

April 2012

making the **difference**



Turner & Townsend

Chile and Peru – trading places in the mining market?

The past twelve months have seen two of Latin America's most buoyant, mineral-rich countries perform somewhat of a role reversal. Chile and Peru are both blessed with huge reserves of base and precious metals, in particular copper and silver, and have each enjoyed more than a decade of almost uninterrupted GDP growth.

The two countries share a border on the Pacific coast, but in terms of their international image and investment climate, there has long been something of a division between them. Chile was the first South American nation to join the OECD, and foreign investors have long seen it as a beacon of stability.

Its economy is mature, diversified and is among the most business-friendly in Latin America. Peru's vast mineral wealth has always been attractive to foreign mining companies, and in the past decade a series of economic reforms have reduced poverty and fuelled one of South America's fastest rates of growth.

But for years the government in Lima struggled to project the same image to investors as that achieved by its southern neighbour. And yet within the space of just a few months, these assumptions appeared to have been turned on their head.

For much of 2011, Chile was hit by street protests – with its right-wing President struggling to maintain order. Meanwhile Peru's leftist leader, once an advocate of Chavez-style revolution, was calming popular protests against Peru's foreign-owned mining operations with a surprising degree of success.

President Humala – not the man they expected

The international mining companies working in Peru feared the worst when the leftist former army officer Ollanta Humala won the Presidency last June. Financial markets plunged amid rumours that he would unleash a wave of mass-nationalisation.

But the spectre of a Venezuelan-style forced nationalisation of foreign assets soon receded in Peru – to reappear, ironically, among the hard-left fringe of South Africa's ruling ANC. With Julius Malema briefly doing his best to scare off foreign mining companies from Africa's largest economy, Peru and Chile understandably sought to play up their stability.

In fact the global mining players are still looking very favourably on Peru. Labour is plentiful, and even if the specialist skills needed are in short supply, it is not difficult to import them from Chile or elsewhere. President Humala has increased the taxes levied on foreign companies, but given their previously low level, most investors have accepted the extra burden as fair.

International miners now pay royalties ranging from 1 to 12 per cent of operating profits. Some are also liable for a windfall tax of between 2 and 8.4 per cent of net profits in boom years. President Humala appears to have decided that his stated goal of giving Peru's poor a greater share of their country's mineral wealth can best be achieved through, rather than at the expense of, the free market.

There are few better illustrations of his pragmatic commitment to courting and protecting foreign investment than his "softly-softly" intervention in the Conga mine dispute. The planned US-Peruvian joint venture for a US\$4.8 billion copper project in the northern region of Cajamarca would be the biggest single investment in Peruvian history.

Local residents, who claim that the project will cause pollution and use up scarce water supplies, blockaded the provincial capital for 11 days in protest. The deadlocked project's American backers, Newmont Mining Corporation, are currently losing an estimated US\$2 million a day. In December President Humala took a tough stance, sending in troops to break up the protest, and ejecting several senior leftist figures from his cabinet.



But he later sought to show his even-handedness by appointing three international engineers to oversee an independent review of the Conga project's environmental impact. Such statesmanlike conduct has reassured the mining industry and reinforced the perception that he is wedded to the idea of investment as a motor for greater social inclusion.

Chile – two examples of global fame for the wrong reasons

Chile's copper industry is the world's largest by a comfortable margin, but of late its international image has been less than glittering. In October 2010 the world watched, transfixed, as 33 miners were winched to safety from the depths of Chile's San Jose mine, after an accident left them trapped below ground for 69 days.

The government has since overhauled mine safety regulation, and the number of accidents has been reduced. But President Sebastian Piñera again found his country in the global spotlight in less than flattering circumstances last year.

The Occupy protests, which sprang up across the western world from New York to Madrid, were in part inspired by a seven-month protest by Chilean students to demand education reform. High school and university students flooded the streets of cities around the country in the largest protests seen since leftist demonstrations under the dictatorship of General Augusto Pinochet.

The protests fizzled out in December, after months of political paralysis and an awkward standoff that sent the President's approval ratings plummeting. But despite the restive political climate, Santiago remains the de facto mining capital of Spanish-speaking South America.

It has become a hub of mining expertise, and is now home to a great many expat contractors and consultants – lured by the high standard of living and the knowledge that contracts are honoured.

Copper remains the lifeblood of the economy, and at 40 per cent of total exports, it dwarfs everything else. But the availability and quality of local contractors and mining house expertise is mixed, and for this reason mining companies tend to hire third party service providers – appreciating the extra degree of oversight and input that an expert, impartial pair of eyes can offer.

That pattern is even more pronounced in Peru, where due to skills shortages, project managers are routinely used to form a buffer between contractors and mine owners. But the big difference between the two countries in mining terms is the level of community impact that the big mining projects have.

Many of Chile's mines are in the harsh terrain of the Atacama desert. The area is sparsely populated, and mining has been part of Chilean life for so long that it's now almost part of the country's self-image. But for all Peru's mineral wealth, mining is simply not part of the Peruvian national psyche.

Extractive projects in rural areas frequently face determined opposition from residents concerned about the environmental impact, and indigenous groups who argue that the mines are destroying their ancestral lands.

This may yet change – and since taking office President Humala has shown an admirable commitment to encouraging the mining sector. And Chile isn't without its water issues too. A severe drought this summer has forced several mining operations to expand their use of seawater. While using seawater has a high initial cost, it does offer a stable and sustainable supply.

Tables turned?

While the events of the past year have done anything but follow the form book in both countries, it is premature to talk of a role reversal. Chile's mining market remains both stable and well structured, and the country has not just vast mineral reserves, but also plenty of the expertise needed to get them out of the ground.

For further information contact:

Mark Wainwright

e: mark.wainwright@turnerandtownsend.co.uk

t: +44 (0)207 544 4000

Turner & Townsend is a leading global professional services organisation that provides consultancy, delivery, operations and programme management services to clients that invest in, own and operate assets. For more information please visit: www.turnerandtownsend.com



In Peru it's still relatively early days. Foreign mining companies investing there are likely to face greater popular opposition and a trickier legal framework. Business Monitor International still ranks Chile as the most attractive South American country in terms of foreign direct investment, with Peru a few places behind at fourth most attractive.

But such paper comparisons risk being a largely academic exercise. As any miner will tell you, this is an industry that is primarily driven by what's underground. The latest estimates by the US Geological Survey are that Chile and Peru each have more copper reserves than any other country on Earth.

Chile, with 28 per cent of world reserves, has more than twice as much as Peru. And copper production in Peru is due to double to 580,000 tonnes per annum in 2012, as a number of very large projects come online. There's just one other crucial number: 7 per cent. That's the amount by which the Economist Intelligence Unit predicts that the world copper price will rise this year.

Of course, changes to a country's socio-economic circumstances, and government reactions to them all feed into and inform investor sentiment. But with Chinese copper demand still growing, and prices continuing to rise, it's these numbers which provide the definitive proof needed to predict further inward investment in both Chile and Peru.

Mark Wainwright is the managing director of mining and metals at Turner & Townsend.

This article was first published by Infrastructure Journal on March 26th, 2012. A full copy is available [here](#).

For further information contact:

Mark Wainwright

e: mark.wainwright@turnerandtownsend.com

t: +44 (0)207 544 4000

Turner & Townsend is a leading global professional services organisation that provides consultancy, delivery, operations and programme management services to clients that invest in, own and operate assets. For more information please visit: www.turnerandtownsend.com