MARSH

WEBVTT – Geopolitical

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00:00:00.792 --> 00:00:15.881
Raul Munoz: Welcome to Mining in 10 Minutes. I'm Raul Munoz, industry leader for mining and natural resources at Marsh, and I'm thrilled to kick off our five-part webinar series, exploring the five biggest resilience challenges facing mining companies today.

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00:00:15.882 --> 00:00:23.412
Raul Munoz: We built a series around our recently launched Mining Resilience Guide, which you can find at www.marsh.com.

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00:00:23.412 --> 00:00:29.832
Raul Munoz: A practical framework to help mining leaders navigate an increasingly complex and difficult environment.

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00:00:30.112 --> 00:00:40.922
Raul Munoz: In our first episode, we're exploring perhaps one of the most controversial and topical items of the day, which is political risk.

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00:00:41.012 --> 00:00:52.832
Raul Munoz: Joining me today is one of Marsh's political risk experts, Stephen Kay. He sits in our U.S. and Canada credit specialties team and works, among other things, political risk insurance.

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00:00:52.832 --> 00:01:08.861
Raul Munoz: In 2022, Steven co-authored a joint paper published by Marsh and S&P Global entitled, A New Perspective on the Cost and Benefits of Political Risk and Insurance for Foreign in Direct Investments. So welcome, Stephen, and thank you for joining us today.

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00:01:09.022 --> 00:01:10.012
Stephen Kay: Thank you, Raul.

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00:01:10.762 --> 00:01:27.782
Raul Munoz: So let's, I mean, geopolitical risk is something that I think has been on top of mind, not just for the mining sector, but for a lot of us over the last 18 to 24 months. So let's establish exactly why this is such a crucial moment for political risk specific to mining.

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00:01:28.662 --> 00:01:36.792
Stephen Kay: So, you know, the mining sector sits at the intersection of some of the most significant, geopolitical forces of our time.

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00:01:37.032 --> 00:01:46.461
Stephen Kay: And, of course, there's the energy transition, which is causing the demand for lithium and copper and cobalt and

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00:01:46.592 --> 00:01:51.422
Stephen Kay: Nickel, which we refer to as the future-facing commodities.

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00:01:51.572 --> 00:01:59.581
Stephen Kay: to surge at the moment, and the International Energy Agency projects that demand for lithium alone will grow about 40-fold.

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00:01:59.692 --> 00:02:01.142
Stephen Kay: by 2040.

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00:02:01.272 --> 00:02:09.892
Stephen Kay: In fact, the expression, lithium is the new oil, is the defining metaphor for the 21st century clean energy transition.

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00:02:10.522 --> 00:02:26.932
Stephen Kay: So on top of the critical minerals for electrical… electric vehicles and clean energy tech, we also have artificial intelligence and semiconductors that are driving demand, and now also the exponential AI data center build-out.

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00:02:27.252 --> 00:02:37.232

Stephen Kay: With its associated rise in energy demand. And all of that is compounded by a surge in military defense spending.

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00:02:37.522 --> 00:02:44.092

Stephen Kay: And these all just add up to a scramble for these minerals to be treated as strategic assets.

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00:02:44.302 --> 00:02:51.022

Stephen Kay: And, for governments around the world to take… sit up and take notice, and to start acting accordingly.

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00:02:53.322 --> 00:03:08.662

Raul Munoz: Yeah, I mean, it's incredible the amount of activity that we've seen around mining. I think that it's become a topic that's in everybody's living rooms and dining tables, so…

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00:03:08.662 --> 00:03:14.442

Raul Munoz: Interesting to see the context around that… that search that you mentioned on demand.

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00:03:14.472 --> 00:03:34.421

Raul Munoz: In 2025, Marsh, published a political risk report, that identified three, key trends in geopolitical risk. I think the first one was reshaping, the global trade, the operational challenges around, related to the energy transition, as you mentioned.

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Raul Munoz: And the politics and the compliance around, the obligations. How do… how do those trends that were published on a report that talks about geopolitics, geopolitics, generally apply to the mining sector specifically?

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00:03:48.762 --> 00:03:54.172

Stephen Kay: Well, the reshaping of trade is probably… the most immediate.

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00:03:54.282 --> 00:03:55.502

Stephen Kay: one of those.

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00:03:55.652 --> 00:04:07.932
Stephen Kay: Tariffs and trade disputes and export restrictions that affect the cost of equipment, then the availability of supplies, and the, you know, competitiveness of mineral exports.

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00:04:08.322 --> 00:04:21.471
Stephen Kay: You know, sometimes very quickly as well. And the compliance piece is also intensifying. You know, miners now operate under a very complex web of domestic and international regulations.

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00:04:21.572 --> 00:04:32.891
Stephen Kay: That are evolving very rapidly, and the cost of noncompliance, especially as it impacts reputations and financial performance, is higher than ever, right?

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00:04:33.602 --> 00:04:45.581
Raul Munoz: Yeah, no, definitely. I mean, that's, definitely, compliance is, perhaps the, the first word that, that comes up when, when we're talking about, project, and operations.

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Raul Munoz: One concept that comes to mind as you're saying that is… and it's something, again, that comes very frequently around conversations, especially when you're dealing in some foreign jurisdictions, is resource nationalism.

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Raul Munoz: You mentioned, Rada, the intro, how the political tension between different countries is shaping how companies see this. How does that manifest into how people look at this, and, and mining specifically?

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00:05:19.492 --> 00:05:21.981
Stephen Kay: Well, you know, resource nationalism…

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Stephen Kay: To define it, is when a country asserts greater control over its natural resources, you know, typically to try to maximize the economic benefits that they get for their own citizens.

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00:05:34.312 --> 00:05:43.361
Stephen Kay: It can show up in a number of different ways, like rising, raising mining taxes, imposing new regulations and fines.

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00:05:43.552 --> 00:05:46.612
Stephen Kay: Introducing, export restrictions.

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00:05:46.752 --> 00:05:59.442
Stephen Kay: Requiring local processing is very, very common, and forcing contract renegotiations, and in the most extreme cases, canceling concessions and expropriating assets.

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00:05:59.832 --> 00:06:07.282
Stephen Kay: So these are all risks that mining companies with international operations need to assess and price into their investment decisions.

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00:06:07.722 --> 00:06:17.582
Raul Munoz: Yeah, definitely, and elections are a particularly source of uncertainty, in many areas. Governments can change, and with them, entire policy frameworks.

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00:06:17.862 --> 00:06:35.541
Stephen Kay: Exactly, and between the stresses on developing countries, of the ongoing trade wars, and the energy shock that was caused by events in the Gulf recently, election candidates directing their populist messages at foreign mining companies are gaining more and more traction.

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00:06:35.862 --> 00:06:41.951
Stephen Kay: And, a new administration in a country that sees the mining industry as a potential cash cow

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00:06:42.102 --> 00:06:45.762
Stephen Kay: Can, introduce policies that,

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00:06:46.232 --> 00:06:54.211
Stephen Kay: Change operational costs, affect trade relationships, and alter the terms under which a mine is permitted to operate.

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00:06:54.332 --> 00:06:56.112
Stephen Kay: And sometimes very quickly.

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00:06:56.442 --> 00:07:04.001
Stephen Kay: And the uncertainty itself It's harmful, even before any policy changes are even actually made.

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00:07:04.392 --> 00:07:12.772
Stephen Kay: So, when investors don't know what the regulatory environment will look like after an election, they can hesitate to move forward with investment decisions.

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00:07:13.072 --> 00:07:23.742
Stephen Kay: Capital gets delayed or redirected, and for mining companies with a decades-long investment horizon, that kind of uncertainty is costly and paralyzing.

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00:07:24.522 --> 00:07:42.602
Raul Munoz: Yeah, that's really interesting. To bring this alive, can you give a real world example of how you're describing? And, you know, I think a couple of things come to mind, and you're closer to this. Maybe you could expand on something that you've seen.

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00:07:43.072 --> 00:07:51.511
Stephen Kay: Sure, sure. I'm going to give you, I have a few notes here of, what actually happened in the, in the case of Cobre Panama.

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00:07:51.962 --> 00:08:02.832
Stephen Kay: which was one of the largest copper mines in the world, and which is a cautionary tale of how political risk can undermine investments from Western mining companies.

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Stephen Kay: Yeah, it was developed by the Canadian company First Quantum Minerals.

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00:08:07.262 --> 00:08:11.092
Stephen Kay: And the mine was the largest private investment in Panama's history.

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00:08:11.552 --> 00:08:14.192
Stephen Kay: Totaling about $10 billion of investment.

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00:08:14.492 --> 00:08:17.791
Stephen Kay: about 12% of the country's GDP

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00:08:18.182 --> 00:08:26.062
Stephen Kay: And starting up in 2019, the mine quickly became an economic pillar, contributing about 5% of gross domestic product.

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00:08:26.271 --> 00:08:29.371
Stephen Kay: and 7% of Panama's external revenues.

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00:08:29.612 --> 00:08:33.202
Stephen Kay: And directly or indirectly employing about 40,000 people.

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00:08:34.272 --> 00:08:42.241
Stephen Kay: It also played a critical role in the global copper supply chain when other mines were aging and output was declining.

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00:08:42.392 --> 00:08:50.112
Stephen Kay: So, this project stood out as one of the few major copper mines entering production worldwide in the last 15 years.

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Stephen Kay: So, as the thinking went, this gave mining the opportunity to become Panama's second largest economic sector after the canal.

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Stephen Kay: But by late 2023, legal and political events brought operations to a halt.

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00:09:08.212 --> 00:09:13.411
Stephen Kay: And, they, they literally dealt a blow to both the copper

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00:09:13.562 --> 00:09:17.621
Stephen Kay: the global copper supply chain and to Panama's economic outlook.

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00:09:18.482 --> 00:09:27.211
Stephen Kay: So, to continue the saga, the crisis originated from a 2018 ruling by Panama's Supreme Court.

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00:09:27.482 --> 00:09:33.971
Stephen Kay: When they questioned the constitutionality of the original 1997 concession agreement.

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00:09:34.962 --> 00:09:45.221
Stephen Kay: After 4 years of negotiations, a new contract granting First Quantum long-term operating rights was signed in October 2023,

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00:09:45.442 --> 00:09:53.751
Stephen Kay: However, the deal sparked an immediate public backlash, igniting widespread protests and road blockades.

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00:09:54.232 --> 00:09:58.342
Stephen Kay: And critics argued that the contract's terms were unfavorable to Panama.

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00:09:58.742 --> 00:10:09.112
Stephen Kay: And they cited inadequate royalty provisions and concerns over national sovereignty and the exclusion of environmental and precious metal regulations.

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00:10:10.312 --> 00:10:13.142
Stephen Kay: So, to calm the unrest.

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00:10:13.372 --> 00:10:18.202
Stephen Kay: President Cortizo of Panama at the time proposed a national referendum

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00:10:18.592 --> 00:10:26.182
Stephen Kay: on the contract, but then Panama's Electoral court deemed the conditions unsuitable for holding the vote.

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00:10:26.712 --> 00:10:35.171
Stephen Kay: And then the next thing that happened is that tensions escalated when two protesters were killed and road blockades disrupted the mining operations.

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00:10:35.442 --> 00:10:37.811
Stephen Kay: Meanwhile, Panama's Supreme Court

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00:10:38.902 --> 00:10:49.362
Stephen Kay: began to hear constitutional challenges to the contract, which culminated in November of 2023, when the court declared the contract unconstitutional.

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00:10:49.552 --> 00:10:53.261
Stephen Kay: And they stripped First Quantum of their legal operating rights.

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00:10:53.592 --> 00:11:00.322
Stephen Kay: And in the aftermath of that, the company ceased operations and suspended 7,000 employee contracts.

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00:11:01.302 --> 00:11:16.142
Raul Munoz: staggering story, and, you know, there's… there's the legality side of it, but… but there's also a social dimension, which is huge, and… and critical to this, and this is something that I feel quite strongly about, which is a company's

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00:11:16.392 --> 00:11:22.061
Raul Munoz: You know, social license to operate that goes beyond just a legal document.

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00:11:22.682 --> 00:11:29.512
Stephen Kay: Yeah, that's absolutely right. I mean, it's something that's becoming increasingly non-negotiable and can't be avoided by mining companies.

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00:11:29.612 --> 00:11:39.051
Stephen Kay: local communities and Indigenous, Peoples bear the environmental and cultural and social burden of mining operations.

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00:11:39.582 --> 00:11:42.461
Stephen Kay: And when they feel that their concerns are not being heard.

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00:11:42.592 --> 00:11:45.372
Stephen Kay: The consequences can be really severe.

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00:11:45.562 --> 00:11:47.862
Stephen Kay: And Panama's a good example of that.

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00:11:47.972 --> 00:11:52.921
Stephen Kay: In some cases, the escalation to, you know.

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00:11:53.022 --> 00:11:56.721
Stephen Kay: You know, and, you know, personal injuries.

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00:11:56.802 --> 00:12:13.222
Stephen Kay: you know, can also worsen the situation. So the guideline's very clear, is that it is that building really genuine relationships with Indigenous peoples and local communities is not just a legal obligation, it's a fundamental

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00:12:13.422 --> 00:12:18.442
Stephen Kay: guideline to assure operational continuity.

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00:12:19.802 --> 00:12:31.351
Raul Munoz: Yeah, in, in the resilience guide, we talk about four strategies, to managing political, geopolitical risk.

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Raul Munoz: Could you perhaps walk our viewers and listeners through those four strategies and what companies can do?

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00:12:39.612 --> 00:12:48.052
Stephen Kay: Of course, yeah. Well, the first thing to do is, well, maybe I'll just enumerate them. There… there you are. To know your region's political risk exposures.

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00:12:48.362 --> 00:12:54.772
Stephen Kay: To strengthen your supply chain, To build ongoing relationships with local stakeholders.

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00:12:55.432 --> 00:13:02.082
Stephen Kay: and to, engage an external risk advisor. So, the first one is about

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00:13:02.222 --> 00:13:15.141
Stephen Kay: Knowing your political risk exposures, and this is about just simply staying current and being proactive, keeping your ear to the ground. It means conducting regular political risk analyses that cover

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00:13:15.242 --> 00:13:18.762
Stephen Kay: Political violence risks, expropriation risks.

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00:13:18.952 --> 00:13:31.472
Stephen Kay: Foreign currency restrictions, stay on top of, you know, your customers' credit risks, and also keep monitoring labor practices in your operating regions.

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00:13:31.722 --> 00:13:38.981
Stephen Kay: Some organizations have in-house teams for this, and others rely on specialized advisors, but in either way.

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00:13:39.092 --> 00:13:43.502
Stephen Kay: You just need that knowledge to inform your decisions before a crisis hits.

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00:13:43.882 --> 00:13:49.492
Stephen Kay: In this regard, Marsh offers clients proprietary resources that are available free online.

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00:13:49.642 --> 00:13:54.591
Stephen Kay: That can be useful as a baseline for… and as a starting point for these types of

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00:13:54.702 --> 00:13:56.892
Stephen Kay: monitoring efforts.

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00:13:58.012 --> 00:14:11.521
Stephen Kay: The second one is to strengthen your supply chain. So supply… you know, supply chains are where geopolitical risk often materializes, first and most tangibly.

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00:14:11.692 --> 00:14:23.901
Stephen Kay: And disruptions in material supply and delays in procurement of equipment and new trade barriers all can adversely affect the supply chain and operations of a mining business.

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00:14:24.232 --> 00:14:40.651
Stephen Kay: The recommendation is to invest in supply chain mapping and visibility to understand your dependencies beyond your Tier 1 suppliers, and to diversify your supplier base across regions so that no single political event can cut you off entirely.

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00:14:41.562 --> 00:14:49.202
Stephen Kay: So that was number two. The third recommendation is to build ongoing relationships with local stakeholders.

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00:14:49.322 --> 00:15:00.442
Stephen Kay: And this… this goes back to what we were just discussing a few minutes ago. It's one of the most powerful resilience strategies available to mining companies, and one of the most underinvested.

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00:15:01.092 --> 00:15:11.462
Stephen Kay: The best practice includes recommend… includes going beyond the, the legal minimum and developing a comprehensive community engagement strategy.

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00:15:13.592 --> 00:15:32.102
Stephen Kay: Such as, employment training and training for local community members, investment in local infrastructure, like schools and healthcare, and regular communication with local lawmakers and local leaders about the economic contributions of your mining operations.

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00:15:32.412 --> 00:15:39.002
Stephen Kay: Indigenous communities especially often have deep knowledge of the land and can also be genuine partners

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00:15:39.132 --> 00:15:44.142
Stephen Kay: Across the mining life cycle, if the relationship is built on mutual respect.

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00:15:44.832 --> 00:15:50.812
Stephen Kay: And the fourth and last one is to engage an external risk advisor.

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00:15:51.142 --> 00:15:55.681
Stephen Kay: That can bring two things that are hard to replicate internally.

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00:15:55.912 --> 00:16:03.882
Stephen Kay: Specialized knowledge of specific political environments, And also, an independent view.

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00:16:04.382 --> 00:16:08.942
Stephen Kay: They can facilitate scenario planning and tabletop exercises.

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00:16:09.212 --> 00:16:13.851
Stephen Kay: And challenge you to think through contingencies that you may just not have

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00:16:14.762 --> 00:16:21.801
Stephen Kay: You know, been considering, and provide an objective view when internal teams are managing multiple competing priorities.

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00:16:22.312 --> 00:16:30.512
Stephen Kay: This can also help you diversify risk across assets, markets, and regions in ways that reduce your exposure to any single political shock.

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00:16:32.362 --> 00:16:49.792
Raul Munoz: That's a very good overview, Steven, and we could be here for hours, but this is mining intent, so we gotta keep it short. So what's the single most important mindset shift that you would ask mining leaders to make on, you know, around geopolitical risk?

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00:16:50.172 --> 00:17:09.292
Stephen Kay: So basically, Raul, it's to stop treating political risk as just background noise, and to start treating it as a first-order priority business risk, especially in mining. Geopolitical risk is real, and it's as consequential as equipment failure or a cyber attack.

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00:17:09.601 --> 00:17:16.322
Stephen Kay: But because it often moves slowly, it can feel a little less urgent at the moment.

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00:17:16.452 --> 00:17:20.762
Stephen Kay: But as it, when it unfolds, it often does that

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00:17:21.012 --> 00:17:27.902
Stephen Kay: very quickly, and in spectacular, and I guess I'd call it in a cliff-edged fashion, Where risk mitigation efforts

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00:17:28.212 --> 00:17:36.731
Stephen Kay: You know, that you may try to take just in time are not likely to be effective, and risk transfer options at that moment are no longer available.

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00:17:37.122 --> 00:17:40.051
Stephen Kay: So organizations that build resilience

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00:17:40.152 --> 00:17:51.922
Stephen Kay: Are the ones with the foresight to monitor this risk continuously, to engage deeply with local communities, and to have diversified strategies rather than concentrated bets.

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00:17:53.162 --> 00:17:53.962
Raul Munoz: Excellent.

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Raul Munoz: Well, thank you very much, Steve, and thank you for all your insights. You can download the guide at marsh.com. In our next episode, we turn to what may be one of the most critical risk factors in mining and mining processing, which is your equipment.

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00:18:10.392 --> 00:18:18.571

Raul Munoz: We'll be addressing machinery, and some of the strategies around building resilience when it comes to heavy equipment.

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00:18:18.572 --> 00:18:23.768

Raul Munoz: With… with our colleague, Mark Tanaka. So join us for our next episode, and thank you very much, and thank you, Steve.

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00:18:23.769 -> 00:18:25.500

Stephen Kay: My pleasure, thank you Raul.

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