

Former CEO of Codelco, Sonami, Consejo Minero, and BHP Base Metal, Now Based in Mexico

Diego Hernández: "Chile is in a Better Situation Than Other Countries; and Copper, Better Than Other Commodities"

The veteran mining executive argues that there are no economic grounds for the Trump administration to impose tariffs on copper. The U.S. does not have the capacity to generate the amount it needs, nor the investments to support it, he says. "We have a trade deficit, so the main economic argument Trump considers would not apply," he emphasizes. Despite this, he urges caution: "If (the trade war) lasts for months, it will have consequences on copper demand."

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By María José Tapia.**

Diego Hernández has been living in Mexico for two years. The former CEO of Codelco, Sonami, Consejo Minero, BHP Base Metal, and AMSA is now a director at Grupo Bal, one of the leading holdings in Mexico, the parent company of mining firms Peñoles and Fresnillo, the retailer Palacio de Hierro, and several financial and agricultural enterprises. From this geographical standpoint, he not only closely follows developments in the United States, as Mexico is one of the main targets of U.S. presidential policies, but also, given his extensive professional experience, he focuses on what could happen if Donald Trump imposes tariffs on copper. On Monday, Trump announced a 25% tariff increase on steel and aluminum imports, set to take effect on March 4. "This is a diversified group, and where we could be most affected is in the mining companies," he says from Grupo Bal. "We have to manage this. We don't believe that 25%—if implemented—will last forever; I think it's more of a short-term issue."

—Were you expecting this week's announcements?

"No. The U.S. had a policy of reducing economic dependence on China, and the strategy for that was nearshoring—essentially bringing back the manufacturing capacity it had lost, but based in the U.S. and its allies. The main allies are Mexico, Canada (with whom it has the USMCA), and countries with Free Trade Agreements, including Chile. Those within this circle were hopeful that they would be able to secure good deals and grow. With Trump's arrival, everything changed. Aside from imposing a 10% tariff on Chinese products, he threatened his USMCA partners with 25% tariffs, arguing that the U.S. trade balance with them was in deficit. The tariff hike was postponed to March 1, with some demands related to immigration and fentanyl trafficking reductions. But later, he returned to economic arguments, saying, 'We're losing money with these trade partners because our trade balance is in deficit.' In the end, there's a lot of uncertainty, and it's hard to know what Trump really wants in the short term."

—Moreover, if his goal is economic, it contradicts another goal, which is reducing inflation...

"Unless he's applying short-term pressure to preemptively renegotiate treaties, particularly the USMCA. But this creates a lot of noise, affects confidence, and causes confusion. That could trigger a recession and a decline in investments. The situation is quite unclear, and it's difficult to determine whether this is a tool for renegotiating trade deals or if he genuinely wants to eliminate the trade deficit with key partners."

—Are there any arguments that justify Trump imposing tariffs on copper?

"There are no economic grounds for it. If he does, all it will do is increase manufacturing costs for copper in the U.S., a country that produces about 1,100,000 to 1,200,000 tons from mining but consumes 1,700,000 tons. That means there's a shortfall of about 850,000 tons. Chile exports 570,000 of those tons, which is roughly 10% of our production. So, if a tariff is imposed, who pays for it? The customer or the producer? If the producer can sell that copper elsewhere, copper prices in the U.S. will likely rise. Chile is in a better position than other countries, and copper is in a better position than other commodities. So, if the government manages its relationship with the U.S. well, we should be able to mitigate risks and damage."

—Is Chile in a better position than other Latin American countries?

"Yes, because we have a trade deficit, which means Trump's main economic argument shouldn't apply to us. Secondly, they're not going to move the mines to the U.S., so there's little incentive to punish Chile. We're in a more secure position. However, we must avoid repeating what Petro did in Colombia. Low profile."

—But there could be indirect implications, especially for an economy as open as Chile's...

"If these tariffs and the trade war persist, it could impact us in the medium term. A possible recession could devalue the currencies of developing nations like Chile. It could also disrupt global trade, which would affect the economy. However, this is a risk that doesn't stem from copper itself but from Trump's broader trade policies."

—Copper prices fell after the announcements. Is there a basis for further declines?

"Since last year, copper has been priced higher than what supply and demand fundamentals would suggest. With the same supply and demand levels in previous periods, prices were lower."

—Why are prices higher now? Is it due to factors like electromobility and the energy transition?

"Analysts said, 'It's the sentiment.' Meaning that the market sentiment was that copper should be priced as it was, not lower, because of factors like climate change, renewable energy, and the energy transition. Today, metal inventories in the three main exchanges—Shanghai, New York, and London—stand at 517,000 tons compared to 189,000 tons in the same period last year. If we combine supply and demand with a scenario where Trump's policies slow global economic growth, it could indeed impact copper prices this year."

—Cochilco projects copper prices at \$4.25 per pound. Is that optimistic?

"I agreed with those projections before Trump's actions. Now, if he's using this as leverage for renegotiation and later backs down, fine. But if this persists for three or four months, it will affect copper demand and the Chinese economy—which consumes more than half of the world's copper—so it will have an impact."

FTA: "You Can Have an Argument" for Non-Compliance

—How much protection do Free Trade Agreements offer us?

"You can always have a 'legal' argument to justify not complying with an FTA; they are not like a Constitution. The argument Trump is using to avoid fulfilling obligations under the USMCA is national interest—regarding fentanyl, immigration, etc. And national interest can always be argued. Chile and the United States do not carry the same weight, so Chile must be very careful."

A tariff on copper does not benefit the United States, and perhaps that's why it hasn't been imposed. The U.S. copper deficit exists because there is no industry, no appetite for investment in smelters. So, there's no justification, and that could work in our favor."

—The Copper Producers Association sent a letter to Trump, stating that by 2035, imports could reach 60%.

"Yes, of course. In the United States, permits take just as long as they do in Chile. Very few mining projects have been approved in the last 15 years."

China also holds 50% of the world's smelting and refining capacity, where they are efficient and have low costs. The United States neither wants nor is interested in having a smelting capacity equivalent to China's. Economically, it doesn't make sense."

—Does the Chilean copper industry have the ability to navigate these fluctuations well?

"The industry has a certain level of resilience. Financially, except for Codelco, most companies are in a relatively comfortable position in terms of debt. They have mature investments and don't need to finance expenses. Prices have been strong. If copper prices were to drop, the Chilean peso would inevitably depreciate. Roughly 50% of mining costs are in pesos and the other 50% in dollars, which provides a sort of hedge for the mining industry in Chile. We pay the premium when prices are high."

—And what about Codelco?

"One of Codelco's strengths has been its strong commercial team. It has a presence in Europe, China, Japan, etc. This gives it a certain level of flexibility to navigate these challenges well."

—Tomás Flores pointed out that during the previous trade war between China and the U.S., copper prices fell by about 18%.

"Yes. The big question now is whether Trump is using all of this as short-term pressure tactics or if he genuinely wants to embark on a medium-term crusade to rebuild the U.S. manufacturing sector. Another aspect is that there is very little Chinese investment in Chilean mining. So, if you hurt Chilean mining, you're affecting Chile and Western mining companies. That's different in other countries—Peru has a larger percentage of Chinese mining companies, and in Africa, the presence is even more significant."

"We Have Bargaining Power"

—Experts have argued that Chile should form a larger bloc to reduce vulnerabilities.

"No, because Chile and Peru—both of us having the same interests in terms of copper—account for a very significant share of global production, around 40%. With that, no one can ignore us; we have bargaining power."

—Should copper be declared a national security resource?

"It could be, but it depends on how and for what purpose. With a medium-to-long-term vision, Chile must reinforce its copper production. We are seeing production decline, and we are playing tricks on ourselves with permitting processes. Given the external circumstances, I believe the idea that Chile should have a more active copper policy is becoming increasingly relevant. The state should have a copper production strategy instead of relying solely on the market."

—And how should that be done?

"One idea that might be mature enough is to reinstate something similar to DL-600, ensuring that environmental permits for key projects are processed as matters of national interest and granted within set timeframes."

—Given Trump's stance, could Chile be forced to choose between China and the United States?

"Chile is a small country. China is our main trading partner, and the United States is the leader of the Western world. We must maintain good relations with both and manage

that duality as effectively as possible. We hold no leadership position in Latin America, and apparently, the government has no ambition to lead anything either. We should follow the same path—responsible pragmatism."

Strength of FTAs

"You can always have a 'legal' argument to justify not complying with an FTA (...) Chile and the U.S. do not carry the same weight, so Chile must be careful."

Codelco: "It's Time to Reinvent, Shake Things Up, and Change the Organization"

—Does Codelco's debt problem complicate its position in this scenario?

"The main problem for Codelco is its debt, which is essentially Chile's debt. Because, in the end, across all governments, the practice has been to take all the profits and have Codelco reinvest only in a limited way through debt. In the past, Codelco had fewer investment needs and took on debt for highly profitable projects such as Radomiro Tomic, Gaby, and Ministro Hales. But today, it has to invest just to maintain production. As a result, Codelco's current debt stands at \$20 billion, which should be considered as part of Chile's national debt, not just Codelco's."

—Should Codelco stop handing over all its surpluses?

"Yes, but the \$20 billion in debt is a serious issue. Part of that should be classified as national debt. That's essentially what they did with Enami via Codelco. Enami was not in a position to secure financing, so they covered that debt through the sale of Quebrada Blanca to Codelco."

The other issue is competition. Global private mining companies have reinvented themselves at some point. For example, BHP went from operating 100 sites in 25 countries to becoming a much leaner company. Codelco has maintained almost the same organizational structure for the past 30 years. It has not reinvented itself. Now is the time to do so—to shake things up and change the organization."

—Why didn't Codelco reinvent itself when you were in charge in 2010 or under your successors?

"It wasn't necessary at the time. Its situation has become more complicated over the past ten years. I believe changes can be made to refresh the organization, and there are various alternatives. Perhaps Codelco could be restructured as a financial holding company with different subsidiaries, for instance, Teniente, Andina, Codelco Norte, etc., each operating with greater autonomy in production and projects. Meanwhile, the

holding company at the top would focus on commercialization and financial management.

That's just one possibility, but we need to think out loud. What is clear is that if you are not achieving good results and you keep doing the same thing, your results won't improve."

Mantos Blancos Reaches Agreement for the Use of Antofagasta City's Wastewater

RECYCLING. Econssa will provide 120 liters per second of treated wastewater. It also has an agreement with Glencore for 225 liters per second for 35 years.

El Mercurio de Antofagasta. February 16, 2025.

Capstone Copper, a Canadian-owned mining company operating Mantos Blancos, Mantoverde, and the Santo Domingo project in the Antofagasta and Atacama regions, has signed an agreement with Empresa Concesionaria de Servicios Sanitarios S.A. (Econssa) to secure the water supply for Mantos Blancos for a period of 35 years.

The agreement signed by the Canadian company adds to the one that Swiss company Glencore consolidated in June last year for the supply of treated wastewater for its operations at Compañía Minera Lomas Bayas and the Alto Norte Metallurgical Complex.

MANTOS BLANCOS

The initiative will facilitate the reuse of Antofagasta city's wastewater in the Mantos Blancos operation, increasing the percentage of reused water in the site while reducing discharge into the sea by Econssa after primary treatment.

The agreement between Mantos Blancos and Econssa includes the purchase of 120 liters per second of treated wastewater. Mantos Blancos currently has two water supply contracts, allowing for a maximum withdrawal of 150 liters per second between both contracts.

Econssa's project involves constructing a wastewater treatment plant with a total estimated investment of US\$292 million. The plant is expected to begin operations in 2028 and contribute to the increased use of recycled water for the future growth of Mantos Blancos.

"This important project aligns with our sustainable development strategy. With it, we aim to contribute to both the region's sustainability and our operations by securing a water supply based on circular economy principles for the future expansion of the Mantos Blancos sulfide area," said Jaime Rivera, General Manager of Mantos Blancos.

Mantos Blancos has been in operation since 1960 and, under Capstone Copper's management, is working on extending its lifespan by at least another 20 years. The operation maintains a 92% local employment rate and has significant community development programs. In 2024, it produced 44,574 tons of copper and expects to produce between 49,000 and 59,000 tons this year.

The operation generates 2,200 direct and indirect jobs, maintaining a 92% local employment rate in the Antofagasta Region, including direct workers.

"This is undoubtedly great news, not only for the two companies involved but also for the people of Antofagasta. What we are doing is fully utilizing Antofagasta's wastewater for industrial processes while also creating a treatment system that is much more environmentally friendly. Ultimately, this is an environmentally sustainable response that will enable significant development in the city while also representing a major investment of nearly US\$300 million," explained Patricio Herrera, General Manager of Econssa Chile.

GLENCORE

For Glencore, the agreement includes a US\$125 million contribution for the construction of the new treatment plant, which will supply 225 liters per second for 35 years. Meanwhile, Lomas Bayas is advancing in the transfer of its water rights to the Asociación de Agricultores de Calama (ASAC), making it the first mining company to cede such rights.

"At Lomas Bayas, we firmly believe that reusing wastewater is the path the industry must follow to achieve this new way of mining, offering environmental, economic, and social benefits. With this strategy, we seek to recover water that was previously being discharged into the sea and turn it into a valuable resource, alleviating water stress in the Antofagasta Region and contributing concretely to a sustainable future for the mining industry and nearby communities," explained Pablo Carvallo, General Manager of Lomas Bayas.

Compañía Minera Lomas Bayas has the lowest ore grade among mining companies in Chile and last year received the Sonami Award in the Large Producers Category for its 26 years of leadership and sustainability initiatives, particularly its water circularity model.

The company increased its cathode production by 13.1% between 2023 and 2024, rising from 64,000 to 74,000 tons per year, generating over 1,000 direct jobs and 3,000 indirect jobs.

1960

Mantos Blancos operations began. It is currently in the process of extending its lifespan by at least another 20 years.

44

thousand tons of copper were produced by Mantos Blancos in 2024, and it expects to produce between 49,000 and 59,000 tons in 2025.

292

million dollars will be invested in Antofagasta's wastewater treatment plant, which will begin operations in 2028.

225

Liters per second will be purchased by Lomas Bayas. The contract lasts for 35 years, and the company will partially finance the new plant.