

The Seizure and Allocation of Resource Rents Chile and Peru Compared

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Mining in Chile and Peru, 2007

	Share of Fiscal Revenue	Share of Exports	Mining Exports (US\$ millions)	GDP (US\$ millions)
Chile	26%	64%	40,000	165,000
Peru /1	23%	70%	20,000	107,000

1/: Includes hydrocarbons

Sources: Central Banks, Consejo Minero and SUNAT

Mining and Fiscal Revenue, 2007

	Mining Taxation /2 (US\$ millions)	Contribution of Mining to Fiscal Revenue /3 (US\$ millions)	Mining Share of Fiscal Revenue	CODELCO Contribution to Fiscal Revenue (US\$ millions)	CODELCO Share of Fiscal Revenue
Chile	9,000	11,400	26%	8,000	18%
Peru /1	4,750	4,750	23%		

Notes:

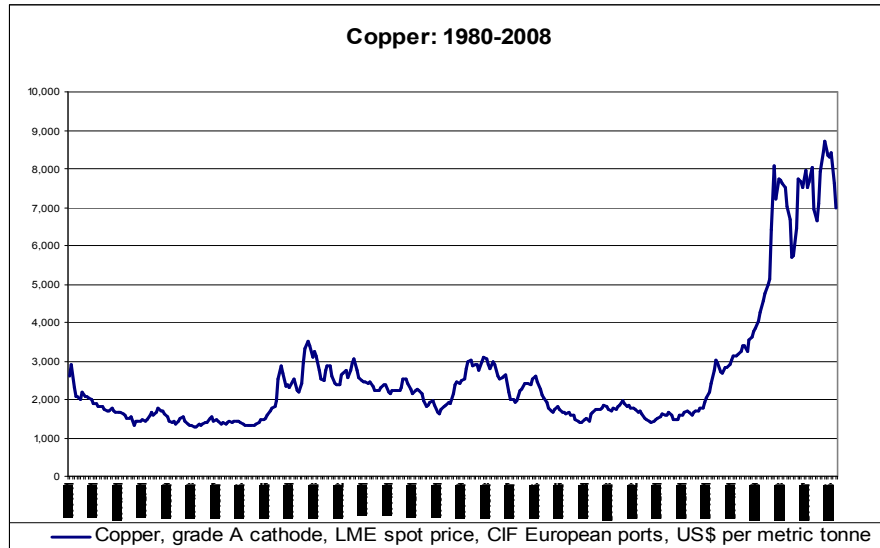
1/ Includes hydrocarbons

2/ Includes CODELCO Sales Tax for Army Forces in Chile

3/ Includes CODELCO dividends

Sources: Central Banks, Consejo Minero and SUNAT

Why has the Chilean State...



... saved more...?
 – (why Copper Funds?)

... and seized more?
 – (why Codelco?)

	Contribution of Mining to Fiscal Revenue 2007	Market Value of Copper Funds December 2007	Market Value of Total Treasury's Portfolio December 2007
Chile	11,400	15,500	21,100
Peru	4,750		

Allocating the Rent

The Chilean Copper Funds

- (1982-3: Banking crisis)
 - 1986: Copper Compensation Fund (FEIC)
- (1990: *Concertación*)
 - 1990-2000: Fiscal-conservatism in left-to-centre democracy
- (1999: A socialist President is about to be elected;
1997-98 crisis: copper price back to early 1980s level)
 - 2000: Structural Surplus Fiscal Rule: Copper Price and Y
- (2005: Boom-cycle starts; royalties debate and law)
 - 2006: Fiscal Responsibility Law: FEES and FRP
 - 2007 Royalty: Innovation Fund for Competitiveness (FIC)

Saving the Resource Rent

	US\$ Millions
Seizure	
Mining Fiscal Revenues	11,300
Allocation	
Contribution to Countercyclical Fund /1	10,500
Contribution to Pensions Fund	700
Contribution to Innovations Fund	50

/1: Does not include FEIC endowment

=> Virtually all Mining Fiscal Revenue was saved in 2007

Why?

- *Hacienda* technocratic & political autonomy
 - New ‘Santiago Consensus’: Inflation targeting, competitive E, trade integration, fiscally-sustainable welfare state
 - Shared Neo-Keynesian macroeconomic view (counter-cyclical + “original sin”)
- => Strong *Hacienda* within a strong state within a less contested political economy

The Peruvian Way

(1999: elections are about to come; 1997-98 crisis)

- 1999: Fiscal Prudency and Transparency Law

(2000-2006: Return to Democracy

- Executives without Congress majority; political parties as electoral machines
- 2001: Regionalization Law; regions ask for more resources
- Mining enjoying tax-breaks)
- 2000-2006: Fiscally-responsible behavior (primary surplus grew from -0.6 to 3.4% GDP); yet the Law is not 100% enforced

(Price increase, end of tax-breaks, Royalties Law)

(2006: “Outsider” Humala close to win elections, had promised to review tax-stability contracts)

- 2006: “Voluntary Contribution” Law

Saving in the Good Years: Two Paths

Revenue Flows and Stabilization Funds

Current US\$ millions

Year	Chile		Peru	
	Mining Fiscal Revenue	Countercyclical Fund	Mining Fiscal Revenue	Countercyclical Fund
2000	1,017	673	660	100
2001	697	621	341	182
2002	616	277	287	312
2003	898	75	502	295
2004	4,102	208	802	302
2005	6,307	967	1,448	314
2006	11,126	2,564	3,053	336
2007	11,339	13,100	4,247	485
2008 (Oct)		18,660		1,700

As a Percentage of Fiscal Revenue

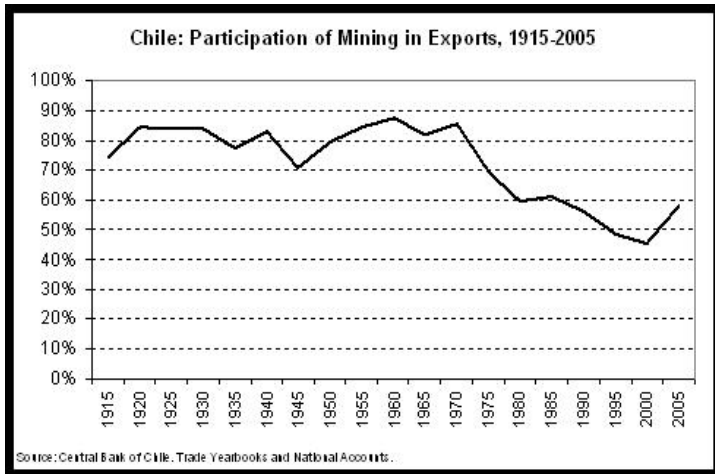
Year	Chile		Peru	
	Mining Fiscal Revenue	Countercyclical Fund	Mining Fiscal Revenue	Countercyclical Fund
2000	6%	4%	9%	1%
2001	5%	4%	4%	2%
2002	4%	2%	4%	4%
2003	6%	0%	6%	3%
2004	19%	1%	8%	3%
2005	22%	3%	12%	3%
2006	29%	7%	20%	2%
2007	25%	29%	23%	3%

Why?

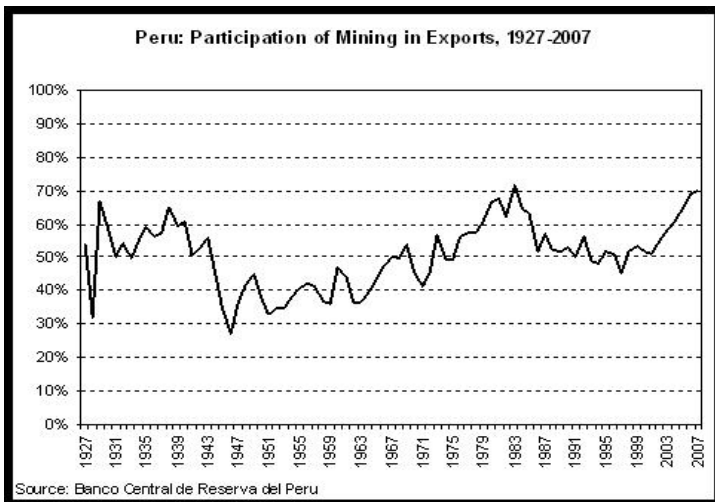
- Not needed? Short-term priorities?
 - Lower Treasury strength to lead the polity; wait-and-see policy-making; day-to-day political contestation
 - Lower technical capacities (no DIPRES, no Cochilco)
 - Lower autonomy from private interests
 - Policy debate still too ideological and polar, although “*heterodoxos*” run well the Central Bank in 2002-6: high reserves, inflation targeting, dedollarization
- => Not-as-strong Treasury within a weak state within a highly-contested political economy

Seizing the Rent

Historical Importance of Mining

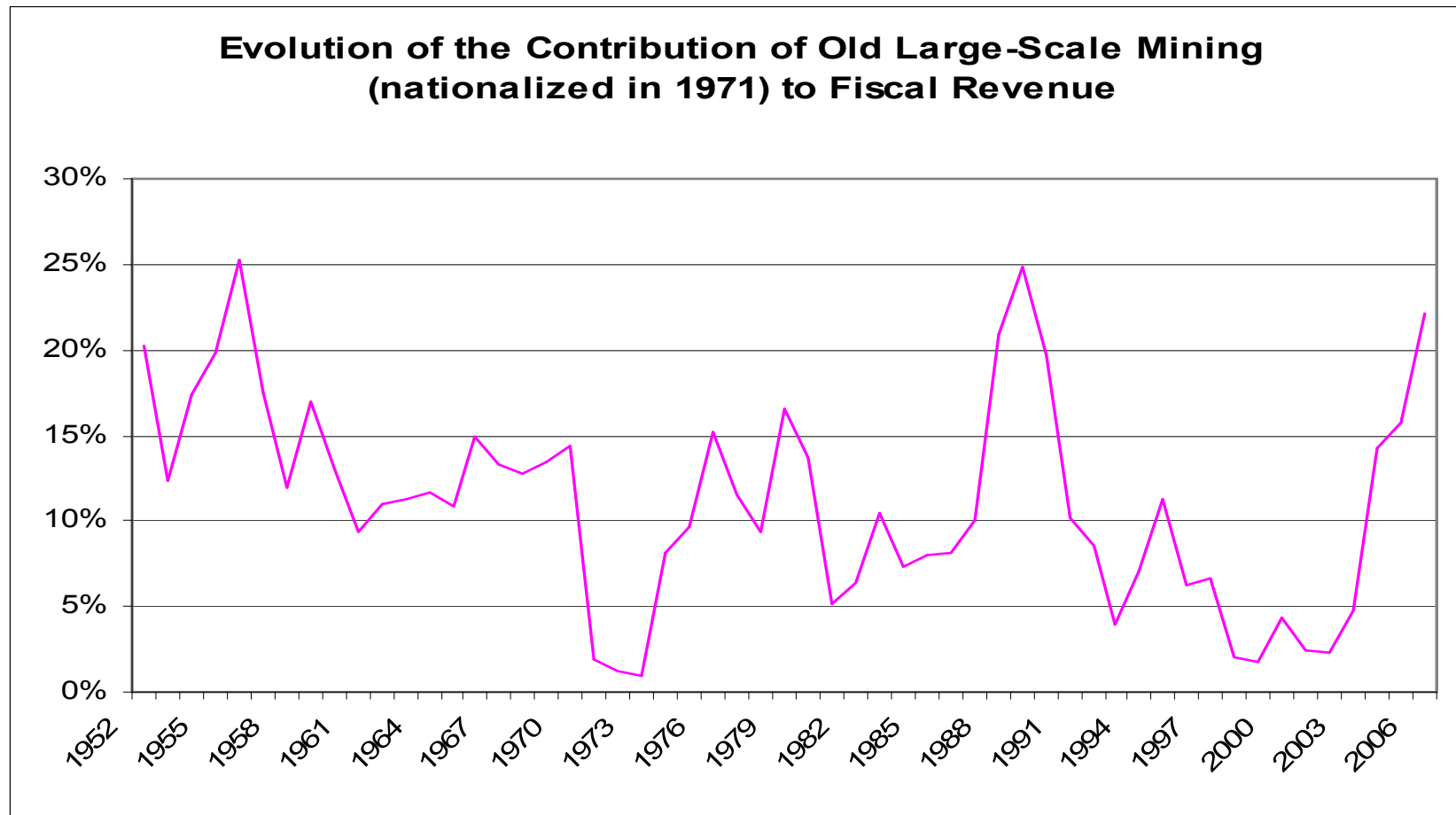


- Chile
 - Copper (after nitrates)
 - 80% before new X and mining liberalization.
 - 2007: Codelco = 30%.Ym



- Peru
 - Multi-metallic; gold since mid-1990s
 - 40-70% of exports for most of the century

“The Wage of Chile”



Post-War Peruvian Pendulum

- Less and weaker state
 - Less ISI, less developmental state, less involvement in the mining industry
- 1939-1948: Taxes and interventionism
- 1948-1956: Right-wing coup: free-markets and clientelism
- 1956-1968: Progressive centre. Inflation; weak land reform; oil: *Pagina 12*
- 1968-1980: Left-wing coup: nationalization of mining (Cerro de Pasco and Marcona; deal reached with Southern)

The weight of history?

- Pinochet kept CODELCO state-owned (as well as ENAP and CORFO; utilities and infrastructure went private)
- Fujimori privatized CENTROMIN
 - The weight of state institutions?
 - The weight of the military? (10% sales tax?)

Research Agenda

- The non-privatization of CODELCO
- Evaluation of CODELCO and CENTROMIN
- Evolution of planning and budgetary functions in Chile and Peru