

MINING IN MEXICO

IMPACT OF ORGANIZED CRIME

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STRATOP
RISK CONSULTING

ANALYSIS AND INTELLIGENCE UNIT
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The fundamental purpose of this document, prepared by the analysis and strategic intelligence team at STRATOP RISK CONSULTING®, is to provide an analysis of the landscape that Mexico's mining sector and industry will face, based on the presence of organized crime groups that have become key factors directly impacting the supply chain, the value of goods, and the social dynamics of the communities in which they operate.

Introduction

Mexico is one of the world's leading mining-producing countries, extracting at least 12 minerals, with the United States as its primary consumer. However, poor safety and security conditions in the sector have led to a slowdown in mineral production.

According to the Mexican Association of Mining Engineers, Metallurgists, and Geologists, insecurity and organized crime activities have impacted operations in the country's key mining regions, such as Sonora, Chihuahua, Zacatecas, Guerrero, and the State of Mexico. In these states, the mining industry has had to increase its security budget by 5% to 10%. However, as of February 2022, extortion cases in Mexico's mining sector had risen by nearly 16.8% compared to March 2021.

Increase in insecurity

A Deterrent to Investment and Economic Activity

The Mexican Mining Chamber (CAMIMEX) reported that investments in the mining sector have decreased by 34.5% since 2012, when the sector received \$8.043 billion in investments. In contrast, by 2022, investment was estimated at \$5.265 billion. As a result, Canada's Fraser Institute ranked Mexico as the fourth most insecure country in Latin America for mining activities.

Map 1. States Most Affected by Organized Crime.



Source: Self-prepared map with data from the Mexican Association of Mining Engineers, Metallurgists, and Geologists (AIMMGM).

**MEXICO IS THE FOURTH MOST
INSECURE COUNTRY IN LATIN
AMERICA FOR MINING ACTIVITIES.**

Fraser Institute of Canada

Mining and Organized Crime

The Route for the Illegal Exploitation of Mineral Resources

The incursion of organized crime into the mining industry is not a recent phenomenon; rather, it reflects the ongoing economic diversification these criminal groups pursue to increase their profits. There is substantial evidence of this, ranging from the creation of logistical infrastructure to illegal export minerals, to extortion, theft, and even direct management and control of mining exploitation projects.

During the administration of former President Enrique Peña Nieto, it was documented that various organized crime groups controlled the mining industry in at least five states. As a result, Mexico's mining sector became one of the least competitive in the world.



THE IMPACT OF INSECURITY HAS LED TO A 34.5% DECLINE IN MINING INVESTMENT OVER THE PAST 12 YEARS DUE TO THE PERCEPTION OF RISK AND THE VIOLENCE SURROUNDING THE SECTOR.

Mexican Mining Chamber (CAMIMEX)

The most significant cases of organized crime impacting the mining sector include:

- The extortion of Goldcorp by the "Guerreros Unidos" group in 2015 at the Los Filos mine in Guerrero.
- The "Caballeros Templarios" group using the Lázaro Cárdenas port to export iron to China in 2014.
- The Sinaloa Cartel's direct mining exploitation project in the El Patole mining area in Sinaloa.

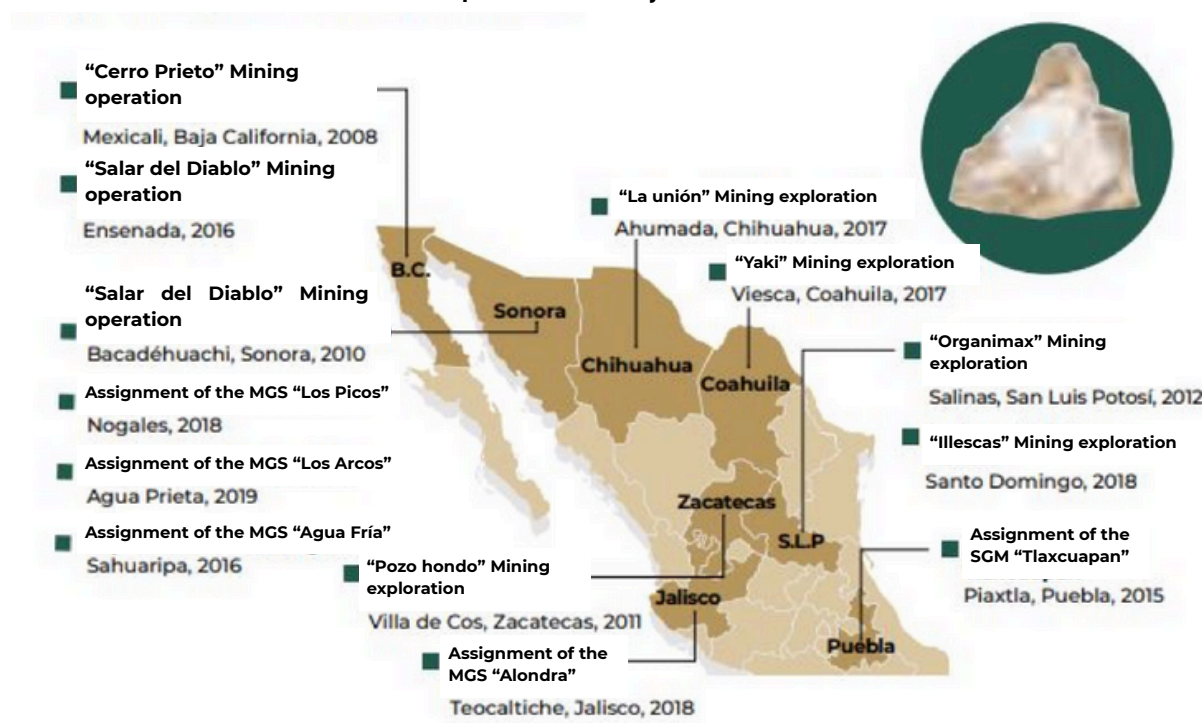
The impact of insecurity has led to a 34.5% decline in mining investment over the past 12 years due to the perception of risk and the violence surrounding the sector. Investor distrust is eroding the growth and sustainability of Mexico's mining industry.

Exploitation of lithium and uranium

High value elements in licit and illicit markets

Lithium, also called white gold, is a mineral critical for the making of batteries and the transmission of energy, factors driving various technology industries to compete for its extraction. The known lithium deposits in Mexico face risks due to the increasing territorial influence of criminal organizations and the risks they pose which are diversifying into the mineral sector.

Map 2: Lithium Projects in Mexico



Source: Valadez and Juárez (2020) in Azamar.

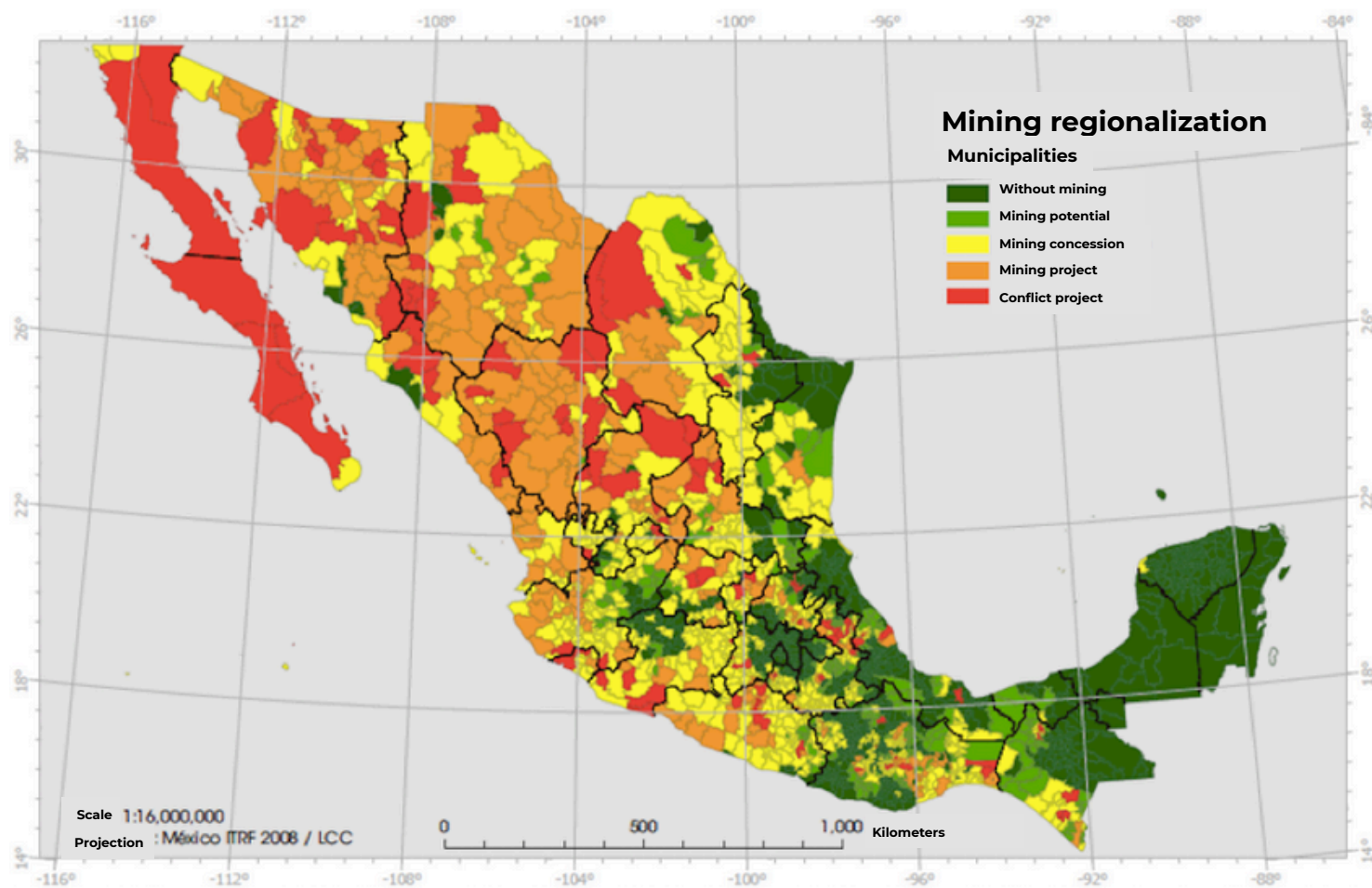
The primary mineral projects in Mexico are found in those states with the most lithium deposits, which, in turn, are located in zones with a high level of activity by criminal organizations. Combined with this, the exploitation and production of uranium in Mexico is considered an activity reserved to the state. However, it is one of the mineral resources that is being exploited by criminal groups, as is the case with that which is called "La Familia Michoacana", which began exploiting this mineral more than a decade ago. In the words of Johnny Hurtado Olascoaga, alias "El Pez", and brother of José Alfredo Hurtado Olascoaga, alias "El Fresa", the leader of said criminal organization, this criminal group has illegally transported uranium to Guerrero from the ports of Lázaro Cárdenas en Michoacán, and Manzanillo in the state of Colima, where it transferred directly from Chinese vessels.

Mining disputes

Risks inherited from necessary industry inputs

According to data from the Latin American Observatory of Mining Conflicts, around 90% of the mineral projects carried out in 2022 presented conflicts and violence originating from the exploitation of natural resources. Violent acts included threats, criminalization, forced disappearances, the illegal deprivation of liberty, etc, which has left the mineral sector in a vulnerable situation, limiting economic growth in the sector. In agreement with Map 3, regarding mineral regionalization by municipality, around 11% of municipalities in Mexico are a part of a mineral conflict.

Map 3: Mineral Regionalization by Municipality



Source: Muñoz K. with data from the Secretary of the Economy (2015-2019), Mexican Geological Service (2021a, 2021b) and Zaremberg et al. (2019).

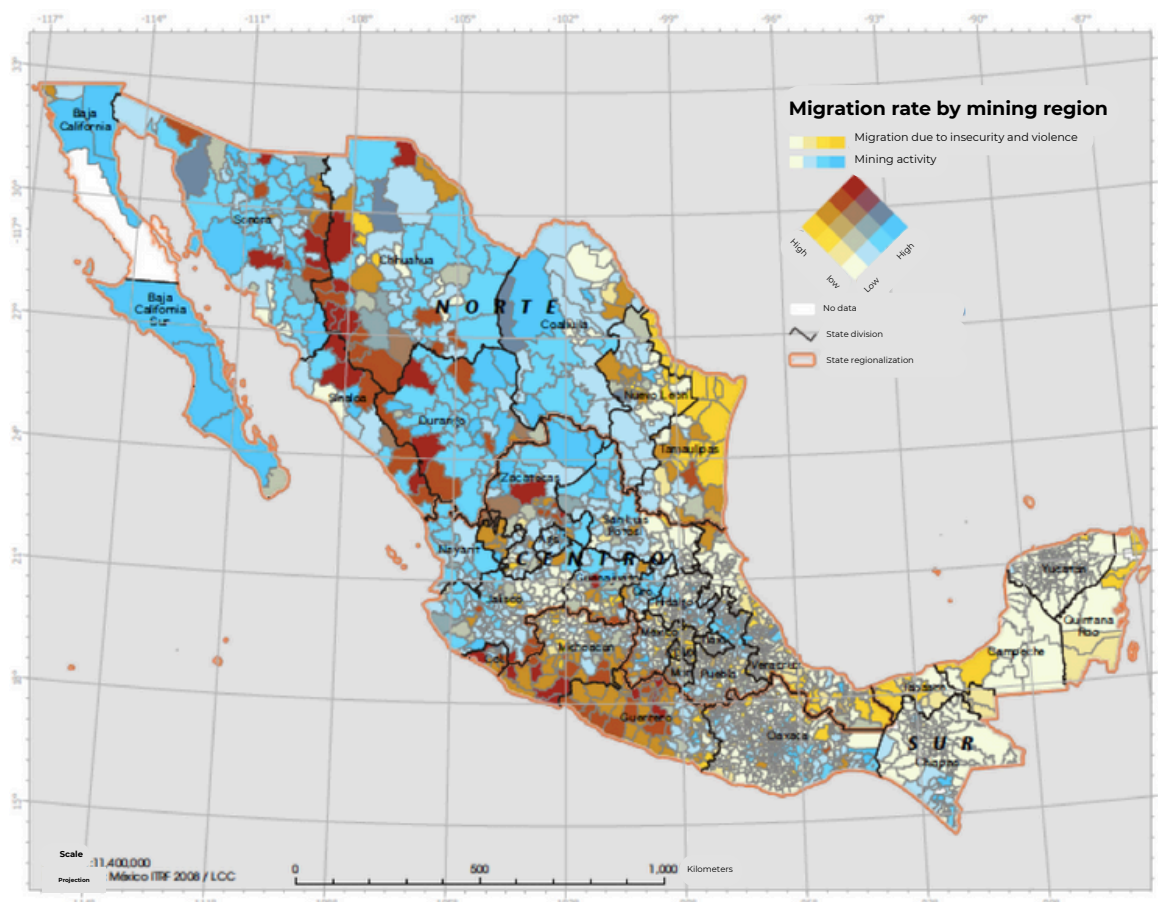
Mining disputes

Risks Inherited from Necessary Industry Inputs

According to the data presented by the publication of Geographic Investigations from the Geographic Institute of UNAM, in the research report titled *“Internal forced displacement in Mexico caused by violence and insecurity in mineral regions”*, upon analyzing the correlation between mining activities and forced displacement, it was found that there is a displacement rate of 130.9 per 100,000 inhabitants of mineral conflict zones and 122 per 100,000 inhabitants of mineral project zones. Within the report, the states of Guerrero and Michoacán are emphasized as having the highest indexes of migratory dynamics associated with violence in the two phases, mineral projects just as much as mineral conflicts.

However, despite the existence of high rates of migration owed to violence, it cannot be concluded that displacement is caused solely by mining-related violence; that’s to say, there may exist other factors which influence migratory mobilization.

Map 4. Migration rate by mining region



Source: Muñoz K. with data from the Secretary of the Economy (2015-2019), Mexican Geological Service (2021a, 2021b) and Zaremberg et al. (2019).

Theft of explosives

Risks Inherited from Necessary Industry Inputs

The theft of explosives in the Mexican mining industry is another one of the types of crimes committed violently by criminal groups. This type of risk, suffered by the mining industry, impacts the inputs and instruments essential to conducting the activity of the said industry. In 2021, there were at least 15 discoveries of cargo with stolen explosives, an increase of more than 50% in comparison to years past. With the acts of registered violence in this industry, the country finds itself ranked 73 out of 84 in terms of the security of the producing countries of minerals.



Source: Tecnología Minera

According to information provided by the president of the Association of Engineers of Mines, Metallurgists, and Geologists of Mexico (AIMMGM), Rubén del Pozo Mendoza reported that on various occasions there was observed to be a need to pay an illegal fee to operate, causing an increase of 3% in the final costs of their production.

The majority of stolen explosives in Mexico have as their destination a diverse set of countries in Latin America and the Caribbean. For example, Colombia, Guatemala, and Honduras are highlighted as the principal receivers of the trafficking of these explosives. This problem significantly affects the security and stability of the nations involved, for which reason national and international authorities have closely collaborated to combat these illegal activities and mitigate the resultant insecurity.

Conclusions

Reflections and Recommendations

The Mexican mineral sector faces an unprecedented security crisis. The persistent theft, infiltration by cartels, and 'narco-mining' have created an insecure environment, discouraging investment and endangering both workers and production. It is imperative that the government and security authorities implement effective measures to protect this vital industry and to restore the confidence of investors in the mining community. In the same way, the businesses of this sector should constantly be undergoing risk analysis of the environment in which they operate. By extension, it is crucial to develop intelligence capabilities and units of intelligence that, in addition to mitigating social risks, are capable of detecting security risks.

Before the situation of insecurity faced by the mining industry in Mexico, it is fundamental to implement a set of security recommendations to protect workers, production, and investment in the sector. As such, several key recommendations are detailed here:

- Collaborate with the authorities
- Undertake risk analysis
- Implement security measures
- Develop areas of intelligence
- Train personnel
- Create a culture of security
- Communicate transparently

IT IS KEY TO DEVELOP CAPACITIES AND UNITS OF INTELLIGENCE THAT, IN ADDITION TO MITIGATING SOCIAL RISKS, ARE CAPABLE OF DETECTING SECURITY RISKS.

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