Peru: President promises to protect foreign capital from social unrest

Luis Arce
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Responding to fears that growing social unrest will scare off foreign capital, Peruvian President Alan Garcia vowed to employ extra-constitutional power to guarantee the security of investments in Peru.

In a speech to Latin American business leaders on March 25—which was recorded without Garcia's knowledge—the Peruvian president said, "The president can't pick his successor, but he can prevent the next president from being someone he doesn't want." Garcia went on to promise another 10 years of political stability.

Peru is one of the Latin American countries most firmly committed to free market policies, and President Garcia has tied the success of his economic program to a free trade agreement recently signed with the US.

After recording 7.5 percent growth over the past four years, Peru's economic fortunes have shifted 180 degrees. Export earnings have collapsed as a result of copper, zinc, lead and silver prices falling at least 27 percent since the beginning of July 2008. Peru is the world's largest producer of silver, the third-largest miner of copper, zinc and tin, and the fifth largest for gold.

Garcia's anti-democratic statement prompted his main political rival, the ultra-nationalist former army officer Ollanta Humala, to accuse the President of being "a dictator."

Garcia defeated Humala for the presidency in a run-off election in 2006. He was able to beat Humala, who came first in the general election, thanks to votes from right-wing candidate Lourdes Flores's (eliminated in the first round) supporters among the bourgeoisie and the more affluent layers of the middle class of Lima, the capital city, who viewed him as the "lesser evil."

Humala, however, defeated Garcia overwhelmingly in all the Peruvian highland areas, getting 80 percent of the vote in the poorest regions. Notwithstanding his demagogic nationalist and racist proclamations, the vote for Humala provided a distorted expression of the anger and distrust toward the central government of the historically marginalized and brutally exploited Inca people who populate the valleys of the Andes mountain chain.

The bursting of the commodities bubble is having a devastating effect in the mining sector upon which Peru's economy depends. Garcia has reason to worry, since most mines are located in the Andean territory where he lost to Humala and where the influence of his party, APRA, is weak.

Mass opposition to President Garcia

In the first months of his presidency, Garcia enjoyed an approval rating of more than 60 percent. Since then, it has steadily dropped to the range of 20 percent to 30 percent today.

Immediately after assuming the presidency, Garcia enacted measures aimed at ensuring continuity with the economic policies of his processors, Alejandro Toledo (2001-2006) and the dictatorial Alberto Fujimori (1990-2000, convicted this week on murder and kidnapping charges stemming from the police state repression carried out during his government's dirty war against the Maoist guerrilla movement Shining Path).

When Garcia last held the presidency, in the 1980s, he earned US animosity when he suspended payments on the foreign debt and nationalized the banks. This time, Garcia has focused his energies on convincing Washington that he was something of a "new-born free-market disciple." He introduced himself as a responsible alternative to the nationalist current represented by Chavez in Venezuela and Morales in Bolivia.

Peru's prosperity in the last four years attracted foreign capital, increased the wealth of the Peruvian bourgeoisie, and improved the living standards of certain layers in the middle class, but ostensibly left the majority of the population in poverty.

The growth of inequality sparked a mass protest precisely at the time metal prices were reaching historic highs.

On June 30 of last year, 28,000 miners from 70 unions went on strike demanding a wage rise, bonuses, profit-sharing and better pensions. They were also seeking the approval of new laws that would allow miners to retire beginning at age 45, those working open pits at 50 and those in the smelters at 55. The strike was the third in the last 14 months.

The strike paralyzed production at mines run by foreign capital: Barrick Gold Corp., Southern Copper Corp., Renco Group's Doe Run Peru unit, Shougang Corp.'s Hierroperu iron unit, Minera Antamina and Volcan Minera SA, according to the Mining Federation.

Garcia's government reacted by declaring the strike illegal, and it was called off by the union leadership after five days. But in that short space of time, 30 miners' delegations marched to Lima. All major mining regions—Huancavelica, Huaraz, Junin, Ayacucho, Huancayo, Cerro de Pasco and La Libertad—were represented. They denounced the mining companies for forcing them to "work 12 consecutive hours in the shafts. Sometimes without having lunch," said the local media.

Then in October of last year, Peru's Prime Minister Jorge del Castillo was forced to resign after being implicated in bribes given to government officials for rigging multimillion-dollar oil contracts.

The crisis prompted thousands of workers in Lima—and other Peruvian cities—including teachers, construction workers and medical doctors to march to Congress calling for Garcia's government to step down, and to protest against the rising cost of living and low wages.

The growing social unrest led President Garcia to replace del Castillo with Yehude Simon, the popular governor from a northern region who served time in jail for alleged links to left-wing rebels during the presidency of Fujimori.

Garcia is trying to walk a political tight rope, balancing between taking measures to appease the social unrest he so much fears, on one hand, and satisfying the demands of foreign capital, on the other.

The case of Doe Run

A few weeks ago, the Renco Group Doe Run Peru unit , the country's fourth-largest exporter, announced it would close down the La Oroya smelter and suspend mineral purchases from 30 mines in the central Andes because of the lack of financing. President Garcia responded with alarm, warning, "We would have between 10,000 and 12,000 unemployed that could block the roads."

Garcia's words were a clear reference to the 2004 miners' blockade that paralyzed the main commercial road to Lima for produce coming from the Andes and the Amazon jungle.

In early April, the Peruvian government announced it would guarantee a $70 million credit line to avoid the closing of the Doe Run metallurgic center in the mining town of La Oroya, which has a population of 33,000 and is located 90 miles east of Lima. At the time of the announcement, Doe Run had shut down 95 percent of its operations, including its copper plant, and zinc- and lead-processing installations.

On February 24, a bank consortium headed by PNB Paribas, Standard Chartered Bank and the Peruvian Banco de Credito suspended a $75 million revolving credit to Doe Run, which owed $100 million to mines that supply it with mineral concentrates of zinc, copper and lead.

The closing down of La Oroya would have had a "systemic impact," according to Peru's minister of foreign trade, Mercedez Araoz. The population of the River Mantaro valley, the largest and most productive in the central Andes, depends on La Oroya operations, she added.

Last January, Doe Run cut 1,100 subcontracted workers at its copper mine, and zinc, lead and copper smelter in a bid to reduce costs, according to the Mining Federation.

Doe Run's financial crisis is an indication of a larger problem affecting the entire mining sector. *Bloomberg News* reported, "The crisis has also prompted Glencore International AG, Volcan Cia. Minera and Pan American Silver Corporation to shut mines in Peru and shed jobs."

Doe Run suppliers include the most important mines in Peru, like Buenaventura, El Brocal, Milpo and Atacocha. But the small mines would be the most affected, because Doe Run is the sole buyer of their concentrate. Due to lower copper prices, Doe Run also considered closing its Cobriza copper mine.

La Oroya smelter

Together with Cerro de Pasco (the highest city in the world, located at more than 14,000 feet above sea level), La Oroya has played a central role in Peru's economic history. At the turn of the twentieth century, the American-owned Cerro de Pasco Corporation began mining the Peruvian central Andes.

Cerro de Pasco Corporation became a symbol of American imperialist exploitation in Peru. In turn, the company's miners' union became one of the most combative sectors of the Peruvian working class. That tradition lives on in today's struggles.

In 1974, the nationalist military regime of President General Juan Alvarado nationalized the Cerro de Pasco Corporation and created Centromin. In 1996, Doe Run bought La Oroya smelter from Centromin as part of the privatization wave and free market policies imposed by Washington in the 1990s.

Throughout its long existence, La Oroya smelter has produced billion of dollars in profits for American corporations.

For most of the last century, the American camp, where American engineers and technicians lived with their families, had all the facilities that they would enjoy in the US itself. The camp was located a long distance from the smelter. There was good reason for this.

Sprol.com, a web site dedicated to profiling the "Worst Places in the World," says of La Oroya: "The plant gives off a list of toxins that includes high levels of lead, arsenic, cadmium, and zinc. A 1999 study of school children in La Oroya found that 99 percent of them were suffering from lead poisoning and 20 percent were so contaminated that they should have been hospitalized. They couldn't be hospitalized because the facilities do not exist to treat such a large portion of the population, unfortunately."

A CNN investigative report last year showed touching images of a school in which children, with the help of teachers, were exercising in a playground. But, as the narrator said, these "normal" children were "special." Their motor skills had been damaged by the high concentration of lead poison in their blood. The woman who founded the school had lost her daughter to lead poisoning.

Since the smelter was built in 1924, workers' houses were located so near to the smelter that its dwellers breathe toxic gases all day long. Many families have lived in La Oroya for several generations.

Doe Run committed itself to reducing the emission of poisonous gases. In May 2006, Doe Run received its fourth extension from the Peruvian government to meet its plan, a measure that angered the population and provoked protest by environmental organizations around the world. Now, the company says it will not be able to meet its latest deadline of October 2009.

It is not clear what arrangement was made with the Peruvian government besides the $70 million credit guarantee to keep the smelter open, but a senior official at Doe Run said the company has requested a $150 million loan to meet the plan to reduce the emission of toxic gases.

Several Peruvian congressmen have expressed concern that Doe Run is merely engaging in delaying tactics to avoid investing in reducing air contamination.