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Canadian miners should have anticipated new Mexican royalty, expert says

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HIGHLIGHT: Investors and Canadian mining firms alike should recognize the introduction of the mining tax as part of a longer, broader process to increase tax revenues, a lawyer at the Prospectors and Developers Association of Canada mining conference in Toronto said.

Canadian miners should not have been blindsided by Mexico's imposition of a 7.5% royalty tax on mining, lawyer Ralph Cuervo-Lorens from [Blaney McMurtry](#) said at the Prospectors and Developers Association of Canada mining conference in Toronto on March 3.

"This should have been an expected development," he said. "The country is trying to develop a sector that they need but that they have no money to do it."

Investors and Canadian mining firms alike should recognize the introduction of the mining tax as part of a longer, broader process to increase tax revenues, he added.

"Mining sector reform is just a small part of a much larger and very ambitious reform in Mexico that has to do with trying to get tax revenues in order," he said.

"It comes [simultaneously] with a full-scale reform of the energy sector, which Mexicans have been arguing about for decades and the new president has finally decided to take on."

It is also important for Canadian miners and investors to remember that the imposition of the tax amid prevailing low commodity prices was not intentional, he added.

"Mexico didn't get the timing right in terms of what markets are doing in respect of commodities," he acknowledged.

The Mexican government is applying the same policy toward the energy sector that it used in the

mining sector several decades ago by opening it up to foreign investors, Cuervo-Lorens said.

"This policy worked well" in the mining sector, the lawyer noted. "That's why Canadian miners own 70% of producing mines there."

The second step in the mining sector's development is a "recalibration of foreign investment and foreign ownership," he said.

"The numbers are completely upside down - here is a country with a growing population where tax revenues have continued to drop and are tied too closely to oil. Sooner or later, this would become unsustainable, and Mexico is now in the 'later' part. The mining tax, and new taxes across the board, also speaks of the need to address this economic problem."

International institutions like the International Monetary Fund and the Organization for Economic Cooperation and Development have also been calling on Mexico to address the imbalance of how little revenues were generated by the mining sector.

It is critical to remember that Mexico's royalty tax remains somewhat modest compared to other Latin American countries, particularly Venezuela.

"What we haven't seen in Mexico are the kinds of things to frighten the businesses out of the sector," Cuervo-Lorens added.

"I don't think [the tax] seems unreasonable or out of whack with what we see in other areas of Latin America."

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