



Political change and new perspectives for mining in Chile

By Juanita C Gana*

The international copper market is highly dependent on the mineral policies adopted by Chile, the leading exporter.

Juanita C Gana looks at the implications of recent political changes in the country and outlines a possible mining policy for the 1990s.

Undoubtedly, mining is one of the main concerns within any development strategy for a country such as Chile. Even though mining has reduced its relative contribution to the national accounts over the last decade, it is still the most relevant sector, both in terms of foreign income and fiscal budget. Moreover, the growing linkages between mining and industrial activities, such as the capital goods industry, has reinforced its key role in the Chilean economy.

This is a matter of fact and politicians have understood that regardless of the next democratic government might be, mining would still be determinant in the economic feasibility of the future political program.

But political changes would mean mining policy changes. Specially because there is a common feeling that it is not possible to speak of a mining policy framework at present. It is difficult to identify specific sectorial actions and what happens is more or less dependent on what the market decides.

Within this context, the *Center of Copper and Mining Studies*, CESCO, developed a research project aimed at

discussing the major concerns and to identify possible proposals of people connected with the mining industry from different perspectives.

The research covered the thinking of entrepreneurs, professional organizations and labor unions. It also covered a broad political spectrum, from the traditional right to the more radical left parties.

The research results were complex. It was not easy to get an organized matrix in which everybody could see what is next. This is particularly true when politicians enter the scene.

For a country which has endured a long dictatorial regime it is difficult to define representativeness. There has been no political elections since the military coup. Indeed, political parties, specially left wing parties have suffered from a strong repression and not until last year political parties were able to begin to reorganize and to think in terms of programmatic proposals. Nevertheless, it is now possible to outline the profile of what could be the principal guidelines of a future mining policy for Chile.

Table 1
Chilean exports (MUSD)

	Mining ¹	Forestry ¹	Agriculture ¹	Fishery ¹	Total
1974	3.082.1 (85.6%)	218.9 (6.1%)	101.5 (2.8%)	100.3 (2.8%)	3.599.4
1980	3.038.3 (66.6%)	474.7 (10.4%)	379.7 (8.3%)	378.8 (8.3%)	4.560.4
1988	4.224.1 (59.9%)	736.1 (10.4%)	799.2 (11.3%)	834.5 (11.8%)	7.048.3

Note:

¹ It includes not only raw materials, but also semielaborated products like pulp and paper, agroindustrial products, and fish flour.

Source:

Banco Central

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Basic agreements

It is interesting to note that in broad terms there was substantial general agreement. Of course, there were some topics that, being of a more political scope, generated more discussion.

The fundamental agreements are related to a very important understanding of the mining sector as part of a whole, and the desirability of a stronger role for the state in the formulation of a sectorial policy within the national development strategy. A point of departure for a long journey.

As for the former, we are faced with a new paradigm: the importance of the natural resource sector and the harness-

ing of the reindustrialization process to it. The second reflects the much felt lack of a mining policy and this would lead to greater changes that could possibly take place in the near future in this sector.

In mining this paradigm is expressed in a consensus on the need for a further expansion of the sector so as to furnish it with the necessary resources for future development: foreign income and rents.

Attaining maximum efficiency is an area of special concern. Speaking of state owned enterprises such as CODELCO, which accounts for 80 per cent of the Chilean copper production,

it means professionalization of the top level management and a greater level of autonomy regarding its investment plans, in accordance with its long term strategies.

Over the last period of time, the management of CODELCO has mainly been dependent on current political trends. The investment budget has been one of the principal mechanisms employed to exert political control over the performance of CODELCO, and to subordinate it to global policies, for example, the necessity to attract foreign investment.

In general, this implies a very capital intensive sector. The question then is, once revenues have been maximized and taxes have been collected, how much of the latter should be diverted to support necessary investment in other productive sectors, which could be more labor intensive and, in general, satisfy social and development goals. This investment issue should be solved in accordance with a global national strategy.

Industrialization

But taxes and currency are not the only possible route to secure benefits for the country from mining activity; the industrial linkages mentioned are also an important complementary way. In the past, mining was considered an enclave. Its economic impact over the whole economy in terms of activity, employment and industrial development was very weak. But in the last twenty years things has began to change gradually. Linkages with industry have been strengthened thanks to the previously created foundation (technical skills, facilities, experience). But there is still a broad ground in which several actions could be taken to expand and to diversify the industry.

In fact, for many productive sectors mining is its principal market, and there exists a big potential to encourage growth if appropriate policies were im-

Table 2
Chilean copper production (kt)

	1982	1983	1984	1985	1986	1987	1988
CODELCO	1 033	1 012	1 050	1 077	1 102	1 091	1 091
Medium and small enterprises	209	245	241	280	299	328	360
Total	1 242	1 258	1 291	1 356	1 401	1 418	1 451

Source:

Comisión Chilena del Cobre

Table 3
Production and exports of copper manufactures (t)

	Internal market	Exports	Total
1982	13 300	19 495	32 795
1983	9 100	14 751	23 851
1984	17 100	17 949	35 049
1985	11 700	14 000	25 700
1986	17 100	19 300	36 400
1987	21 500	23 500	45 000

Source:

Valenzuela I, Panorama de la industria elaborada del cobre en Chile, Documento de trabajo, No 2, CESCO, 1989.



plemented. The biggest investment projects are made by mining enterprises and mining requirements for capital goods are the greatest among productive sectors. The improvement of the communication channels of mining enterprises so as to provide the appropriate information to the industry (investment plans, needs, technical specifications) is one of the fields in which further stages could be achieved. The development of financial support for the industry to cope with the R&D needs and marketing competitiveness is another important issue.

On other hand, thus far, mining has principally meant the production and export of raw materials. Though there is a great interest in developing a manufacturing industry it is less clear than the backward linkage potentialities. Even though there are some limitations because of the narrowness of the national market and the heavy tariff structure of external markets, the concern for an autonomous and stable growth justly some additional analysis.

This could be seen as a remake of the old industrialization process and, to a certain extent, the arguments are still more or less the same. The pessimistic perspective for traditional metal markets is one of the reasons why the industrialization or metals and the technology development are considered so fundamental.

But there are two principal differences: the new paradigm attempts to rely on a realistic basis, the great comparative advantages of Chilean natural resources. It is not just wishful thinking. Another difference, which is of no lesser importance, is the growing awareness of opportunity costs and scarce resources. Equity and efficiency are concepts that were costly learned in those years.

Technological development

Then, again mining and other natural resources are seen as a kind of prime engine not only of the industry, but also of technological development. In fact, mining investment is also a principal market for consultancy and engineering

agencies, and for technological research centers and some universities.

On the other hand, mining will be able to survive in the technological international struggle only if it is ready to invest the necessary resources in R&D. Competitiveness, within the mining industry or within the materials industry, is one of the greatest challenges for the future. This most definitely requires technological development. Closely related to this is the development of metals demand: new alloys, new uses, new products.

The role of the state

Regarding the public discourse, the above elements do not involve a substantial modification of what has happened in these years. Nevertheless, implicitly they involve one major policy change in the basic principles that govern the sector development.

Under the prevailing political philosophy, the state has become more an observer than a leader of the sector's development. Undoubtedly, the state will play a more outstanding role in mining

Compañía Minera Disputada de las Condes is a major international actor in the Chilean copper industry. Photo show Disputada's los Bronces mine, at 4 000 m (left).

in the future in production, promotion and guidance.

As regard the latter, there is a loss of trust in the market as the only device for the distribution of resources. The big importance of the sector in the economic performance of the country and certain specific features demand the state's presence to guarantee its effective contribution to the global development strategy and to counterbalance the insufficiencies of the sole action of demand and supply.

The international policy dimension, scale economies and monopsonic characteristics of the operation of the smaller producer, are some of the issues that justify a stronger state participation in the eyes of the politicians and of the sectorial agents. They want a real development policy for the sector that articulates the different issues at stake.

In terms of its producer role, there is a strong consensus about the state property and management of CODELCO and nobody ventures to propose its privatization, a much discussed subject in the last period and solved principally according to national security concepts.

The principal arguments are, on the one hand, the essential role it plays in

the national economy. Chile has a long experience of having the principal economic activity controlled by foreign multinationals. Nationalization was unanimously agreed on in 1971, and the chief motives still hold. The strategical importance of state ownership of CODELCO is reinforced in view of the growing presence of foreign investment in the sector.

On the other hand, it is difficult to imagine a national protagonist capable to go ahead with it. Finally, there is conclusive evidence that proves that CODELCO's expansion is more profitable than private projects.

In terms of promotion, the state should reinforce its technical and financial assistance to the small producers that do not have an appropriate access to the conventional markets. The same applies to marketing: the amounts produced are small and heterogeneous and it is impossible for this sector to undertake marketing with their own resources. The supply of raw materials, information and infrastructure are other needs for this sector.

Medium and specially small firms account for a reduced proportion of total production and exports. Nevertheless they are one of the main sources of

employment in several regions. Then, here, this subsector serves principally social objectives.

The assistance should be provided in an efficient way and the producers that need help should be properly identified. Also, the selected mechanisms should be nondiscriminatory with respect to other productive sectors.

At present, there is a state-owned enterprise, ENAMI, created in 1960, which is supposed to accomplish these needs but lately it has limited its activities to a minimum. In the future, its role has to be reinforced and its performance has to be improved.

Legal framework

To accomplish the above objectives, the state would need to strengthen the power with which it is vested. And here is one of the more controversial subjects: the legal framework and the present institutional structure, which are seen as a limitation for the capacity of the state for formulating and doing real policy.

This issue is controversial because it is attached to the issue on private property. There is consensus about the need to formulate a sectorial policy, to promote mining development and to sustain state ownership of CODELCO, but the practical aspects of a change in the legal framework and the reestablishment of the patrimonial property concept provokes a strong discussion. The present concept of "full mining rights", developed to give confidence to new investors, practically means a factual ownership of the mineral.

Those who favour state-ownership (mining rights and in a de facto status) are concerned about the possibility of the state to act as an agent of the mining policy. Thereby, averting the repetition of the conflicts which arose in earlier periods, when the largest mining operations were controlled by multinationals, whose interests not always coincided with those of the country.

Table 4
Imports of capital goods and equipment for mining (MUSD)

	1984	1985	1986	1987
CODELCO	161.0	244.0	277.9	198.0
Medium and small mining enterprises	62.3	48.5	51.1	43.6
Total	223.6	292.5	329.0	241.6
Total national imports	3 738.8	3 006.6	3 156.9	4 023.3
Mining imp/Nat imp (%)	6.0	9.7	10.4	6.0

Source:

Banco Central, Comisión Chilena del Cobre

On the other hand, among those who are for the prevailing system, there is the fear of expropriation.

This is the reason why some people today propose a mixed system: a different treatment for national and foreign investors, in accordance with the volumes involved and, therefore, their impact on the sector performance.

Foreign investment

Related to the question of the legal framework and the property issue is another controversial subject: foreign investment.

Even though nobody questions foreign investment in the country, and many are fully aware of the contribution that can be attributed to its presence, there is no general agreement on a specific policy for foreign investment.

Technology and markets are seen as the main benefits from the presence of foreign investors. Financial resources is a more relativized aspect because of the

growing importance of credit in financing new projects. There is a need for a change in the present regulations. Almost all sectors perceive far too many guarantees for foreign investors.

The trend seems to be the formulation of a general legal framework that safeguards the country's interest, plus a case by case negotiation depending on the specific conditions of the project and its comparative advantages. But what could be the final devices to assure its contribution to national goals? Mixed companies, or case by case negotiation, or automatic mechanisms of regulation?

In recent time, foreign capital has invaded the mining sector and it is foreseen that in the 90s state enterprises are going to play a reduced role if there is no reversal of the present trend. There are also different attitudes towards this foreign investment: maintaining of the present conditions? revision of contracts? expropriation?

International relationships

Coming back to the agreements in the international sphere, there is also a common feeling in terms of the convenience of assuming the leadership of the market, and the formulation of a price and production policy.

Although it is recognized that Chile has no monopolistic power, there is confidence in what could be done in terms of producer and consumer agreements, to achieve a more organized market, to promote new uses, and to guide the future development of the industry.

In this field, the current policy has been to rely on market trends and to ignore joint actions. This has impaired the effectiveness of organizations in which the Chilean role could be decisive like CIPEC and Andean Pact.

The decreasing rate of traditional metal consumption in developed countries leads the industry to explore market opportunities in developing countries, specially in newly industrialized countries such as Brazil and the countries in Asia.

Likewise, the possibility to develop a capital goods industry to serve the needs of mining activities would probably lead to a reconsideration of the links with Latin American countries and probably Chilean participation in the Andean Pact.

Participation: the key to stability

Finally, there is a consensus on the importance of stable rules for mining development and that this mean participation. The establishment of a clear and stable framework for the decision maker, and for him to take the decisions which are more appropriate to the national interest, requires the involvement of the sectorial actors. Here the state would have a very important role in harmonizing interests, just as important as the return to a democratic way of life. □

Table 5

Foreign investment in Chile¹

	Mining (MUSD)	Total (MUSD)	Mining/Total (%)
1982	70.7	383.8	18.4
1983	45.7	182.4	25.1
1984	58.1	159.6	36.4
1985	54.6	137.5	39.7
1986	60.4	184.1	32.8
1987	125.2	497.0	25.2
1988	357.7	787.3	45.4 ⁴

Source:

Banco Central

Notes:

¹ As a reference, the average annual investment of CODELCO in the same period was 280 MUSD.

² The principal project is Escondida, which is going to produce 320 Mt of copper annually. This would mean more than 25 per cent of CODELCO's production.