Mining in Latin America

From conflict to co-operation

Big miners have a better record than their critics claim. But it is up to governments to balance the interests of diggers, locals and the nation

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A COUPLE of hours drive south of Arequipa, Peru’s second city, the Pan-American highway drops down from the high desert of the La Joya plain and threads its way through tight defiles patrolled by turkey vultures before reaching the green braid of the valley of the river Tambo. The river burbles past fields of rice, potatoes and sugar cane. It is a tranquil, bucolic scene. The only hint of anything untoward is the five armed policemen guarding the bridge at the town of Cocachacra.

Last April the valley was the scene of a month-long “strike” that saw pitched battles between the police and hooded protesters hurling stones from catapults (see picture). Two protesters and a policeman were killed; 150 police and 54 civilians were hurt. The protest was over a plan by Southern Peru Copper Corporation, a Mexican-owned company, for a $1.4 billion copper and gold mine, called Tía María, on the desert bluffs overlooking the valley. Southern, as Peruvians know the firm, says the mine would generate 3,000 construction jobs and 650 well-paid permanent posts and would add more than $500m a year to Peru’s exports. Local farmers insist it would kill their livelihoods by polluting the river. The company denies this: after a previous round of protests in 2011 in which three people died, it redesigned the project to include a $95m desalination plant as a way to avoid drawing water from the river.

So far the farmers are winning. Because of the protests, Southern suspended the project. Although his government approved Tía María, Ollanta Humala, Peru’s president, gave it only lukewarm support. Southern is waiting for a new government to take office in July. Even then it will be difficult to win local consent. “The conditions will never exist for the company to operate,” declares Jesús Cornejo, the president of the water-users’ committee in Cocachacra.
Nearly all the houses in the valley are adorned with flags saying “Farming Yes, No to the Mine”.

Tía María is just one of many conflicts in Peru between mining, hydrocarbons and infrastructure companies and communities. In September three people were killed in a protest over last-minute changes to the design of Las Bambas, a giant copper mine bought in 2014 for $7 billion by MMG, a Chinese group, from Glencore, a Swiss commodities company, and which began production last month. In February 2015 in Pichanaki, in the eastern Andean foothills, one person was killed and 32 were injured when police opened fire on a mob opposed to natural-gas exploration by Pluspetrol, an Argentine firm. In 2012 protests halted Conga, a copper and gold mine in which an American-Peruvian consortium had invested $1.5 billion.

In all 53 people have been killed and almost 1,500 injured in social conflicts in Peru, mostly related to extractive industries, since Mr Humala took office in 2011. Peru has foregone investment of $8.5 billion in mining projects blocked by such conflict over the past 15 years, according to Semana Economica, a magazine.

Battles over the exploitation of natural resources have become common throughout Latin America. The Observatory of Mining Conflicts in Latin America, a coalition of NGOs, logged 215 of them in 19 countries in 2014, led by Mexico, Peru and Chile (see map). In 2013 Chile’s Supreme Court suspended Pascua-Lama, a gold mine straddling the border with Argentina, over fears that it would pollute rivers; Barrick Gold, its Canadian developer, had already spent $5 billion on the mine. Colombia’s Constitutional Court has blocked exploration of a copper and gold deposit at Mandé Norte, north of Medellín, at the request of Embera Indians and Afro-Colombians in the area.

Oil drilling, too, has sparked protests in Ecuador and Peru; so have big infrastructure projects such as hydroelectric dams in Brazil and a proposed road through a nature reserve in Bolivia. But it is mining that has become the biggest source of strife.

Slicing off the mountain tops

In the 1990s Andean countries opened their economies to private investment. The result was a boom, featuring vast open-cast mines. These often involve slicing the tops off mountains or drying up lakes. In the past people in the Andes tended to welcome mining; disputes were over labour relations. Modern projects have met growing resistance, partly because democracy has taken root in the region. People are more conscious of the projects’ impact on their environment, of the big money that is at stake and of their rights.
Opponents of mining often claim it brings no benefit to Latin America, just “poverty...serious environmental harm and...human-rights violations”, as a report by a group of Canadian NGOs put it. Some left-wingers argue that Latin America should abandon large-scale extractive industries altogether, saying they are inimical to development.

Modern mining is capital-intensive and generates relatively few jobs (though these tend to be skilled and well-paid). Yet the reality is much more nuanced than critics allow. By providing foreign exchange, tax revenues and investment, mining has helped to speed economic growth and poverty reduction in several South American countries over the past 15 years. In Peru, for example, where poverty fell from 49% in 2005 to 23% in 2014, mining exports amounted to $27.4 billion at their peak in 2011, or 59% of the total. In Chile and (to a lesser extent) in Peru, industries have sprung up to supply mines with equipment, spare parts, software and other services. Tellingly, left-wing governments in Bolivia and Ecuador have backed mining and hydrocarbons projects, in the latter case riding roughshod over opposition.

The latest conflicts come as the mining boom has turned to bust. Faced with plunging prices and profits, miners are slashing investment and suspending projects. That in turn has contributed to an economic slowdown in the region.

Despite the slump, it remains vital for Latin American countries to find ways of reconciling the interests of diggers, local people and the nation as a whole. This is not easy. Unlike in the United States, minerals in Latin America belong to the state, rather than the private owners of the land under which they lie buried. The state grants mining concessions to companies, which must then reach agreement with the communities whose lives will be disrupted. Most of the benefits accrue to the nation; many of the costs, such as pollution, are borne locally.

There is a huge asymmetry of power, resources and information between big miners and peasant farmers and herders high in the Andes. Expectations, which may be unrealistic, are aroused. Modern mines often operate as near-enclaves: local people lack the skills to work there and the scale to supply food and other provisions.

Disputes can arise over land purchases, relocation of the population and compensation payments. Water is increasingly a flashpoint. Mines insist that they clean up waste water—and this is usually true. But sometimes things can go badly wrong. In Brazil in November 17 people were killed and thousands of tonnes of mud released into the river Doce when a tailings dam burst at an iron-ore mine that is a joint venture between Vale and BHP Billiton. In Mexico in 2014, 40m litres of copper sulphate from a mine owned by Southern’s parent company leaked into a river.

In remote areas of the Andes, companies have come under pressure to supply basic services that
the state fails to, such as electricity, schools and clinics. Outside actors, such as political movements and NGOs, may fan conflicts—or help to resolve them.

Over the past two decades the balance of power has shifted in favour of local populations. Fourteen Latin American countries are among only 22 to have signed the International Labour Organisation’s Convention 169 on the rights of indigenous and tribal peoples. This requires governments to ensure that these groups are consulted about projects or laws that may affect them. Many governments did not foresee the impact the convention would have, says Carlos Andrés Baquero of Dejusticia, a think-tank in Bogotá. Several countries, including Chile, Colombia and Peru, have written the requirement of prior consultation into law.

There is debate as to whether this gives locals a right of veto. In Colombia mining bosses complain that prior consultation has become a means to extort money from companies. Peru has decided that it doesn’t confer a veto, and has applied the law only to Amazonian tribes and not to Quechua-speaking people in the Andes. There the new system has worked to prevent conflicts in most, though not all, of the oil and gas projects over which it has been invoked. The convention has encouraged people to self-identity as indigenous. But many conflicts involve mestizos.

The second big change is in regulation. In Peru and Chile all projects are required to submit an environmental impact assessment (EIA). In Peru, this was supervised by the Ministry of Energy and Mines, whose main job is promote investment. “People don’t believe in the rigour of EIAs,” says José de Echave of CooperAcción, an NGO that works with communities affected by mining. Only this year has an autonomous environmental certification agency begun work. Peru devolves half a mine’s corporate income tax to regional and local governments in the area. This has showered some mining districts with more money than they can spend, often fostering corruption.

Third, spurred by activists in their home countries as well as by changes in host-country laws and politics, some multinational miners nowadays take environmental and social responsibilities much more seriously than in the past. In many cases mutually beneficial agreements can be struck between miners and communities, provided there is trust and goodwill. Communities “are not necessarily against mining but they are very concerned that their decision-making capacity about their land not be taken away from them,” says Tim Beale of Revelo Resources, a Vancouver-based exploration company. If the mining firm understands that, “it will have a much bigger chance of success.”

One example is Gold Fields, a South African company, which developed a medium-sized gold mine in Hualgayoc in northern Peru. The circumstances seemed unpropitious: the project began in 2004, just when mass protests stalled an expansion by Yanacocha, a big gold mine
nearby. Gold Fields began by holding many meetings with local people, at which managers explained the project and listened to concerns. The company promised to employ some locals and train others to use the money they received from the sale of their land to set up service businesses. It brought in an NGO to work with herders to improve pastures, dairy cattle and cheese production. It worked with local mayors to install electricity and drinking water.

Shut up and listen

People protest “because they want things rapidly, they fear missing a golden opportunity,” says Miguel Incháustegui, a Gold Fields manager. He says the keys to achieving social consent were to listen more than talk and to ensure that living standards improve for people in the surrounding area.

Mitigating social and environmental risks is not expensive: it typically adds about 1% to a company’s total costs, estimates Janine Ferretti, head of the Inter-American Development Bank’s environment division. But that is not always true. At the Quellaveco copper project in Peru, Anglo American, a British firm, made an expensive offer to pay upfront to restore a river to its original course after the mine closed. The project is now in limbo.

Some miners find it hard to change. They see their strengths as understanding geology and managing projects, not engaging in grassroots politics. Others apply best practice in some countries but not in others, notes Mr Beale.

Southern seems to be in that group. Pinned to the wall of Mr Cornejo’s office in Cocachacra is a decree issued by Peru’s government in 1967 that gave Southern six months to halt emissions of sulphur dioxide from its nearby smelter and compensate local residents for air pollution. Only in 2007 did it stop the emissions. Tía María is not a stereotypical conflict: Cocachacra is one of the 300 least poor of Peru’s nearly 2,000 districts; it has basic services; and its people are mestizo commercial farmers, not indigenous peasants. Guillermo Fajardo, Southern’s manager for the project, blames outsiders for the violence. Nobody in the area agrees. Certainly, the community is divided, and those who support the mine have faced intimidation; the opponents have the support of a far-left party.

The underlying problem is a lack of trust. “The company might be right but the population feels unprotected,” says Helar Valencia, the mayor of Cocachacra. Tía María only has a chance of going ahead if local peoples’ concerns are addressed “with concrete confidence-building measures” such as the government building a reservoir to ease water shortages, says Yamila Osorio, the regional governor.

Despite the headlines, more mines go ahead than don’t in Peru, points out Anthony Bebbington,
a geography professor at Clark University in Massachusetts. Mainly because it has cheap energy and high-grade ores, many of Peru’s mines are competitive even at today’s prices. Thanks to Las Bambas and other new mines, the country’s copper output is forecast to rise from 1.7m tonnes in 2015 to 2.5m tonnes this year, second only to Chile’s.

Ironically, the end of the boom may increase both government and public support for mining. In Arequipa, for example, the regional government’s revenue from mining will fall this year to a tenth of its peak, says Ms Osorio. Although low prices have halted some projects, they potentially offer more time for consultations.

Reconciling the national benefits and local costs of mining is ultimately a problem of democracy. The days when big mines could simply be imposed are over. In that regard, something has been learned from the conflicts of the past two decades. Complaints about pollution are “a means of demanding a better state presence”, argues Vladimir Gil, a Peruvian anthropologist, in a study of Antamina, a big copper mine developed in the 1990s. The opposition such projects arouse can be seen “as a petition to achieve greater participation in national affairs”. In some areas governments might reasonably decide that big mining should not be allowed because of its impact on the environment or on farming. That is what Costa Rica has decided; El Salvador is close to doing so.

When a project does serve the national interest, it is important that the government backs it. That does not always happen. Carlos Gálvez, the president of SNMPE, a mining-industry lobby in Peru, points out that after this year’s new copper mines and one other project, the pipeline is now empty. To remedy that, he says the next president should defend mining more robustly.

Mining is a long-term business. Exploration can take ten years, development of a project another five and construction from three to five, says Mr Galvéz. The minerals bust is a reminder that governments should invest the windfall gains from extractive industries in areas such as infrastructure and education to try to develop less cyclical economic activities. But it is not a reason to put off the institutional changes needed to give mining a sustainable future in Latin America.

CORRECTION: A previous version of the chart accompanying this story suggested that mining accounts for a high proportion of Paraguay's GDP. The figure was incorrect and has now been removed.

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