

Humala and the Copper Market

The contributions of Chile and Peru are key factors to balance a market with insufficient production since 2004

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Peru is probably the country that could expand its copper production the most during this decade. Although Chile is expecting a mining investment record of almost US\$ 60 billion, most of it will be allocated towards replacing the production levels of large deposits facing a natural production decline. In Peru, instead, from the US\$ 48 billion in mining investment, a significant part will go to new projects, generating a net production increase in copper production. Peru's participation in worldwide production could increase from 8% in 2010 to 15% by 2020. Chile, during the same period, would go from 33% to 28%.

Peru is enjoying an accelerated growth rate similar to the one experienced by Chile in the 90's. There are few mining districts available worldwide, capable to grow in the magnitude offered by Peru. While mature districts (Australia, Canada, USA, and Chile) are facing challenges to increase their production, other potential districts, such as those in Africa and Asia, have great geopolitical, institutional and operational viability uncertainties.

Copper market forecasts agree that the high demand triggered by China will continue, making Chile and Peru's contribution fundamental to balance a market pressured by insufficient production since 2004. Ollanta Humala's election has caused great concern in investors and especially in mining, since the elected President made explicit that he will increase mining taxes and could apply other measures inspired in a resource nationalism view.

The relevance of mining on the Peruvian economy and particularly the favorable perspectives of this industry to the country will challenge President's intention to adopt radical measures that could dismantle mining institutionality. It's a matter of fact that Peru has faced significant social unrest related to mining projects, particularly from indigenous communities, which has halted some of the projects or significantly delaying their progress in other cases. However, this social unrest has been one of the factors behind Humala's election and, therefore, a greater handling capacity of this existing social unrest could be expected.

Peru is crucial to reach a mid-term equilibrium in the copper market. Humala's election poses an uncertain scenario, but it does not necessarily represent a serious setback for mining viability in the country. The new President will have to conciliate high community expectations tied to mining projects, with the maintenance of an institutional base offering guarantees to investors. If Humala solves the situation well, Peru will be consolidated, by far, as the second largest player in the world industry and the copper market could expect a balanced situation towards the end of the decade. On the contrary, if he fails, Peru will miss a unique opportunity and the copper market will face a chronic shortage situation that will prevail at least until the next decade.