

Panama

CONNEX supports the government in securing additional US \$375 million per year from the country's largest mineral deposit



The Challenge

Cobre Panama, one of the largest copper mines in the world, is located in the province of Colón, to the west of Panama City. Its development involved an investment of almost US \$7 billion, the largest private investment in the country's history along with that made by the Panamanian government for the expansion of the Panama Canal. It started production in June 2019, has reserves of more than 3 billion tons of copper and a mine life initially estimated at 40 years. It will represent around 5% of the country's GDP in the future.

The original mining contract between the Government of Panama and the investor was approved through a contract law signed in 1997, but the Supreme Court of Justice of Panama declared this law unconstitutional in 2018. In this context, the Government of Panama started negotiating a new contract with Minera Panamá S.A., a subsidiary of the Canadian mining company First Quantum Minerals Ltd. in September 2021. The negotiation of the new mining contract focused on the economic-fiscal, environmental, labor, and social issues.

The Government's purpose was to obtain a fair share of the project's revenues, which were considered extremely low by international standards. Negotiating favorable fiscal terms from the outset is crucial for governments because it affects state revenues in the long term and has a lasting impact for future generations. Given Panama's relatively short mining history, and the need to add specific expertise and know-how, the Government, through the Ministry of Commerce and Industries (MICI), requested CONNEX's support in early 2021.

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Our Role

CONNEX support focused on the economic-fiscal aspects of the contract to be negotiated. On that basis, CONNEX formed a team of experts with international experience in mining taxation with strategic sector knowledge, to support the High-Level Negotiating Team appointed by the President of the Republic.

Before starting the negotiation, CONNEX experts developed a financial model with the available data, which was used to compare the tax regime of the 1997 contract with other copper producing countries in the region and the world. This analysis showed that the State of Panama was receiving very low revenues by international standards. From that starting point, the team of experts advised the Government on the principles of fiscal regimes in the mining sector, modeling and presenting options to increase government revenues

from the project, always based on international best practices. This allowed the Government to prepare the negotiation on a solid base of evidence and knowledge.

During the negotiation, the experts accompanied the ministers and the rest of the High-Level Negotiating Team in the negotiation rounds with the mining company, as well as in technical sessions. The assistance involved many modelling exercises and very dynamic internal work, which further strengthened the Government's position.

Our Impact

After months of intense negotiations, the investor accepted the Government's latest proposal in January 2021. It implies a regime that includes royalties of between 12% and 16% of the gross profit, with a minimum of 2% on sales; and includes the end of tax vacations and other income tax exemptions. Notwithstanding the results of the application of the new regime, the Republic of Panama is also assured a minimum income of US \$375 million per year. Compared to the previous tax regime, this agreement means at least a 10-fold increase in the country's income. Many details remain to be discussed, and the new contract must be submitted to public consultation and to the National Assembly. However, this agreement guarantees future generations a fair share for the use of the mineral resources of the country's largest mineral deposit.

The support provided before and during the negotiation process enhanced the negotiating capacity of the Government team and demonstrated the importance of coordination between the different Ministries involved. The solid analytical evidence and experience of the advisory team enabled the Government to enter negotiations with full knowledge of facts. CONNEX, through its technical and strategic support, managed to level the negotiation ground and provided lessons learned that, in the future, will allow the country and its authorities to better position themselves and secure their benefits from the exploitation of natural resources.

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