
Americas view
The Americas

Chile's mining industry
Good copper bad copper

Nov 21st 2011, 22:39 by G.L. | SUR POINT



CHILEAN business has historically been a cosy, clubby world, where deals are sealed with a handshake in social settings. However, now that the price of copper, the country's chief export, has reached record highs, Chile is getting a taste of proper corporate drama.

The mining industry has boomed in recent decades under a hybrid structure, in which Codelco, the state copper company, competes with private firms. Codelco hired Diego Hernández, a former BHP Billiton executive, as its CEO primarily to [oversee an expansion strategy](#) (<http://www.economist.com/node/17311933>) .

The easiest way to grow is by acquisition, and no acquisition would be easier to complete than taking a stake in the Sur project owned by [Anglo American](http://www.angloamerican.com) (<http://www.angloamerican.com>) , a British conglomerate. It consists of two mines, a smelter, and two recently discovered copper deposits in the mountains north-east of Santiago, the capital, which Anglo estimates contain 2.1 billion tonnes of ore. If confirmed, that would increase the company's reserves by half. The deposits lie in a valley adjacent to Andina, a Codelco mine that is already being expanded.

In 1978 Codelco acquired an option to buy up to 49% of Sur during a one-month window in January every three years. Its next opportunity falls in 2012. Last month the company announced it would exercise the option. Its contract contains a formula for calculating the price, which is based in part on Sur's profitability in the five years before purchase. Codelco says this equation values the project at \$13.5 billion. It has secured a \$6.75 billion loan from Japan's Mitsui to pay for its share.

However, the formula takes no account of the lucrative new finds at Sur. Anglo American is in no mood to offload shares at a fraction of their value. To fend off Codelco, the company reached a deal with Mitsubishi, a Japanese trading house, to sell a 24.5% stake for \$5.4 billion—a valuation of almost \$22 billion, nearly double Codelco's figure. Anglo American said Codelco would have to settle for a smaller holding after its deal with Mitsubishi is finalised.

Codelco's managers are livid, and accuse Anglo American of breaching their contract. “When we talk about an infringement of good faith, we're not talking about a pact of honour or a gentleman's agreement,” Mr Hernández said recently. “We're talking about a legal obligation with which Anglo American has to comply. They're trying to stop us from exercising our legitimate right.” In response, Anglo American said it had not violated its obligations and had simply found a better deal for its shareholders.

The dispute could sour Chilean attitudes towards Britain. Copper is the lifeblood of the Chilean economy, and state-owned Codelco is the only company that excites any degree of nationalist sentiment in the country. Indignant politicians and union leaders have accused Anglo of trying to rob Chileans of their God-given copper. In London, where Anglo's shares are traded, the British government has spoken to the Chilean ambassador.

It will also serve as a test of the Chilean legal system. The country is widely seen as a stable, business-friendly environment where contracts are enforced. In this case, however, the contract seems open to interpretation, and both sides say there are clauses in it to support

their arguments. Ultimately, the winners of this battle might be not the companies themselves, but their lawyers.