

INSTITUTE OF CURRENT WORLD AFFAIRS

WLM-6

28 July 1988
Lima, PERU

Peter Bird Martin
Executive Director
Institute of Current World Affairs
Wheelock House
4 West Wheelock Street
Hanover, NH 03755

Dear Peter,

Last week I sat down with Saúl Cantoral, Secretary-General of the Peruvian National Federation of Mine Workers, to hear his ideas about mining in Peru. Cantoral and his colleagues guided me through the list of demands that the Federation has put before mine owners, while leading out the first nationwide miners' strike in Peru for years. The strike, which began 18 July, has enlisted the support of over 80 regional mining syndicates (unions) in both the public and private sector, and brought mineral production to a virtual standstill in this Andean country. Cantoral assured me that the strike will not end until demands are met for a six-hour workday, wage hikes to reflect 650% inflation, and an end to quasi-legal subcontracting which hires men for specific jobs (like sinking shafts) in theory, but that, according to the Federation, actually keeps the subcontractors on the payroll as miners without benefits. Two days after our conversation, Cantoral was detained, and later released, in Cerro de Pasco, site of one of Peru's most famous mines, and also home to one of the country's more radical mining populations. The strike began to turn ugly as the Guardia Civil and Guardia Republicana moved into mining camps to squelch dissent. Not far from Cerro de Pasco, in Morococha, Francisca Quispe Gaspar, 28 and wife of a miner, was killed while participating in a march at that mine. To the south, at the Tintaya copper mine complex near Cusco, miner Marcelino Yajo Mollo was gravely wounded when the Guardia opened fire on 1200 strikers at a rally there.

The strike, which will probably culminate in a nationwide miners' march on Lima in the first days of August, illustrates the beleaguered state of the Peruvian mining industry. In 1986, the industry suffered 89 strikes, 549 days not worked, and 3,685,000 man-hours lost. The figures for 1987 are slightly better: 42 strikes, 417 days not worked, and 2,176,000 man-hours lost. Reliable data for 1988 was not available, but mining executives are particularly troubled by this latest walk-out, which represents the miners' efforts to organize on a national scale. Previously, syndicates have bargained collectively with each single mine. Central Mining Corporation (CENTROMIN), Peru's largest parastatal mining company, employs approximately 12,000 miners represented by 17 different syndicates. If Cantoral and his Federation succeed in gaining legal recognition, then mine owners -- whether they operate small artisanal mines that employ 10 men or transnational giants like the Southern Peru Copper Corporation that employ

William L. Melvin is a Fellow of the Institute studying South American Indian societies and Andean affairs.

thousands -- will have to negotiate across the board with just one, more powerful union.

Before the strike broke, I took the train from Lima to La Oroya and Cerro de Pasco to visit the CENTROMIN complex. The Central Railway, once run by the British, is an engineering triumph. Between Lima and the eventual stopping point of the train in Huancayo, the train must ascend a series of 22 zig-zag steps that require a locomotive to be present at each end. A doctor offers oxygen to those in need; the ruling grade is 4½% and the Railway reaches its highest point at 4,782 meters above sea level. The North American engineer Henry Meiggs designed the Railway, which is the highest standard gauge track in the world, and supervised its construction from 1870 until his death in 1877. The labor was carried out largely by imported Chinese coolies, many of whose descendants settled along the coast of Peru and are now quite prosperous.

There is nothing too marvelous about the smelting town of La Oroya, however. The Mantaro River, which cuts through the town, is awash with the grey tailings of lead and zinc dumped into the river. Cerro de Pasco is pretty depressing too; the open-pit mine that dominates the landscape used to be Old Cerro de Pasco; the town, along with its inhabitants, was moved in 1965 to dig the pit and reach the lead, zinc, silver, and copper ores below. Mining in Cerro de Pasco was recorded as early as 1620, but the mine did not really produce much until it came under the ownership of the North American-owned Cerro de Pasco Corporation in 1915. The Cerro de Pasco, as it is remembered by Peruvians, created its own empire in the central highlands of Junin. North of La Oroya sits the Casaracra hacienda, which when owned by the Cerro de Pasco, ran over 4,000 head of cattle along the vast expanse of the altiplano-like Pampas de Junin and valleys below. The hacienda was nationalized in the Agrarian Reform of 1968; General Juan Velasco's military regime also nationalized the Cerro de Pasco to create CENTROMIN in 1974. Then the enemy was Yankee-Imperialism. Now La Oroya and Cerro de Pasco have become centers of Sendero Luminoso activity aimed at destabilizing the Peruvian economy by interrupting mineral production. Cerro de Pasco was declared an emergency zone in 1986, and it is easy to see why. The original Mantaro River bridge above La Oroya is still lying in pieces in the river after being blown up last year. The presence of Army soldiers carrying Belgian-made FAL assault rifles in the market also gives the impression that Simon Bolivar resolved nothing when he defeated the Spaniards at Junin in 1824. Speculation has centered recently on Sendero's attempt to enter the legitimate political process by infiltrating unions. CENTROMIN engineers told me that a union leader was killed last year by Sendero for resisting the terrorists' attempts to maneuver the syndicate. Back in Lima, Cantoral argued that the miners' knowledge of Sendero comes from the press. One of his colleagues said that military authorities have used the threat of Sendero infiltration to detain unfairly miners engaged in routine union activity, or miners simply on their way to the pit after curfew, which is in force from 11 p.m. to 5 a.m.

Labor problems, and Sendero, are common headaches for everyone in Peru. The mining industry has also been caught in a mire of undefined APRA policy toward production and investment in mining, which has hampered growth over the last three years. Mine owners and executives criticize the APRA government's multi-tiered exchange rate policy for exports and imports (until June, there were 11 different exchange rates). Though the value of mineral exports grew by 12.2%, 1986-1987 (see Table 4), industry experts note that reinvestment to increase capacity and production tonnage

levels did not keep pace with the climb in metals prices offered in London and New York (see Table 5). Most notable were the price trends in copper and zinc. Copper went from a 1986 average price per pound of US \$0.61 to US \$1.11 in May, 1988. Zinc shot up from its 1986 average of US \$795 per ton to a May, 1988, US \$1070 per ton. The price of lead, silver and gold also went up.

Mining executives complain that President Alan García's government has failed to set a realistic exchange rate that allows the industry to capture the true value of its exports. Most aggravating to the industry is the difference paid to the Central Reserve Bank (BCR), in Intis (Peruvian currency) for US dollars to import spare parts and machinery, and the amount of Intis they receive against the world dollar value of their exports. For example, in 1986 the industry was receiving, at most, 15.85 Intis on the dollar for mineral exports, while on December 18 of the same year, any tourist could buy 24.5 Intis to the dollar in the Ocoña street market. In 1987, the breach was even greater: 34.97 to the mining industry and 87 on the street (see Tables 6 and 7). This policy acted as an additional, and hidden, tax on the industry. Between January 1986 and September 1987, the mining industry paid US \$542 million into the Peruvian economy as a result of the policy. Mining executives argue that this money could have gone into investment instead of government coffers, which are now depleted. This June, the government announced that it would lessen the disequilibrium: mine owners now receive 100 Intis on the dollar for their exports; they are charged 125 Intis on the dollar for imports of spare parts and machinery. There are rumors that the government is designing a certificate of exemption program for the mining industry that would allow companies a 10% duty-free gratuity on the value of imports in order to make up for the exchange difference. This could ultimately prove dangerous for the Peruvian mining industry; similar programs have been found to be countervailable, and thus subject to import duties, by the European Economic Community and U.S. Department of Commerce.

Other problems are cited. The Lima stock market, which one observer described to me as, a "gambling den," provides no effective liquidity base for investment. Movement on the Lima market is limited by the fact that an estimated 35% of the shares are controlled by the Romero group, which until President García nationalized the private banking sector last year, wholly owned the Banco de Credito. Mining executives also point to the delays involved in even getting spare parts and machinery when dollars are to be had for import.

But these are structural problems, and the García government seems to be waking up to the fact that it could supplement currency reserves if it boosts mineral exports. Right now, the miners' strike has focused the minds of many on the human side of mining. Noone wants Sendero to take advantage of unrest in the mines. One mine owner, who operates gold and silver mines in Arequipa, told me, "At the end of the day, this is a human problem. How can I protect my men, when the mines are in such God-forsaken places?" Should the miners' movement grow more radical, mine owners might not be worrying about exchange rate equilibriums. They may be looking for houses in Miami.

As ever,

W/L Melvin

TABLE 1
GROWTH (%) OF PERUVIAN GROSS DOMESTIC PRODUCT
By Sector, 1986-1987
(% change with respect to previous year)

<u>SECTOR</u>	<u>1986</u>	<u>1987</u>
Agriculture	3.8	6.1
Fishing	28.5	-15.0
Mining/Quarry Extraction	-4.5	-2.3
--Petroleum	-5.5	-7.8
--Mining	-3.3	4.9
Manufacturing	15.9	11.6
Construction	24.1	15.8
Government	5.8	1.5
Other	10.6	7.3
Gross Domestic Product	9.5	6.9

Source: Instituto Nacional de Estadística, PERU
National Institute of Statistics

TABLE 2
VALUE OF PERUVIAN EXPORTS, BY SECTOR
% of Export Market Share
1986-1987 (US \$ in Millions)

<u>Sector</u>	<u>US \$ Value</u> <u>1986</u>	<u>% Exports</u> <u>1986</u>	<u>US \$ Value</u> <u>1987</u>	<u>% Exports</u> <u>1987</u>
Mining/Minerals	1076	42.9	1208	46.4
Petroleum	236	9.4	273	10.5
Other Traditional*	549	21.9	408	15.7
Non-Traditional**	648	25.8	716	27.5

* For 1986 Includes: Fishmeal (\$206); Cotton (\$39); Sugar (\$22); Coffee (\$275)
* For 1987 Includes: Fishmeal (\$229); Cotton (\$19); Sugar (\$15); Coffee, (\$143).

** Includes: Textiles, Service Industry, 1986-1987.

Source: Sociedad Nacional de Minería y Petróleo, Memoria 1987; U.S. Embassy, PERU

TABLE 3
WORLD SUPPLY AND DEMAND OF REFINED METALS 1985-87
(Quantity in metric tons, unless otherwise stated)
(000's)

<u>PRODUCT</u>	<u>CATEGORY</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Copper	Supply	9,663	9,816	9,963
	Demand	9,529	9,959	10,140
Silver (Troy Ozs.)	Supply	486,500	465,000	485,000
	Demand	392,900	405,000	400,000
Lead	Supply	5,362	5,446	5,600
	Demand	5,488	5,538	5,700

TABLE 3 (cont'd)
 WORLD SUPPLY AND DEMAND OF REFINED METALS 1985-87
 (Quantity in Metric Tons)

<u>PRODUCT</u>	<u>CATEGORY</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Zinc	Supply	6,656	6,532	6,720
	Demand	6,510	6,623	6,690

Source: World Bank; Shearson Lehman Bros.; MINPECO

TABLE 4
 VALUE OF PERUVIAN MINERAL EXPORTS
 1986-1987 (US \$ in Millions)

<u>METAL</u>	<u>1986</u>	<u>1987</u>	<u>% CHANGE</u>
Copper	397	475	19.6
Metal (refined)	333	378	13.5
Minerals/Concentrates	64	97	51.6
Lead	35	50	42.9
Metal (refined)	18	24	33.3
Minerals/Concentrates	17	26	52.9
Zinc	231	215	-6.9
Metal (refined)	75	61	-18.7
Minerals/Concentrates	156	154	-1.3
Silver	265	319	20.4
Metal (refined)	110	93	-15.5
Minerals/Concentrates	155	226	45.8
Iron	59	58	-1.7
Minerals/Concentrates	59	58	-1.7
Total Export Value*	1076	1208	12.2

* Includes gold and minor metals.

Source: Sociedad Nacional de Minería y Petróleo, Memoria 1987

TABLE 5
 PERUVIAN MINE PRODUCTION 1986-1987
 (Recovery in 000's Metric Tons, Unless Otherwise Stated)

<u>METAL</u>	<u>1986</u>	<u>1987</u>	<u>% CHANGE 1986-1987</u>
Copper	385	394	2.3
Refined Metal	228	226	-0.9
Blister	96	85	-11.5
Minerals/Conc.	62	83	33.9
Lead	180	189	5.0
Refined Metal	66	71	7.6
Minerals/Conc.	114	118	3.5
Zinc	495	520	5.1
Refined Metal	155	144	-7.3
Minerals/Conc.	339	376	10.9
Silver (000's Troy Ozs.)	58,000	60,000	3.7
Refined Metal	3,000	3,000	0.0
Blister	3,000	3,000	0.0
Minerals/Conc.	34,000	37,000	9.5
Iron (000's Long Tons)	3,290	3,306	0.5
Minerals/Conc.	3,290	3,306	0.5

Source: Sociedad Nacional de Minería y Petróleo, Memoria 1987

TABLE 6
 AVERAGE MONTHLY EXCHANGE RATES FOR PERUVIAN MINING SECTOR
 1986-1988 Peruvian Intis (I/.) to U.S. Dollar (\$)

<u>Month/Year</u>	<u>MUC*</u>	<u>HYDRO- CARBONS</u>	<u>SMALL & MEDIUM MINES</u>	<u>GRAND MINES</u>	<u>SOUTHERN CAUJONE**</u>
Dec/86	13.95	14.29	15.85	15.16	13.95
Jan/87	14.07	14.42	16.01	15.30	14.07
Feb/87	14.31	15.07	16.40	15.68	14.31
Mar/87	14.76	16.43	17.17	16.43	14.76
Apr/87	15.06	16.76	17.51	16.76	15.06
May/87	15.40	17.13	17.90	17.13	15.40
Jun/87	15.81	17.83	18.99	17.95	15.81
Jul/87	15.89	18.52	21.53	18.88	15.89
Aug/87	15.89	19.10	22.96	19.54	15.89
Sep/87	15.89	19.39	23.30	19.84	15.89
Oct/87	16.69	20.55	24.30	20.92	16.87
Nov/87	20.00	25.00	28.00	25.00	25.00
Dec/87	27.55	33.71	34.97	33.71	33.71
Jan/88	33.00	40.18	40.18	40.18	40.18
Feb/88	33.00	43.22	43.22	43.22	43.22
Mar/88	33.00	47.96	47.96	47.96	47.96
Apr/88	33.00	63.70	63.70	63.70	63.70
May/88	33.00	74.15	74.15	74.15	74.15

TABLE 6 (cont'd)
 AVERAGE MONTHLY EXCHANGE RATES FOR PERUVIAN MINING SECTOR
 1986-88 Peruvian Intis (I/.) to U.S. Dollars (\$)

<u>Month/Year</u>	<u>MUC*</u>	<u>HYDRO- CARBONS</u>	<u>SMALL & MEDIUM MINES</u>	<u>GRAND MINES</u>	<u>SOUTHERN CAUJONE**</u>
Average 1987	16.78	19.49	21.59	19.76	17.72

* Official Exchange Rate for Foodstuffs, Pharmaceutical Items.

** Southern Peru Copper Corporation Complex, including mines at Toquepala and Cuacone.

Source: Sociedad Nacional de Minería y Petróleo, Memoria 1987

TABLE 7
 SELECTED DAILY EXCHANGE RATES, PERUVIAN OCOÑA MARKET
 1986-88 Peruvian Intis (I/.) to U.S. Dollars (\$)*

<u>DATE</u>	<u>BUY</u>	<u>SELL</u>	<u>% CHANGE**</u>
12/18/86	24.5	26	--
12/18/87	87	92	353.1 (yearly)
01/08/88	88	90	-2.2 (weekly)
02/05/88	89	91	1.1
02/27/88	101	103	4.7
03/25/88	105	107	3.7
04/08/88	108	109	1.8
04/15/88	120	125	12.8
04/22/88	128	130	3.8
04/31/88	150	157	20.8
05/06/88	205	210	33.7
05/13/88	180	186	-11.4
05/20/88	170	174	-6.5
05/27/88	176	178	2.3
06/03/88	172	175	-1.7
06/10/88	173	175	0.0
06/17/88	173	177	1.1
06/24/88	180	190	7.3
07/01/88	173	178	-6.3
07/08/88	175	177	-0.6
07/15/88	203	208	17.5
07/22/88	205	210	0.9

* The Ocoña Market refers to the unofficial street trading, which in the main, circulates dollars earned in drug trafficking.

** % Change for 12/18/87 reflect the percentage leap from the year before. The following dates, in 1988, are measured against the prior week to come up with the percentage (%) change.

Source: Semana Economica, for 1986-88, published by APOYO, S.A.

TABLE 8
MEASURING THE TERRORIST WAR IN PERU

Deaths attributed to terrorist acts:

First five days of May 1988 -- 27
First five days of June 1988 -- 36
First five days of July 1988 -- 50

Bombings attributed to terrorists:

January 1988 -- 150
February 1988 -- 160
March 1988 -- 145

Deaths attributed to terrorist acts:

<u>Victims</u>	5/14/80 - <u>7/28/85</u>	7/29/85 - <u>3/30/88</u>	<u>TOTAL</u>
Guardia Civil	121	140	261
PIP*	8	14	22
Guardia Republicana	40	68	106
Armed Forces	45	86	131
Authorities**	81	100	181
Civilians	2,172	1,161	3,873
Terrorists	3,689	2,282	4,434
Total	6,697	2,304	9,011

Wounded attributed to terrorist acts:

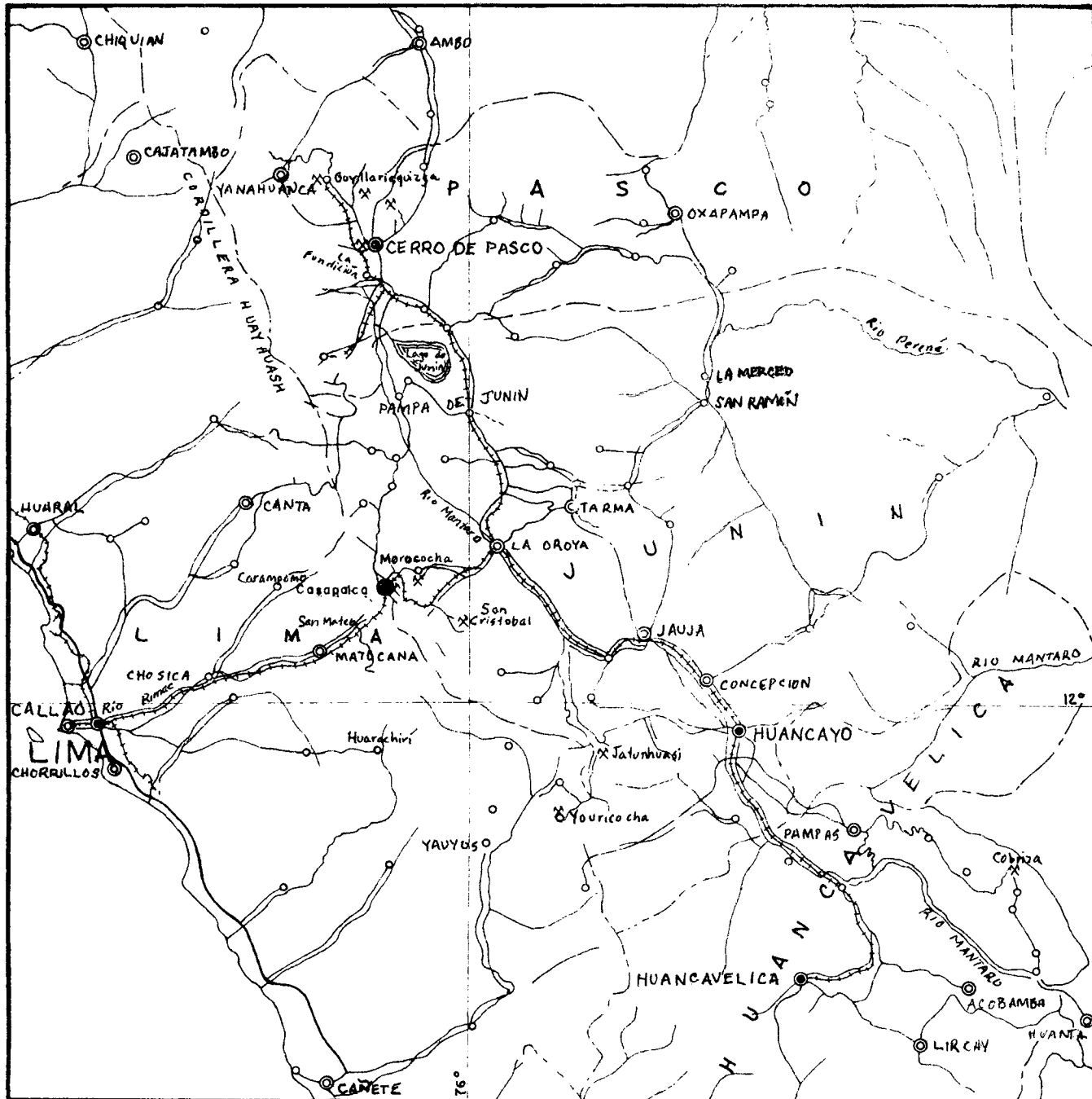
	5/14/80 - <u>7/28/85</u>	7/29/85 - <u>3/30/88</u>	<u>TOTAL</u>
Guardia Civil	303	188	491
PIP	32	25	57
Guardia Republicana	49	75	122
Armed Forces	74	116	190
Authorities	16	14	30
Civilians	809	805	1,614
Terrorists	66	44	110
Total	1,354	1,296	2,623

* The Policia de Investigaciones del Peru (PIP) is the plainclothes police and investigative agency charged with internal affairs.

** Authorities includes elected and appointed officials.

Source: Ministry of the Interior; APOYO, S.A.

NB: The two time periods above correspond to the presidential administrations of Fernando Beláunde Terry (1980-85) and Alan García Pérez (1985-88).



THE CENTRAL HIGHLANDS
OF PERU

CENTROMIN PERU
DEPARTAMENTO DE GEOLOGIA-CASAPALCA
MAPA INDICE