

**The  
Economist**

## Codelco v Anglo American Ore war

### A mineral battle in business-friendly Chile

Jun 2nd 2012 | SANTIAGO | From the print edition

LEADERS of countries at war have long warned voters not to throw them out before the shooting stops.

Although Chile has been at peace since



Whose mine is it anyway?

it restored democracy in 1990, its state copper company, Codelco, is embroiled in a fierce legal fight with Anglo American, a global mining conglomerate, over the ownership of rich metal deposits. And it will now have to wage that battle without its boss, Diego Hernández, who quit his job on May 24th.

Chile's mining industry has boomed under a hybrid structure, in which Codelco, the world's biggest copper firm, competes with private rivals. The company hired Mr Hernández, who had previously worked at BHP Billiton, another global miner, mainly to oversee expansion. Mr Hernández soon found a tempting acquisition target in Anglo American's Sur project, consisting of two mines, a smelter, and two recently discovered deposits in the Andes, which are thought to hold a whopping 2.1 billion tonnes of ore.

In 1978 Codelco acquired an option to buy up to 49% of Sur during a one-month window every three years. In January the company exercised it. 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 secured a \$6.75 billion loan from Mitsui, a Japanese firm, to pay for its share.

However, the formula takes no account of the new finds at Sur or Anglo American's

investment in it. To fend off Codelco, Anglo agreed with Mitsubishi, another Japanese trading house, to sell a 24.5% stake for \$5.4 billion. Anglo said Codelco would have to settle for a smaller slice after the Mitsubishi deal closes.

Mr Hernández accused Anglo American of breaching its contract. The two sides went to court. Then on May 22nd they suspended proceedings and agreed to talk. They gave themselves 30 days to reach a deal. But two days later Mr Hernández abruptly quit.

He said his departure had nothing to do with the Anglo spat, but rather with the company's board, which he accused of micromanagement. In 2010 Chile overhauled Codelco's administrative structure, transforming the board from a mere rubber stamp into a real check on management. Industry observers say the new organisation has led to better decision-making. But Mr Hernández apparently grew tired of having to explain himself at every turn in interminable meetings.

His successor is Thomas Keller, the company's chief financial officer, formerly of Royal Dutch Shell. Industry observers say Mr Keller is a more open boss than Mr Hernández. Although Mr Keller will probably pursue a similar corporate strategy, Anglo American may try to take advantage of the turmoil to adopt an even tougher stance in negotiations.

How the government-appointed board will advise the new boss remains to be seen. Chile would love to get its hands on Sur, and will face domestic pressure not to buckle: politicians and union leaders have accused Anglo American of trying to rob the country of its God-given copper, and public opinion frowns on foreign control of mines. But Chile also wants to protect its relationship with Britain and its reputation as one of Latin America's safest places to invest. Mr Keller may guide Codelco to a settlement, but he might soon find himself as frustrated as Mr Hernández was with a process that is as much about politics as it is about business.

From the print edition: Business