Chile: World Leadership in Mining

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Carcelén & Cia. – Abogados
Mining Quiz
Chile: A Mining Country

From the early pioneers through to today’s modern and sophisticated companies, Chile’s history has been shaped by mining.

Impact of mining in terms of economic growth and social development:

- Mining investment has created more and ever-better jobs.
- Transport infrastructure that has followed the industry’s development.
- Mining has served as a bridgehead for the transfer and incorporation of new technologies.
- Even more importantly, mining has a positive impact on the quality of life of communities located in mining areas.
Milestones for Chilean Mining Development

1960-1981
- Creación de Enami
- D.L. 600 Inv. Extranjera
- Cochilco
- Sernageomin
- Nacionalización del Cobre
- Creación de Codelco-Chile
- Constitución Política de Chile

1982-2010
- Ley Org. Concesiones Mineras
- Ley Bases del Medio Ambiente
- Impuesto Específico a la Minería
- Código de Minería
- Tratado Minero Chile Argentina
- Gobierno Corporativo Codelco
Contribution to World’s Copper Production

- Chile: 36%
- Otros: 25%
- Estados Unidos: 8%
- Perú: 7%
- Australia: 5%
- Indonesia: 5%
- Rusia: 5%
- China: 5%
- Canada: 4%

Source: Cochilco
Principal Copper Producers

Codelco + Escondida: 51.3 % of the national copper production
Growth of Copper Production

Evolución Producción Cobre Periodo 1960-2010

Cifras en miles de tmf de cobre (ktmf)

- 523 KTmf
- 5.418 KTmf

Codelco (Estatal) - Privados
Mining Principles in the Constitution (1980)

- The State is the owner of all mineral resources and it has absolute, exclusive and inalienable ownership over them.

- The Constitution allows the exploration and exploitation of mineral deposits by private companies (local/foreign).

- Mining concessions shall always be granted by a judicial resolution and the ownership of the mining concession is protected by the constitutional guarantee of the right of property.

- The mining right holder shall become the owner of all mineral substances within such concessions.

- In case of expropriation, the mining right holder shall be entitled to ask for compensation of any patrimonial damage.
### Mining Projects by Region

#### Dueño/Proyecto | Inicio Operación | Mill USD
--- | --- | ----
Collahuasi/Expansión Fase I | 2012 | 750
Collahuasi/Expansión Fase II | Posterior a 2015 | 2,500
TECk/ Quebrada Blanca Hipógeno | Posterior a 2015 | 3,000

Total | | 6,250

#### Dueño/Proyecto | Inicio Operación | Mill USD
--- | --- | ----
Can-Can/ Diego de Almagro Lix. | 2013 | 110
Barrick/ Pascua | 2013 | 1,500
Can-Can/ Diego de Almagro Conc. | 2014 | 120
Codelco/ San Antonio Oxidos | 2014 | 400
Kinross/ Lobo-Marté | 2014 | 580
Panaust/ Inca de Oro | 2014 | 600
Far West/ Santo Domingo | 2014 | 940
Pan Pacific/ Caserones | 2014 | 2,100
GoldCorp/ El Morro | 2015 | 2,500
TECk/ Relincho | Posterior a 2015 | 3,000
Barrick/ Cerro Casale | Posterior a 2015 | 5,300

Total | | 17,150

#### Dueño/Proyecto | Inicio Operación | Mill USD
--- | --- | ----
BHP/ Escondida Nueva Pila Biolixiviación | 2011 | 400
El Abra/ Sulfolix | 2011 | 740
Xstrata/ Lomas Ballas II | 2012 | 300
BHP/ Escondida Rec. Chancador | 2012 | 550
BHP/ Escondida Nueva Pila Lixv. Oxidos | 2013 | 430
Antof. Minerals/ Antucoya | 2014 | 950
Codelco/ Mina Ministro Hales | 2014 | 2,100
Codelco/ Quetena | 2015 | 620
Quadra FNX/ Sierra Gorda | 2015 | 2,500
Codelco/ Sulfuros RT Fase II | Posterior a 2015 | 2,000
BHP/ Escondida Fase V | Posterior a 2015 | 2,000

Total | | 13,090

#### Dueño/Proyecto | Inicio Operación | Mill USD
--- | --- | ----
Anglo/ Los Bronces 160 Ktpd | 2011 | 2,500
Codelco/ Andina Fase II | Posterior a 2015 | 6,400
Codelco/ Nuevo Nivel Mina | Posterior a 2015 | 3,400
Project Portfolio - Copper & Gold (2011-2020)
(numbers in USD millions)

Total Investment Portfolio 2011–2020: US$ 52 billions
Chile: A Strong Economy

Chile’s dynamic business environment is the result of a policy-driven strategy that has focused on:

- Building sound macroeconomic fundamentals through a rules-based policy framework.
- Advancing democracy, political freedom and civil liberties.
- Actively encouraging international integration through free trade agreements and FDI.
- Implementing strong social policies to promote social cohesion so all citizens benefit from economic growth.
Chile: The Safest Place to Invest in Latin America

- Best Sovereign Risk Rating in Latin America from each of the 3 primary ratings agencies (S&P, Fitch, & Moody’s).

- 18th Risk Ranking of the Economist Intelligence Unit (Feb. 2010). Highest in Latin America, and higher than the U.S., Japan, and the UK.

- 22nd Best Place to Do Business in the next 5. Economist Intelligence Unit.


- 6.7 (up to 10) in the Corruption Perception Index of Transparency International (2009). Over Spain and China and 1st in Latam Region.
FDI materialized under DL 600

Breakdown of inflows by sector, 1974-2009
(US$ 74,901 million)

- Mining: 33%
- Services: 22%
- Electricity, gas & water: 20%
- Manufacturing: 12%
- Transport & communication: 11%
- Others: 3%

Source: Foreign Investment Committee (www.foreigninvestment.cl)
Principles of the Foreign Investment Regime

- Non-discrimination.
- Non-discretionary procedures.
- Free access to economic sectors.
- Contract with State of Chile.
- Capital and profit remittances.
- Choice of tax system.
- Six forms of investment (foreign currency, assets, technology, loans, etc.).
- Special rights for mining investment (high amounts and long term).
Chile: Mining GDP

Participación de la Minería en el PIB de Chile
(Precios Corrientes)

Average 16.8%

2003: 8.4%
2004: 12.9%
2005: 15.7%
2006: 22.3%
2007: 22.8%
2008: 17.6%
2009: 13.6%
2010: 19.2%
In 2010, tax revenues generated by mining were 20.6% of total government revenue. Between January 2005 and March 2011, the mining sector contributed more than USD 64 000 million to the State of Chile.
In its 40 years, Codelco has contributed to the State of Chile the amount of US$ 84,000.

* Includes income tax, transfers under Law 13.196, profit transfers, customs duties, VAT and other items.

** Includes US$ 705 million corresponding to the Specific Mining Tax of which companies can credit US$ 352 million against income tax.
Mining Royalty in Chile

• Tax collection by the state by the mere fact of extracting chilean mineral resources.

• This is a kind of compensation that the mining companies must pay to the State to extract and get profits from the Chilean subsoil minerals.

• Law Nº 20.026 (2005) establishes the Specific Mining Tax (SMT), based on the operational profits of the companies. It is applied for those companies exceeding 12.000 TPD of fine cooper and the tax is charged in installments up to 50.000 metric tons of fine copper and can range from 0,5% up to 5%.
Mining Royalty in Chile

To help pay for the country’s reconstruction from the earthquake, Chile has enacted a temporary increase in its corporate income tax rate and a definitive increase in the SMT.

The increase in the SMT is:

- Voluntary with respect to existing operations that have invariability tax regimes under DL-600 contracts.

- The rate of the SMT has been increased to a level of 5-14%.

- Determined according to the mining operational margins.

- 6 years will be granted for those who submit to the new regime. Such extended term will be counted as from the date in which the original DL600 contract term expires.
Poverty Reduction

Source: MIDEPLAN (www.casen.cl)
Poverty Reduction and Mining

Mining Regions are below the national average (13.7% poverty):

- Tarapacá: 11.8%
- Antofagasta: 7.3%
- Atacama: 10.5%

<table>
<thead>
<tr>
<th>Mining District</th>
<th>2000</th>
<th>2006</th>
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<tbody>
<tr>
<td>Pozo Almonte</td>
<td>21.9%</td>
<td>6.1%</td>
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<tr>
<td>Antofagasta</td>
<td>12.9%</td>
<td>6.1%</td>
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<td>María Elena</td>
<td>14.6%</td>
<td>5.3%</td>
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<tr>
<td>Sierra Gorda</td>
<td>3.4%</td>
<td>2.7%</td>
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<td>Mejillones</td>
<td>20.1%</td>
<td>5.0%</td>
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<td>Taltal</td>
<td>32.9%</td>
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Fiscal Stabilization

Creation of two funds:


- Economic and Social Stability Fund (May 11: ~US$ 13 billion): to finance potential fiscal deficits and to amortize public debt.

- These government funds are separate from Central Bank reserves, which are managed by the independent Central Bank.
## Policies to Attract Mining Investment

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<th>Score</th>
<th>Rank</th>
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<tr>
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<td>Venezuela</td>
<td>1.3</td>
<td>6.9</td>
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Policy Potential Index (PPI) issued in 2011 by Fraser Institute. It measures key matters to attract mining investment: regulation, tax structure, infraestructura, environmental framework, political estability, etc.
# Fraser Institute: Mineral Potential Index 2010-2012 **

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<td>0.71</td>
<td>0.73</td>
<td>0.74</td>
<td>0.76</td>
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<td>44/79</td>
<td>28/72</td>
<td>31/71</td>
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**Measures geological potential in each jurisdiction**
Chile: A Mining Country

- In the period 2003-2010 the average of the so called Mining GDP was up to 16.8%. It was 19.2% in 2010.

- This owes much to the economic dynamism generated by mining activity as well as to a battery of government social policies financed, to a significant extent, by revenues from the industry’s taxes and surpluses.

- The 2006 National Socioeconomic Survey (CASEN) found that, in the Antofagasta Region of northern Chile ---the heart of the mining industry-- 7.3% of the population was living below the poverty line. This represented almost 7 points below the national average and a drop of 70% on 1990
Conclusions and Factors of Success

- A positive business climate (macroeconomic discipline, commercial openness, legal stability, transparency).
- Legal and Tax Stability for the mining industry.
- No discresionality in granting new concessions.
- PPP in infraestructure projects.
- Environmental compliance.
- Social participation.
Chile: World Leadership in Mining

Jerónimo Carcelén
Attorney at Law

September 2011
Islamabad, Pakistan