

>> **Mining in Latin America:
Challenges & Opportunities**

Mexico >> 12 >> 2013

For some time now, the tendency of governments around the World has been to increase regulations in different subjects such as: human rights, labor, the environment and transparency.

New initiatives have come up to address these important issues covering all industries; one by one each country is catching up by setting local statutes that comply with these global requirements.

One of the subjects that is becoming a global trend is the fight against corruption by establishing transparency regulations to industries worldwide. The natural resource extraction companies are being impacted by the new guidelines, particularly the mining industry:

- In 2010, the U.S. established their leadership in this matter by passing Section 1504 of the Dodd-Frank Act¹; it is a statute that demands companies to report publicly how much are they paying governments to access their oil, gas and mineral resources.
- Following the American leadership on this affair, in 2011 the European Commission built on the U.S. precedent².

Taking into account the development of mandatory disclosure requirements around the World, the Canadian Prime Minister Stephen Harper announced in June 2013 plans to require all companies that are listed on Canadian Exchanges to disclose payments made to governments and other third parties, in order to increase transparency and justify how the investors' money is being spent.

The impact on the mining industry is vast as Canada has been considered one of the most important markets for investors in the mining industry. Of the World's public mining companies, 57% are listed on the Toronto Stock Exchange (TSX) and Venture Exchange (TSX-V) and 70% of the global equity capital was raised on these exchanges for mining projects. Of the capital raised in 2012, almost 20% was for Latin America.³

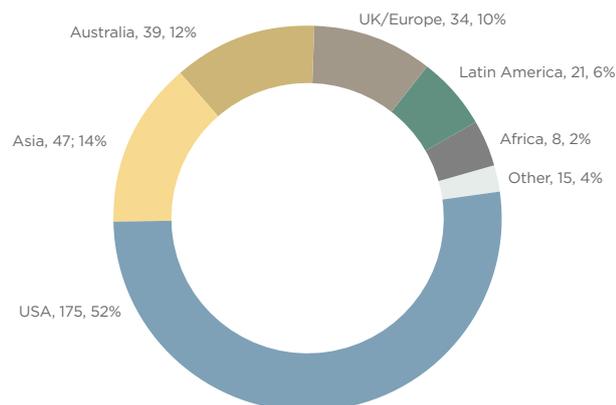
¹ Dodd-Frank Act. <http://www.revenuewatch.org/issues/dodd-frank>

² Transparency International welcomes European Parliament vote to shed light on natural resources sector. Transparency International Liaison Office to the European Union. 12-06-2013 http://www.transparency.org/news/pressrelease/Transparency_International_welcomes_European_Parliament_vote_to_shed_light

³ Global Leaders in Mining. Toronto Stock Exchange. 01-10-2013 http://tmx.com/en/listings/sector_profiles/mining.html

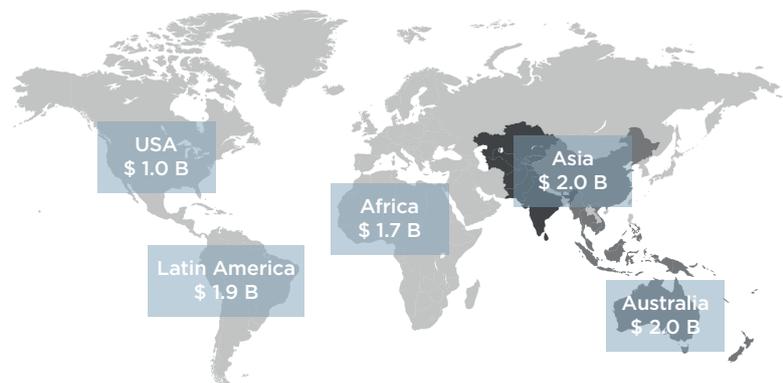
**TSX AND TSXV INTERNATIONAL LISTINGS
BY COUNTRY/REGION**

Total International Listings as at December 31 2012=339
TSX= 183 listings • QMV= \$178.7 B
TSXV= 156 listings • QMV= \$ 3.4 B



Source: TMX Toronto Stock Exchange

**EQUITY CAPITAL RAISED ON TSX/TSXV FOR THE
MINING INDUSTRY \$10.3 BILLION RAISED ON TSXV
AND TSXV IN 2012**



Equity capital raised on TSX and TSXV for mining companies by location of project

Source: TMX Toronto Stock Exchange

MINING IN LATIN AMERICA

Before considering the changes in regulations which mining companies are going to have to comply sooner or later, it is relevant to take into account the context in which they operate in Latin America:

- There is reasonable political and economic instability which leads to uncertainty in most countries, for instance due to the import restrictions in Argentina, companies have been obliged to substitute their supplies with domestic products which increases the operational costs of mining companies substantially.
- Another subject to consider is the recent establishment of new taxes for the mining industry, Ecuador is trying to promote big scale mining, but the negotiations between the government and the mining companies have not reached any agreements due to some disagreement in tax issues.
- Latin America has not been left behind in the intensification of regulations in the mining industry. This is primarily caused by the increase in awareness about environmental consequences or by social pressure from the communities surrounding the project sites, such is the case of Panama, where the government had given permits for extractive and hydric activities in the Indigenous region of Ngöbe Bugle and the community rebelled resulting in the definite ban of mining activity in this region. The communities impacted by mining activities have proved to be better organized and more knowledgeable about consequences and practices of the mining industry, almost all the time the communities are against them. Instead of engaging the communities, mining companies in Latin America try to keep a low profile and do not have a proactive approach to external audiences.

It is important that Latin American mining companies consider their circumstances in order to comply with the establishment of international regulations:

- Consider the recent changes in mining legislation and the impact it will have on new projects and on already established ones, by working alongside with Government, Academia, NGOs and communities when

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developing projects in Latin American countries. For example, in Mexico, the Mining Chamber (Camimex) has participated in certification work-shops in order to increase self-regulation in the sector before the requirements of the industry are mandatory.

- Mining companies should approach communities, in conjunction with government negotiations, to develop with them a plan that will benefit the population surrounding the sites. In other words, apply a 2-way communication by taking into account the proposals of third parties.
- Organizations should establish Social Responsibility Programs that give back to the community. Petaquilla, S.A. has developed programs in Panamanian communities to support the local municipalities where the mining activity is developed, such activities include: scholarships, public hospital donations, capital seed financing small businesses, cultural projects, among other things⁴.
- Another important aspect is that mining companies should not maintain low profiles and should start being proactive by increasing the communication and the messages given to the media and stakeholders and informing the benefits and Social Responsibility Programs the mining companies are carrying out. Without forgetting the context where the mining projects are developed in order to align the way the information is communicated to the characteristics of the media and the local communities. Sometimes it will be necessary to coach the media with the purpose of increasing their knowledge and expertise in the mining industry.

ANTICIPATING NEW REGULATIONS

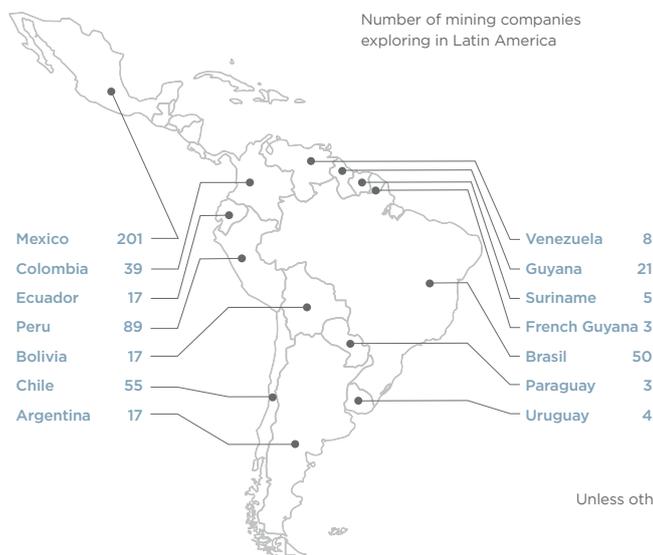
Companies will have to invest in an auditing and communication infrastructure in order to come up with reports that have a minimum standard of quality. Before the imposition of disclosure regulations, mining companies

⁴ Social Responsibility. Petaquilla Minerals LTD. <http://www.petaquilla.com/socresponsibility.aspx>

TSX AND TSVX MINING COMPANIES IN LATIN AMERICA

491
Number of TSX/TSVX Mining Companies in Latin America

\$1.9 B
Amount of Equity Capital Raised in 2012 on TSX and TSVX for Latin America Mining Projects



1526
Number of Latin America Mining Properties

29
Number of New Listings in 2012 with Projects in Latin America

Unless otherwise noted, all numbers are as at/YTD Dec 31 2012

can consider to voluntarily prepare to disclose information, as first they are going to have to establish due diligence processes and reporting capabilities.

1 Start Investing on Infrastructure. Mining companies that do not create any kind of reports to their stakeholders, should start developing processes to learn what kind of infrastructure and what capabilities are needed in their companies in order to come up with reports that meet the minimum standards set by International Organizations. The recommendation would be to create a timeline that establishes an itinerary for implementation; this would decrease costs and increase awareness of what has to be done.

2 Create Sustainability Reports. Companies ought to start working on creating Sustainability Reports to inform stakeholders about their activities. For instance, three Mexican mining companies (Grupo México, Industria Peñoles and Mexichem) have become part of the first Sustainability Index of the Mexican Stock Exchange receiving the distinction of "Socially Responsible Company"⁵. This increases transparency as well as the reputation of the company.

3 Complete Access to Information. It is important to take into account that these measures can also have a negative impact to those companies that will be bound to comply with them. These mining companies will have competitors that do not have to disclose information; instead they will have access to information to their advantage without any cost. This information is going to be available to anyone

and can also be used by organizations and environmentalists against the mining industry. There are NGOs that have the objective of increasing awareness of the information that can be available of Public Mining Companies (Publish What You Pay, Canadian NGO) some have even come up with manuals of how to find the information needed⁶.

4 Impact on Stakeholders. Consider the impact the disclosed information will have on all stakeholders by the regulations and the importance of enhancing the benefits it will have. For investors, they will learn how their money is being spent; for mining companies it will improve their reputation as a transparent company that provides a stable investment climate to its stakeholders, and for governments, these regulations will allow them to portray themselves as transparent and corrupt free.

The tendency for any industry is to comply with more and more regulations set by Governments and International Organizations; therefore the only thing to do is to anticipate and to prepare as these regulations will become minimum competitive standards.

⁵ Listado de Emisoras Sustentables Evaluación 2012. Bolsa Mexicana de Valores. 14-06-2013 <http://www.bmv.com.mx/wb3/work/sites/BMV/resources/LocalContent/2005/14/ListaCalificadasSustentableEne2013a.pdf>

⁶ An Eye on Disclosure: The PWYP-Canada Guide to Finding Information on Public Mining Companies in Canada. Publish What You Pay Canada. Kady Seguin. 03-2012



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