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THEDIALOGUE

FEATURED Q&A

Is Chile Taking the Right Approach to Mining Royalties?

The lower house of Chile's Congress last week approved hiking mining royalties, and the Senate is now considering the measure. Antofagasta's Los Pelambres Mine is pictured. // File Photo: Antofagasta.

Q Chile's government will oppose legislation currently under debate that would increase royalties on miners of copper and lithium, the country's mining minister said April 12. Leftist lawmakers say higher royalties in the sector are needed to help pay for social programs and stimulus measures amid the Covid-19 pandemic. How likely is Chile to raise such royalties, and why does the government oppose the proposal? How would increasing royalties now affect future investment in Chile's mining sector? How much will higher copper prices speed Chile's economic recovery from the pandemic?

A Sergio Bitar, nonresident senior fellow at the Inter-American Dialogue and former Chilean minister of mining, education and public works: "Why a royalty? The pandemic and rising inequality require new tax revenues in Latin America. In the case of Chile, the proposals point to two sources: a royalty on copper mining and new tax revenues from the elimination of franchises, by reducing evasion and avoidance, and by taxing the 'super rich.' The hike in copper prices (already at 4.5 U.S. cents per pound) has increased pressure to raise the state's share in the profits of private mining companies. The Chamber of Deputies has approved a charge of 3 percent of the value of the minerals extracted. This would apply to companies that produce more than 12,000 tons per year of fine copper. What may happen? The Senate and the administration have come together to seek a compromise. It will not be easy. The government is weak, and it reacts late and badly.

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Brazil Justices Weigh in on Police Raids in Rio

Several justices from Brazil's Supreme Court want to review a ruling from last year that prohibited police raids in slums in Rio de Janeiro following one of the city's deadliest police operations ever.

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Fernández Seeks Paris Club Deal in 5-Day Europe Tour

Argentine President Alberto Fernández arrived in Portugal Sunday, the first stop in a five-day trip across Europe seeking support to delay a $2.4 billion payment to the Paris Club.

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POLITICAL

Colombia's Duque Orders Military to Streets of Cali

Colombian President Iván Duque on Sunday night ordered the nation's military to regain control of the public order in Cali, the capital of Valle del Cauca, where there were "serious clashes" between citizens throughout the weekend.

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Duque // File Photo: Colombian Government.

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POLITICAL NEWS

Colombian President Orders Military to Bring Order to Cali

Colombian President Iván Duque on Sunday night ordered the nation's military to regain control of the public order in Cali, the capital of Valle del Cauca, where there were "serious clashes" among citizens throughout the weekend, Semana reported. In a statement, Duque specifically ordered the defense department to dismantle blockades erected by protesters that "at this time are affecting the property, life [and] honor of many citizens and are affecting the fundamental right to mobility." "No more violence, no more provocations, no more blockades. The only thing that these situations generate is damage, it affects society," he added. At least six Indigenous protesters were shot Sunday when gunfire erupted from armed civilian groups at a barricade the group had erected blocking a highway exit, El Tiempo reported. Violent protests and street clashes have raged on for 10 days throughout Colombia, leaving at least 26 dead and more than 900 people injured, according the Associated Press, which cited figures from local officials and advocacy groups. In addition to Cali, where protesters have halted essential commerce such as food and fuel shipments, the protests have spread to other major cities. They started with demonstrations on April 28 protesting Duque's proposed tax hike, which critics say would raise the price of food and taxes for more middle-class workers. Duque soon withdrew the measure, but massive protests continued over other grievances. An abusive police response has drawn sharp international condemnation, including from members of the U.S. Congress, a key source of international funding for the Andean country. On Tuesday, U.S. State Department Deputy spokesperson Jalina Porter said the United States was "deeply saddened by the loss of life during protests" and defended Colombians' right to demonstrate. Local media reports over the weekend indicated that Foreign Minister Claudia Blum would be leaving her post within days over the controversy.

Brazil Justices Weigh in on Police Raids

Several justices from Brazil's Supreme Court want to review a ruling from last year that prohibited police raids in slums in Rio de Janeiro following one of the city's deadliest police operations ever last week, the Associated Press reported Sunday. The country's top court banned police operations in Rio's

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It also has a minority in both chambers of Congress. The country faces a wave of elections between May and November (for the constituent assembly, mayors, councilors, governors, senators, deputies and then presidential elections) that influences the position adopted by future candidates. Even pro-government deputies vote alongside the opposition. However, copper grades have dropped, costs have risen, and Chile has lost competitiveness. Serious experts warn of risks of losing investments in favor of Africa and Peru. I believe that realism will prevail, and intermediate formulas will be found in order to increase tax collection, based on the copper price, but without compromising Chile's comparative advantages."

Carolina Goic, senator and former presidential candidate in Chile: "Chile is going through a very complex time due to the economic and social consequences of the Covid-19 pandemic. It is imperative to increase spending to support families who have lost homes, to SMEs that have gone under and, most importantly, to help those who have lost their jobs—mostly women. There is only so much you can borrow: public debt increased to 32.5 percent of GDP in 2020,

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NEWS BRIEFS

El Salvador's Quijano Flees Country in Face of Arrest Warrant

A former legislator and one-time leading presidential candidate in El Salvador reportedly fled to Honduras Friday in the face of charges that he had struck deals with gangs, the Associated Press reported. Norman Quijano left El Salvador several hours before he was to lose the immunity from prosecution he enjoyed as a member of Congress and a judge issued an arrest warrant for him, according to the report. Quijano served as mayor of San Salvador before running for president in 2013 with the ARENA party.

América Móvil Suffers Setback in Colombia Arbitration Case

Mexico City-based telecom services provider América Móvil announced on Friday that a tribunal at the World Bank's International Center for Settlement of Investor Disputes, or ICSID, has ruled against the company in its dispute with Colombia, Reuters reported. The tribunal ordered the company, which is held by the family of business magnate Carlos Slim, to pay $2.2 million to cover the costs of the case. In a statement, América Móvil said it is still analyzing its legal options, which could include a request for an annulment before another court.

Long-Defunct Freight Train Route Linking Chile, Bolivia Back in Operation

A freight train route bringing Bolivian goods to Chile's Pacific ports that has been defunct for 16 years could soon begin operating again, Reuters reported. Transportation officials said this weekend that a trial run of the binational rail system was completed when a train reached a spot near the Chilean border town of Charaña from Bolivia. The route will be called the Ferrocarril Arica-La Paz train line.

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favelas during the Covid-19 pandemic unless "absolutely exceptional." Yet at least 25 people, including a police officer, were killed last Thursday when authorities raided the Jacarezinho favela, sending in bulletproof helicopters, armored vehicles and dozens of heavily armed police in an anti-drug operation, The Washington Post reported. The mission sparked an international outcry over police violence in the South American country, with the United Nations human rights office calling for an independent investigation while citing a history of "disproportionate and unnecessary" use of force by Brazilian police, NPR reported. "We call for the prosecutor to conduct an independent and thorough investigation into the case according to international standards," said UNHCR spokesman Rupert Colville. In a telephone interview with the AP on Saturday, Justice Marco Aurélio Mello said the raid should be probed, but he did not say whether it violated last year's ruling. Instead, he said, the court's ruling should have been revisited as the pandemic lagged on. "The decision stemmed from the assumption that the injunction would be temporary and there would be an obstacle for a few months," he said. "The state is the law. Trafficking really needs to be fought," he added. Three other justices from the 11-member court agreed with Mello, the AP reported.

ECONOMIC NEWS

Argentine President Seeks Paris Club Deal

Argentine President Alberto Fernández arrived in Portugal Sunday, the first stop in a five-day trip across Europe where he is seeking support to delay a $2.4 billion payment to the Paris Club, Bloomberg News reported. Fernández will next travel to Spain, France and Italy, with plans to hold virtual meetings with officials in Germany, where restrictions in place due to Covid-19 prevent his delegation from traveling in person, according to a report in Argentine newspaper Clarín. Economy Minister Martín Guzmán has asked the Paris Club to allow Argentina to delay its payment, due at the end of May, until it has reached an agreement with the International Monetary Fund on some $45 billion it owes the "lender-of-last-resort." He has said he hopes for an answer by May 31, according to Bloomberg News. The trip could also include a meeting in Rome on Friday with Kristalina Georgieva, Managing Director of the International Monetary Fund, Clarín reported citing unnamed officials. In Lisbon on Sunday, Fernández compared his country's circumstances as being similar to those several years ago in Portugal, which successfully emerged from its own debt crisis with backing from the European Union.

COMINGS & GOINGS

Werner Plans to Retire From IMF on Aug. 31

Alejandro Werner, the director of the Western Hemisphere Department at the International Monetary Fund, plans to retire from his position on Aug. 31 after eight years on the job, the IMF announced in a statement this month. As director, Werner has worked on issues including corruption, inequality, climate change and sustainable economic growth, the IMF said. A Mexican citizen, Werner first joined the IMF in 1995 as a member of the Economist Program. He then left to serve as director of economic studies at the Bank of Mexico before becoming undersecretary of finance and public credit at Mexico's Finance Ministry from 2006 to 2010. Later, he served as head of corporate and investment banking at BBVA-Bancomer. Werner also has past experience in the academic field, with positions at universities in Mexico, Spain and the United States.

WTO Chief Names Four Directors General

Ngozi Okonjo-Iweala, director general of the World Trade Organization, on May 4 named Angela Ellard of the United States, Anabel González of Costa Rica, Ambassador Jean-Marie Paugam of France and Ambassador Xiangchen Zhang of China as her deputy directors general, the WTO said in a statement. Ellard has served as majority and minority chief trade counsel and staff director in the U.S. Congress, where she has worked on crafting and negotiating bipartisan policy legislation alongside lawmakers and officials from several former administrations. Meanwhile, González specializes in trade, investment and economic development. She has served in several high-profile roles, including as minister of foreign trade of Costa Rica and senior director of the World Bank's trade and competitiveness practice. More recently, she has worked as a nonresident senior fellow at the Peterson Institute for International Economics.

Gayet Named Latin America Head at Agricole CIB

Yves-Marie Gayet on May 1 was appointed head for Latin America at Crédit Agricole CIB, the banking group announced. He will take on the new role in addition to his current position as senior country officer for Brazil. Gayet will work under Marc-Andrew Poirier, senior regional officer for the Americas, in a bid to expand and strengthen the bank's client base throughout Latin America, the statement said. Gayet has more than 25 years of experience in the banking industry, having recently served as executive director of the French Chamber of Commerce in Brazil before joining Crédit Agricole in 2019. Previously, he served in management positions at Société Générale in London and was the global head of a structured finance business line from 1997-2012, Crédit Agricole said in the statement. Before that, he worked at Société Générale in Paris.

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up from 28.2 percent in 2019 and from 17.2 percent in 2015. Thus, we must look into ways to increase our tax revenues. There are several proposals being discussed, including closing many loopholes that benefit certain industries, such as construction. There is also a proposal to create a royalty on sales of copper and lithium. Experts have to analyze this royalties proposal in depth in order to allow Chile to benefit from the copper windfall while at the same time, continue promoting investment in this sector. I am confident that we will be able to agree on a tax reform that will allow us to support those who need it more than ever."

Mariano Machado, senior analyst for the Americas at Verisk Maplecroft: "The sharp rise in commodity prices—including copper—is attractive for those who think the sector should pick up the tab of post-pandemic recovery programs, but the political will to intervene is a necessary ingredient, too. In Chile, deep-rooted certitudes and unpredictability are coexisting. This means that a mature mining jurisdiction is enduring the most structural political change process in its history. All stakeholders acknowledge the critical role that mining plays, accounting for 12 percent of GDP in the fourth quarter of 2020 as well as 56 percent of exports in the same period—the highest since 2013. However, vocal opposition about the toxic impact that hasty regulatory changes have on investment prospects fails to cut through the political noise. Congress has become a mandatory co-policymaker, deepening the major fault lines that will dominate the constitutional debate. Key issues will include a reshuffle of societal expectations over the mining sector's role in the 'new Chile,' and moves to establish new levies on the industry, as well as broader principles—such as prioritizing water for people—should be expected. With a presidential race to boot, investor uncertainty is at its highest since the country's return to democracy in 1990. We expect significant disruption to investment decisions for the remainder of 2021. The fact that the number of mining projects submitted for environmental impact evaluation this year stands at 22 (down from 129 in 2019) underpins our views."

Leni Berliner, president and CEO of Energy Farms International LLC: "Any royalty system must be designed to enable the government and mining companies to share both risk and reward. There are several issues in administering a royalty or 'other mining tax' regimes: What is the basis price? How is it determined with respect to other taxes that the company pays—is it on gross or net profit, or something else?—and how are those revenues used? For Chile's lithium producers to continue to be competitive with Australian and Chinese producers, they will have to make and sell lithium hydroxide, which is the lowest-carbon form of battery-grade lithium. Chile should be the first to shorten its lithium value chain by retiring processing facilities for lithium carbonate and replacing this infrastructure with lithium hydroxide facilities. Successful copper mining companies constantly invest in their own competitiveness, often through downstream production. Renewed investor interest in ESG means that copper mining companies could finally see some financial benefit from their efforts to assist in the development of local areas. It is thus opportune for the Chilean government to help create a pipeline of sustainable development projects in mining communities; that project pipeline would in turn support a sovereign bond issue in various sustainable finance markets. Chile should borrow, not tax the goose to death."

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

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