safety & Security – definitions & examples



Sub risk categories

Organized Crime	Illegal Mining Interests	Guerillas, Civil Warfare	Kidnapping	Acts of god
<p>Definition: Organized criminal groups target mining operations to extort monies or drive them away.</p> <p>Example: Venezuela – in Bolivar state, illegal miners backed by organized gangs have militarily resisted attempts by the army to regain control of some of the world’s largest proven gold fields.</p>	<p>Definition: Illegal miners encroach on mining concessions, steal equipment and may turn to violence.</p> <p>Example: Guyana – Pork knockers are known to disrespect mining concession boundaries and poach gold deposits in shallow fields.</p>	<p>Definition: Civil war can cut access to mines. Guerillas may target miners for extortion or resort to illegal mining.</p> <p>Example: Colombia – despite the peace agreement, portions of Colombia remain hazardous to miners.</p>	<p>Definition: Criminal groups may target foreign mining execs who carry kidnapping insurance.</p> <p>Example: Colombia, Mexico, Brazil</p>	<p>Definition: Earthquakes, mud slides, hurricanes and pandemics can disrupt mines, threaten workers.</p> <p>Example: Most LatAm mining jurisdictions face some natural disaster threats.</p>

Safety & Security – case study – Guerrero state (Mexico)



Guerrero, Mexico – organized crime

- Guerrero ranks last (of 32 Mexican states) in terms of policing corruption and one of the worst in terms of homicide.
- Guerreros Unidos (GU) is the largest (of hundreds) of criminal groups operating in Guerrero. GU is a major poppy-seed producer who supplies the Sinaloa cartel.
- CTM (Mexico umbrella union) used to serve the interests of the PRI, but that financial link ended in 2000 when the PAN won elections. In Guerrero, CTM is believed to collude with the Guerrero Unidos.
- Municipal and state police under GU control. Federal police are gun shy in an election year, especially after the Iguala massacre.
- Guerrero Unidos conflicts with mining interests because they compete for workers, GU supports illegal mining and steals cargo entering and leaving mines. CTM (in Guerrero) is thought to collude with GU.

Mitigation

- Understand the security landscape and the motivations and alliances of acting players before investing.
- In compromised security environments, rely on a private (non-local) security force and monitor them.
- Be public about security concerns to pressure national policing support
- Build alliances with other large employers who share security concerns

Infrastructure & Labor – definitions & examples



Sub risk categories

Access to Low Cost Power and Water Supply

Definition:

Access to reliable and competitively priced sources of energy and water.

Example:

Thermosolar plant in G. Mistral mine in Chile replaced 80% of diesel. Antofagasta Minerals' Los Pelambres copper mine receives 20% of its power from 50 wind turbines.

Road and Rail Connectivity

Definition:

Infrastructure to move cargo and people in and out of the mine.

Example:

In French Guiana, road building became so bureaucratic and litigious that some miners cancelled their investment plans.

Port Efficiency

Definition:

Ports may lack efficiency due to corruption, security breaches, import red-tape and high tariffs.

Example:

In Brazil, miners have to operate their own portal structure to avoid Rio de Janeiro controlled by criminal groups.

Labor availability

Definition:

Lack of trained employees. Salary inflation. HR processes needed to avoid theft.

Example:

There is a shortage of trained miners in many jurisdictions, including Ecuador, Fr. Guiana, Dom. Rep.,

Limited Service companies ecosystem

Definition:

Lack of local suppliers raises operating costs, and can lead to friction with local community.

Example:

In all three Guianas, this is an acute problem.

Unionization

Definition:

Unions demanding higher wages or blocking mines at times with support of criminal groups.

Example:

Torex mine in Guerrero state (Mexico) paralyzed by union stand off.

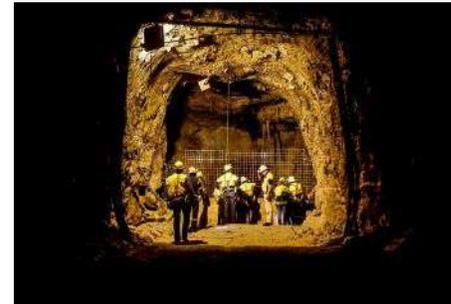


Newmont – Fr. Guiana training programs

- French Guiana has high gold potential but no industrial mining history.
- Newmont and Columbus Gold own promising concessions.
- However, there are no technical universities to train a mining workforce.
- Moreover French Guiana is a costly and bureaucratic French territory unlikely to quickly create a state-financed technical college program.

Mitigation

- Newmont partnered with French local development agencies to sponsor a program that trains French Guianese informal miners on modern mining techniques.
- French subsidies designed to reduce unemployment in the territory helped pay for the program.
- The training helped strengthen Newmont's labor pool, its government relations and its local public image.



Keeping in touch



Let's meet in person

Monday, March 5 –
Friday, March 9



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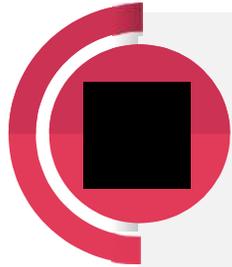
Mexico – CDMX, Guadalajara, Monterrey	Peru – Lima, Arequipa	Ecuador – Quito, Guayaquil, Cuenca	Colombia – Bogota, Medellin, Cali	Brazil – Sao Paulo, Brasilia, Belo Horizonte
Argentina – Buenos Aires	Guyana – Georgetown	Chile – Santiago	Suriname – Paramaribo	Fr. Guyana – Cayenne
Nicaragua – Managua	Venezuela – Caracas	DR – Santo Domingo	Cuba – Havana	Panama – Panama City



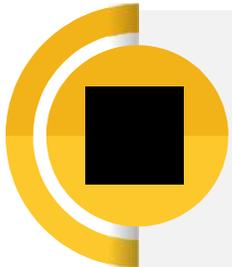
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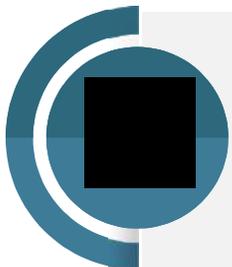
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Questions and answers



10-15 minutes answering your questions



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