



UPDATE

Bulletin Of the Peru Support Group
No. 129 August - September 2008

The aims of the PSG are to promote the rights and interests of the people of Peru and in particular the poorest sectors

Protest rises as government support ebbs

Public protest is never far from the surface in today's Peru, and October promises to be a rough month for the García administration, under attack for its liberal economic policies, its lack of social sensibility, and its illiberal posture towards anyone who dares to oppose it.

October 7th has been selected as a day of protest against the government. Already the government is facing a strike by doctors and the threat of a new strike on the part of mineworkers. The CGTP, the main union confederation, is rallying its affiliates to take their opposition on to the streets. Regional

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groups, particularly in the south of the country, are mobilising support for the October 7th stoppage. In Huánuco, the coca workers and other social movements are mobilising against what they see as the government's backsliding on an earlier agreement on drug eradication. The list goes on...

The government's poor standing reflects itself in the latest batch of poll figures. Produced by the Catholic University - and supported by other opinion polling agencies - these show a relentless decline in the numbers expressing support for President Alan García. As of the middle of September, only 19% of Peruvians thought he was doing a good job. The support level outside Lima is a good deal lower than this.

The reason for the dissatisfaction is not hard to detect. While the Peruvian economy continues to grow at an impressive rate - 9% this year - according to the government's own projection, the benefits of growth are being creamed off by the very richest sectors of society. Even Lourdes Flores, the leader of the right-wing *Unidad Nacional* (UN) coalition, has criticised García for presiding over a government that purports to be popular but whose policies benefit the wealthy.

The rise in the rate of inflation has contributed significantly to the climate of discontent. Wages are now falling well behind the rise in prices, and people's real incomes are beginning to shrink. Current inflation rates are around 8%, but since the rise in food prices is much higher than this, its impact is far worse on the poor who spend proportionately more of their income on food.

The government's claims to have reduced poverty substantially are

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...the government continues to harass NGOs that take it to task on issues such as corruption, human rights abuse and the unrestricted exploitation of natural resources

beginning to seem very hollow in this context. Most economists agree that poverty rates in Peru - like most other Latin American countries - will climb this year, reversing any possible falls in rates during 2006 and 2007.

The new Finance Minister, Luis Valdivieso - whose many years working in the IMF make him a strong advocate of orthodox fiscal remedies - has taken steps to cut public spending over the next year. Much of the axe will fall on regional spending, particularly on capital investments. But the central government ministries will also suffer the consequences, and several are beginning to raise their voices in complaint.

Meanwhile, faced by growing hostility across a range of social sectors, the government makes no secret of its ill-will towards those who raise their voices in opposition. Although indigenous groupings in the Amazon region forced the government on to the back foot in pushing ahead with development projects that will endanger ancestral habitats, so far there are no signs of any real willingness to retreat on the so-called 'Law of the Jungle' (see Peru Update 128).

At the same time, the government continues to harass non-governmental organisations (NGOs) that take it to task on issues such as corruption, human rights abuse and the unrestricted exploitation of natural resources. One of the key authorities behind these scenes is First Vice-president Luis Giampietri, the retired admiral who was allegedly involved in the massacre of *Sendero Luminoso* prisoners at *El Frontón* during Alan García's first administration.

NGOs currently in the firing line include the *Instituto de Defensa Legal* (IDL), the *Asociación Pro-Derechos Humanos* (Aprodeh) and the *Asociación Interétnica de Desarrollo de la Selva Peruana* (Aidesepe). These are all very well-established organisations of long proven competence in their respective fields.

In light of such increasing social unrest it remains to be seen just quite how García intends to keep detractors at bay and maintain appearances both at home and abroad in the run-up to the Asia-Pacific Economic Cooperation (APEC) leaders' summit to be held in Lima mid-November.

News: 5th anniversary of TRC report

...five years should be sufficient time to push forward the recommendations ...yet is too short a timeframe to change the national psyche...

August 28th saw the fifth anniversary of the publication of the final report and recommendations of Peru's Truth and Reconciliation Commission (TRC). The report laid much of the blame for the country's internal armed conflict (1980-2000) on the inequality, discrimination and exclusion of the majority of Peruvians, especially those from poor, Quechua-speaking communities in the high Andes. Although implementation of the recommendations has been largely disappointing, there have been a number of key advances in the area of reparations.

Fast forward five years, and Peru finds itself back under the command of President Alan García, whose first term in office (1985-1990) saw huge increases in terrorist activities and hyperinflation. Prime Minister Jorge del Castillo stated that the government "considers the work of the TRC to be important" and that it "had performed important work that we

respect". Other key government players, such as Defence Minister Antero Flores Aráoz and first vice-president Luis Giampietri, were not as diplomatic in their assessment. Giampietri doesn't believe that the report has contributed to the peace process. Flores Aráoz ruled out the possibility of an apology from the armed forces for excesses committed during the conflict saying that he did not see any reason to apologise for the actions of others.

Former president of the TRC Salomón Lerner outlined in his commemoration that five years should be sufficient time to push forward the recommendations made in the report, yet is too short a timeframe to change the national psyche of a country. According to Lerner, it's too soon to confine the final report and recommendations of the TRC to the past, as change is both necessary and possible.

State of Emergency in the Amazon

Indigenous groups in the provinces of Cusco, Loreto and Amazonas called off their protests after a congressional committee voted to repeal legislation which would seemingly have made it easier for large energy companies to buy their land, thought to be resource rich (see Update 128). This decision now has to be approved by Congress.

García Misses UNASUR Meeting

Alan García was unable to attend the emergency summit of UNASUR (Union of South American Nations) that was held in Chile on September 15th. The meeting showed an unprecedented level of support from nine South American presidents for Bolivian leader Evo Morales following recent turmoil and violent clashes in Bolivia.

According to official statements, García did not have time to follow protocol and ask permission from Congress to leave the country to attend the extraordinary meeting. Instead, he was represented by foreign minister José Antonio García Belaúnde. García issued a joint statement with his Ecuadorean counterpart, Rafael Correa, in support of Bolivian unity and democracy.

Progress for Human Rights

Accormarca Case

A former soldier has testified in the case of Accormarca. José Contreras and other soldiers under the command of then lieutenant Telmo Hurtado have been arrested for the 1985 killing of 69 people in the southern Peruvian village of Accomarca. Another former soldier, Francisco Marcañaupa, said that the villagers "didn't shoot or do anything to us, and all of a sudden I saw Lieutenant Telmo Hurtado opening fire on them, then he threw in a grenade, and smoke starting coming out of the house".

Hurtado is due to be extradited from the US to face trial and he will join fellow former lieutenant Rivera Rondón who was also recently extradited from the US. However, retired General Williams Zapata, head of the *Compañía Lince* (Lynx Company) to which Hurtado and Rivera Rondón's units belonged, has

been appointed by the government as the country's representative to the Inter-American Defence Board, based in Washington.

The former soldiers' statements have helped to clarify a crime that was committed over a quarter of a century ago. The extradition of former high ranking officers should help establish the chain of command for one of the most shocking massacres committed during Peru's internal armed conflict.

Barrantes Case

The Peruvian criminal court has reopened the investigation into the 1988 death of Marco Barrantes, a second lieutenant in the Peruvian army accused of spying by the military. He was suspected of selling military secrets to the Ecuadorean air force at a time when the long-running boundary dispute between the two countries had reignited. The dispute was eventually resolved in 1998, following a brief war in 1995, with the signing of a peace accord.

Castro Castro Case

On May 6th 1992, under the government of Alberto Fujimori, 41 inmates in Lima's "*Miguel Castro Castro*" prison were killed following police intervention. Last year, the Peruvian state presented an interpretation request to the Inter-American Court of Human Rights (IACHR) asking it to reconsider some of the more controversial points of the original 2006 ruling.

In August, the IACHR upheld its November 2006 decision that the Peruvian state must pay compensation to all those who were inmates in *Castro Castro* at the time of the killings (some accused of terrorism) and pay homage to the victims. The decision is unappealable.

Fujimori Case

The final summing up in former president Alberto Fujimori's case is expected to start on September 29th and last no longer than three weeks. It is expected that sentence will be passed for his alleged role in the *Barrios Altos* and *La Cantuta* massacres some time in November.

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Over the last six years, the Peruvian economy has experienced a sustained period of economic growth, driven by investment in the extractives sector, mainly mining, followed by agro-exports, textiles and services such as tourism and construction. Although, as mentioned in this month's editorial, this growing economic dynamism has been accompanied by a threats of greater inflation caused primarily by the hike in oil prices and foodstuff on the international market.

The dynamism of extractives industries over the last four years has been marked by the extraordinary increase in the price of minerals such as gold and copper. The result of which is that mining and hydrocar-

canon resources don't directly benefit them; and in turn the local and regional authorities have demanded that companies comply with the universal payment of royalties and have even suggested imposing a tax on the windfall profits that these companies make due to the high international minerals prices.

In this context of economic dynamism and social unrest, the subject of income transparency generated by the extractives industries - as well as their use by municipal and regional governments - gains great importance for the industry's sustainability. Communities and regional social leaders feel that they have the right to access timely, complete and trustworthy

What is the EITI?

The Extractive Industries Transparency Initiative was announced at the World Summit on Sustainable Development in Johannesburg, September 2002 by former UK Prime Minister Tony Blair. The idea was to combat the 'resource curse' that many developing countries suffer from. The theory behind the voluntary initiative was to set a global standard for companies to publish what they pay and for governments to disclose what they receive for the extraction of oil, gas and metals. All this data would be subsequently checked by an independent auditor in accordance with international standards and then published in a publicly accessible and comprehensible report.

The Multi-Donor Trust Fund for the EITI was established in August 2004 through an agreement between the United Kingdom's Department for International Development (DFID) and the World Bank. Germany, the Netherlands and Norway joined in 2005. France joined in 2006 and Australia, Belgium, Canada and Spain joined in 2007. The US and the European Commission joined in 2008.

In this context of economic dynamism and social unrest... income transparency ...gains great importance for the industry's sustainability

bons currently make up 70% of exports (compared with 41% in 2001) and 30% of domestic taxes (this was 7% in 2001). This contribution to fiscal income has resulted in the growing transfer of resources to sub-national governments which - according to the *Canon* law (1) - have the right to a share in this income. The annual total of the aforementioned transfers is around US\$2,300 million (£1,276 million) a year.

However, over the last few years socio-environmental conflicts between extractives companies and local communities have spread throughout several regions in Peru, due to perception by these communities that their economic and social rights are being violated. Additionally, they face a State that has little capacity and political will to uphold the quite permissive socio-environmental regulations. Consequently, communities are protesting because the

information on the contributions made by companies that are exploiting non-renewable natural resources.

For this reason, the Citizen's Proposal Group (GPC - *Grupo Propuesta Ciudadana*) welcomed the Peruvian government's decision in 2004 to join the Extractive Industries Transparency Initiative (EITI), because we trusted that it could contribute to improving the transparency of payments made by companies and the income recorded by the State. This information is of great relevance because according to what is set out in the *Canon* Law it represents income for the producer regions. Also, in 2004 the country learned of cases whereby some companies paid less than they should have in taxes, or indeed paid no taxes at all, and improperly used their legal and administrative stability contracts (designed to promote foreign

private investment for a fixed ten-year period. In these agreements, the Government guarantees certain privileges such as tax and exchange rates at the time when the agreement is signed). The worst hit by such practices are the regions of Ancash and Arequipa, as they stopped receiving tens of millions of dollars from the mining *canon* (2).

One criteria of the EITI is the: "Regular publication of all material oil, gas and mining payments by companies to governments and all material revenues received by governments from oil, gas and mining companies to a wide audience in a publicly accessible, comprehensive and comprehensible manner". It then adds that: "Payments and revenues are reconciled by a credible, independent administrator, applying international auditing standards and with publication of the administrator's opinion regarding that reconciliation including discrepancies, should any be identified" (EITI Conference, London, March 2005).

Currently in Peru, the National Superintendency of Tax Administration (SUNAT) publishes information on the overall total income tax that companies in the mining and hydrocarbon sectors pay. In addition, the State provides information on transfers to the regions according to: mining *canon*, oil *canon* (royalty) and *sobre canon* (royalty surtax), mining royalties and validity rights. But that information is of no use to compare the mining *canon* and gas *canon* transfers that Peru's Ministry of Economy and Finance makes as these are calculated on "declared income tax" and not on the "tax paid" which is what SUNAT publishes.

As a candidate country to the EITI, Peru's multi-stakeholder working group was officially established in May 2006, with representatives from industry, the State and civil society (represented by GPC). It has an approved action plan with resources - channelled through the World Bank - for it to move forward. Nevertheless, the required national study has not yet begun because, up until May 2008, representatives of the working group had not reached agreement on important aspects of the study's content. GPC's approach -

in the role of the civil society representative - stressed that the study should contain information on: a) the fixed tax declared by each participating company; b) a description of the process determining the calculation of the rate of tax to be paid by the participating company, taking into account existing regulations and applying international standards.

The industry representatives suggested that the study should be limited to the revision of the amount of tax declared by participating companies and be published in aggregate form only. GPC believes that this approach is not in accordance with the spirit of the EITI. If the idea of the EITI is that the companies in favour of transparency make public the total tax they pay the State - as in fact already happens with some mining companies - we don't see the use of a study which doesn't list, company by company, the declared tax and the basis on how this is calculated.

Following much discussion all parties finally reached an agreement which we hope will enable us to implement the initiative. This includes incorporating two categories for company participation: category A for companies who wish to accept the publication of its individual figures; and category B for those who want to take part but only accept the publication of aggregate figures. The implementation of this initiative will depend on whether the companies in category A represent a significant percentage of mining and hydrocarbon production. In this context it is important to report that the mining company Antamina took the decision to publish data on the tax and non-tax payments that it makes to the State on its website, which we welcome as it opens the way to increase the kind of transparency that we hope will gain more followers.

(1) Legislation detailing transfers from State to local and regional governments of a percentage of tax revenue generated by the extractives sector.

(2) Transfer from State to local and regional governments of a percentage of tax revenue generated by the mining sector.

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Anniversaries: Slow Progress One Year After The Ica Earthquake

Peru's central government created FORSUR, following the disaster, to take on the role of reconstruction, thereby displacing the activities of the regional governments

On August 15th 2007, an earthquake measuring 8.0 on the Richter scale devastated the region of Ica and neighbouring regions (including Lima and Huancavelica), some 165 miles south of Lima. However, it is difficult to see exactly how the central and regional governments have responded to the needs of the population. Ica is important to the central government only insofar as it can export asparagus and grapes to world markets. Since the agro-export sector recuperated rapidly from the earthquake, the region has since been seemingly overlooked.

Peru's central government created FORSUR (Fund for the Reconstruction of the South), following the disaster, to take on the role of reconstruction, thereby displacing the activities of the regional governments of Ica, Lima and Huancavelica and the participation of the population. FORSUR has been financed predominantly by international donations.

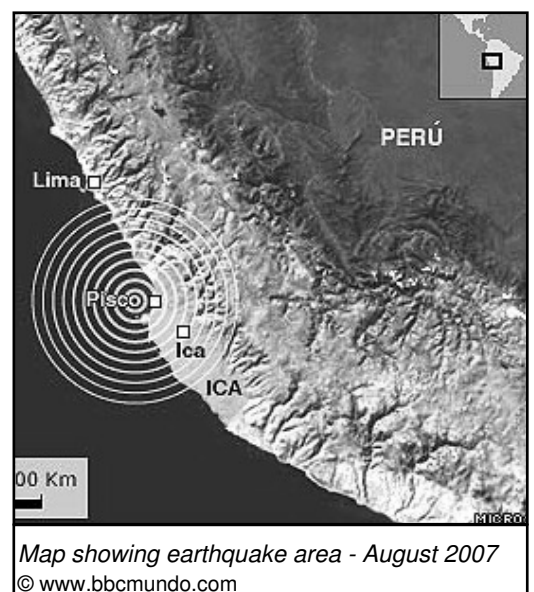
From the start, the central government underplayed the impact of the earthquake. Although the National Civil Defence Institute (INDECI) reported on October 2nd 2007 that 169,000 houses needed rebuilding (this included both destroyed and uninhabitable houses); this figure was quickly trimmed down in subsequent reports to 64,800 houses. Peru's orthodox economic policy has made it impractical for the central and regional governments to impose price controls on urgently needed construction materials. These prices have increased more than 100% in the 11 months following the earthquake, making it nearly impossible for the people to re-build their own houses. The *Voz de Ica* newspaper recently reported that only 650 houses had been rebuilt by FORSUR.

People seeking financial support for the reconstruction of their houses must find their way through a complex maze of bureaucracy before they can access a US\$2,000 (£1,000) bond for rebuilding. The government has offered loans for a further US\$8,000 per house. However, only 10% of the people could meet the property title requirements

A May 2008 survey by a coalition of NGOs found that 60% of the population felt that reconstruction was too slow. More than 50% of respondents attributed this to corruption; this is based on a lack of transparency as neither the central or the regional governments have published any information to clarify the total funds which have been received and spent on reconstruction. According to the survey more than 60% of the respondents want reconstruction to begin with the rebuilding of houses, but the regional governments decided to use the vast majority of funds for special projects such as a Pisco airport for agro-exports and irrigation systems for agro-exporters.

The first decentralised board meeting of FORSUR took place this May. It approved 231 projects worth 62 million soles (about £12.5 million). Peru's Housing Minister and new president of FORSUR, Enrique Cornejo, also presented a plan worth US\$450 million (£225 million). However, it has been estimated that housing alone will cost US\$1.7 billion (£0.8 billion) at US\$10,000 (£5,000) per house (based on 169,000 houses) without even taking into account schools, hospitals, churches, or roads.

By David Bayer
CODEHICA
(Human Rights Commission, Ica)



Peru's orthodox economic policy has made it impractical ...to impose price controls on urgently needed construction materials

Anniversaries:

Community Rejection Still Strong One Year After Referendum



Perhaps coincidentally, Monterrico Metals released its interim results on the one year anniversary of the public referendum held on the mining project of its Peruvian subsidiary Río Blanco Copper (formerly Minera Majaz) in Piura on September 16th last year. Many commentators view the Río Blanco case as emblematic of the overall situation of mining in Peru. Recent reports

report on social conflict for August 2008, there is still no dialogue between the relevant parties in this case. According to the Mayor of Ayabaca, even one year after the referendum the communities still need to stand "united with the same aim, to say no to mining and to demand respect for our decision as the referendum is legal and the results must be respected and upheld.

Many commentators view the Río Blanco case as emblematic of the overall situation of mining in Peru



Day of the referendum (Sapalache)
© Peru Support Group

Monterrico Metals interim report stated that the much awaited Environmental and Social Impact Assessment (ESIA) is due to be completed before the third quarter of 2009. The company goes on to report that the Peruvian government "remains robustly supportive and committed to mining in general, and the Río Blanco Project in particular". As regards personnel, former British ambassador to Peru and outgoing non-executive Chairman, Richard Ralph, has been invited to take the position of Senior Advisor to the Board of Río Blanco Copper.

Río Blanco Copper is a wholly-owned Peruvian subsidiary of Monterrico Metals, a former UK company. Monterrico sold the majority of its shares to Chinese consortium Zijin in April 2007 and its head office moved this year from London to Hong Kong "to strengthen relationships with major shareholders in Asia as well as accessing the capital market both in London and Hong Kong", according to official company statements.

by Piura-based newspaper *El Tiempo de Piura* state that despite the referendum the company has still not fulfilled its legal obligations, for example it has yet to seek authorisation to carry out mining activities from the relevant community assembly. This has been proven in reports by both Congress and the Office of the Human Rights Ombudsman (*Defensoría del Pueblo*).

Last year, voters from the affected communities were asked whether or not they agreed with the development of mining activities in their districts. The result recorded a resounding 'No' as over 90% of people who cast their vote did so against mining.

The PSG previously reported that the main difficulty in this case is the lack of communication between all actors involved namely the Peruvian State, the company, and the communities (see Update 123). Indeed, according to the *Defensoría's* monthly



Anti and Pro-mining propaganda
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Events and Notices



PSG Annual Conference

**25 Year Anniversary
22nd November 2008
Stockwell YMCA, London**

Please keep checking our website for more details on speakers

www.perusupportgroup.org.uk

New Internationalist and *Movimiento Idun* invite you to the launch of 'Yasuní Green Gold' campaign

**Monday, October 6th @ 7pm
Amnesty Human Rights Action Centre,
17-25 New Inn Yard, London EC2A 3EA**

Experts discuss the role of the UK in supporting the Ecuadorian government in its attempts to save the Yasuní National Park.

To attend, RSVP annaw@newint.org

www.yasunigreengold.org & www.newint.org/yasuni

**22nd Leeds International Film Festival
4th - 16th November 2008
www.leedsfilm.com**

**7th Discovering Latin America Film Festival,
London**

27th November to 6th December 2008

www.discoveringlatinamerica.com

**18th London Latin American Film
Festival
7th to 16th November 2008
www.latinamericanfilmfestival.com**



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The Peru Support Group welcomes comments and suggestions from members concerning the Update. Articles or letters for publications are also gratefully received, although publication cannot be guaranteed. Opinions expressed in articles in the Update are those of the author and may not necessarily reflect the views or policies of the Peru Support Group.

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