Peru: Privatization Program & Greater Political Stability Spur Substantial Jump In Foreign Investment

Erika Harding

Follow this and additional works at: https://digitalrepository.unm.edu/notisur

Recommended Citation

This Article is brought to you for free and open access by the Latin America Digital Beat (LADB) at UNM Digital Repository. It has been accepted for inclusion in NotiSur by an authorized administrator of UNM Digital Repository. For more information, please contact amywinter@unm.edu.
Peru: Privatization Program & Greater Political Stability Spur Substantial Jump In Foreign Investment

by Erika Harding
Category/Department: General
Published: Thursday, November 11, 1993

President Alberto Fujimori's government sold two more state firms in early November to domestic and foreign investors, and plans are rapidly advancing to sell off some three dozen more companies in the coming months. The privatization program combined with greater political stability in Peru has created an attractive business climate for the first time in more than a decade, luring dozens of foreign investors to the country. In September, the Fujimori administration announced plans to accelerate the privatization of state-run firms, including such huge companies as the oil firm Petroperu, the government's nationwide telecommunications installations, the electricity distribution network in the capital run by ElectroLima, and a slew of state mines and mining installations (see Chronicle 10/14/93). All told, the government will sell more than 35 firms by mid-1994, with estimated earnings of between US$6 billion and US$7 billion. On Nov. 4, the latest round of privatizations began with the sale of the Bolivian branch of Banco Popular de Peru. The bank, which operates 13 offices in seven of Bolivia's nine departments, was sold to Peru's privately-run Banco de Credito for US$6.2 million. Banco de Credito which paid US$2.7 million more than the base price of US$3.5 million set by Peru's Special Privatization Committee (Comite Especial de Privatizacion, CEPRI) outbid three other consortia from Bolivia which participated in the auction: Tudela Pool, Casa Grace, and Equipetrol. According to CEPRI directors, Banco Popular's well-established network of offices throughout Bolivia where the bank has operated for about 50 years was a major incentive for investors. In fact, a total of 15 firms and financial groups requested permission to participate in the auction, but only the four final competitors met the government's rigid entry requirements. "Banco Popular's long trajectory in Bolivia will allow the new owners to simply take the keys, walk into the house, and the very next day open their doors to business throughout the country," said CEPRI president Eduardo Castro. Also, on Nov. 5, the Panamanian-Peruvian company Glen Point Enterprises bought the government's Transoceanica oil firm for US$25.2 million, US$4 million more than the base price of US$21.2 million set by CEPRI. Transoceanica operates off the northern coast of Peru, drilling and exploiting maritime oil wells near the border with Ecuador. Transoceanica is the first of an array of petroleum installations that will be sold as part of the privatization of Petroperu. The state oil company which includes oil wells, refineries, and marketing operations is valued at about US$1 billion, and the government says it will sell the company off in parts. "Given the broad range of competitors interested in the company, we plan to sell Petroperu off in pieces," said Minister of Energy and Mines Daniel Hokama. "Still, we are not going to divide the firm into more than three dozen little parts as has been rumored, but rather into three broad areas covering production, refining, and marketing operations." Petroperu's privatization has attracted some of the largest international oil companies, such as Shell, Mobil Oil, and Exxon, all of which are considering bids for parts of the company, according to Hokama. Experts from Mobil Oil are now in the country surveying Peru's oil installations and potential oil reserves. Until now, the state's monopoly over the oil industry had discouraged wide spread development of the industry, and some investors optimistically predict that government divestment could eventually allow Peru to become one of the region's major oil producers. "We can now take oil out of the
ground and do with it what we want instead of having to sell it to the government oil company at below market prices," said Roger C. Alderson, general manager of the Peruvian subsidiary of Great Western Resources, an independent oil company in Houston. "Peru is one of the great unexplored areas on earth for oil, both onshore and offshore." In addition to the oil industry, government plans to sell off most state-run mineral deposits and mining installations has particularly piqued the interest of foreign investors. The government owns three mining companies Mineroperu, Tintaya, and Centromin which, together with the private Southern Peru Copper Company, produce about 95% of the country's copper concentrates. In November, the government will sell off the Cerro Verde copper mine, run by Mineroperu. Nineteen companies including five US firms have already qualified to bid on the mine, which has ore reserves of 800 million metric tons, enough to produce 40,000 MT per day for 50 years. Among the interested companies are Phelps Dodge, Amaz, the Mitsubishi Corporation, Mitsui & Company, RTZ, and Daewoo. According to Antonio Zevallos, head of investment projects at Cerro Verde, the new owners will have to immediately invest about US$500 million in new machinery and in efforts to widen the project's two open-pit mines. "The buyer will lose money for the first three years, but then this place will boom for at least the next 16 years," claimed Zevallos, who says the government decided to assume the mine's US$7 million debt to make the project even more attractive to investors. In December, the government will sell off the entire Centromin mining complex as a package deal to interested investors. Centromin includes seven lead, zinc, silver, and copper mines, as well as smelting-refining installations and independent hydroelectric plants. Finally, in April 1994, the government will sell Tintaya, which produces about 13% of Peru's copper. Apparently, the success of China's Capital Steel Corp. which bought the huge iron mining complex Hierro-Peru in November 1992 has spurred interest among foreign investors in Peru's mining sector. Representatives of China's Shougang consortium, which owns Capital Steel, say that in the first eight months of 1993, the firm was able to double production at the mine and reduce operating costs by 53% on the average, allowing the company to report some US$5 million in profits from January-August. (In 1992, before Hierro-Peru's privatization, the government reported US$32 million in losses from the operation.) According to Jaime Yoshiyama president of the Peruvian legislature (Congreso Constituyente Democratico, CCD) the success of Hierro-Peru has encouraged the Shougang consortium to explore more investments in Peru. During the next two years, Shougang allegedly plans to invest US$950 million in a variety of mining, fishing, agroindustrial, metallurgic, and tourist operations. In fact, interest in Peru is generally growing among foreign investors, not just because of the government's privatization program and liberal economic policies, but because of the improved political climate in the country. The government's impressive counterinsurgency achievements particularly the arrest of the founder and leader of the Shining Path guerrilla group Abimael Guzman has generated greater trust among the business community when considering operations in Peru. In addition, the writing of a new constitution, plus a public referendum on Oct. 31 to approve the Magna Charta, has given President Fujimori more international legitimacy. (For background on the referendum, see NotiSur - Latin American Political Affairs, 11/05/93). "A year ago we felt there was no future in Peru," Carlos Bolana economic minister until December 1992 and the architect of many of the Fujimori government's economic policies recently told the New York Times. "We were losing the war against the Shining Path and Peruvians were sending their money and children outside just waiting for the government to fall. Now people are talking about Peru seriously for the first time in decades." Leonard Harris, general manager of Newmont Mining Corporation's new Andean gold mine, also enthusiastically told the Times, "We're moving into boom times here in Peru. The day Guzman was caught, the country was different." Newmont Mining, together with its French and Peruvian partners, opened the
Yanacocha gold mine in August. That mine is now producing US$1 million in gold bullion per week, and in six months, the owners expect to recoup their entire US$37 million investment, with earnings thereafter considered pure profit. Indeed, in addition to foreign interest in the privatization program, investors are also buying out many domestic private firms, while considering entirely new business ventures of their own. Occidental Petroleum, for example, is spending more than US$60 million for drilling. Nabisco has bought the "Field" cookie and cracker maker for US$10 million. Owens-Illinois purchased the Peruvian bottle maker Vinsa for US$7 million. And, the Southern Peru Copper Company a joint venture of Asarco and Phelps Dodge has announced plans to invest US$300 million over the next five years in mining development. The wave of investment has spilled over to the Lima stock exchange, which has risen more than 200% over the last two years, according to the New York Times. While a few years ago the exchange had about 80 trades a day, totalling US$50,000, today 1,000-trade days are not uncommon, with a total value as high as US$12 million, most of which is from foreign investors. Last year, the return on capital was 138%. So far in 1993, the return is up 80%. "Our stocks used to be worth less than the paper they were printed on," said Jose Carlos Luque Otero, president of the Lima exchange. "The change is a symptom of reactivation in the country, that things are getting better." (Sources: Associated Press, 10/15/93; New York Times, 11/02/93; Notimex, 11/04/93; Agence France-Presse, 10/14/93, 10/18/93, 10/19/93, 10/21/93, 10/26/93, 10/29/93, 11/02/93, 11/05/93, 11/09/93)

-- End --