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Latam Daily: Peru's Politics, Protests and Trade Balance

- **Peru: Presidential impeachment proceedings move forward; rising imports hit pause on trade surplus; more mining protests**

PERU: PRESIDENTIAL IMPEACHMENT PROCEEDINGS MOVE FORWARD; RISING IMPORTS HIT PAUSE ON TRADE SURPLUS; MORE MINING PROTESTS

I. Presidential impeachment proceedings move forward

Congress voted March 14 to initiate impeachment proceedings against President Pedro Castillo, which are set to begin March 28. While the vote in favour of opening an impeachment debate was quite high (76 in favour, 41 against and 1 abstention), it falls short of the 87 votes needed for impeachment and does not ensure impeachment, especially considering that the 41 votes against are probably more determined than the 76 votes in favour. Regardless, the decision means that President Castillo will need to defend himself, either personally or through an attorney, on March 28. As a point of comparison, President Martin Vizcarra's impeachment proceedings, in November 2020, were set in motion by a 60 to 40 vote, with 18 abstentions. The final vote in favour of his impeachment, which took place only one week later, was 105 to 18.

To complicate matters further, President Castillo had requested to speak before Congress today, March 15. The request came before the congressional vote to initiate impeachment proceedings and was probably meant to prevent the vote in the first place. Congress has set 5 pm for President Castillo's address, which, at the time of this writing, he had yet to accept.

II. Peru's expanding trade surplus pauses

Peru registered a USD1.0bn trade surplus in January, the lowest surplus in six months. The 12-month rolling surplus stalled at US\$14.3bn, slightly below the December (full-year 2021) figure of USD14.8bn (chart 1).

The reason for the pause was not exports, which increased 16.2% y/y, but soaring imports (up 25.9% y/y). The leading item was fuel imports, up 66%. Imports of fertilizer from Russia were up 61% y/y. Soft commodities imports were mixed for the month, y/y. However, in cumulative terms over the past twelve months, key imports of soy and maize were up 54% and 38%, respectively. Meanwhile, metal exports were only up 4.7%, y/y, in the month of January, albeit an appreciable 52% cumulative over the past twelve months.

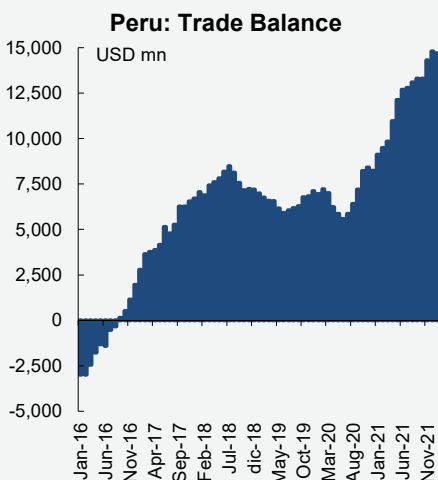
The key message from the January figures is that, even before the Russian invasion of Ukraine, rising key import prices were starting to weigh more heavily on the trade balance than rising metal prices. The Ukraine conflict may well deepen this impact as prices for cereals and other foodstuffs rise.

III. Now it's Southern Peru's turn to face local disruptions

On February 20th, protestors from nearby populations (comunidades campesinas) blocked the rail-line that the Southern Peru mining company uses to transport minerals to the port of Ilo. A few days later, the same group took control of the water reservoir and shut-off the supply valve that provides for the Cuajone mine, disrupting production and cutting water supply to the mine's hospitals, homes and common areas. Company sources claim that 5,000 people have been affected, as the mine houses workers' families.

Protesters are demanding US\$5bn, plus a permanent payment of 5% of net company earnings. Their argument is that Southern Peru is using their lands. The company has rebutted these claims, stating that the lands are State-owned lands and that it owns the

Chart 1



Sources: Scotiabank Economics, BCRP.

March 15, 2022

rights to them through its mining concessions contracts. Workers at Cuajone have backed management and have released a video claiming that the actions taken by the protestors directly affects their water supply, putting their jobs in jeopardy.

In 2021 Southern Peru represented just over 17% of Peru's total copper output, with 7% of the country total coming from the Cuajone operations. Since February 28, the events at Cuajone have led to a loss in output of nearly 7,000 metric tons, which compares to Southern Peru's total monthly output 25,000 metric tons (14,200 per month at Cuajone alone). Each day of production stoppage represents nearly US\$5mn in lost exports. If Cuajone returns to production soon, production can probably be mostly recovered. However, there is little indication that things will be resolved quickly.

The government has not yet made any announcement on the issue. Our take is that mining activities are at an increasing risk of local disruptions in an environment in which populations bordering mining operations may believe that the government will be permissive regarding protests. Recent protests have secured benefits from mining companies, and protesters may think the government will side with them, even when protests involve illegal activities. Thus, protesters may have greater bargaining power than in the past, which motivates new demands, many of which are not always reasonable nor in keeping with the legal framework.

—Guillermo Arbe

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