COLOMBIA
Extractive Industries and the Economy

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Mining is an important driver of Colombia’s economic growth

- Large mining projects grew rapidly during the Alvaro Uribe government thanks to the boom in mineral prices and policies promoting mining and investment security and tax incentives.

- Mining is also one of the five strategic sectors identified as a priority by President Juan Manuel Santos in 2010-14 to help to meet his administration’s ambitious development agenda.

- The contribution of mining activities to GDP is significant but still relatively small. Mining contributed 2.2% of GDP in 2013, much lower than the 5.6% share of GDP from hydrocarbons.

- Mining should account for 3.6% of GDP by the end of the decade, according to the Mining Sector Association.
Total acres of titled land has expanded from 2.8 million (2001) to 21 million* (2010).

*Approximately 4% of total territory

- Colombia has the largest coal reserves in Latin America, with 5,557 MMst of probable coal reserves.
- Colombia is the 11th largest global producer and 5th largest exporter of coal. It produced 85.5 million tones of coal in 2013.
- Ranked the 19th largest producer of gold, Colombia produced 55.7 tones in 2013.
- Colombia produced $1.2 billion worth of emeralds last year, making it the world’s #1 producer.
Output is projected to grow, driven by increased coal production.

- By 2019, coal production is expected to increase to **143.9 Mt** with exports rising to **120 Mt** from 50 Mt in 2003.

- The majority of Colombia’s production is **thermal coal**, used for power generation.

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**Coal Sector Output** (Current and Projected)

Source: SIMCO, Ministry of Mining and Energy
FDI in Colombia’s mining industry rose by 21% year-over-year in 2013 to US$2.8 billion, representing 17.5% of total FDI, thanks to a favorable investment climate.

- Colombia’s investment climate is ranked 42nd of 183 countries in World Bank indicators on ease of doing business.

- The improved security situation has boosted Colombia’s status among Latin American economies, though concerns persist in the short term over FARC attacks on railways transporting coal and other infrastructure.

- Colombia is improving transparency under the leadership of the Ministry of Energy and Mines, and is seeking to join the Extractive Industries Transparency Initiative.

- In an effort to fight corruption, the government has established a special division under the Executive Office to monitor procurements for large infrastructure projects.

*2012 data is Q1-Q3
Source: SIMCO
Colombia has one of the highest nominal mining tax rates in Latin America (taxes of 33%, royalties of 1-12%) but among the lowest fiscal revenue per unit of value added in mining and oil due to tax exemptions set under the Uribe government.

The Santos administration centralized mining revenues, reducing royalty payments to municipal governments, and eliminated some tax exemptions in 2011.

However, overall government revenues from the energy and mining sectors have grown in the past decade.
Commodity exports have grown rapidly...

Colombian Exports by Product
(in billions of US$)

Mining exports have increased from 8% (2000) to 22% (2012) of total trade

- Colombia exported 94% of its total coal output in 2013.
- Coal is the country's second-largest export after oil and represented 19% of export earnings in 2012.
Coal prices collapsed in 2012 following years of increases.

The price of gold rose dramatically throughout the last ten years, but prices fell more than 25% in 2013.

A sharper decline in commodity prices caused by weaker demand from some major commodity-importing economies, especially China, poses a downside risk for Latin America, according to the International Monetary Fund.
Coal exports to the US are declining due to lower demand as a result of the increase in shale gas production.

Policies promoting renewable energy and natural gas for power generation will reduce future demand for coal in Europe as well.

Colombian coal will be increasingly exported to Asia. According to the US Energy Information Administration, China and India alone will account for 80 percent of demand growth for coal between 2005 and 2030.

Source: SIMCO
**Illegal Mining**

Illegal mines are operated by paramilitary groups and artisans. A lack of regulation has increased environmental hazards and generated illicit flows of mining profits in Colombia.

63% of Colombian mines are illegal, according to estimates by the Ministry of Energy and Mines.

1 in 10 illegal fronts are medium or large scale.

**Labor Disputes**

Two large strikes against Cerrejon and Drummond – which together make up some 80% of Colombia’s coal exports -- caused Colombia to miss its national output forecast of about 94 million tons in 2013.

Coal production declined by 4% to 85.5 million tons (Mt) in 2013, due to mine closures, strikes and other disruptions, as well as lower international prices.
In response to strong public opposition to mining due to social and environmental concerns, the government has enforced stricter permitting rules, delaying projects.

- The National Authority for Environmental Licensing (ANLA) was created in 2011 to manage environmental licensing. But ANLA has been slow to award permits and has a huge backlog.

- The government also sought to improve regulations by establishing the National Mining Agency (ANM) to manage the regulatory process.

- Mining concessions are increasingly encroaching on indigenous reserves, which cover ~30 million hectares of the country.

- Prior consultations must be carried out with indigenous and other ethnic minority communities that will be impacted by mining projects. The process is often slow or communities oppose projects altogether.
Road and rail infrastructure are major challenges for Colombia’s mining sector to improve competitiveness – and for the economy overall. The shortage of roads and rail to bring coal cargos from the country’s interior to its ports leads to high transportation costs that make exporting products from the interior very expensive.

The government says resolving the infrastructure deficit could raise annual GDP growth by a full percentage point, according to the Economist.

The government has outlined plans to improve roads and railways to reduce travel time and improve cargo capacity at ports. President Santos created the National Infrastructure Agency (ANI) in 2011, initiating a plan to award at least 25 concessions by 2014 and dedicating $23.2 billion to infrastructure projects.

Colombia is looking at building an 80 Mt port in the Pacific, which will reduce freight costs and transit time to Asia.

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<td>Colombia’s world ranking in infrastructure (WEF)</td>
<td>Colombia’s ranking in quality of roads</td>
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