Economic Groups and the Mining Bonanza in Peru

Víctor Torres Cuzcano*

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Abstract

This paper analyzes the organizational strategies of the five most important national economic groups in the Peruvian mining industry – Buenaventura, Brescia, Volcan, Hochschild, and Milpo – during the first decade of this century, a period characterized by a sustained mining boom resulting from rising international prices of metals and by increased socio-environmental conflicts. In the unprecedented context of the boom, these mining groups strengthened their finances as a result of windfall profits, reformulated their business strategies in response to socio-environmental conflicts, reinforced (with the exception of Milpo Group) their principal characteristic as enterprises under the control and ownership of Peruvian families, and initiated the internationalization of their investments.

Keywords: Peru, mining, family business, economic groups, environmental effects.

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Acronyms and initials used

BCRP	Central Reserve Bank of Peru (Banco Central de Reserva del Perú)
CET	Tax Stability Contracts (Contratos de Estabilidad Tributaria)
Conasev	National Supervisory Commission for Companies and Securities (Comisión Nacional Supervisora de Empresas y Valores)
EIA	Environmental Impact Assessment
GNP	Gross National Product
Indecopi	National Institute for the Defense of Competition and the Protection of Intellectual Property (Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual)
Intursa	Inversiones Nacionales de Turismo SA
ISIC	International Standard Industrial Classification of All Economic Activities
n.e.c.	Not elsewhere classified
n.i.	No information
PAMA	Environmental Remediation and Management Program (Programa de Adecuación y Manejo Ambiental)
PLC	Public Limited Company
SMV	Securities Market Superintendency (Superintendencia del Mercado de Valores)
SRL	Limited Liability Company (Sociedad de Responsabilidad Limitada)

INTRODUCTION

During this century, the development of the five biggest Peruvian-owned economic groups in the country's mining sector –Buenaventura, Brescia, Volcan, Hochschild and Milpo – has occurred in a socioeconomic context marked by two events without precedent in Peru's recent history.

On the one hand, the pronounced growth in the international price of metals that Peru produces and exports allowed mining groups to reap windfall profits over the first decade of this century. On the other hand, socio-environmental conflicts prompted the direct intervention of the state in regulating the distribution of mining profits and/or through alternatives negotiated with the mining groups.

These themes are covered in three sections. In the first, we review the theoretical framework, which serves as a point of reference for the analysis of the aforementioned economic groups that share the common denominator of being under the control of Peruvian families. Indeed, in the case of the five mining groups analyzed, the concepts of economic group and family company have been closely interlinked.

In the second section, we provide a socioeconomic analysis of the financial boom period enjoyed by Peruvian-owned mining groups during the first decade of this century. On the one hand, we present indicators of the magnitude of their windfall profits as well as profit distribution across the groups under analysis, and we assess the reaction of these groups to the financial crisis of 2008. On the other hand, unlike the specialized literature on issues relating to social conflicts in the mining sector, which comprehensively analyzes the various reactions and stances of communities, populations, and leaderships affected by this productive activity,[1] in this study we take a look at how the state and the economic groups reacted to socio-environmental conflicts.

Finally, in the third section, we analyze the current organizational development of the above-mentioned financial groups. We stress the importance of family ties in the formation of the economic group, the means used to assure family control and ownership of companies, the greater or lesser insistence on sectoral diversification, and the degree of internationalization of their investments.

1. As in the various works of Anthony Bebbington, for example see: Bebbington 2007.

1. THEORETICAL FRAMEWORK

One of the most renowned experts in the analysis of economic groups is Nathaniel Leff (1978). In his view these groups have their origins in the need to offset existing market imperfections in underdeveloped countries as well as in the risks and uncertainties that characterize such economies. Market imperfections range from access to inadequately-commercialized scarce inputs – access to capital, for example – and institutional limitations to the allocation of management resources. This is a microeconomic response to conditions of market deficiency.

For this author, the group acts as a single company made up of multiple firms that operate in different markets, but under unified financial and business control. This pattern of economic organization is also commonplace in Asia and Africa, though in those parts of the world they are known by different names.[2]

According to Leff, economic groups have two essential characteristics. On the one hand, the capital and the senior executives do not come from a single family but from several wealthy ones, which remain and act in the group as a single economic unit. On the other hand, the groups invest and produce in totally different markets and not just in a single product line. This diversification is one way of dealing with the risks and uncertainties of instability and rapid structural change in the least developed economies. Under this organizational strategy, the groups fund banks and other forms of financial intermediation with the aim of channeling capital from various sources to their immediate group members.

Moreover, from Leff's perspective, a group is a different institution to a family company since it extends beyond the resources of any one family. However, this author recognizes that separation of ownership and control has not occurred on a large scale in Latin American economic groups. Very limited separation between property and control is a characteristic that the specialized literature attributes to family-owned companies (Allouche and Amann 2002, 2000).

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2. Different types of economic groups exist in varous countries, such as the *Chaebol* in South Korea, *Hong* in Hong Kong, *business houses* in India, *Guanxiqiye* in Taiwan, *oligarchs* in Russia, and *Qiye Jituan* in China. Some authors also include the Japanese *Keiretsu* and *Zaibatsu* within this classification (Carney *et al.* 2011).

On the other hand, though Leff held that the pursuit of political influence[3] on decisions taken by governments of underdeveloped countries is not in and of itself sufficient grounds for the emergence of the "group" model of industrial organization, he accepts that this political influence can be conceptualized as an "imperfectly marketed input."

In practice, links with governments in power, and the consequent possibility of influencing them in order to obtain fiscal benefits or to block a given measure, are a traditional component of the history of economic groups. In the South American sphere, Durand and Campodónico (2010) maintain that mobilization for political ends of the multiple resources to which economic groups have access (material,[4] organizational, and institutional[5]) can occur as the action of an individual company or group, in the form of lobbying. When this is not very effective and the interests at stake are important, groups resort to collective action through business associations, acting in conjunction with all member companies for the common defense of their economic interests.

In the same vein as above, Paredes and Sánchez (1996: 4) contend that groups "would constitute an efficient response to the characteristic difficulties faced by less developed countries: instability and the existence of incomplete markets at an initial stage, and the exploitation of economies of scale and of scope at a more advanced stage of development."[6] However, these authors recognize that the specialized literature includes different hypotheses that explain the existence of economic groups. A number of these hypotheses are widely analyzed in the literature on economics and industrial organization, though this is not to say that this branch of economics has concerned itself with an analysis of economic groups in particular.[7]

Without departing from the transaction costs perspective, institutional theories regard the group as an organizational design that is "functional for competing in emerging countries where institutions are weaker, incomplete, or are not consolidated" (Fracchia 2002a: 4).[8]

3. The concept of political influence can be defined as the process that is determined by the levels of access and the degree of influence on the state that the private agents succeed in establishing (Durand 2010).
4. Cash, facilities, equipment.
5. Social networks and organizations that revolve around groups, such as publicity companies, consultants, and law firms.
6. Translation by *Apuntes.*
7. Neither neoclassical microeconomic theory nor industrial organization theory have thoroughly researched the issue of the groups because the phenomenon is specific to each country and is seldom found in developed countries, with some exceptions, such as the case of the Keiretsu in Japan or the groups in Italy (Fracchia 2002a).
8. Translation by *Apuntes.*

According to this approach, the forms of organization in a society are the result of the particular needs of each economy: "Consequently, institutions are endogenous and, thus, change throughout the development process and contribute to it" (Paredes and Sánchez 1996: 3).[9]

For both Fracchia (2002a, 2002b) and Paredes and Sánchez (1996), groups gradually redefine their objectives according to the stage of development that the economy in which they operate finds itself; therefore, it is to be expected that the features of the groups will change as the country develops. In the case of Chile, Paredes and Sánchez (1996) find that groups have been vulnerable to the vicissitudes of politics and the economy: the expropriation process carried out by Allende (1970-1973), the privatizations (1974-1978), the debt crisis (1982-1985), and the new privatizations (1985-1989).

Meanwhile, Fracchia (2002a) attempts to understand how the new rules of play that came into effect after the competitive shock[10] in Argentina affected the various strategic responses of groups in that country. This author concludes that, while from a traditional perspective economic liberalization processes would lead to a reduction in the protagonism of economic groups, this result is not guaranteed if, in parallel, intermediary agents or activities that ensure a reduction in transaction costs are not developed in the market. Should these developments not occur, the groups could even increase their market power.

From a sociological perspective, Granovetter (1994, 2005a) offers interesting observations on business groups, analyzing them as social entities that function as units in cooperating networks and defining them as a set of legally independent companies,[11] but which have persistent formal or informal ties. In this regard, he classifies them into two extremes, neither of which apply to economic groups: on the one hand, companies linked by short-term strategic alliances and, on the other hand, companies that are legally consolidated as a single entity. From this perspective, sectoral differentiation would not be omnipresent in the characterization of a group, but the persistence of ties that bind together companies or the units that make them up would be.

9. Translation by *Apuntes.*
10. A concept that sums up the set of heterogeneous situations that affect companies in an increasingly globalized world.
11. Granovetter (2005a) considers that this requirement for a definition is useful, but arbitrary, as despite the legal distinction, one family can control all of the companies in a group - directly or indirectly - through holding companies and pyramids. Because the companies that comprise them are legally independent, economic groups are invisible; this explains why, until very recently, they were ignored in organizational theory. Moreover, their regulation is made difficult and this often gives rise to inefficiency.

According to Granovetter (2005a), considering the range of approaches that seek to explain the origin of the "economic group" as if it were a single "organizational form" can be misleading and a source of confusion. He prefers to construct arguments that encompass this diversity of approaches. In this vein, he holds that groups vary according to the following six dimensions (Granovetter 1994, 2005a):

A. **Source of solidarity**: results from family ties, but can also arise out of whatever it is that the principal members have in common: ethnicity, religion, or place of origin.

B. **Extent of "moral economy"**: groups can be coherent social systems whose participants have a strong sense of moral obligation to other members.

C. **Structure of ownership**: ranges from groups owned by a single family (even though this form of ownership can be hidden through indirect controls), to those comprised of independent firms that maintain alliances with one another.

D. **Structure of authority**: wide ranging, from groups with minimal coordination and without a central authority (the Japanese *Keiretsu*), to those ruled with an iron fist by a single manager (the Korean *Chaebol*). According to Granovetter, most of the existing literature on economic groups assumes the special case of highly centralized ownership and authority.

E. **The role of financial institutions**: because of the need for sources of financing, many - but not all - economic groups include one or more bank or non-banking financial institution among their companies.

F. **Relationships between groups and the state**: the level of autonomy of business groups in relation to the state opens up a wide range of possibilities.

According to Granovetter (2005a), there is consensus among specialists that the regulation of groups by the state clearly delineates their structures and strategies. Nonetheless, the state and companies are treated as independent actors, despite the fact that the interaction between both sectors is delineated by the personal or social networks that link them.

In this regard, Granovetter (2005a) credits Evans (1995) with having coined the concept of "embedded autonomy"; that is, the existence of a professional bureaucracy that is largely autonomous in relation to companies, but linked to business leaders via social ties that manifest themselves in the channels through which political influence can be exercised.

Economic groups and family companies

The specialized literature repeatedly confirms the presence of families in the structuring of economic groups, which has led to a limited separation between ownership and control, especially in Latin America (Paredes and Sánchez 1996). Most of the world's companies are controlled by their founders or by the families of founders and their heirs (Allouche and Amann 2002, 2000; La Porta et al. 1999); moreover, these companies have exceptional clout in their respective economies.[12]

The presence of the family in ownership predominates, even in companies listed on the stock market. This is true in both developing countries and in the most industrialized economies (Burkart *et al.* 2003: 2167).

In emerging economies, both control and ownership tend to remain within the family once the founder retires. In the United States, company founders tend to hire professional managers from the outset; when the founder retires, his or her family retains only marginal ownership. In Western Europe, a significant proportion of ownership usually stays in the family after the founder retires. His or her children either hire a manager, as in BMW or Fiat, or run the company themselves, as in Peugeot (Burkart et al. 2003: 2168). When management is turned over to a professional, ownership and control are separated.

On the other hand, empirical research on the performance of family and non-family businesses shows superior results for the former compared with the latter. These findings are frequently interpreted as the manifestation of more efficient management stemming from the family-owned nature of the company, compared with management by a professional or someone outside the family.

Thus, economic groups and family businesses are closely linked. This is the case because, as Granovetter (2005a) concludes, typical economic groups around the world are dominated by families. However, as in the case of economic groups, "definitions of family companies are numerous and wide-ranging and quite marked by heterogeneity"[13] (Allouche and Amann 2000: 40).

12. At least 90% of companies in the United States are owned and controlled by one or more families, which produce between 30% and 60% of GNP and pay half of all salaries. Moreover, a third of Fortune 500 companies are run by family units. In Western Europe, between 45% and 65% of GNP and of employment is provided by family companies. In Chile, 75% of companies are also family run, and contribute significantly to GNP and employment (Allouche and Amann 2002: 111).
13. Translation by *Apuntes.*

The definitions that predominate are those that jointly retain the criteria of ownership and control, combining them with varying degrees and factors of family participation in the company (Allouche and Amann 2002, 2000). However, in practical terms, it matters little whether the family possesses most of the social capital, or whether it hires a professional manager. The overriding issue is who has effective control of the company.

The variety of approaches found in the specialized literature on economic groups[14] and the contradictory results of the corresponding empirical verifications lead Carney *et al.* (2011: 36-37) to the following observation: economic groups come in many shapes and sizes, and their heterogeneity in space and time defies simple explanation.

In operative terms, we define the economic groups analyzed here in the same way as Overbeek (1980)[15]; that is, as a set of companies connected by various types of links: financial (ownership of shares and granting of credit, among others), services (advisement and administration of investment portfolios, among others), and institutional (interlocking directorates). Moreover, following Granovetter (1994, 2005a), we consider that sectoral diversification is not always a characteristic of a group but family ties that link the founders are an omnipresent characteristic.

2. THE MINING BONANZA, SOCIOENVIRONMENTAL CONFLICTS, AND THE ROLE OF THE STATE

During the first decade of the 21st century, the doctrinal rules of the game that regulated the economic activity of groups in the mining sector were practically the same as those established during the 1990s. That is, they operated in a free market economy, with economic policies and regulatory frameworks that fostered the development of productive activity, with a special emphasis on the promotion of private investment. In general terms, Peruvian admnistrations during the first decade of the 21st century[16] continued the economic model imposed by Alberto Fujimori in July 1990.

14. The definition of "economic group" and the reasons for its existence encompass a wide range of aspects. For Peru, see Malpica (1989a, 1989b); Alcorta (1992, 1987); Anaya (1990); Vásquez (2004); Sánchez Albavera (1981); Torres Zorrilla (1975); and Durand (2003), among others. In the international literature, in addition to the authors cited here, see: Guillén (2000) and Barbero (2011), among others.
15. Quoted in Alcorta (1992: 71).
16. Alejandro Toledo Manrique (July 2001 to July 2006) and Alan García Pérez (July 2006 to July 2011); moreover, between November 20, 2000 and July 28, 2001, Valentín Paniagua Corazao served as transitional and provisional president of Peru.

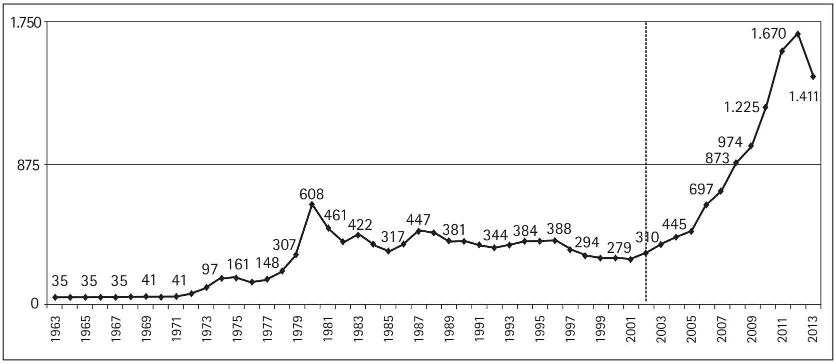
Nonetheless, two closely interrelated aspects marked a substantial change from the socioeconomic scenario that predominated in the Peruvian mining sector during the final decade of the last century. On the one hand, the sharp and sustained increase in the international price of metals that Peru produces and exports allowed mining groups to make windfall profits during the first decade of this century. On the other hand, the aggravated increase in socio-environmental conflicts, whose principal leitmotiv were demands regarding the environment and the distribution of mining profits. This second issue prompted the direct intervention of the state in regulating the distribution of windfall mining profits through fiscal policy and/or through alternatives negotiated with the mining groups.

A. Metal prices and the mining bonanza

What took place in Peru's mining industry starting in 2002 is without precedent in the country's recent history. The increase in the international price of metals ushered in a boom that continued into the beginning of the second decade of the 21st century. This boom generated a multiplier effect in the Peruvian economy which, combined with a stable economic policy in line with the market dynamics, created macroeconomic stability that allowed Peru to emerge relatively unscathed from the early effects of one of the most acute financial crises in world history at the end of 2008.

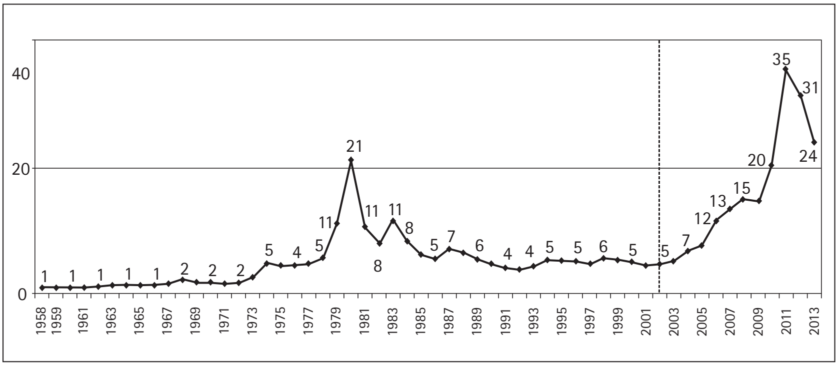
During the early years of this century, the boom in the Peruvian mining sector was not only due to the price effect, but also to increased production volumes. The increase in the price of metals starting at the end of 2002 began by benefiting gold and silver producers (Figures 1 and 2). This, added to the expansion in production of copper and gold primarily, led to the first surplus in the trade balance in 12 years in 2002, reaching a total of US$ 321 million.

Figure 1
International price of gold, 1963-2013 (in dollars per troy ounce)



Source: BCRP; compiled by author.

Figure 2
International price of silver, 1958–2013 (in dollars per troy ounce)

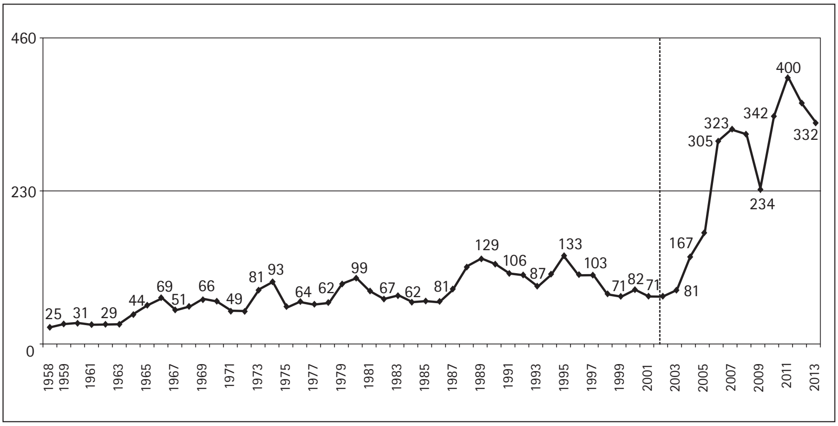


Source: BCRP; compiled by author.

From 2003, increases in prices extended to other metals: copper increased by 14%; tin, 21%; lead, 14%; zinc, 6%; and gold, 17% (Minsur 2003b: 8) (Figures 3 to 6). Towards the end of 2004, metal mining exports reached a historic high, accounting for 55.6% of all Peruvian exports.

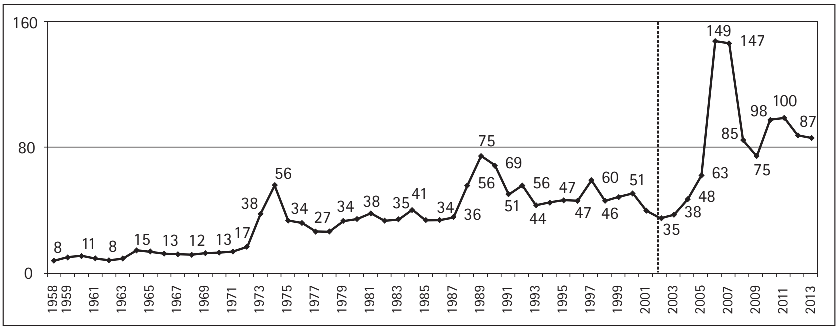
From 2006, the mining boom was largely due to price effect, as production volumes began to slow down and then contract in 2009 and 2010.

Figure 3
International price of copper, 1958–2013 (in dollars per pound)



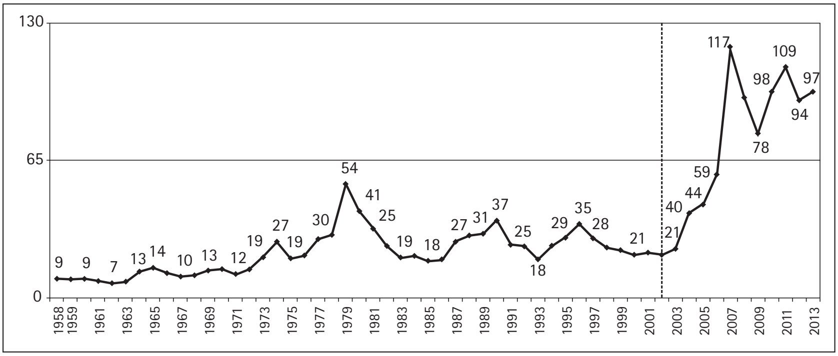
Source: BCRP; compiled by author.

Figure 4
International price of zinc, 1958-2013 (in dollars per pound)



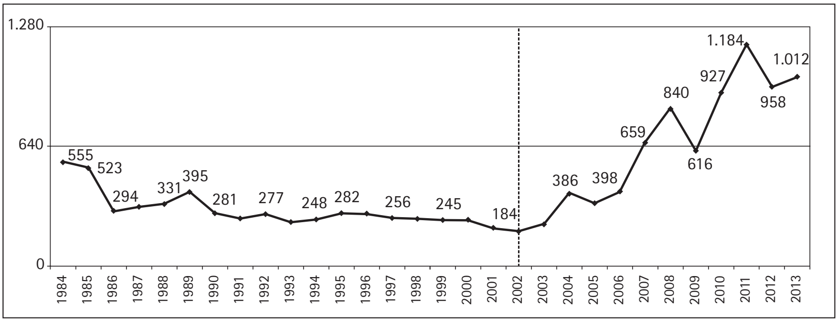
Source: BCRP; compiled by author.

Figure 5
International price of lead, 1958-2013 (in dollars per pound)



Source: BCRP; compiled by author.

Figure 6
International price of tin, 1984-2013 (in dollars per pound)



Source: BCRP; compiled by author.

During the years leading up to the great financial crisis of 2008, the domestic mining market and the economic groups that operated therein were buoyed by investments, expansion, and new projects, boosted by the windfall profits that resulted from increases in the price of metals. The higher prices once again restored profitability to mining projects that had struggled to prosper under different circumstances or that had been closed down because metals prices were too low. This was the case for practically all the mining groups analyzed here.

The government at the time helped to sustain this scenario. Alan García Pérez assumed the presidency of Peru in July 2006, and his first act in office was to form an economic team to assure the continuation of the free market-oriented economic policy applied in previous years. The decisions adopted during the García administration were inspired by a policy that sought to boost private investment at all costs. On the social front, this decision contributed to a sharpening of socio-environmental conflicts.

Economic groups in metal mining

Attempts by national authorities to further their knowledge of economic groups operating in the Peruvian market are relatively recent. For example, there were no efforts to regulate the formation and functioning of these groups or their mergers and acquisitions. Indeed, no such ex-ante controls exist in Peru (except for the electricity market, since 1997).[17] The only regulations implemented concerned groups' participation in the stock market.

From December 28, 2005, the National Supervisory Commission for Companies and Securities (Comisión Nacional Supervisora de Empresas y Valores, Conasev), now known as the Securities Market Superintendency (Superintendencia del Mercado de Valores, SMV), established clear definitions of the concepts of direct ownership, associations, and control related to the operations of economic groups. Previously, from November 1997, the regulations[18] in effect offered somewhat less precise definitions of these concepts. Moreover, the information companies were asked to provide was indiscriminate, with the result that they did not comply with the requirements, thus encumbering investigations by the competent authority to determine the existence of indirect ownership, associations, or economic groups.

17. In 2005, the National Institute for the Defense of Competition and the Protection of Intellectual Property (Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual - Indecopi) presented a bill to regulate mergers and acquisitions, but it was not approved. As a result, in Peru there are no ex-ante controls in this area (Durand and Campodónico 2010: 76).
18- "Reglamento de propiedad indirecta, vinculación y grupo económico," approved through Conasev Re solution N° 722-97-EF/94 (November 10, 1997).

In its "Regulations on Indirect Properties, Association, and Economic Groups" ("Reglamento de propiedad indirecta, vinculación y grupo económico"), published in December 2005,[19] Conasev defines an economic group as "a group of legal entities, irrespective of business purpose or activity, that are subject to the control of a single individual or a single group of individuals."[20] Nonetheless, this norm accepts as an exception that an economic group may be controlled by a legal entity rather than an individual. This exception applies when no individual or group of individuals possesses more than 30% of the voting rights or can appoint more than 50% of the company's directors.

Based on information from Peru Top Publications (2012) and the SMV, we identified 25 economic groups engaged in metal mining as at 2010 (see Table 1). Of this total, 12 are under the control of Peruvian families and 13 under the control of foreign capital. The market share of the latter is predominant, accounting for 64.1% of revenues and 63.9% of profits in the sector. Peruvian-owned groups make up 35.9% and 36.1% of revenues and profits, respectively, posted that same year.[21]

Thus, after the relative weakening of its role in the Peruvian mining industry during the military government (1968-1980) and on account of its strengthened re-entry under neoliberal principles since Alberto Fujimori's government (1990-2000), foreign capital - somewhat more diversified with respect to its countries of origin - resumed its predominant position in Peruvian mining during the first decade on the 21st century.

19. Approved through Conasev Resolution N° 090-2005-EF/94.10 (published on December 28, 2005); amended through Conasev Resolution N° 005-2006-EF/94.10 (published on February 11, 2006).
20. Translation by *Apuntes*.
21. Only operations in Peru are included.

Table 1
Economic groups in metal mining, by revenues and profits, Peru, 2010[(1)(2)(3)]

Order	Economic Group	Country	Main metal mining companies	Revenues	Profits	Revenues	Profits	Profits (%)
				(millions of soles)		(thousands of dollars[(4)])		
1	Grupo México	Mexico	Southern Peru Copper Corporation, Cía. Minera Los Tolmos	8,911,887	3,413,720	3,153,534	1,207,969	18.5
2	Buenaventura	Perú	Cía. de Minas Buenaventura SA, Minera Yanacocha SRL (43,65%)	6,458,707	3,354,263	2,285,459	1,186,929	18.2
3	Xstrata	Switzerland	Xstrata Tintaya SA, Cía. Minera Antamina SA (33,75%)	4,657,699	1,996,701	1,648,159	706,547	10.8
4	Barrick	Canada	Minera Barrick Misquichilca SA	3,391,104	1,755,842	1,199,966	621,317	9.5
5	Freeport	United States	Sociedad Minera Cerro Verde (53,56%)	3,585,714	1,595,981	1,268,830	564,749	8.6
6	Brescia	Peru	Minsur SA, Cía. Minera Raura SA	2,609,834	1,136,906	923,508	402,302	6.2
7	Newmont Mining	United States	Minera Yanacocha SRL (51,35%), Newmont Peru SRL	3,029,186	969,635	1,071,899	343,112	5.2
8	Shougang	China	Shougang Hierro Perú	1,949,587	818,483	689,875	289,626	4.4
9	Volcan[(5)]	Peru	Volcan Cía. Minera, Empresa Administradora Chungar, Empresa Administradora Paragsha	2,771,176	716,148	980,600	253,414	3.9
10	Hochschild	Peru	Cía. Minera Ares, Minera Suyamarca, Corianta SA, Cía. Minera Arcata	1,437,108	528,714	508,531	187,089	2.9
11	Gold Fields Ltd.	South Africa	Gold Fields La Cima SA	1,234,243	404,320	436,746	143,072	2.2
12	Milpo (ahora Votorantim)	Brazil	Cía. Minera Milpo, Minera Atacocha, Minera El Muki	1,586,205	404,290	561,290	143,061	2.2
13	Guido del Castillo (MDH)	Peru	Arasi SAC, Aruntani SAC	1,004,927	254,789	355,600	90,159	1.4
14	Navarro Grau	Peru	Consorcio Minero Horizonte SA, Aurífera Real Aventura SAC	704,423	234,172	249,265	82,863	1.3
15	Sánchez Paredes	Peru	Cía. Minera Aurífera Santa Rosa SA, Cía. Minera San Simón SA	947,644	169,673	335,331	60,040	0.9
16	Glencore	Switzerland	Emp. Minera Los Quenuales SA, Perubar SA	569,704	138,493	201,594	49,007	0.7
17	Trafigura	Netherlands	Catalina Huanca, Cía. Minera Condestable, Volcan Cía Minera (10,02%)	811,315	132,557	287,090	46,906	0.7

Order	Economic Group	Country	Main metal mining companies	Revenues	Profits	Revenues	Profits	Profits (%)
				(millions of soles)		(thousands of dollars[4])		
18	Marsano	Peru	Minera Aurífera Retamas, Cía. Minera Aurífera del Sur SA	472,893	94,873	167,337	33,571	0.5
19	Gubbins Granger	Peru	Sociedad Minera Corona	406,460	91,767	143,829	32,472	0.5
20	Pan American Silver	Canadá	Cía. Minera Argentum SA, Pan American Silver SAC Mina Quiruvilca	618,688	89,496	218,927	31,669	0.5
21	Fortune Silver	Canadá	Minera Bateas SAC	209,187	65,766	74,022	23,272	0.4
22	Gubbins Cox	Peru	Cía. Minera Casapalca SA, Cía. Minera Santa Rita SA	848	45,937	300	16,255	0.2
23	Arias Dávila	Peru	Cía. Minera San Ignacio de Morococha SA, Cía. Minera San Valentín SA	319,164	34,405	112,939	12,174	0.2
24	Mitsui	Japan	Cía. Minera Santa Luisa	261,629	21,906	92,579	7,752	0.1
25	Raffo	Peru	Cía. Minera Caudalosa SA	122,467	3,643	43,336	1,289	0.0
	Total			48.071,797	18,472,480	17,010,544	6,536,617	100.0
	Summary							
	Foreign groups			30,816,147	11,807,190	10,904,510	4,178,057	63.9
	Domestic group[6]			17,255,650	6,665,290	6,106,033	2,358,560	36.1
	Five principal domestic groups[7]			14,863,029	6,140,320	5,259,388	2,172,796	33.2

Notes
(1) Peruvian-owned mining groups are highlighted in gray.
(2) Comprises the operations in Peru registered in ISIC 1320 (mining of non-ferrous metal ores) and in 1429 (other mining and quarrying n.e.c.).
(3) In the case of companies that make up an economic group, the revenues and profits correspond to those recorded in their individual financial statements; in the case of companies that do not form part of an economic group but in whose operations one such group exerts significant influence, revenues and profits have been assigned according to the group's participation in the social capital of these companies.
(4) The exchange rate corresponds to the annual average published by the BCRP for 2010: 2.826.
(5) The revenues and profits posted in the consolidated financial statements of Volcan Cía. Minera SAA.
(6) Does not include the Milpo group, now the Votorantim group.
(7) Includes: Buenaventura, Brescia, Volcan, Hochschild and Milpo (now Votorantim).
Sources: Peru Top Publications (2012), SMV; compiled by author.

At the same time, five economic groups run by Peruvian families - Buenaventura, Brescia, Volcan, Hochschild, and Milpo - were the largest of the domestic mining groups in terms of revenues and profits, with joint relative shares of 30.9% and 33.2% respectively in 2010. Taking into consideration only the 12 Peruvian-owned mining groups, the five groups under analysis account for more than 80.0% of revenues and 92.0% of profits.

Windfall profits

Several indicators can be used to aid in the quantification of the mining bonanza of the first decade of this century and its effects on the relative importance of these five mining groups. If the period 2005-2010, during which the largest increases in metal prices were recorded, is compared with the period 1999-2004, the accumulated net sales of four of the mining groups under study[22] rose from US$3,831.2 million to US$14,783.7 million from one period to the other; that is, a near-fourfold increase (Table 2).

Table 2
Accumulated net sales of the main Peruvian-owned mining groups, Peru, 1999-2010 (in thousands of dollars)

Economic Group	1999-2004		2005-2010			Aumento (%) (B) / (A)
	(A)	%	(B)	%	%	
Volcan	1,012,452	26.4	4,362,094	29.5	25.4	330.8
Buenaventura	1,021,975	26.7	4,212,325	28.5	24.5	312.2
Milpo	465,539	12.2	2,009,869	13.6	11.7	331.7
Brescia	1,331,230	34.7	4,199,402	28.4	24.4	215.5
Subtotal(1)	3,831,196	100.0	14,783,690	100.0		285.9
Hochschild	n. i.		2,403,344		14.0	
Total			17,187,034		100.0	

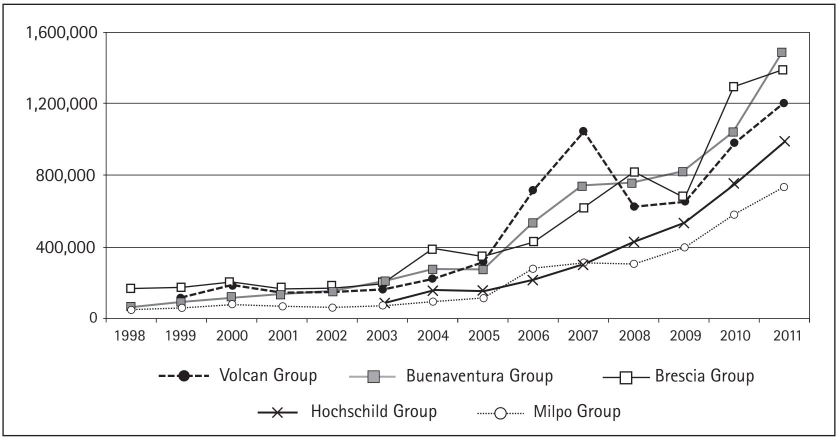
Note
(1) The Hochschild group is excluded as no information is available for the period 1999-2004.
Sources: annual reports and financial statements of the mining companies pertaining to the groups: Volcan Cía. Minera SAA and subsidiaries, Cía. de Minas Buenaventura SAA and subsidiaries, Cía. Minera Milpo SAA and subsidiaries, Minsur SA and subsidiaries, Cía. Minera Raura SA and subsidiaries, Hochschild Mining PLC (consolidated) (1999-2010); compiled by author.

During both periods, the Milpo and Volcan groups posted the largest increases in net sales (by 4.3 times each), closely followed by the Buenaventura and Brescia groups (4.1 and 3.2 times, respectively) (Figure 7).

22. The Hochschild group is excluded from this measurement, as no information is available for the period 1999-2004.

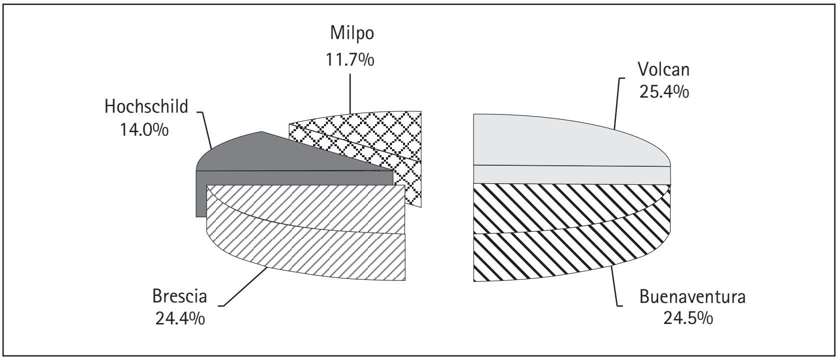
Of these four economic groups, only the Brescia group's relative share of accumulated net sales decreased during the periods in question, from 34.7% to 28.4%.

Figure 7
Mining net sales of the main Peruvian-owned mining groups, Peru, 1998-2011 (in thousands of dollars)



Source; consolidated financial statements of the Buenaventura, Brescia, Hochschild, and Milpo groups (1998-2011); compiled by author.

Figure 8
Net sales of the main Peruvian-owned mining groups, Peru, 2005-2010 (in percentages)



Source; consolidated financial statements of the Volcan, Buenaventura, Brescia, Hochschild, and Milpo groups (2005-2011); compiled by author.

On the other hand, between the periods 1999-2004 and 2005-2010, the accumulated net profits of four of the groups analyzed[23] increased from US$1,178,400 to US$5,981,700 million, respectively; that is, an near-fivefold increase (Table 3).

Table 3
Accumulated net profits of the main Peruvian-owned mining groups, Peru, 1999-2010 (in thousands of dollars)

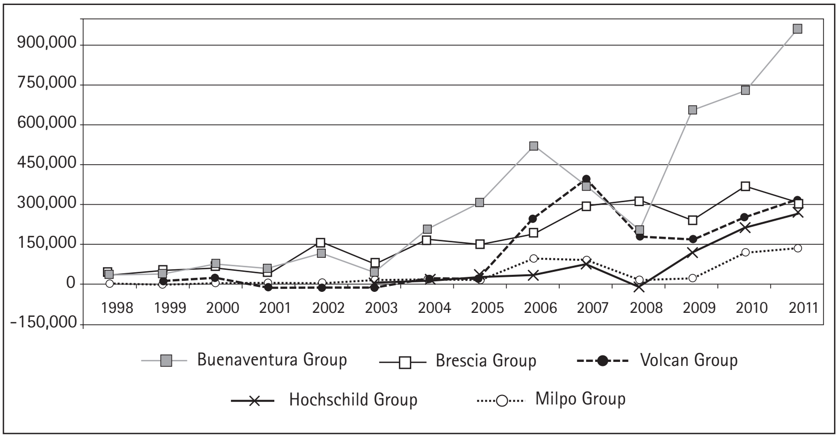
Economic Group	1999-2004		2005-2010			% increase
	(A)	%	(B)	%	%	(B) / (A)
Volcan	27,186	2.3	1,262,415	21.1	19.6	4,543.6
Milpo	38,894	3.3	370,149	6.2	5.7	851.7
Buenaventura	556,438	47.2	2,780,547	46.5	43.1	399.7
Brescia	555,850	47.2	1,568,605	26.2	24.3	182.2
Subtotal(1)	1,178,368	100.0	5,981,716	100.0		407.6
Hochschild	n. i.		472,014		7.3	
Total			6,453,730		100.0	

Note
(1) The Hochschild group is excluded as no information is available for the period 1999-2004.
Sources: annual reports and financial statements of the mining companies Volcan Cía. Minera SAA and subsidiaries, Cía. Minera SAA and subsidiaries, Cía. de Minas Buenaventura SAA and subsidiaries, Cía. Minera Raura SA and subsidiaries, Hochschild Mining PLC (consolidated) and (1999-2010); compiled by author.

The Volcan group increased its profits more than 46 times between the periods in question, a statistical effect explained by the net losses incurred over three years during the first period of comparison. The Milpo group increased its profits 9.5 times, while the Buenaventura group posted a fivefold increase, and the Brescia group increased its profits by "only" 2.8 times. In line with the above results, Buenaventura and Brescia saw a reduction in their relative share of accumulated net profits during the periods of comparison in question. However, while the Buenaventura group's decline was slight, from 47.2% to 46.5%, the Brescia Group's downturn was more drastic, from 47.2% over 1999-2004 to 26.2% over 2005-2010. This result is primarily explained by the significant recovery posted in the profits of the Volcan group, whose share rose from 2.3% to 21.1%, while those of the Milpo group increased from 3.3% to 6.2% (Figure 9).

23. The Hochschild group is excluded from this measurement, as no information is available for the period 1999-2002.

Figure 9
Net mining profits of the main Peruvian-owned mining groups, Peru, 1998-2010 (in thousands of dollars)



Source; consolidated financial statements of the companies in the Buenaventura, Brescia, Hochschild, and Milpo groups (1998-2011); compiled by author.

Over 2005-2010, 43.1% of the accumulated net profits of the five groups under study were concentrated within the Buenaventura group. With a relatively small share, the Brescia group accounted for 24.3%, followed by the Volcan group, with 19.6%. The Hochschild and Milpo groups posted relative shares of 7.3% and 5.7%, respectively. Therefore, for the duration of the mining bonanza, profits were more concentrated than sales.

Between 2003 and 2010, the Hochchild and Buenaventura groups recorded the largest increase in net profits, at 21.7 and 14.4 times, respectively. This is also true of the Volcan group, which accrued the third greatest relative share in 2010, after posting negative returns in 2003. Meanwhile, the Milpo and Brescia groups multiplied their profits 9.7 and 4.9 times, respectively.

In keeping with the preceding results, between 2003 and 2010, three groups increased their relative profit share: Buenaventura, from 35.8% to 43.0%, Hochschild, from 7.1% to 12.9%; and Volcan, which attained a share of 15% in 2010 after recording losses in 2003. Conversely, Brescia's share dropped sharply from 53.3% to 21.8%, while that of Milpo fell from 8.9% to 7.2% (Table 4).

Table 4
Net mining profits of the main Peruvian-owned mining groups, Peru, 2003-2010 (in thousands of dollars)

Económic Group	2003		2010	
	Amount	%	Amount	%
Buenaventura	50,346	35.8	724,889	43.0
Brescia	75,027	53.3	367,436	21.8
Volcan	- 7,229	- 5.1	253,414	15.0
Hochschild	10,000	7.1	216,665	12.9
Milpo	12,592	8.9	121,547	7.2
Total	140,736	100.0	1,683,951	100.0

Source: consolidated financial statements of the Brescia, Buenaventura, Hochschild, Volcan, Hochschild, and Milpo groups (2003 and 2010); compiled by author.

If the same calculations are applied to the "net assets" variable, the relative size of these mining groups as seen in the two preceding variables (Table 5) is reiterated.

Table 5
Accumulated net equity of the main Peruvian-owned mining groups, Peru, 1999-2010 (in thousands of dollars)

Económic Group	1999-2004		2005-2010			% increase (B) / (A)
	(A)	%	(B)	%	%	
Milpo	452,730	6.7	2,205,440	9.1	8.0	387.1
Buenaventura	2,791,770	41.5	11,135,425	46.1	40.1	298.9
Volcan	1,214,482	18.1	4,301,768	17.8	15.5	254.2
Brescia	2,262,932	33.7	6,526,052	27.0	23.5	188.4
Subtotal(1)	6,721,914	100.0	24,168,685	100.0	259.6	
Hochschild	s. i.		3,569,257		12.9	
Total			27,737,942		100.0	

Note
(1) The Hochschild group is excluded as no information is available for the period 1999-2004.
Sources: annual reports and financial statements of the mining companies Cía. Minera SAA and subsidiaries, Cía. de Minas Buenaventura SAA and subsidiaries, Cía. Minera SAA and subsidiaries, Minsur SA and subsidiaries, Cía. Minera Raura SA and subsidiaries, Hochschild Mining PLC (consolidated) and (1999-2010); compiled by author.

The financial crisis of 2008

The financial crisis that erupted in the final quarter of 2008 shook the world economy, giving rise to a period of instability whose prognosis remains guarded despite the time that has elapsed since then. In the mining sector, the crisis translated into a sharp downturn in the price of metals caused by the negative effects on the main importing countries, especially China.

In 2008, in terms of annual averages compared with the previous year, the prices of copper, zinc, and lead dropped by 2%, 42%, and 19%, respectively. Nonetheless, precious metal prices increased: 12% for silver, and 25% for gold (Volcan, 2008b), because of their roles as safe-haven investments during times of instability in the international markets.

On the domestic front, the initial reaction of the groups analyzed here was to delay the start of some investment projects and/or suspend the continuation of operations already underway, a decision that was accompanied by a policy of productivity gains and operating cost reductions (staff cutbacks, for example).

The crisis did not affect the five mining groups equally. Though in accumulated terms their net sales fell by 2.9% in 2008 from 2007, this was primarily due to the lower sales recorded by Volcan (-40.5%) and Milpo (-1.2%), as the other groups had positive results: Hochschild increased its sales by 42.2%, Brescia by 31.0%, and Buenaventura by 2.6%.

The downturn was more pronounced and widespread in terms of net profits, which fell by 43.6%. The sharpest reductions were felt by the Hochschild (posted losses), Milpo (-84.4%), Volcan (-55.5%), and Buenaventura (-45.2%) groups. Only the Brescia group recorded an increase in its net profits (7.3%), consistent with its higher sales. In the case of the Hochschild and Buenaventura groups, the peculiar combination of higher sales revenues with a drop in profits is explained principally by accounting practices that increased operating and financial expenses, resulting in a substantial reduction in profits and in the payment of income tax.

In 2009, the crisis did not disrupt the upturn in gold and silver prices, but did continue to impact the prices of other metals. The upward trend became generalized again as of 2010, propelled by the ever-expanding Chinese economy.

In the midst of the mining boom of the first decade of the 21st century, Peruvian-owned mining groups remained active in the domestic and international financial markets, where they obtained funding with relative ease (given their strengthened financial backing and a buoyant international financial market), and covered themselves against market risks.

To this end, they employed a range of financial instruments, especially the issuance of corporate bonuses and debt agreements with banking syndicates, as well as listings on foreign stock markets.

In this context, the mining groups under study - with the exception of Buenaventura - obtained most of their income without the need to establish alliances with foreign capital.

B. Socio-environmental conflicts: reactions by the state and mining companies

During the first decade of this century, a new type of social relations emerged between the main economic agents in the mining sector. In the preceding decades, particularly up to the 1980s, social conflicts in this sector were fundamentally played out within the companies themselves, primarily involving, on the one hand, labor unions, and on the other, the mining companies' directors and senior managers. The points of contention were familiar territory for both sets of actors: improved pay and working conditions.

Over the last ten years, the actors and topics of negotiation have undergone a radical change. On the one hand, the unions have been replaced by peasant communities and populations adjacent to the mining exploitation areas, so that mining companies had to be aided, and even replaced, by the state itself. On the other hand, labor issues have lost their priority status to the risks posed by mining activities to environmental services, especially the quality of water utilized by communities and required by mining companies. Linked to this, as part of an approach that prioritized financial compensation, the demands of communities and mining populations for greater participation in the sector's windfall profits grew more vociferous as metal prices and the profits enjoyed by mining companies rose.

The new scenario triggered by socio-environmental conflicts led to a redesign in the mining groups' industrial organizational strategies. This was manifested in new forms of liaising with communities and populations adjacent to mineral exploitation, as well as in the postponement of investment projects, especially for gold production.

The pursuit of improved relations with mining populations and communities in order to counteract socio-environmental conflicts and maintain productive activities formed part of a strategy by mining groups that gave rise to a number of actions - some voluntary and others negotiated with the state.

In the realm of voluntary actions, from the mid-2000s, the mining groups analyzed here began to express an interest in publicizing their activities and economic contributions that benefited neighboring communities and environmental services. Previously, institutional reports, the primary medium employed by companies to communicate with their stakeholders,[24] did not afford such matters much attention.

Moreover, spending was increased on voluntary support for communities or in complying with government regulations, and specialized personnel were hired to facilitate liaising with neighboring populations and communities.

The treatment of the socio-environmental issue by the state and the mining groups can be divided into two periods, each one with clearly defined concerns (Volcan 2005b: 48). The first period lasted from 1997 to 2004. During this time, the primary objective of both actors centered on compliance with the Environmental Remediation and Management Programs (Programas de Adecuación y Manejo Ambiental, PAMAs).[25] However, the results left much to be desired, as evidenced by the emblematic case of the US company Doe Run Peru and the serious questions concerning its social and environmental management, against the backdrop of constant modifications and extensions to its concession agreement.

The second period started in 2005 and continues to the present. In this period, the state has insisted on the completion of and compliance with Environmental Impact Assessments (EIA), and on distribution of mining profits that comes close to meeting the expectations of the communities and populations involved.

In this second period, the state has expanded the sector's socio-environmental regulatory framework, as part of a formal pursuit of greater commitment by mining groups to environmental care and to good relations with the populations located in the area of influence of their productive activities. However, the participative mechanism provided for in the EIAs, which seeks to gather the opinions and expectations of the community in the mining project's direct area of influence, far from preventing conflicts, has caused more of these due to manipulation by the actors involved.

In the exercise of its regulatory role, and under pressure from socio-environmental conflicts, the state took a number of decisions aimed at furthering the involvement of mining populations in the distribution of windfall profits in the sector. An initial measure was taken in June 2002, when the *canon minero* redistribution mechanism was increased from 20%

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24. Stakeholders are comprised of employees, communities, shareholders, customers, suppliers, and various government agencies.
25. The PAMAs were established for mining activities that were already in operation. Though the PAMAs were legally introduced in 1993, it was not until 1997 that the Ministry of Energy and Mines published a provisional guide for their preparation.

to 50% (effective as of January 1997) of income tax.[26] As windfall profits increased, so did the income tax paid by companies and, consequentially, the *canon* bound for regional and local governments in mining areas also increased, albeit with suboptimal distribution that had to be refined along the way.

Nonetheless, the *canon minero* does not strictly equate to an additional effort by mining groups to share windfall profits with populations neighboring their operations, since it is extracted from the income tax that all companies are obliged to pay to the government. Therefore, in June 2004, the government approved the payment of mining royalties, defined as the economic compensation that companies in the sector are required to pay to the state for exploitation of metal and non-metal mining resources.

However, the mining royalties were primarily paid by medium-sized mining companies because ten large-scale mining companies[27] - some of which had ties to the Peruvian-owned mining groups discussed here - were exempted from these royalties in their tax stability contracts (contratos de estabilidad tributaria, CET). Therefore, this state-sponsored measure to regulate a more equitable distribution of windfall profits likewise failed to yield the expected results. It was only after a new government took office in 2011 that modifications in the application of mining royalties were introduced.[28]

26. Currently, the *canon* is distributed between regional and local governments according to rates established by the Ministry of the Economy and Finances on the basis of criteria of population and Basic Unsatisfied Needs (Necesidades Básicas Insatisfechas). It is distributed as follows: 10% of the total *canon* to local governments of municipalities or district municipalities where natural resources are exploited; 25% of the total *canon* for local governments of district and provincial municipalities where natural resources are exploited; 40% of the total *canon* for local governments of departments or departments of regions where natural resources are exploited; 25% of the total *canon* for regional governments where natural resources are exploited. Regional governments must transfer 20% of this percentage to the national universities in their jurisdiction.
27. Xstrata Tintaya, Cía. Minera Milpo SA, Cía. Minera Santa Luisa SA, Minera Sipán SA, Empresa Minera Los Quenuales, Minera Yanacocha, Doe Run Perú, Cía. Minera Antamina SA, Sociedad Minera Cerro Verde, and Barrick Misquichilca SA.
28. On September 28, 2011, the mining royalties were modified by the "New Royalties Law" (Nueva ley de regalías, Law N° 29788) which taxes operating profits rather than the net sales of companies without CETs with progressive marginal rates in the range of 1% to 12%, based on increasing tranches of the company's operating margin (operating profit on income or net sales). On the same day and in order to tax windfall profits accrued by those companies that do not have CETs, a special mining tax was created (Law N° 29789), which was also to be applied to operating profit, with marginal rates in a range of 2.0% to 8.4%. For companies that had CETs, a special mining tax (impuesto especial a la minería, Law N° 29790) was created on the same date. It was also applied to operating profit, with marginal rates within a range of 4.00% and 13.12%. The sums paid in these three taxes are considered as deductible expenses for the calculation of income tax.

Amid the pressures exerted by socio-environmental conflicts, the debate on introducing a tax on mining windfall profits in Peru intensified in the middle of the 2000s. The implementation of such a tax would have meant a revision of the CETs signed by the companies in the sector and the Peruvian government, but this was rejected by the García administration. As a result, in December 2006, a decision was made to negotiate a "voluntary contribution" by mining companies so as to contribute to an improvement in the living conditions of populations located in the areas of influence of mining activities.[29] Again, not all mining companies signed the "voluntary contribution" agreements with the government. These contributions ended in October 2011, when it was announced that the government would take charge of covering this economic contribution using resources generated under the above-mentioned new tax system for the mining sector, which went into effect on that date.

The suboptimal management of socio-environmental conflicts was partially to blame for stalling the sector's expansion at the end of the 2000s, especially in the case of gold production.

3. PRODUCTIVE AND ORGANIZATIONAL DEVELOPMENT OF PERUVIAN-OWNED MINING GROUPS TOWARDS THE END OF THE FIRST DECADE OF THE 21ST CENTURY

By 2010, Peruvian-owned mining groups had adjusted their structures and organizational strategies in response to the above-mentioned socioeconomic factors. The important issues they had to face in relation to the above and to the overall global context were: generational change, control and ownership strategies, sectoral diversification, and internationalization.

Family ties

One key issue was generational change in the management of economic groups, a matter closely linked to control and ownership of their companies.

Peruvian-owned mining groups are chiefly structured around family ties. When these break, the economic group weakens and the founding family can end up losing control and ownership. This is exactly what happened to the Milpo group starting in 2005, when the ownership and control of its companies passed into the hands of foreign capital - the

29. The so-called Mining Program for Solidarity with the People (Programa Minero de Solidaridad con el Pueblo) included a "voluntary contribution" of 3.75% of mining companies' net profits for a period of five years, provided that metal prices were above a given level. It was not income tax deductible. Through this program, 81 funds were established that, between 2007 and 2011, provided almost 2.285 billion nuevos soles to around 2,559 projects (El Comercio 2012).

Brazilian Votorantim group - due to irreconcilable differences between the founding Peruvian families, the Baertls and the Montoris.

However, family issues are not the only factor that can cause substantial changes in the control and ownership of an economic group. A crucial issue in the discussion of family-owned companies from the perspective of their governance is succession (Burkart et al. 2003; Allouche and Amann 2002). That is, there comes a time when the founder of the economic group ceases to manage the company, whether because he or she wishes to retire, or passes away. The dilemma that arises is whether to hand over control of the companies to a group of professionals or to allow the heirs to assume their management. When management is given over to a professional, ownership and control are separated.

In emerging markets, both control and ownership tend to remain within the family once the founder retires. Everything leads one to suppose that this would also be the case of the four mining groups analyzed in this study.

In the case of the Volcan group, following the death of its founder, Roberto Letts Colmenares, on April 4, 2010, his heirs retained ownership and control of the companies in the group. However, unlike three of the groups to be considered below, this is the only case in which the group founder was childless, which meant that the running of the companies fell to his sisters and nephews. This particularity, as well as giving a greater degree of freedom to the professional managers, allowed for the possibility that the heirs may not seek to continue with a company in which they have had no direct involvement.

In the case of the Buenaventura group, when the founder, Alberto Benavides de la Quintana, announced his retirement at the beginning of 2011, control and ownership of his properties was bequeathed to two of his sons, Raúl and Roque Benavides Ganoza, especially the latter. On February 12, 2014, the founder of this economic group passed away.

Until recently, the Brescia group of companies was personally run by its founders, Pedro and Mario Brescia Cafferata, despite their advancing years.[30] Since the death of the latter in May 2013,[31] Pedro Brescia took sole control but he is gradually delegating responsibilities to his descendants in preparation for their taking over the management of the family group.

30. The Brescia group was founded by Fortunato Brescia Tassano, a young immigrant who came to Peru from Italy in 1889. After his death in 1952, the group was run by his sons, Pedro Francisco and Mario Augusto Brescia Caffareta.
31. Mario Brescia Cafferata had three sons: Fortunato, Mario, and Pedro Brescia Moreyra.

The family succession in the Hochschild group took place in 1998, when Eduardo Hochschild Beeck assumed control, following the tragic death of his father and the founder of the group, Luis Hochschild Plaut, a German businessman who came to Peru in 1945.

In these four cases, though the family actively participates in the running of their main companies, occupying executive-level positions in some cases, they are becoming increasingly reliant on teams of professional managers.

Control and ownership strategies

In these mining groups, family control and property has become viable through pyramidal shareholding and direct participation in interlocking directorates. Both practices have allowed centralized control of the companies in the group by the family, without the need for its members to feature explicitly, as individuals, among the main shareholders. In not a few cases, they have resorted to ownership of the main companies in the economic group through offshore companies.

Pyramidal shareholding is rendered viable through one or a very few companies in the group, which, regardless of whether or not they engage in a productive activity, operate in practice as holdings through which the group exercises ownership and control of all of its constituent companies. Through interlocking directorates, the family maintains direct and simultaneous participation on the boards of the main companies in the group.

This centralized management has been facilitated by the high degree of business concentration within each economic group. In four of the groups under analysis, more than 56% of shares are concentrated in the main company. If the two leading companies are considered, the degree of concentration fluctuates between 73% and 96% (Table 6).

Table 6
Concentration of shares of the main Peruvian-owned mining groups, by their main companies, Peru, 2010 (in percentages)

Economic Group	First company	Second company	Remaining companies in the group	Total
Volcan	71.5	16.6	11.9	100.0
Buenaventura	65.5	25.0	9.5	100.0
Milpo	61.2	24.7	14.1	100.0
Hochschild	56.6	16.3	27.1	100.0
Brescia	19.0	16.9	64.1	100.0

Source: SMV ("Hechos de importancia"); compiled by author.

The Brescia group does not share this characteristic due to the greater sectoral diversification of its investments. Thus, in the Intursa group, (Inversiones Nacionales de Turismo SA), the name used by the Brescia family in its dealings with the SMV to identify all of its non-financial enterprises, the largest company has a relative share of just 19.0% of its assets, a percentage that increases to 35.9% when the second company is also included.

In the midst of this centralized management and leadership, within the Peruvian-owned mining groups there were a number of mergers (primarily through absorption) and vertical and horizontal integration processes that took place during the 2000s. It is necessary to ask to what extent these practices were fundamentally the result of industrial organization strategies, as a means of achieving growth and enhancing competitiveness, rather than being related to tax planning. In business practice, there are not a few cases in which the absorbed company has losses that create a tax shield for the absorbing company or for the new company formed, even when the national tax framework forbids loss carryforward as credit against income tax.

On the other hand, in the midst of tight integration between companies in a single economic group, the application of transfer prices has been practiced extensively. This can also occur in the commercial relationship that mining groups establish with their main customers in the international market. The probability is high insofar as the demand structure for metals produced by mining groups corresponds to a oligopsony; that is, a market with very few buyers, generally linked to the mining groups that operate in the country.

In any event, this is an old practice by mining companies that has taken root in Peru. According to Sánchez Albavera (1981: 186), before their nationalization by the Military Government, the mining transnationals used the following mechanisms in their transfer pricing policy with associated companies: inflation of processing costs, undervaluation of payable content, partial payment of these, and overvaluation of impurities.

Sectoral diversification and relative importance

Of the five economic groups, only Brescia has followed an explicit productive and organizational strategy of maximum sectoral diversification. The Hochschild group followed the same policy to a lesser extent, though its productive activity has been concentrated in the large-scale mining sector; that is, after metal mining, its investments have been oriented toward non-metal mining (cement production). The other three economic groups - Buenaventura, Volcan, and Milpo - have pursued an express policy of concentrating their operations in metal mining. Though they also participate in related activities, they do so insofar as these ensure timely, low-cost provision of the inputs required for their main activity.

If we take into account the total investments of the five mining groups in the various production sectors and countries towards the end of 2010, the Brescia group was the largest, controlling 34.4% of total assets and 36.1% of equity. Moreover, it had the largest number of companies registered and the greatest degree of diversification: 74 companies distributed across 13 economic sectors (Table 7).

Table 7
Equity and assets of the main Peruvian-owned groups, number of countries, sectors, and companies, Peru, 2010 (in dollars and percentages)

Economic Group	Countries	Sectors	Companies	Equity		Shares	
				Dollars	%	Dollars	%
Brescia	8	13	74	3,499,922,795	36.1	4,379,353,767	34.4
Buenaventura	2	6	18	2,296,326,893	23.7	2,733,394,079	21.5
Hochschild	7	7	15	1,642,811,232	16.9	2,333,165,275	18.3
Volcan	1	3	12	1,422,346,176	14.7	2,076,743,012	16.3
Milpo(1)	2	4	12	839,498,908	8.7	1,202,871,057	9.5
Total			131	9,700,906,004	100.0	12,725,527,191	100.0

Note
(1) In the case of Cía. Minera Milpo SAA, the figures from the original source were replaced by the value of the assets and equity recorded in the company's individual financial statements.
Source: SMV ("Hechos de importancia"); compiled by author.

However, strictly speaking the Brescia group is not so much a mining group as an "urban financial"[32] one, a concept borrowed from Francisco Durand. The figures in the above paragraph, compiled on the basis of information declared by the Brescia family to Conasev under the name of the Intursa group, exclude their interests in the financial sector through the Continental group, which it controls in partnership with the Spanish group Banco Bilbao Vizcaya-Argentaria (BBVA). The Continental group is made up of eight companies registered in Peru, whose assets and equity – with respect to the proportion that belongs to the Brescia group - increase the group's economic importance in the Peruvian economy. In consequence, the relative importance of the Brescia group is greater than would appear to be the case in Table 6. In this study, we have taken into account only those mining companies that make up the Intersa group, which excludes the Continental group companies.

In order of importance, the Buenaventura group comes next, with a relative share of 21.5% and 23.7% in its total shares and equity in 2010, respectively, distributed across 18 companies operating in six production sectors.

32. Translation by *Apuntes*.

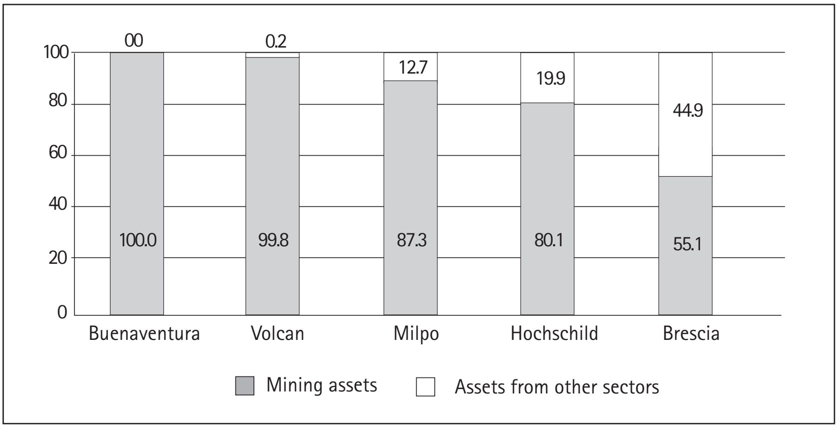
In third place is the Hochschild group, with a relative share of 18.3% and 16.9% in its total shares and equity in 2010, respectively, distributed across 15 companies operating in seven production sectors.

The Volcan and Milpo groups had relative shares of 16.3% and 9.5% in the total assets, respectively, and each one owned 12 companies that operated in three and four production sectors, respectively.

Notwithstanding the extreme sectoral diversification achieved by the Brescia group and, to a lesser extent, by the Hochschild group, the five groups analyzed herein concentrated most of their assets and equity in the large-scale mining sector; that is, in non-metal mining (cement production) and, primarily, in metal mining.

Thus, in 2010, 79.7% of the total assets of the five Peruvian-owned groups were concentrated in the large-scale mining sector. Buenaventura and Volcan held practically all of their assets in this sector, while the Milpo and Hochschild groups had 87.3% and 80.1%, respectively. The Brescia group, the most sectorally diversified, concentrated 55.1% of its assets in this large-scale sector. However, as noted above, this figure only takes into account the investments of the Brescia family through the Intursa group, but not the investments of the Continental group (Figure 10).

Figure 10
Proportion of mining assets(1) in the total assets of the main Peruvian-owned economic groups, Peru, 2010 (in percentages)



Note
(1) In the case of Hochschild and Brescia, assets in non-metal mining are included.
Source: SMV ("Hechos de importancia"); compiled by author.

If mining sector assets[33] alone are considered, Buenaventura is the largest Peruvian-owned mining group, accounting for 27.0% and 28.3% of equity in this sector in 2010. It is followed, in order of size, by the Brescia (23.8% and 30.8%, respectively) and Volcan groups (20.5% and 17.5%), and then by the Hochschild (18.4% and 14.9%) and Milpo groups (10.4% and 8.5%) (Table 8).

Table 8
Equity and assets of the main Peruvian-owned groups in the mining sector, Peru, 2010 (in dollars and percentages)

Economic Group	Countries	Companies	Equity		Shares	
			Dollars	%	Dollars	%
Buenaventura	2	13	2,296,293,849	28.3	2,733,349,966	27.0
Brescia[(1)]	5	25	2,498,253,380	30.8	2,413,689,984	23.8
Volcan	1	10	1,421,272,152	17.5	2,073,321,022	20.5
Hochschild[(2)]	5	3	1,212,913,346	14.9	1,867,842,661	18.4
Milpo[(3)]	2	7	686,797,951	8.5	1,049,772,175	10.4
Total		45	8,115,530,678	100.0	10,137,975,808	100.0

Notes
(1)Includes 18 of the 23 subsidiaries of Minsur SA and the branches of the former.
(2)Includes assets and equity in non-metal mining (cement production). Under "countries," the investments of Hochschild Mining PLC in Argentina, Mexico, and Chile are also included.
(3)The figures from the original source were replaced by the value of the assets and net worth recorded in the company's individual financial statements.
Source: SMV ("Hechos de importancia"); compiled by author.

In this context, during the period under analysis, Peruvian-owned mining groups continued with the predominantly primary extractive activities for which they are known, without any significant attempts to incorporate greater added value to the concentrates they produce. Only the Brescia group has progressed toward the stage of refining the ore it extracts: it discontinued its primary focus on producing concentrates in 1999, and in 2003 started exclusive production of tin, a good with greater added value. In the case of the Buenaventura and Hochschild groups, together with precious metals in concentrate forms, they produce and sell doré bars. These are obtained through smelting the concentrate before refinement, which is carried out outside Peru.

33. In the case of the Brescia and Hochschild groups, their assets and equity in non-metal mining (cement production) are included.

The internationalization process

International investment is a stage of growth and development that few Peruvian-owned mining groups pursued decisively until the end of the first decade of this century, spurred on by their strengthened financial backing during the mining bonanza and by the negative effects that the 2008 financial crisis had on companies in neighboring countries.

At the end of the period under analysis, only two of the five Peruvian-owned mining companies had taken the decision to invest outside the country. The Brescia group registered assets in eight countries, primarily in Latin America, as part of an internationalization process that started as recently as late 2008. The Hochschild group registered investment in seven countries; however, its focus on external markets overshadowed that of the Brescia group for several years.

Meanwhile, with few exceptions, the Buenaventura, Volcan, and Milpo groups operated in Peru alone. The Milpo group made an investment in Chile in 1999, in what was one of the earliest examples of investment by a Peruvian mining group in that country; since then, it has made no further investments abroad. In the case of Volcan, in late 2010, it bought a minority share in the social capital of a Chilean cement company.

CONCLUSION

By 2010, 12 of the 28 economic groups that operated in Peru's metal mining industry were under the control of Peruvian families and 13 were owned by foreign capital. Nonetheless, the latter controlled close to two-thirds of the sector's revenues and profits. Thus, the Peruvian mining bonanza of the 2000s primarily benefited foreign capital, which resumed its traditional hegemonic position in the country's mining industry.

Of the Peruvian groups, Hochschild and Buenaventura posted the largest increases in their net profits during the mining bonanza, followed by the Volcan group. In consequence, those who benefited the most were those groups associated with the extraction and exportation of precious metals (gold and silver).

In the face of the 2008 financial crisis, the immediate reaction of the groups studied was to postpone the start of some projects, suspend operations that had ceased to be profitable after metal prices had fallen, and reduce operating costs, among other measures. This contraction of investment, which leads to reduced production, is the "normal" reaction of economic groups to adverse price downturn scenarios, which accentuate the drop in export values.

The 2008 crisis also represented a good opportunity for some mining groups to focus their investments on the international market, where they purchased companies affected by the global crisis at good prices. However, by the end of the period studied, only two of the Peruvian-owned mining groups - Brescia and Hochschild - had significantly invested in neighboring countries. Buenaventura, Volcan, and Milpo, with few exceptions, operated only in Peru. These results aside, Peruvian groups still have a long way to go as regards internationalizing their investments in South American terms, behind Brazil, Argentina, and Chile, in that order (Durand and Campodónico 2010: 59).

With the exception of the Brescia group, which has significant participation in the financial sector, the remaining groups do not have considerable investments in that sector. Even though Buenaventura and Hochschild maintain close links with the Banco de Crédito del Perú, when in need they have resorted to an emerging domestic financial system and/or, primarily, to a buoyant and particularly accessible international finance market. Therefore, in the case of the economic groups studied here, they are not what some authors refer to as "financial groups," understood as those capable of mobilizing funds autonomously. Or, when banks form part of a mining group, they have the "ability to recycle capital to member companies."[34]

From our perspective, the main characteristic to be taken into account in defining Peruvian-owned mining groups is that they operate under the control and ownership of a single family. When family ties are weakened, the group is cast adrift. This was the case of the Milpo group, which lost control and ownership of its companies to Brazilian capital. In the cases of the other four groups, the succession processes - crucial from the perspective of group governance - that have taken place over the last 15 years have consolidated the participation of the founding families' descendants. At the same time, however, groups are becoming increasingly reliant on professional managers for the running of their companies.

Consequently, family ties constitute the main link that ensures the unity of the economic group. In general, this has translated into the authority and omnipresence of the family in the running of the group's companies via interlocking directorates and pyramidal shareholding. A high degree of business concentration within each mining group has led to this centralized management, which is reflected in the fact that the leading company accounts for more than half of all the group's assets and equity. In the context of this industrial organization strategy, merger and acquisition processes and the application of transfer pricing occurred frequently throughout the 2000s.

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34. Pastre (1979) quoted in Alcorta (1992: 71). Translation by *Apuntes.*

Only the Brescia group has followed a production and organizational strategy of maximum sectoral diversification. It is followed, to a lesser extent, by the Hochschild group. Buenaventura, Volcan, and Milpo, on the other hand, opted to concentrate their efforts on metal mining, without neglecting their involvement in associated activities as a means of ensuring timely, low-cost provision of the inputs they require for their primary activity. That said, the five groups concentrated most of their assets and equity in the large-scale mining sector: non-metal mining (cement production) and, primarily, metal mining.

In this context, Peruvian-owned mining groups continued with the traditional primary extractive activity that has characterized them, without significant efforts to incorporate greater added value to the concentrates they produce, with the exception of the Brescia group in the case of tin production. Thus, the recent mining bonanza did not prompt the development of a domestic mining industry that went beyond the confines of mere concentration and smelting of metals. The mining groups have a responsibility for this, albeit a secondary one; the absence of a state-promoted alternative development strategy is primarily to blame.

Socio-environmental conflicts have resulted in mining groups' redesign of their industrial organizational strategies. These include new forms of liaising with mining communities and populations, as well as the postponement of investment projects. The Buenaventura group and its mining associate Yanacocha are a good example of this.

Finally, a combination of several factors - suboptimal regulation by the state, the reluctance of mining groups to accept greater fiscal outlays, and the claims of mining communities, populations, and leaders that prioritized economic compensation - all had the effect of prolonging socio-environmental conflicts. This contributed to stalling the sector's expansion toward the end of the 2000s, with the gradual reduction of mining profits and the regional *canon.* Though the bonanza continued into the start of the 2010s - given that precious metal prices remained above long-term levels, thereby counteracting reduced production - the golden years had been left behind.

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