

COLOMBIA

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During 2002, the Colombian economy recovered for the third consecutive year, with GDP growing by 1.7% (provisional), versus 1.4% in 2001. The mining sector had a negative contribution of -2.6%, primarily due to declines in oil, coal and gold output. Preliminary foreign investment figures in mines and quarries, including coal, amounted to US\$562 million compared with a revised figure of US\$524 for 2001. As regards inflation, the CPI maintained the downward trend started in 1997, with 7.0% in 2002 versus 7.6% in 2001. However, PPI accelerated from 6.9% in 2001 to 9.3% in 2002. The causes include a large devaluation in 2002 of 22% compared with 6% in 2001. International reserves grew 6% over 2001, to US\$10.8 billion. On the labour front, unemployment was 15.7%, close to 1% lower than in 2001.

A paradigm shift is taking place with respect to outlaw armed groups. The geopolitical impact of September 11, 2001 strengthened international support to fight against terrorist activities in the country. In February 2002, outgoing President Pastrana ended peace talks with the largest guerrilla group, FARC, after years of fruitless negotiations.

Under President Uribe Velez, the new administration, in power since August 2002, has gained rapid international support for its two-pronged approach, whereby it intends to strengthen considerably the means towards achieving 'democratic authority', and to enlarge the scope of social development projects country-wide.

In the mining sector, the new government's drive for improved security, less bureaucratic red tape and support for employment and wealth generation, will take some time to show tangible benefits. Although a relatively improved mining code had already come into effect in August 2001, the Ministry of Mines and Energy is still not seen by the private sector and international investors in a very positive light (although the roots of this dissatisfaction are beyond the scope of this review). However, the net result has been that investment in exploration and new mining ventures continued to be negligible in 2002, with exploration virtually stagnating. A lone exception is Greystar Resources' Angostura Project, in northeastern Colombia near the city of Bucaramanga, where the company commenced work in 1995, has completed 181 holes of core drilling and has demonstrated a geological resource of close to 5 Moz of gold; further drilling is planned for 2003.

Total mineral exports for the year, including non-metallic minerals, declined slightly to US\$1,527 million, from US\$1,556 million (revised) in 2001. A 9% decrease in coal production was compensated by a significant increase in the value of nickel exports.

It is generally felt in private mining circles that, before a sustained interest in mineral exploration can take place, a number of issues need government attention, and not only by the Ministry of Mines and Energy. Subjects of particular relevance are listed below:

- Security is of paramount importance for most investors.
- There must be investment incentives that remain stable over the longer term.
- A significant improvement is needed in expediting formalities, and in a transparent manner.
- A further adjustment is needed of the discretionary powers of mining authorities.
- Individual articles in the Mining Code need to be consistent with its clearly stated objectives of promoting and developing the mining sector.
- The co-ordination role of the Ministry of Mines with other Ministries needs to be improved.

Production

Petroleum production in 2002 was 578,144 bbl/d compared with 605,000 bbl/d in 2001, and exports were valued at US\$2,838 million versus US\$2,990 million in 2001. Production continues on a declining trend and no major new oil discoveries have been made since 1999. Remaining oil reserves decreased to 1,632 Mbbl, from 1,842 Mbbl in 2001.

Colombia has proven reserves of coal in excess of 6,700 Mt. It is becoming an increasingly important exporter, mainly of thermal coal, and over the past 20 years its production has quadrupled from around 4 Mt/y to more than 40 Mt/y. In 2002, however, output declined 9% to 39.5 Mt, from 43.9 Mt in 2001. The reduction in output reflected an oversupply in the international coal market during 2002. Colombia's two largest coal mines are Cerrejon Norte in Guajira (owned and operated by Carbones del Cerrejon, a consortium comprising Amcoal, Glencore and BHP Billiton) which produced 15.04 Mt in 2002, and La Loma in Cesar Department, (owned by Drummond Co. of the US) which produced 12.97 Mt. Carbones del Cerrejon also operates the Comunidad and Oreganal mines in Cerrejon Central and its total production in 2002 was 17.25 Mt. A US\$130 million investment this year is expected to raise output to 28 Mt/y.

BHP Billiton's Cerro Matoso nickel operation near the town of Montelibano in the northern province of Cordoba is based on reserves of some 40 Mt with an average grade of 2.2% Ni. Apart from a mine, Cerro Matoso also operates a 55,000 t/y capacity ferronickel smelter and in the 2002 financial year it produced 40,550 t of product, a 28% increase on the previous 12-month period. In the full 2002 calendar year, production of contained nickel reached 44,000 t, up from 38,457 t in 2001. The smelter operated at 85% of overall rated capacity. Exports of ferronickel were worth US\$309 million and Cerro Matoso benefited from higher prices in addition to higher volumes.

Precious-metals production showed a small decline, with gold output down from 21,813 kg to 20,798 kg, and silver production down from 7,242 kg to 6,941 kg.

Higher emerald prices in 2002 compensated for lower carat output and the value of production rose to US\$92.1 million, compared with US\$84.2 in 2001.

Mineral Output

Commodity	1999	2000	2001	2002
Gold (kg)	34,600	37,018	21,813	20,798
Silver (kg)	7,009	7,970	7,242	6,941
Platinum (kg)	437	340	674	661
Emeralds ('000 ct)	6,834	8,454	5,499	5,390
Iron Ore ('000 t)	576	554	637	600 ^p
Nickel (t)	28,400	27,750	38,457	44,000
Coal (Mt)	32.7	38.1	43.9	39.5

Sources: Energy and Mining Planning Unit (UPME), Minercol, CMSA.

Coal Production ('000 t)

Coal Basin Project	1999	2000	2001	2002	2005 ^e
Guajira - Cerrejon Norte ¹	17,545	18,400	19,405	15,035	21,000
Guajira - Cerrejon Central ²	800	800	800	833	N/A
Guajira - Cerrejon Central ³ (Comunidad)	N/A	2,900	3,000	1,625	N/A
Guajira - Cerrejon Central ³ (Oreganal)	1,200	N/A	N/A	585	7,000
Cesar - la Loma ⁴	6,300	8,874	12,336	12,967	13,000
Cesar - Carbones del Caribe	1,500	2,020	1,916	1,722	2,000
Cesar - Carboandes	1,100	285	314	798	1,200
Cesar - Consorcio Minero Unido	750	750	713	810	800
Cesar - Small Producers	N/A	N/A	106	113	N/A
Inland - Small Producers ⁵	4,505	4,113	4,850	5,022	5,000
Total	33,700	38,142	43,440	39,510	50,000

¹ Carbones del Cerrejon (Glencore-Amcoal-BHP Billiton).

² Carbones Colombianos.

³ Carbones del Cerrejon (Glencore-Amcoal-BHP Billiton)

⁴ Drummond Co.

⁵ 27% of the small producers' output is metallurgical coal.

^e - estimated.

^p - provisional

Sources: UPME, Minercol.