

Mining Survey 2020: What to Expect After the Pandemic

When will investment levels go back to pre Covid levels? Will M&A activity accelerate? Will project development pick up next year? Take a look at what the mining industry professionals are expecting for the following months.

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Introduction:

Six months since Covid-19 arrived in Latin America, BNamericas went to the market to measure the real impact on mining activity in the region and what to expect in the coming months. The study, carried out with an online survey of more than 300 mining industry professionals, has shown that more than half of respondents considers that their company has suffered a big impact, while an additional 40% said there has been a moderate impact.

But the survey also sought more detailed information about the future plans of the different players in the industry and discovered that investment is expected to recover in 2021 and that spending on digital transformation, in most cases, will go ahead.

Looking at the present, it is clear that the main damage caused by Covid-19 was a reduction in mine production activity, project development, reduced demand for goods and services and the inevitable impact on revenues. Looking forward, the impacts of Covid as we ease into recovery generally boil down to cost.

Future waves of pandemic are deemed to be the biggest [risk to recovery](#). And it appears that producing miners will be the [first to recover](#) as they ramp up operations and strong metal prices help to offset productivity losses and extra costs.

Indeed, after a moment of market shock in February-March 2020 when metal prices fell across the board, the values of key commodities for Latin America are higher now than they were at the start of 2020 and surging past previously expected levels.

The real star has been gold, which, [bolstered](#) by low interest rates and general economic turmoil, finally breached the magical US\$2,000/oz threshold and reached nominal all-time highs in August 2020. Silver has followed along to reach six-year highs.

Copper surpassed US\$3.00/lb, a two-year high, and is [expected](#) to continue to rise through 2020, with mine disruptions wiping up to 1Mt off of new supply and China's imports to rise nearly 12%. Zinc, nickel and iron ore prices have also rebounded completely from the losses registered early in the pandemic and have continued rising.

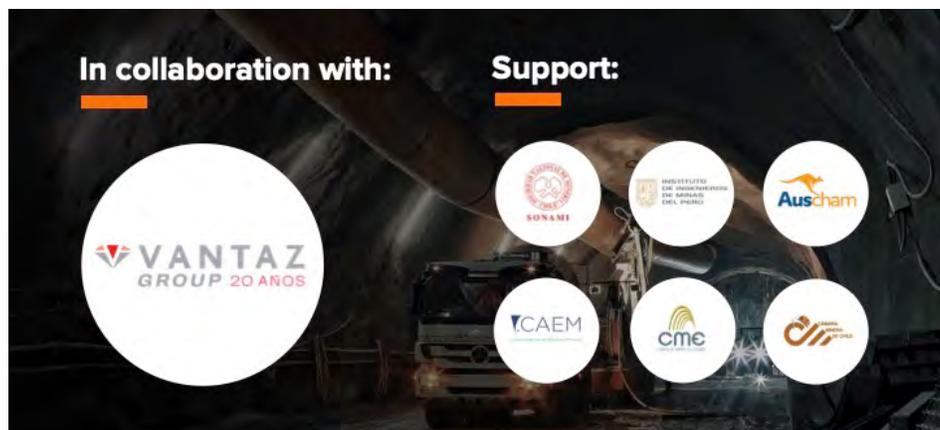
So while the current scenario is one of tremendous uncertainty, there is no denying the unique opportunity to capture high prices in the short term and use the momentum of the "new normal" to make changes that could transform the industry for the better.

BNamericas' Mining Survey 2020 was carried out between July 29 August 21 and received 325 responses:

- ▶ 16% were from people representing major mining companies, 7% were from smaller producers and 5% junior explorers; 14% providers of equipment/parts/maintenance; 13% providers of technical consulting; 11% providers of engineering; 11% from providers of strategic consulting; 7% providers of inputs/consumables; and the rest other or in some cases no answer.
- ▶ 49% of respondents identified themselves as C-level executives or senior management, while 15% are in commercial roles, 11% in operations, 11% in project management and the rest other roles.
- ▶ 71% of respondents said their companies are active in Peru, while 44% are active in Chile, 24% in Mexico, 23% in Argentina, 22% in Colombia, 22% in Ecuador, 17% in Brazil, 15% in Bolivia, 10% in Panama, and less than 10% in the rest of the countries in the region.
- ▶ 74% of respondents said they are focused on copper, 65% said gold, 54% said silver, 41% zinc/lead, 27% iron ore, 26% lithium and 21% molybdenum. 18% said "all minerals" are relevant for their organization, while smaller percentages mentioned additional minerals including coal, phosphate, tin, bauxite and uranium.

The results are presented as percentages of total responses to each question and represent the total pool of responses except where specified.

The survey was carried out in collaboration with consultancy [Vantaz Group](#) and with the support of the following institutions: [AusCham Argentina](#), [Cámara Argentina de Empresarios Mineros](#), [Cámara Minera de Chile](#), [Sociedad Nacional de Minería](#), [Cámara de Minería del Ecuador](#), [Instituto de Ingenieros de Minas del Perú](#).



The Impacts of Covid-19

More than half of respondents said the COVID-19 health crisis has had a big impact on their company's activities in Latin America, while an additional 40% said there has been a moderate impact.

We asked respondents to comment on the nature of the impact on their entities, and by far the most common response was related to reduced mining operations, [production](#) and project development, reduced demand for goods or services and the impacts on revenue.

IMPACT ON INVESTMENT PLANS

A strong majority (72%) of respondents said their investment plans have been affected by the pandemic. Looking only at mining operators, the percent is slightly higher, at 76%.

Works at most of the large construction projects were scaled back to greater or lesser degree, naturally leading to reduced spending, while many operating mines delayed sustaining capital expenditure, as the restrictions of the immediate health crisis forced the closure or slowdown of the mines and many services were simply not able to be performed due to the restrictions on movement of personnel.

And while to some degree the capex reductions owe to the impossibility of executing spending in the context of the health crisis, there was also an element of panic in the rapid push to conserve cash in the face of unprecedented uncertainty.

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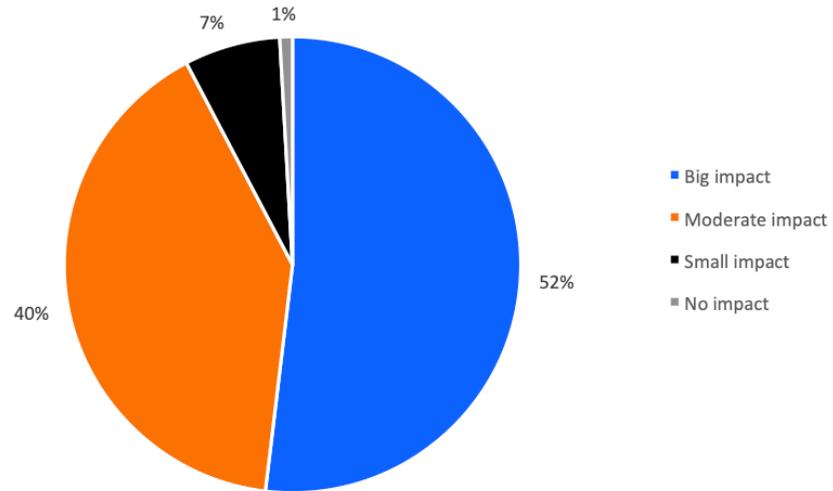
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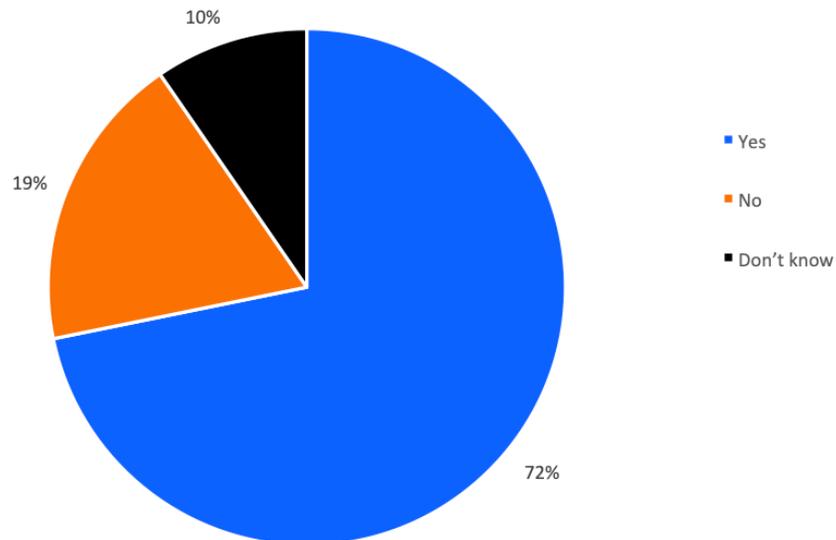
Graph: Impact of Covid-19 to Date

How big of an impact has the COVID-19 health crisis had on your activities in Latin America?



Graph: Investment Plans

Have your entity's investment plans been affected?



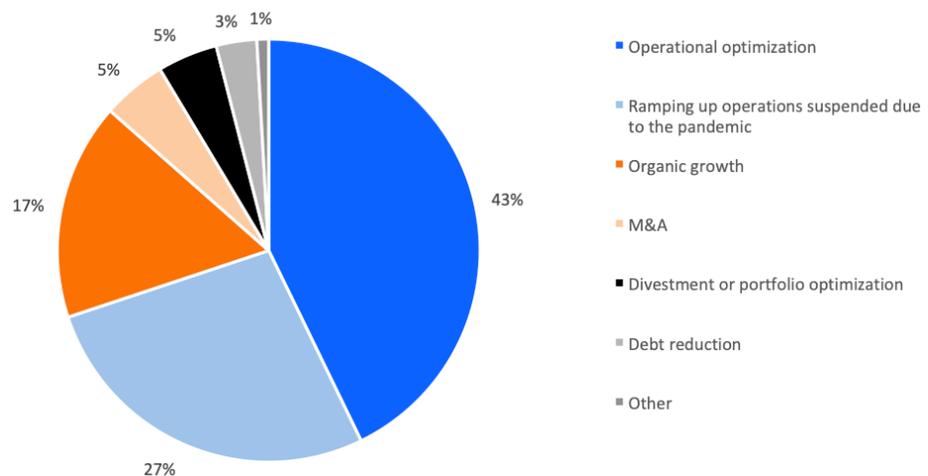
Strategic Focus

As recorded by past BNamericas surveys, operational optimization has been considered the primary focus of mining companies for some years now; however, we were starting to see a returned emphasis on growth in 2018-19 that the crisis has – probably temporarily – muted.

Even though M&A garnered few responses as the top priority for mining operators in the near term, more than half of respondents believe that M&A activity involving mining assets in Latin America will increase in the short to medium term, while more than one-third believe activity will at least keep pace. The results are in line with the trend that was already in place before the pandemic and speak to the underlying need of mining companies to be thinking about the future even as they deal with the present.

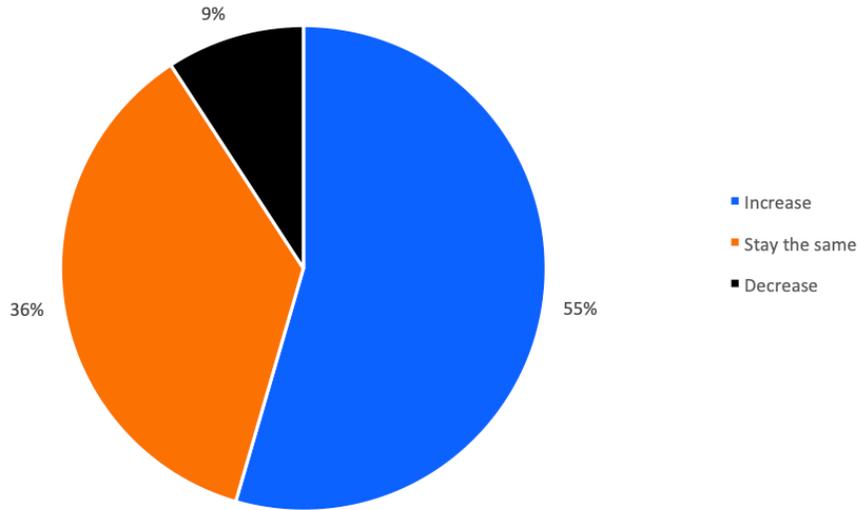
Graph: Strategic Focus

What will be mining companies' primary strategic focus in the near term?



Graph: M&A

In the short-medium term, mergers, acquisitions and joint ventures involving mining assets in Latin America will...



Climate Change and Digital Transformation

The survey results show that overall budgets for reduction of emissions have largely remained unaffected by the pandemic. 70% of respondents said their company's allocation of resources to greenhouse gas reduction is unchanged, while 8% said the budget has increased. In the context of reduced revenues and capex guidance reductions at many operators – remember that 72% told us that their investment plans had been affected –, these numbers are perhaps encouraging.

Investment in physical assets to reduce or compensate emissions – such as a solar energy plant owned by a mining company – were less common when looking at the total pool of respondents. This is explained by the fact that only a part of respondents represented companies that would be likely to invest in this – mining operators, and major producers in particular.

If we separate the answers from people who said they work for a major mining producer (51 responses), the picture looks quite different, with 61% “positive” responses including 37%, the largest slice of the pie, saying they do have investments in anti-emissions assets and also plan to make more.

It is clear that the trend toward carbon neutralization remains a priority for most of the mining industry despite the budget constraints of the pandemic.

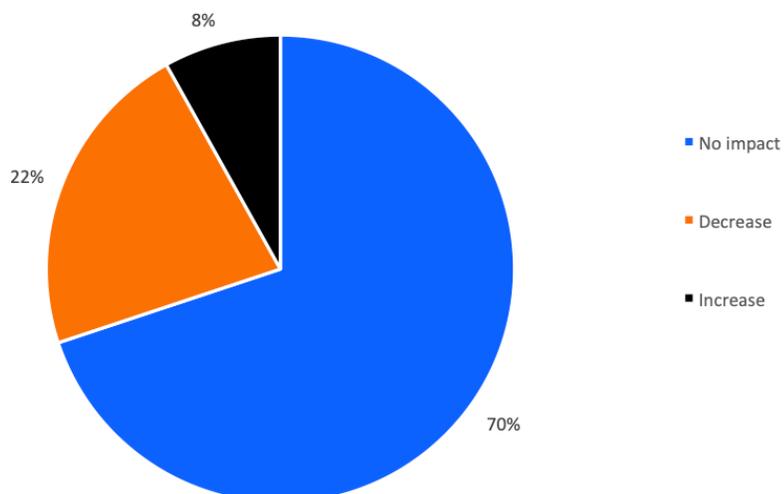
DIGITAL TRANSFORMATION

The results on digital transformation were mixed. However, among the general pool of respondents, increased spending for digitalization was, by a hair, the most common response.

In the context of operational optimization being considered the top priority for mining companies, it seems likely that spending on digital transformation could receive more emphasis once the immediate budget constraints of the pandemic have passed. If anything, the crisis has increased the urgency of digitalization and is likely to accelerate the trend.

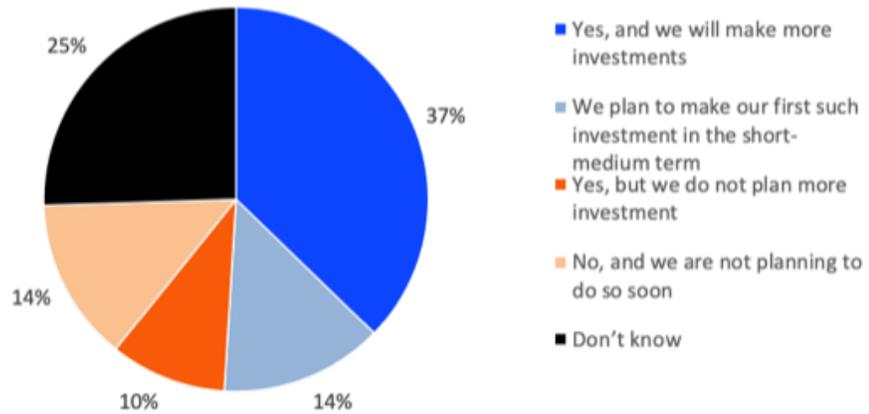
Graph: Carbon Reduction Budgets

How has the current crisis impacted your company’s allocation of resources to greenhouse gas reduction at the corporate level?



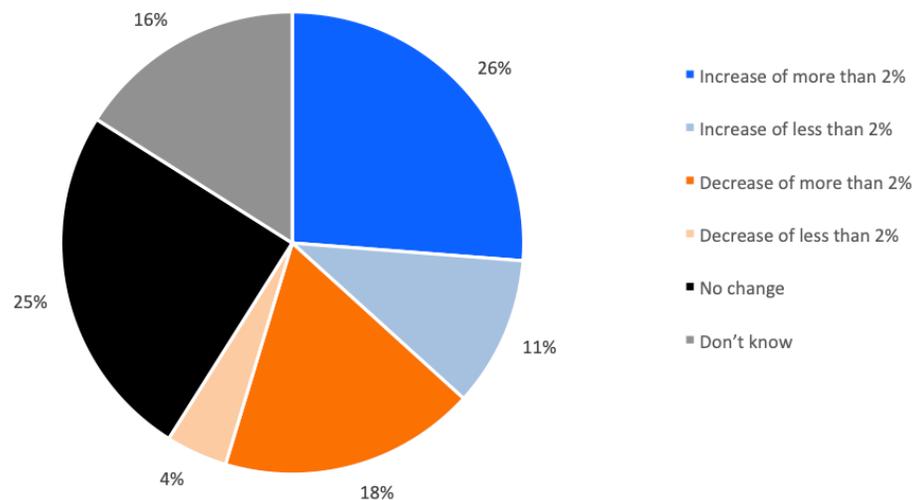
Graph: Physical Assets to Mitigate Emissions

Does your company have investments in physical assets aimed at reducing or compensating emissions?
ANSWERS FROM MAJOR PRODUCERS ONLY



Graph: Digitalization Budgets

How does your company's 2020 budget for investment in new technologies and/or digitalization of operations compare to last year's?



2021: The Year of Recovery

A resounding 76% of survey respondents said they believe mining investment will recover to pre-Covid levels in 2021. A small contingent of optimists (6%) said investment levels will recover in the second half of 2020, while the other 18% was more cautious, saying investment will fully return no sooner than 2022.

The first driver of renewed investment will be mining companies executing investment that was halted due to health restrictions, including sustaining works such as equipment maintenance and the restart of construction projects that had been stopped, which we are already starting to see.

Regarding whether the mining industry could experience a wave of new projects once the pandemic subsides, responses were at odds. The answer that received the most responses (39%), but only by a small margin, was that yes, new project activity will increase. The answer with the second most responses (32%) was that there will be a decrease in new projects.

Apart from what over the last 2-3 months have been strong metal prices, one of the main reasons to hope for an increase in projects is an expected push by governments to get investment and economic recovery flowing.

One of the big [challenges](#) to making this happen is a long-standing one in most countries: permitting.

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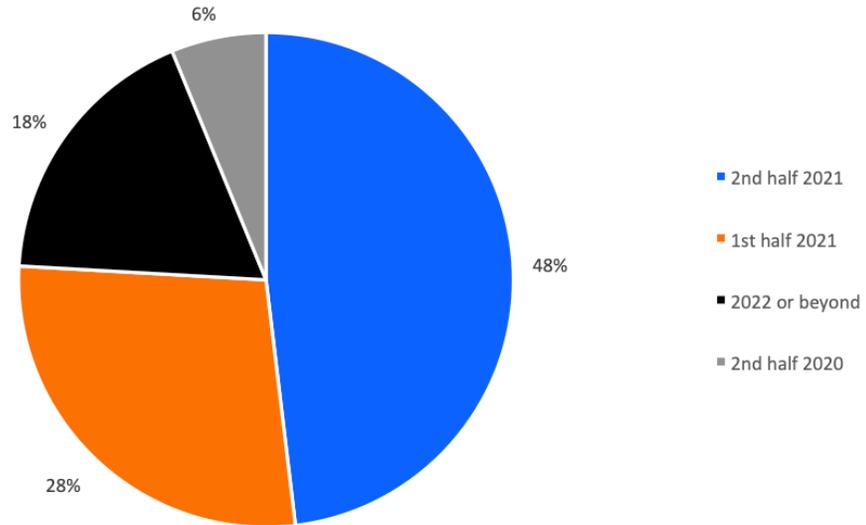
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Graph: Investment Recovery

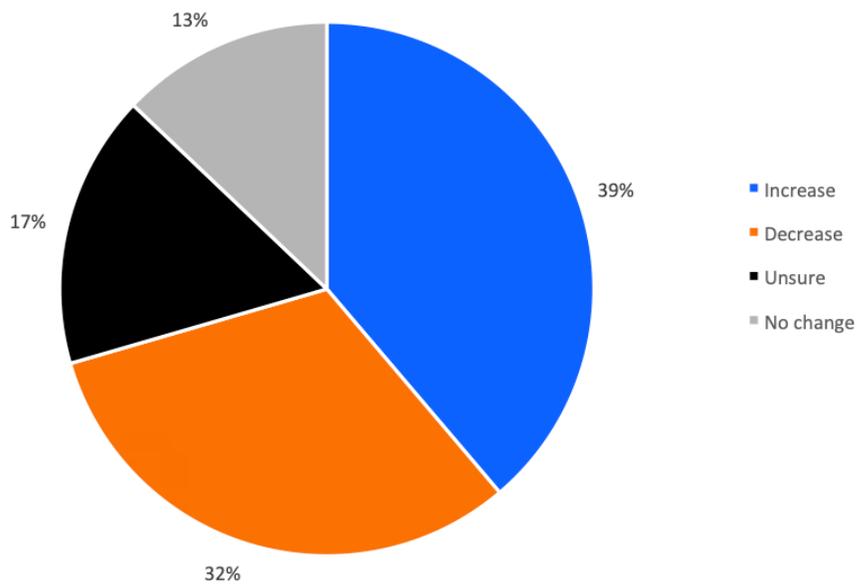
When do you believe investment levels in the sector will recover to pre-coronavirus levels?



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Graph: New Projects

Will we see an increase or decrease in the approval and design of new projects post-COVID-19?



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Conditions on the Road to Recovery

Just over half of respondents expect Covid-related health protocols to have a moderate impact on their activities going forward while 33% expect a big impact, illustrating an improving outlook versus the question detailed earlier in the report regarding the impacts to date.

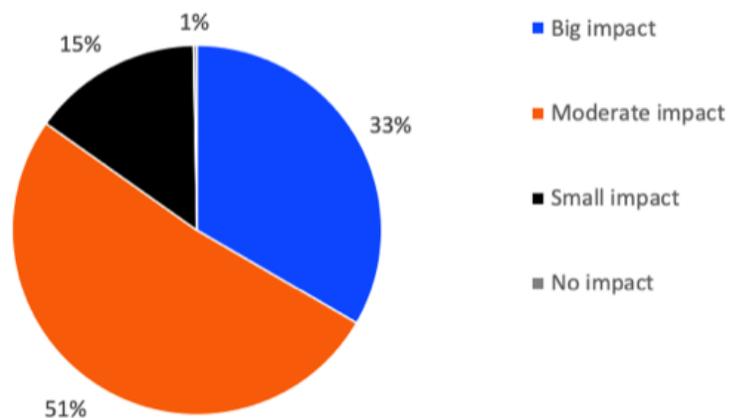
The comments on this question show that the main impact will be rising costs, as health protocols require purchase of special inputs, such as PCR tests, and weigh on productivity. However, there may be instances in which higher metal prices and other market conditions offset Covid costs.

The pandemic may have brought lasting changes in the way mining companies source their inputs and services. The threat of disruption to supply chains and bans on travel, especially internationally, has led many to look closer to home to secure the elements crucial to operational continuity. 70% of respondents believes that there will be an increase in the local sourcing of goods and services.

Local sourcing is also likely to become an increasingly important element of community and government relations.

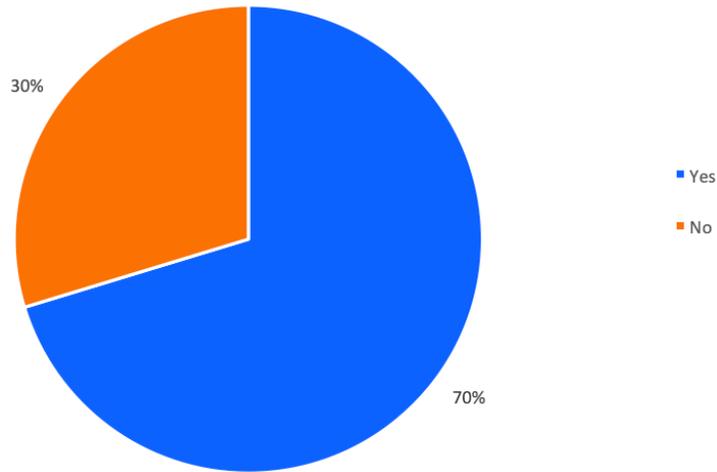
Graph: Impact of Covid-19 Going Forward

How big of an impact will COVID-related health protocols have on operations and projects and costs going forward?



Graph: Local Sourcing

Do you believe there will be an increase in the local sourcing of goods and services in the countries where your company operates?



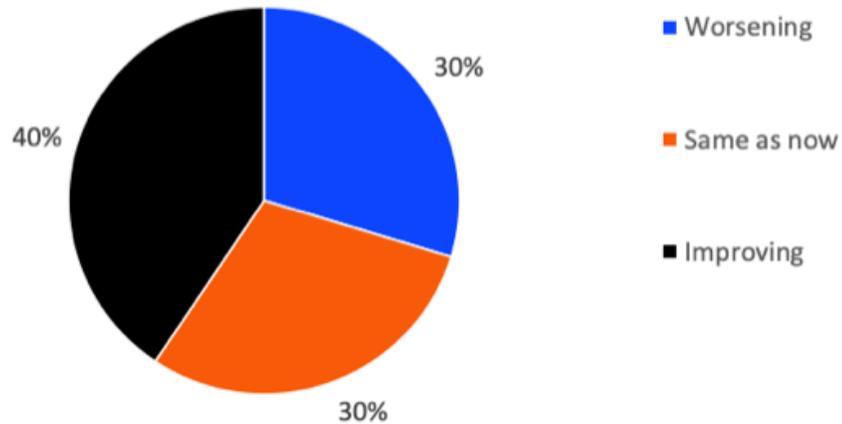
Financing

The largest chunk of respondents (45%) said that financing conditions are worse today than 12 months ago, while, regarding future financing conditions, the most popular response (41%) was that they will improve over the coming year.

The real measure of financing conditions will be seen over time as companies are or are not able to raise capital. Overall, just 22% of respondents said their company would be trying to do so over the next year.

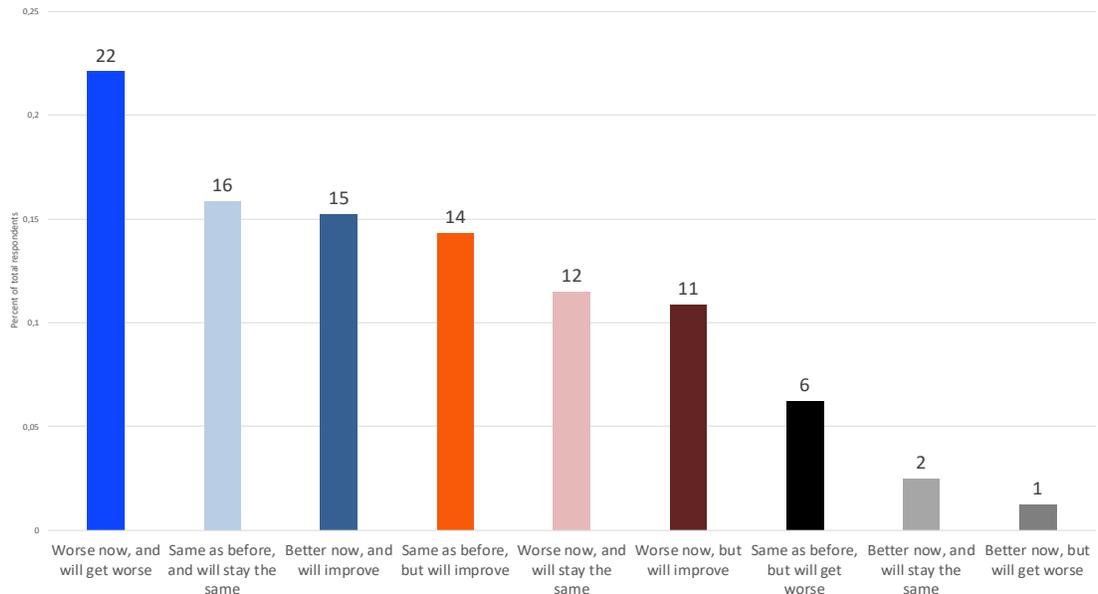
Graph: Financing Conditions 12-Month Outlook

How will financing conditions for mining investments in Latin America look over the coming 12 months?



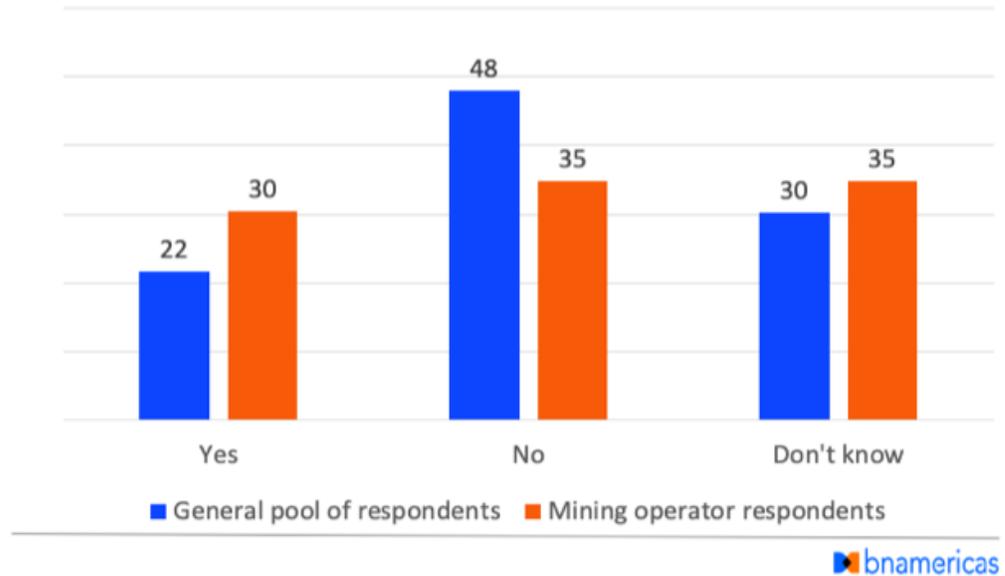
Graph: Combined Opinions on Financing

Combined opinions on financing: How do financing conditions now compare with 12 months ago, and how will they evolve over the next 12 months? (%)



Graph: Plans to Raise Capital

Does your company plan to raise capital in the next 12 months? (%)



Threats to Recovery

We asked survey respondents what they consider to be the biggest threat to post-pandemic recovery in the mining sector in Latin America, and, separately, asked respondents what they consider to be the biggest threat to recovery for their own company or organization.

Future waves of Covid outbreaks were front of mind for nearly a third of respondents, unsurprising given the impact of the pandemic so far and lack of any sort of guarantee that it can be fully controlled in the near

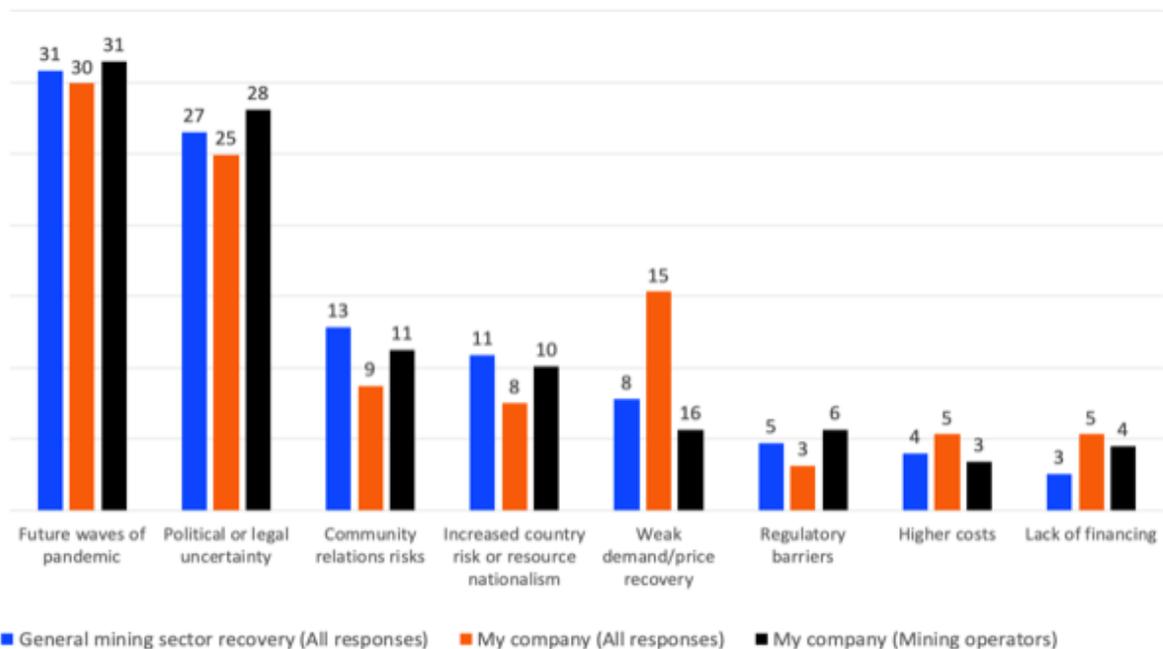
term. This was closely followed by political or legal uncertainty, also a logical result given the depth of the socio-political challenges facing Peru and Chile, the top countries where the survey respondents are active (followed by Mexico and Argentina, where politics have also been far from smooth sailing).

Where we see a noticeable disparity regarding the risks to recovery is the attitude toward the impact of possible weak commodity prices. 15% of all respondents said this is the biggest threat for their own company, while only 6% of mining operators said the same.

While everyone’s revenue has been threatened this year, mining producers’ sales are already recovering but development projects remain halted, spelling tough times ahead for engineering firms, builders and others who depend on the mining industry’s growth more than on metal prices themselves.

Graph: Threats to Recovery

What is the biggest threat to post-pandemic recovery? (%)



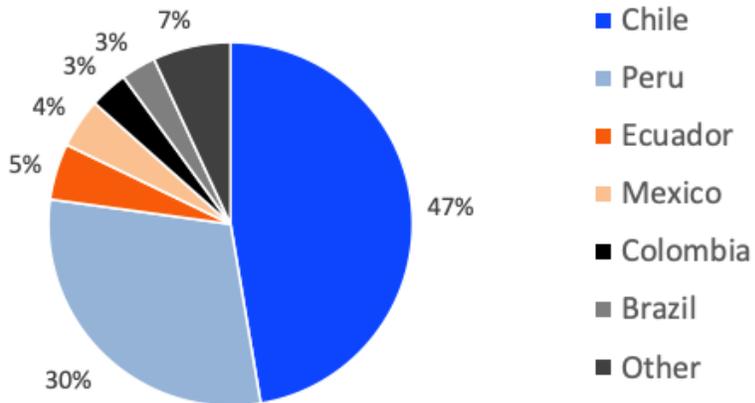
Investment Climate

Chile was strongly rated the best country in Latin America for mining investment, followed by Peru. While both countries are mired in significant political and social uncertainty, they have several things in common that will support mining activity long-term, such as a long tradition of large-scale mining, a skilled workforce, reasonable legal clarity and stability, an economy built around mining and unshakable support from the central government.

Some other nations in the region also present some combination of these factors, but in Chile and Peru they have come together to help mitigate the risks

Graph: Investment Climate

Which country presents the best investment climate for mining investment in the near-medium term?



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