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FEATURED Q&A

Will a Copper Glut Mean Trouble in South America?



An oversupply of copper could hit the bottom lines of copper producers in South America, including Chilean state-owned firm Codelco, whose El Teniente mine is pictured above. // File Photo: Codelco.

Q Chile's copper market will see a supply glut of 200,000 metric tons this year as the economic fallout of the Covid-19 pandemic hits global demand for the red metal, according to a Chilean industry group. Meanwhile, a new World Bank report forecasts that production of other minerals such as lithium and cobalt could increase by almost 500 percent by 2050 to meet the growing global demand for clean energy technologies. What can the copper industry in South America, including in Chile and Peru, expect in the period ahead? How might the expected supply gluts of the red metal affect the countries' general economies? To what extent are governments in the region refocusing efforts on production of other minerals, and what else should they be doing now in order to take advantage of the expected high demand for lithium and cobalt in the long term?

A Pablo de la Flor, executive director of Sociedad Nacional de Minería, Petróleo y Energía (SNMPE) in Lima: "Peru's implementation of strict social-isolation measures since mid-March to curb the spread of Covid-19 has severely hampered the mining industry, bringing it almost to a halt. The sector's activities have since been limited to maintaining critical tasks essential for the care and preservation of operations. In Chile's case, mining was not affected by the suspension of activities, and the main companies have continued operating with relative normalcy despite rigorous quarantine measures there, too. This much is evident in trade data, which also shows a huge divergence in both countries' mining sectors during lockdowns. While Peru's mining exports contracted by 26 percent, Chile saw a 5 percent

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Trump Bans Entry From Brazil as Covid Cases Surge

U.S. President Donald Trump banned foreigners from entering the United States from Brazil amid the South American country's escalating number of coronavirus cases.

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South America's largest air carrier filed for bankruptcy protection as demand for air travel has plunged due to the coronavirus pandemic.

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Argentina Defaults for Ninth Time, Talks Continue

Argentina technically defaulted for the ninth time in its history as it missed a bond payment on Friday, but the government and creditors will keep talking. President Alberto Fernández said the government would not accept a deal with creditors that worsens the country's economy.

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Fernández // File Photo: Argentine Government.

POLITICAL NEWS

Trump Bans Entry to U.S. From Brazil as Covid Cases Escalate

U.S. President Donald Trump on Sunday banned foreigners from entering the United States from Brazil as the number of coronavirus cases continued spiraling upward in the South American country. The White House announced the travel ban two days after Brazil overtook Russia to become the country with the second-highest number of Covid-19 cases in the world, after only the United States. Brazil has more than 374,000 confirmed cases of the disease and more than 23,000 reported deaths related to it. The United States has more than 1.6 million confirmed cases, and more than 98,000 reported deaths, according to a tally by Johns Hopkins University. "Today's action will help ensure foreign nationals who have been in Brazil do not become a source of additional infections in our country," White House press secretary Kayleigh McEnany said Sunday, the Associated Press reported. McEnany called the move a "decisive action to protect our country." The ban was originally scheduled to take effect on Thursday, but on Monday, the White House moved up the ban to take effect tonight at 11:59 p.m. Eastern Time, Reuters reported. In a tweet, Filipe Martins, who advises Brazilian President Jair Bolsonaro on international affairs, said the United States was treating Brazil the same as it has treated other populous nations. "By temporarily banning the entry of Brazilians to the U.S., the American government is following previously established quantitative parameters that naturally reach a country as populous as ours," he said, the AP reported. Bolsonaro, a Trump ally, has downplayed the threat of the virus, likening it to a "little flu." Bolsonaro has also clashed with Brazilian governors, calling for the lifting of stay-at-home orders and for businesses to reopen, saying the restrictions will cause more harm than good by devastating the economy. The surging number of Covid-19 cases in Brazil has pushed the country's hospitals to the brink

of collapse. The pace of deaths has been accelerating, and experts say the peak is still approaching. Also on Sunday, the White House said it planned to donate 1,000 ventilators to Brazil. In São Paulo, a city of 12 million people, officials declared a five-day holiday over last week and this week in an effort to get people to stay home and avoid spreading the virus.

ECONOMIC NEWS

Argentina Defaults for Ninth Time, Debt Talks Continue

Argentina missed a bond payment on Friday, technically pushing it into default for the ninth time in its history, but talks with international creditors to restructure \$65 billion in foreign debt will continue until June 2, The New York Times reported. President Alberto Fernández downplayed the missed payment and reiterated that the government would not accept a deal that worsens economic woes for Argentines who have seen their earning power decimated during the coronavirus pandemic. "I want the

“I want the world to see us as an honorable country that fulfills its commitments.”

— Alberto Fernández

world to see us as an honorable country that fulfills its commitments," the president said in a speech last Thursday. Prominent figures including Pope Francis, who is an Argentine, and U.S. Sen. Elizabeth Warren (D-Mass.), who is a lawyer and expert on bankruptcy and commercial law, have supported the restructuring of the country's debt. "With Covid-19 worsening an already weak economy, this is no time for Wall Street creditors to exploit any country struggling to deal with debt burdens," Warren recently wrote on Twitter, The New York Times reported. Additionally, a group of 138 economists, including Nobel laureates Joseph

NEWS BRIEFS

First Results Expected Today After Voters Go to Polls in Suriname

Suriname's national elections went on as scheduled on Monday despite the coronavirus pandemic, with strongman President Desi Bouterse seeking a third term, Agence France-Presse reported. Bouterse, who was convicted of the murder of political opponents several months ago, has led Suriname for 40 years, but polls suggest his National Democratic Party is likely to lose its majority in the 51-member parliament, which then elects the president. First results are expected today.

OECD Chief Expecting November Approval of Digital Taxation Policy

An Organization for Economic Cooperation and Development, or OECD, blueprint to standardize legislation regarding digital taxation will be pushed back until October because of coronavirus-related complications, Secretary General Ángel Gurría said during an online event hosted by the Inter-American Dialogue on Friday. The organization had originally hoped to present the framework in July. The OECD has been leading negotiations among 139 countries to reach a consensus on a standardized set of international tax rules for the digital economy. Gurría said he hoped the blueprint will be approved in a scheduled meeting in November.

More Than 200 Workers at Guatemala Textile Plant Test Positive for Covid-19

More than 200 employees at a textile plant in Guatemala have tested positive for Covid-19, the Associated Press reported. Officials said Monday that they began receiving reports earlier this month that infected workers were continuing to work at the K.P. Textil plant in San Miguel Petapa. Managers at the plant closed the facility on May 12 for two weeks.

Stiglitz and Edmund Phelps, signed an open letter urging Argentina's bondholders to come to an agreement with the government. However, major sticking points remain. Creditors have complained of Economy Minister Martín Guzmán being too dogmatic, while the government says some bondholders have acted high-handedly, the Financial Times reported.

BUSINESS NEWS

Latam Airlines Files for Bankruptcy Protection

Latam Airlines, South America's largest air carrier, filed for U.S. bankruptcy protection today as it struggles amid a sharp downturn in air travel due to the Covid-19 pandemic, the Associated Press reported. The Chapter 11 bankruptcy filing highlights the severity of the financial challenges facing the travel industry as a result of coronavirus-related lockdowns. The Chile-based airline said passenger and cargo flights will continue operations during the reorganization, workers will continue to be paid, and travelers with existing tickets and vouchers can still use them. Latam, whose shareholders include Chile's Cueto family and Delta Air Lines, has commitments for a bankruptcy loan of as much as \$900 million, Bloomberg News reported. The funds are coming from shareholders including the Cue-tos, Brazil's Amaro family and Qatar Airways, which owns 10 percent of the company. Latam also has about \$1.3 billion in cash on hand, according to the report. "We are looking ahead to a post-Covid-19 future and are focused on transforming our group to adapt to a new and evolving way of flying, with the health and safety of our passengers and employees being paramount," Chief Executive Roberto Alvo said in a statement. He said the carrier was profitable before the pandemic brought a collapse in demand. Latam's affiliates in Brazil, Paraguay and Argentina are not part of the bankruptcy case, which was filed in the Southern District of New York, Bloomberg News reported.

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increase in foreign sales. This difference is likely to have been exacerbated in April, when some of the main Peruvian producers stopped operating completely, leading to an even greater projected contraction in exports. Faced with the notable deterioration of the country's economic conditions, Peru's government has gradually begun reopening different sectors, including large-scale mining in the first phase. This includes 39 operations of 22 companies, which together represent 80 percent of total production. Medium-sized companies, especially relevant in the gold sector, will reopen in a second phase, with small companies resuming operations in the third and final stages. Copper mining in both countries faces a negative international scenario, marked by the drop in prices and the contraction in demand associated with an already settled recession in Europe, the United States and much of Asia. In this scenario, the only encouraging news is the incipient recovery of economic activity in China, after the implosion of the first quarter. Not surprisingly, as a result of these trends we see the postponement of some relevant mining projects. In the case of Chile, large producers such as Tec, BHP and Antofagasta Minerals have already announced investment cuts."

A **Mariano Machado, senior Americas analyst at Verisk Maplecroft:** "At the operational level in Chile, there has not been a significant disruption to exports; however, most mines have reported production cuts, as operators have opted to reduce staff for health reasons, and so are running at about a third of regular labor capacity. As Covid-19 cases spike, we expect more stringent containment measures. This is likely to fuel public protests, requiring an additional fiscal response by the government, in a bid to assuage persisting demands of most citizens. In Peru, a phased reactivation strategy began in early May, with some 27 activities permitted, including mining. This

reopening is fraught with risk—particularly for the mining sector, which has experienced additional reputational damage during the pandemic amid tensions with workers, unions and communities. The economic and social costs of the Covid-19 shutdown are immense for both countries, regardless of their starting points. In the case of Peru, there is a real risk of jeopardizing much

“ Although the global copper market is expecting a surplus ... prices look set to remain fundamentally strong.”

— Mariano Machado

of the gains of the past 15 years; in Chile, continuing civil disruption will undermine the government's efforts to regain control of the post-pandemic political agenda. This context will undoubtedly weigh on investment decisions as companies maintain a cautious attitude. Although the global copper market is expecting a surplus of around 100 metric kilotons in 2020, prices look set to remain fundamentally strong, on the medium-term outlook. Hence, diversification of mineral portfolios will be delayed or deferred, as investment decisions concentrate on 'demand-certain' metals and minerals, which provide critical support to corporate and government balance sheets alike."

A **Marcos Lima, former executive president of Codelco and partner at CIS Consultores:** "Nobody knows what will happen to the copper industry in the near future, since the fall in demand has been followed by production declines in several countries. In recent days, the price of copper has been rising. The mining industry in Latin America should continue to produce as it has until now and take advantage of every opportunity of

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improving productivity, thus reducing costs. It must also continue sustained efforts to reduce risks to its workers' health. We can never forget that when prices go down, the mines with lower costs are the survivors. I don't think supply gluts will cause further decreases in copper prices because these prices internalize and anticipate those signals. Additionally, short-term changes in

“We can never forget that when prices go down, the mines with lower costs are the survivors.”

— Marcos Lima

copper prices do not directly affect Chile's long-term economy, since fiscal revenues are considered a function of long-term copper prices. In addition, the price of the dollar in Chile and Peru is determined by market conditions (flotation). This frequently reduces production costs that are measured in dollars, and all of this makes these economies more competitive. Nevertheless, low copper prices affect short-term expectations in diverse ways, such as in growth and investments. The stock market is sensitive to the evolution of copper prices, since it is considered an indicator of the country's economic health. Additionally, there is significant public interest in Chile, Argentina and Bolivia regarding lithium salts. Chile is the second-largest global producer, and it has the world's largest confirmed reserves. There are 15 new projects exploiting locations other than the Atacama Salt Flat. The case of cobalt is different; the projects are just starting, and we must wait a few years to know the outcome. The government is promoting an institute dedicated to the research and development of technologies related to solar energy, low-emission mining and advanced materials based on lithium and other minerals. In the long term, Chile aspires to evolve

from production of mainly raw materials to the development of new technologies and hence more value-added products.”

A Gisselle Vila Benites, Ph.D. candidate in geography at the University of Melbourne:

“The contraction of the copper market due to Covid-19 will decisively affect Chile, Peru and, to a lesser extent, Mexico, presenting risks not only for growth prospects but also to environmental and social safeguards. Experience in these countries suggests that to alleviate losses in the mining sector, national governments will issue stimulus packages covering a range of activities across the commodity chain. The Peruvian government, for instance, has issued Decree 1500, which mandates online civil society participation in extractive projects without considering evident concerns regarding the quality of participation and Internet connectivity. It also exempts mining companies from delivering environmental monitoring reports based on fieldwork. Remote inspection and control will prove a challenge without the effective presence of state authority in the territory. At the same time, reduced copper revenues may increase attention to other minerals, such as gold. Artisanal and small-scale mining, a sector that mingles poverty-driven miners with criminal groups, has not stopped operating even under quarantine. While the stability of gold prices could be perceived as an incentive to promote mining formalization and increase tax revenue, the physical retreat of government offices other than the military in gold-mining regions does not point in that direction. This creates the potential for more violent encounters between miners and the armed forces in the Amazon.”

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