

Mineweb in LatAm - Not Everything that Ticks Goes "Boom"!

A very comprehensive and personal view of the Latin American mining scene on a country by country basis.

Author: Christopher Ecclestone (Hallgarten & Company)

Exert reprinted with permission from www.mineweb.com,

Full article can be found at: <http://www.mineweb.com/mineweb/view/mineweb/en/page67?oid=59031&sn=display>

Argentina - varying province by province

The bad press Argentina gets for its mining restrictions generally comes from uninformed media sources that give the impression of some sort of monolithic resistance to mining activities. In fact Argentina's openness to mining is not in doubt. The regulations on local mining are at the provincial level. If a specific province is averse to mining then it's a zone to be avoided. At the moment the worst "no go" zone is La Pampa, where we only know of one player, Orocobre (ORE.ax). This province won't allow any open-cut mining of any sort. Ironically it is Argentina's largest producer of salt, but this comes from lakebed mining. La Rioja is another problem spot, as are the well-documented problems in Chubut and Mendoza. On the other hand, there are some provinces, which welcome miners with open arms and relish with glee the addition of restrictions in the "problem" provinces as it means more exploration for them. The best places to go fossicking in Argentina are Jujuy (where Silver Standard is developing its massive Pirquitas mine), Catamarca (where the Bajo de la Alumbrera mine has been operating for over ten years), San Juan (with a myriad of miners moving and shaking), Salta (nothing much in production but open to exploration and development) and Santa Cruz (where a swathe of precious metals mines and projects are moving ahead).

One area of the economy for which the Cristina Fernandez de Kirchner administration has a benign attitude is the evolving mining industry. With both the President and the former President (her husband Nestor Kirchner) coming from the province of Santa Cruz, this is no surprise. With sector activity up 400% in the last 30 months, the great hope pre-election was that Cristina's term in office would see this fledgling sprout some decent plumage and take flight. This will only happen though if some of the local caudillos are brought to heel.

Eschewing metaphors for a moment, the official government mining board plans mining to quadruple through 2015. More importantly most of that activity will be based around producing mines and not just exploration as is currently the majority case, therefore those that plan these things are looking to hike mining exports to a healthy U\$16.3Bn (which would represent around 6.7% of total current Argentine GDP).

Recently however, some of the provinces with large extraction projects for gold, silver, copper, lead, zinc and all the other metals one can imagine have been making a right old Gore-like nuisance of themselves. The renegade provinces have played the pesky environmental card since Nestor Kirchner came to office and banned the use of cyanide, effectively shutting down all plans for gold extraction on a commercial basis. To make matters worse, when Meridian Gold (MDG) lost an appeal case in front of the Argentine Supreme Court in 2007, the judges also ratified the precedent of provincial government decisions over dicta handed down from the Federal government in Buenos Aires. The fact that Argentine provincial governments have wide ranging autonomy is sometimes lost on foreign observers, but it is in fact a basic building block of the Argentine republic and helps to explain why governors like Adolfo Rodriguez Saa of San Luis (of the seven-day presidency) can run a balanced budget for decades while all around are losing theirs.

Mendoza - grape growers rule the roost

Going forward, we sadly see little hope for Mendoza mining projects; the province's wine lobby is far too powerful and will play the environment card successfully from now until Greenpeace rules the world. It is strongly suspected that the real reason they don't want mining in the region is that mining companies will vacuum away the cheap labour they exploit for the vendange every year is beside the point and isn't often said out loud. Some mining companies claim to us this will be overturned. For the moment projects in this province are not worth throwing more money at.

Chubut - maybe seeing the light

Chubut has two legal issues on mining running at the moment. Firstly the 2003 ban on the use of cyanide. Secondly the three-year ban on mine production of any type that has around one more year to run (but exploration and resource definition etc is allowed). We would also note that the ban only covered the far west of the province, but has made explorers nervous enough to regard it de facto as a total province ban.

The Esquel project run by "Minera El Desquite" (originally Meridian and thus now Yamana) is permanently derailed. The local town (big on skiing industry and trying to promote ecotourism) is very much against the project. The locals voted 81% against the mine in a 2003 referendum, and the sentiment hasn't changed at all. That referendum weighs heavily on the local governor and out-trumps any plans Yamana, the government of Chubut or the Federal government might have of moving the project forward. Bottom line; in our view it's not going to happen.

Aquiline's (AQL.TO) Ag/Pb/Hg "Navidad" project is much more likely to get the go-ahead, especially now the ownership case versus IMA has been cleared up to all intent and purposes. The governor of Chubut, Mario Das Neves was re-elected last year (with 77% of the vote) and has hitherto been a Kirchnerite who toed the line with national government. Moreover in a speech several weeks ago at the Canadian embassy, Das Neves was saying all the right things, and made clear signs that he was looking forward to cutting ribbons at Navidad.

The Patagonia Gold (PGD.L) project is also likely to get a green light to develop further, but will still have to overcome the ban on cyanide use at some time in the future. All the same, it's in a far better position than Yamana at Esquel. Other projects will be in the same position.

Chubut has been clearly earmarked by Federal government as part of the next stage of mining development program in Argentina. The country as a whole plans to quadruple mining exports by 2015.

The local Chubut political view is the following; the governor and company wants mining. They realize now the mistake they made by allowing locals around a projected site to vote in referendum style (ie Esquel) and that's not going to happen again. National and local government will be hot (or even very hot) on the green issues of any project, but they'll keep any decisions to go ahead "in house", and the local peoples around the Aquiline, Patagonia Gold, etc projects are not going to get a veto per se.

Local government will be hot on environmental issues for two reasons. Firstly, they really do care themselves about not screwing up the environment (it's not just lip-service). Secondly, the environmental groups in western Chubut are well organized and know how to kick up a fuss on a national and even international level. Das Neves wants to keep his nose very clean (as a sidebar, he has aspirations of a run for Argentine President in 2011). On the other hand, most residents in the larger cities in the East of Chubut (Trelew, Puerto Madryn etc) are pretty much indifferent to the cause of the environmental groups; militancy only extends to the small towns and villages in the west of Chubut where the projects are situated. This will give a considerable advantage to Das Neves when he starts pushing the green lights through the local parliament.

Das Neves has made recent noises saying that although the Esquel project is a "no", he wants to develop other mining projects in the region. Das Neves has also been separating Esquel from other mining proposed mining projects in speeches and smallish governmental decisions (such as where to place limit boundaries in the study zone for the current land survey). Thus he is widely expected to OK at least two of the major projects slated for development in Chubut and these may be approved soon. Protest groups in far-flung western Argentine villages may well kick and scream, but national eyes will oversee environmental compliance from now and on there will be no more local referendums in this brave new world of mining.

La Rioja - Machiavellian squabbles stir the dust

The Argentine province of La Rioja has gone from being the cradle of the current mining boom to yet another of the "no-go" zones. Carlos Menem, the President from 1989 to 1997 had formerly been the governor of this state. He took his pack of cronies to BA in 1989 and overhauled the Federal mining law in his own image. This stodgy piece of legislation had stifled mining development since 1947. With his minister of mining, Angel Mazza, he single-handedly revived the sector and passed control back to the provinces. Mazza went back to become governor of the province. Turmoil in March 2006 resulted in an overturning of the Mazza regime and a ban coming into effect on all mining using cyanide. La Rioja is host to the Famatina (Barrick Gold) prospect amongst others. The ban is plainly ridiculous and, more than most other provinces, was actually just a case of local political dogfights with mining being collateral damage. This leads us to suspect that it may be overturned at some point. The province has yet to adjust to the fact that it has fallen off the Menem gravy train when the cash flowed its way in a massive tide. Now its back to growing olives and taking long siestas, neither of which put any significant money in the province's coffers. The aggravation is only heightened by Catamarca next door enjoying the bounty (tax and job-wise) from the Alumbreira mine and multiple exploration efforts going on in its territory.

La Pampa -doomed to irrelevance

The Australian miner Orocobre (ORE.AX) is the only party we know of that has been negatively impacted by the draconian mining ban in this province. Well, those most negatively impacted are the inhabitants of this "road to nowhere" province but they are too dumb to know it and are not likely to change until everyone else has. The consolation for Orocobre is that their prospect in the province sounded like a dog to us. The real excitement should be at their lithium/potash salt lake way up north in Jujuy.

Conclusion

So is LatAm any more of a minefield than anywhere else? Certainly it seems like there are a plethora of administrations to appease and consider in deciding where to explore and then site a mine. However, this comes with the territory when it is as richly endowed as Latin America is with mineral resources. There is no doubt for us as to whether we would prefer to explore or operate in any country in Latin America vis a vis Russia, for example. Ironically the only country in LatAm with equivalent or worse investor protection is Venezuela, that is sidling up to a quasi-Russian mining company while sending everyone else packing.

PR in mining has traditionally been the charming of investors. Now it's the charming of the locals that is the key task. Even maneuvering in a difficult environment like Bolivia can bring benefits if one can cut off nationalists at the pass by getting local PTBs to get behind the project and see it in their best interests. If the national government is intractable then one can either retreat or put exploration on a care and maintenance basis until the demagogues fall. The latter is something one can almost be assured will happen sooner or later. Bolivia and Ecuador in particular have a reputation for having "revolving door" presidencies.

So know your local politicians well and be prepared to come bearing gifts. In the old days knowing the President's Swiss bank account number usually did the trick (particularly in Zaire) but now the goodies have to be tangible and reach those who ultimately will be working and living in the vicinity of the new mine. Ignore this at your peril.