Peru

As far as the eye can see, Antamina’s open-pit copper mine has been in operation since October 2001 and is the world’s third-largest copper mine.
Three Countries, Three Different Trajectories

Peru has been a mining economy, stretching back to colonial times. Its power and potential as a source of minerals and metals increased with the privatization of former state-owned mining companies and increased demand in the 1990s and 2000s for commodi-
ties. Today, Peru is the second largest copper producer in the world after Chile, and the world’s third larg-
est producer of silver, tin and zinc. In 2011, mining ex-
ports accounted for 59 percent of Peru’s total exports.

With the increase in value and volume of mineral exports in Peru, mining has come to represent a larger share of the country’s GDP. Since 1994, the share of Peru’s GDP represented by natural resource extrac-
tion increased from 4.6 percent to 4.9 percent. Accord-
ing to Macroconsult, a private consulting firm, in 2011 mining represented over 15 percent of total taxes col-
lected, 30 percent of all corporate income taxes paid and over 21 percent of all private investment.

As prices increased, investment in exploration and production flourished into Peru, ensuring an historic high of $7.2 billion in 2011, with a 20 percent increase in the first quarter of 2012 alone. Of the 2011 sum, an estimated 95 percent came from overseas—with Chinese investment representing roughly a quarter of the total. Correspondingly, China is the largest recipient of Peru’s mineral exports, consuming 34.8 percent of them in 2011, with Switzerland in second with 33.6 percent.

The risks of having an economy and public tax system so dependent on a commodity, tied to external prices and markers, are obvious. For one, Claudia Cooper and Eduardo Morón argue that despite rates of economic growth averaging 7 percent between 2007 and 2010, mining represented half of the total taxes collected on profits in the same period—a condition augmented in part by the fact that 60 percent of the national economy is based in the informal sector, which does not pay taxes. Second, with the increase in price and exploration, investments in mining and the markets for the minerals and metals produced are tied disproportionately to investment from the outside (and in particular one country—China), and that miner’s demands to keep profits high.

Third, mining traditionally provides few broad-
based benefits outside the immediate area of economic activity. Peru is no different. According to one study conducted by Macroconsult, only around 1 percent of the population is directly employed in mining. And while a study by Eduardo Morón and others revealed that the majority of inputs into mining in Peru—including goods and services—were sourced locally (the major part from the capital city, Lima), the regions where the mining occurs accounted for only 20 per-
cent of locally sourced goods and services.

There are micro-costs as well. With the expansion of mining exploration and extraction has come conflict. Unlike in Chile, where most of the mining occurs in the sparsely populated north in and around the Atacama Desert, in Peru the mining areas lie in poor, marginalized but populated areas often close to Indigenous communities. In many of these areas, mining—particularly open-pit mining—does not generate significant opportunities for employment or business. At the same time, the investments bring in outsiders and generate other opportunities, creating (at the very least) the appearance of disparity.

As a result, the number of social conflicts associated with extractive activities in Peru has risen dramatically. In 2007, Peru’s Public Ombudsman recorded only 23 conflicts involving the extractive industry; by 2012 that had shot up to 149—a 548 percent increase. The majority of those community conflicts were in Ancash (32 cases) and Puno (32).

Most recently, a community uprising in Cajamarca has halted the expansion of a gold mining project proposed by the U.S. company Newmont.

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What’s on the Books? Peru

General Framework and Taxation

The general law govern-
ing natural re-
source investment in Peru is the 1993 Consti-
tution. Along with subsequent laws, it was designed and written in an era in which the logic was to create a regime that could attract private investment and in which the state played a minor, even subsidiary, role to private businesses. In ad-
dition, as a force sides to negoti-
ate, Peruvian law also limits the granting of concessions in specific areas, such as urban or peri-urban areas, nationally protected zones and border areas—though in recent years specific ex-
ecutive decrees have over-
ridden some of those limits. According to the Minis-
tery of Energy and Mines, the current regulatory framework remains highly favorable for pri-
ate investment, ensuring predictability and trans-
parency between the state and investors—in ways similar to Chile. These in-
clude investment contracts guaranteed by the gov-
ernment and the constit-
uition; access to the formal export exchange market; rights to remit capital and prof-
ils; non-discrimination between domestic and for-
ie public or special tax-
it pays. As mentioned, Peru’s mining law also limits the role of the state, which has sov-
erign rights over their use. This gives the state the right to grant subsoil con-
cessions as an irrevocable right for an indefinite time, but not the surface rights of the land. These have to be bought, rented or obtained by other means, obliging investors to negotiate with community owners for the sale or use of the prop-
ey—a provision that has provided a powerful impe-
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What’s on the Books?  

PERU

64 percent of profits. The aggregate rate, they argue, is higher than in countries where mining production occurs (and 20 percent of that is dedicated directly to regional universities). The remaining 75 percent of the total canon minero is distributed between the provincial and district governments in the following way: district governments in which the mining occurs receive 10 percent; provincial governments (and all their district governments) in which the mining occurs receive 25 percent; and regional governments (all their provincial and district governments) in which the mining occurs receive 40 percent. As a result of this complex distribution, the district that has the good (or bad) fortune of housing active mining activities receives not only 10 percent, but also the proportional amounts assigned to all districts, regions and provinces.

The result has been a flood of resources to often small, poor, rural local governments with limited human and institutional capacity. To give an idea, the home of Antamina copper mine, Ancash region, received 582 million soles ($227.08 million) in 2011 and 25 percent of the total canon minero system. The region that received the second greatest amount was Aruquia, with 507 million soles ($197.82 million) in the same year; third, La Libertad, with 352 million soles (137.34 million); and fourth Cajamarca, with 318 million soles ($124.07 million). To give a sense of the disproportionate allocation, out of a total of 22 regional governments, six other regions did not receive one sol from the mining canon, and another three only received between 2 million and 7 million soles.

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