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FEATURED Q&A

How Much Will Protests Threaten Mining Investment?

Peru's Las Bambas mine (pictured) restarted copper production last month following a two-month shutdown due to protests at the site. // File Photo: TV Perú.

Q **Copper production at Peru's Las Bambas mine, which is owned by Chinese state-controlled company MMG, restarted in early July following a two-month shutdown amid protests by Indigenous groups. During the shutdown, mining executives and analysts met in Lima to discuss concerns about social protests taking a toll on investment in the mining sector. How much do protests threaten investment from China and elsewhere in the mining sectors of Peru and other South American countries? What are the main demands of protesters in the vicinity of mines, and how should mine owners seek to work with them? What should the governments of Peru and other countries in South America do to help mines and local communities co-exist?**

A **Sergio Bitar, nonresident senior fellow at the Inter-American Dialogue and former Chilean minister of mining, education and public works:** "The case of the Las Bambas mining company deserves special attention in all copper-producing countries, as it helps to anticipate future conflicts. For a decade, the reality has become much more complex. First, global changes will demand more and more copper in order to electrify the planet and respond to twin challenges—green and digital. Second, national changes require a response to social and environmental sustainability. Third, the awareness and power of Indigenous communities, and international pressure to protect them, have expanded. Conflicts are multiplying among citizens and the environment, communities and companies, central and local authorities, between ministries, among politicians who argue over social

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Fire at Cuban Oil Facility Spreads to Third Tank

A fire that was caused by a lightning strike four days ago at a large oil storage facility in Cuba spread on Monday to a third tank, threatening to worsen the country's energy crisis.

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Itaú Unibanco Beats Estimates for Q2 Profit

Brazil's Itaú Unibanco reported a 17.4 percent year-on-year rise in quarterly profit to $1.50 billion, beating analysts' estimates.

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ECONOMIC

New Colombian Gov't Presents Tax Reform Plan

Colombia's new presidential administration on Monday presented lawmakers a tax reform plan that the government says would eventually raise more than $11 billion in revenue annually. Finance Minister José Antonio Ocampo said the changes would make the tax system more progressive.

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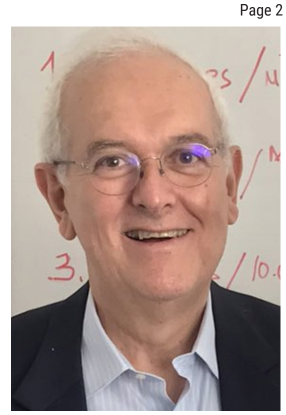

Ocampo // File Photo: @JoseA_Ocampo via Twitter.

ECONOMIC NEWS

New Colombian Gov't Seeks to Raise $5.76 Bn in Tax Plan

Colombia's new presidential administration on Monday proposed to Congress a tax reform plan that seeks to raise revenue for antipoverty programs by raising approximately 25 trillion pesos ($5.76 billion) next year, which is equivalent to 1.72 percent of the country's gross domestic product, Reuters reported. The reforms would eventually add some $11.53 billion annually to the government's revenues, with the figure climbing gradually as the measures take effect, said Finance Minister José Antonio Ocampo. "We're seeking to contribute to equality and social justice with a more progressive tax system and also to assign the corresponding resources to government social programs and consolidate the fiscal adjustment that is clearly incomplete," Ocampo told reporters, Reuters reported. The reforms include a new 10 percent levy on oil exports as well as an annual wealth tax on people who have a net worth of more than $750,000, the Associated Press reported. The package also includes new sales taxes on soft drinks and highly processed foods, the AP reported. The announcement came less than 24 hours after President Gustavo Petro took office on Sunday. In addition to fighting poverty, Petro has vowed to invest in rural areas that have long been beset by violence related to drug trafficking. [Editor's note: See related **Q&A** in the July 29 issue of the Advisor.]

Fire at Cuba Oil Facility Spreads to Third Tank

A fire that began last Friday after lightning struck a large oil storage facility in western Cuba spread on Monday to a third oil tank, potentially worsening the Caribbean country's existing energy crisis, the Associated Press reported. Cuban officials had to shut down a key thermoelectric plant due to the spreading fires. At least one person has died, 125 have been injured, and 14 have been reported missing since the beginning of the fires at the eight-tank oil facility in Matanzas. A second tank at the facility, which plays a crucial role in the Cuban electric system, caught fire last Saturday. "The risk we had announced happened, and the blaze of the second tank compromised the third one," said Mario Sabines, the governor of Matanzas, the wire service reported. Cuba relies on the Matanzas terminal for the majority of heavy fuel and crude imports and storage, Reuters reported. It also supplies domestic oil output for Cuba's power plants and distributes imported crude and fuel to local refineries. The first Matanzas tank that caught on fire was at about half of its capacity with almost 883,000 cubic feet (25,000 cubic meters) of fuel, and the second tank was full, the AP reported.

BUSINESS NEWS

Itaú Unibanco Beats Estimates in Reporting Q2 Profit

Brazil's Itaú Unibanco on Monday reported a 17.4 percent year-on-year rise in recurring net profit for the second quarter, to 7.67 billion reais ($1.50 billion), a figure that beat analysts' expectations, Reuters reported. Analysts' forecasts, as compiled by Refinitiv, had expected 7.48 billion reais in net profit. For the second quarter, the bank also reported earnings of 15 cents per share, the Associated Press reported. Adjusted for nonrecurring costs, earnings were 16 cents per share. In total, Itaú posted $12.49 billion in revenue for the second quarter, as well as $7.36 billion in revenue net of interest expenses. Itaú Unibanco also said its loan portfolio is likely to grow between 15.5 percent and 17.5 percent this year, higher than a previous estimate of between 9 percent and 12 percent, Reuters reported. The lender added that its cost of credit for this year, which is primarily comprised of cash set aside for bad loans, now amounts to between 28 billion and 31 billion

NEWS BRIEFS

Biden Administration Moves to End 'Remain in Mexico' Program

The U.S. Department of Homeland Security on Monday said it is planning to end the Migrant Protection Protocols, or "Remain in Mexico," immigration program that was implemented by the administration of former President Donald Trump, The Washington Post reported. The announcement followed U.S. District Judge Mathew Kacsmaryk's cancellation of his injunction blocking President Joe Biden's administration from ending the program, which forces some asylum seekers to wait in Mexico for a decision on their applications for U.S. protection.

América Móvil Completes Spinoff of Latin America Cellular Tower Business

Mexican telecommunications company América Móvil on Monday said that it had completed spinning off its cellular tower business in Latin America, creating the company Sitios Latinoamérica, Reuters reported. The new company, which is controlled by Mexican billionaire Carlos Slim's family, has an inventory of more than 29,000 towers. Nearly 40 percent of the towers are in Brazil, and the rest are spread throughout countries in Central and South America, as well as Puerto Rico, the wire service reported.

Goldman Sachs Extends $150 Mn Credit Line to Mexican Start-Up Clara

Goldman Sachs has extended a credit line of up to $150 million to Clara, a Mexican financial technology start-up that lends to businesses and helps them manage spending, Bloomberg News reported Monday. The financing starts with $50 million but includes an option for as much as $150 million. Clara will use the financing to increase lending operations, invest in its technology and also expand in Latin America, said CEO and co-founder Gerry Giacomán.

reais, up from its previous forecast range of between 25 billion and 29 billion reais, Reuters reported. For the three-month period ending June 30, Itaú said its loan-loss provisions rose to 7.81 billion reais, a 61.7 percent increase year-on-year. At the same time, its loan portfolio rose to 1.08 trillion reais, an increase of 19.3 percent from the same period last year.

Stellantis Unit in Mexico Seeks to Resolve Labor Case

A Mexican unit of Italian-French carmaker Stellantis, Teksid Hierro de México, hopes to soon resolve a complaint from the U.S. government, the company said following the company's agreement to recognize an independent union, Reuters reported Monday. The U.S. complaint alleging labor rights abuses at an auto parts factory in the Mexican state of Coahuila is expected to close without facing a dispute panel. Workers at the Teksid plant have since 2014 accused the company of working with the powerful Confederation of Mexican Workers (CTM) to block their election of The Miners, an independent union. The Office of the U.S. Trade Representative (USTR) is in the process of negotiating a remediation plan with Mexican President Andrés Manuel López Obrador's government under the U.S.-Mexico-Canada agreement, or USMCA, a spokesman at the USTR's office said in response to questions from Reuters. A resolution on the matter would make Teksid the fourth company to resolve a complaint filed under the USMCA since the first such case last year involving a General Motors plant in Mexico's Guanajuato state. More recently, the United States and Canada last month requested dispute settlement consultations with Mexico under the USMCA over the country's energy policies. "It is positive that the U.S. and Canada are seeking to use the USMCA's provisions for consultations and ... for a dispute resolution panel ... to draw conclusions as to whether Mexico is violating the agreement," Earl Anthony Wayne, a former U.S. ambassador to Mexico, told the Dialogue's weekly Energy Advisor in an Aug. 5 **Q&A**.

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networks, and amid an absent state and executives who are incapable of understanding communities. A fundamental cause of the problems at La Bambas is that the mine acted unilaterally, seeking direct agreements with communities, without the participation of the state. This is a serious gap in Peru. The state must prioritize the living conditions in the communities, coordinate with mayors, establish and supervise norms and procedures, and update regulations for companies. Copper-producing countries must strengthen institutions and dialogue. This would require the creation of capacities that the weakest countries do not have and that some companies do not respect. All stakeholders must be involved, and the state in particular must improve its ability to anticipate and regulate."

A **Margaret Myers, director of the Asia & Latin America Program at the Inter-American Dialogue:** "Chinese companies in Peru's mining sector have been the subject of extensive analysis over the years, as academics, journalists and other researchers have sought to understand how companies such as MMG, Chinalco and Shougang are operating and whether they differ from other international mining companies, especially as China continues to express interest in copper and other projects across the region. China's mining companies certainly aren't the first to encounter opposition to their operations in Latin America, but in Peru, at least, deficient communications between these companies and the communities where they are based have been problematic for many years now. This was true of Shougang's initial operations in Marcona and now of MMG's relations with residents of the Mara district. For MMG, relations soured when the company, citing changes in mining sector regulations, sought to transport mined copper by road instead of pipeline. Challenges aside, China's activity in the sector is expected to continue more or less apace, even as broader China-Peru relations continue to suffer the consequences of a Covid-19 vaccine-related corruption scandal. Chinese mining companies are well-established in Peru (and increasingly elsewhere in the region), and their investments contribute substantially to Peru's overall GDP. Of interest now is whether China's enhanced focus on ESG, as underscored even by Xi Jinping, will affect these and other Chinese companies' approach to community engagement and broader standards setting."

A **Jiang Shixue, professor and director of Center for Latin American Studies at Shanghai University:** "It is true that resistance and protests have impeded Latin America's business climate for the foreign enterprises in its mining sector. Two issues are conspicuous here. The first one is about the relationship between mining development and protection of the environment. Some people in Latin America believe governments should or can build hospitals, schools, roads and bridges for the public as well as raise the living standards of the people without economic growth. But they do not ask where the governments can locate the money. Therefore, it is correct to say that either wing of the 'bird,' that is, development of the mining sector and the protection of the environment is indispensable. The second issue is related to the so-called corporate social responsibility (CSR) undertaken by the foreign enterprises. Countless examples have shown that Chinese enterprises in the mining sector of Latin America have done a very good job in its fulfillment of CSR. On the one hand, they apply advanced technologies to greatly reduce or even generate no damages at all to the environment; on the other, they allocate a lot of profits to push forward economic and social development for the local communities. Undoubtedly, the trend of attracting more foreign investment in Latin America's mining sector is irresistible simply because the region's economy needs

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to grow. Sadly, stimulated by the disinformation about Chinese investment, negative sentiment against this kind of investment is growing at a rapid pace."

A Maiah Jaskoski, professor of political science at Northern Arizona University: "Communities in Latin America's mining zones have staged protests, turned to the courts and physically blocked mine sites in their efforts to prevent, alter and/or benefit from new extraction. This activism has stalled and even shut down mine projects. In some cases, firms and governments may avoid standoffs with local communities, and the emergence and hardening of anti-project sentiment, by hearing community concerns early on. For the state, this approach would entail creating substantive, formal participatory processes. Civil society organizations and the community at large thus would have ample time and resources to learn about project options, mine impacts and compensation plans; and, ultimately, to provide feedback to and make demands on companies and the state. Yet governments in the region commonly attempt to support and streamline mining development by installing only limited opportunities for communities to learn about and react to proposed development. These restrictive participatory institutions ultimately leave mining companies and their investments highly vulnerable to community activism. Still, it would behoove firms that are committed to project development to distribute transparently information about their mining plans to communities, working within (even limited) state-led participatory and informational processes. Companies can and do build direct relationships with communities outside of state-sanctioned participatory spaces, but this tactic can backfire: it frequently generates the perception that the firms are attempting to buy off, divide and weaken the communities and their representative organizations."

A R. Kirk Sherr, president of Clearview Strategy Group, and Lawrence J. Gumbiner, senior advisor at WestExec Advisors: "A combination of high energy prices, slowing economies and leftist policy orientation have rekindled traditional natural resource equity disputes in Latin America. Even in good times, maintaining the 'extractive consensus' among diverse communities and interests is a tall order. Natural resource development policy is particularly relevant in the Andean countries where natural resource exports typically contribute 40 percent to 50 percent of all export earnings. In Peru, social conflict in mining zones has been longstanding but escalated during the pandemic. Community expectations were raised by the election of Pedro Castillo, who has proven incapable of living up to campaign promises to address the social inequities present in mining locales. Many of the demands—largely related to environmental concerns, housing and transport infrastructure—are legitimate. But some of the protests are led by groups who are part of a cottage industry designed to extract financial and land concessions from deep-pocketed entities. Companies now have more tools than ever at their disposal both to improve local government administration and to address local needs. Renewable energy, distributed generation and battery storage allow mining companies to support communities in many new ways including everything from water treatment, broadband, telemedicine and remote education. And many satellite services can be used for environmental monitoring. The key for governments and mining concerns is to consult extensively at the outset of the investment, giving local communities a stake in the success of the project. Anglo American's Quellaveco mine in Peru, producing copper a mere four years after approval, is a prime example of successful company and community collaboration."

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