

Mining in the 1980's

As in the past, mining remained the single most important economic sector in Peru, accounting for some 3 percent of employment, 11 percent of GDP and 50 percent of export revenues. The influence of mining in economic development has been equally impressive. Since some 75% of its inputs are domestically sourced, mining has served to fuel industrial growth. Due to the remote locations of most mines, their development has contributed greatly to infrastructure expansion, bringing rail, roads and power into the extensive central highlands of Peru, where there is virtually no other economic activity but subsistence agriculture. Mining companies have also contributed to development by providing housing, schools, and hospitals for workers and dependents. Many mines also have had to build their own hydro plants, many of which have also served surrounding communities. A recent government estimate indicated that the indirect benefits of mining may contribute an additional 20% to Peru's GNP.

In the 1980's, Peru, perhaps due in part to the dominance of the state in mining, was unable to expand its supply of minerals in a manner comparable to other producing countries, such as neighbouring Chile. Only three large new mines, Southern Peru Copper Corporation's Cuajone pit, the state sector's Tintaya pit (partially financed by Canada), and Minero Peru's Cerro Verde, all copper operations, came on stream in the last decade. In the same period there were only two large expansions, at Centromin's Cobriza pit in 1980-81, and at Andaychagua in 1988. Some private mines were also able to expand their production. Almost all of these projects began to be planned and implemented prior to 1985.

Ownership aside, the basic productive structure of the industry remained essentially as it was in the early 1970's, before Cerro de Pasco Corporation and Marcona were expropriated by the state to form Centromin and Hierroperu. Many analysts point to nationalization as one of the main reasons for Peru's prolonged recession, since government companies have lacked the financial, entrepreneurial and risk taking ability to expand production in response to market conditions, even though they have a large inventory of potentially excellent projects. In fact, most miners believe that Peru has considerably better deposits than Chile to the south.

New projects would now be costly to develop. Financing for major developments will be found only when investors and bankers are convinced that the probability of longer-term stability is sufficient to justify risking their capital. For this reason, the emphasis in the late 1980's was on smaller investments aimed at achieving greater efficiency and cost per ton reductions at small and medium mines. Local capital resources have been severely restricted in recent times, and access to foreign equity or loan