

## BOARD OF ADVISORS

**Diego Arria**  
Director, Columbus Group

**Devry Boughner Vorwerk**  
CEO, DevryBV Sustainable Strategies

**Joyce Chang**  
Global Head of Research,  
JPMorgan Chase & Co.

**Paula Cifuentes**  
Director of Economic & Fiscal Affairs,  
Latin America & Canada,  
Philip Morris International

**Marlene Fernández**  
Corporate Vice President for  
Government Relations,  
Arcos Dorados (McDonald's)

**Peter Hakim**  
President Emeritus,  
Inter-American Dialogue

**Donna Hrinak**  
Senior VP, Corporate Affairs,  
Royal Caribbean Group

**Jon E. Huenemann**  
Council Member,  
GLG Inc.

**James R. Jones**  
Chairman,  
Monarch Global Strategies

**Craig A. Kelly**  
Senior Director, Americas  
Int'l Gov't Relations, Exxon Mobil

**Barbara Kotschwar**  
Executive Director, Visa Economic  
Empowerment Institute

**John Maisto**  
Director, U.S. Education  
Finance Group

**Nicolás Mariscal**  
Chairman,  
Grupo Marhnos

**Thomas F. McLarty III**  
Chairman,  
McLarty Associates

**Beatrice Rangel**  
Director,  
AMLA Consulting LLC

**Jaana Remes**  
Partner,  
McKinsey Global Institute

**Ernesto Revilla**  
Head of Latin American  
Economics, Citi

**Gustavo Roosen**  
President,  
IESA

**Andrés Rozental**  
President, Rozental &  
Asociados

**Shelly Shetty**  
Managing Director, Sovereigns  
Fitch Ratings

## FEATURED Q&A

# Does Peru Need Higher Taxes in the Mining Sector?



Peru's new government may seek to hike mining taxes. Anglo American's Quellaveco Mine in Peru is pictured. // File Photo: Anglo American.

**Q** Peru's new finance minister, Pedro Francke, told Reuters Aug. 9 that the government can raise mining taxes without diminishing the sector's competitiveness. The government heavily relies on taxes from the mining sector, and President Pedro Castillo has vowed to implement more social programs to help the poor. How much could the government seek to raise mining taxes, and how much success will it have at getting such a hike through Congress? How strong are the Peruvian government's finances, and to what extent are mining tax increases needed for the country's fiscal stability? Is Francke right that increased taxes in the sector would not harm Peru's competitiveness and ability to attract investment?

**A** Ricardo Labó, mineral economist and former vice minister of mines of Peru: "Compared to previous taxation changes in Peru's mining sector, this time there is still uncertainty on when and how those changes will happen. Finance Minister Francke recently announced that he will send Congress a proposal before the end of the year, with approval expected next year. However, the government has released no details other than what was announced during the campaign: changing the mining royalty scheme, creating an additional tax or modifying the income tax rate. Peru's mining tax burden is already around 47-50 percent. Any change needs to be carefully assessed in terms of its impact on competitiveness, which does not only depend on taxation. If a proposal hasn't been made, how can the government be so sure that it won't affect competitiveness? So far, the government has been consistent in starting to apply what its platform mentions. In

Continued on page 3

## TODAY'S NEWS

### POLITICAL

## Hurricane Leaves at Least Eight Dead in Mexico

Hurricane Grace swept through Mexico's Veracruz state, killing at least eight people. The storm also downed power lines, unleashed floods and mudslides and toppled trees. At least six children are among the dead.

Page 2

### BUSINESS

## PDVSA Gives Up Stake in DR Refinery

Venezuelan state oil firm PDVSA has given up its 49 percent stake it had in a Dominican Republic refinery as part of a swap deal, according to the Caribbean country's finance ministry.

Page 3

### POLITICAL

## Peru's Castillo Names Maúrtua Foreign Minister

Peruvian President Pedro Castillo tapped Óscar Maúrtua as his new foreign minister. Maúrtua previously served in the same post in the early 2000s.

Page 2



Maúrtua // File Photo: Peruvian Government.

## POLITICAL NEWS

## Hurricane Grace Leaves Eight People Dead in Mexico

Hurricane Grace swept across the Mexican gulf state of Veracruz on Saturday, killing at least eight people and knocking out power, starting floods and mudslides and toppling trees and billboards, The Wall Street Journal reported. Grace made landfall as a Category 3 hurricane at approximately 1 a.m. on Saturday and dissipated Saturday afternoon as it crossed Mexico's mountains, according to the U.S. National Hurricane Center. Veracruz state Gov. Cuitláhuac García said seven people died in the state capital, Xalapa, including a woman and her five children, when a mudslide struck their home. Another young girl was killed in Xalapa, and an adult was killed by a falling dome in the town of Poza Rica, the governor added. At least one person was missing following the storm, which had maximum sustained winds of at least 120 miles an hour, CNN reported. García added that many residents were reluctant to evacuate their homes, and the danger of flooding would rise as water that had fallen on higher ground flows downward, The Wall Street Journal reported. "The emergency isn't over," he told reporters. Grace was expected to dump between six and 12 inches of rain on Veracruz and other surrounding states over the weekend, according to the National Hurricane Center. Mexican state electric utility CFE said some 565,000 customers lost power in the states of Veracruz, Hidalgo, Puebla and San Luis Potosí. Hours before making landfall on Saturday, Grace brought strong winds, high waves and torrential rain to the states of Tabasco and Tamaulipas, in addition to Veracruz, the Associated Press reported, citing Mexico's meteorological agency. The hurricane's impact on Saturday was its second landfall in Mexico. It cut through the Yucatán Peninsula on Thursday, but there it caused only minor damage before entering the Gulf of Mexico, CNN reported. The storm also brought high winds and rain to Haiti, where it complicated rescue efforts from the

country's 7.2-magnitude earthquake on Aug. 14, which left more than 2,000 people dead.

## Brazil's Bolsonaro Seeks Impeachment of High Court Justice

Brazilian President Jair Bolsonaro on Friday asked the country's Senate to impeach Supreme Court Justice Alexandre de Moraes, the Associated Press reported. Bolsonaro's attempt to remove Moraes from office came after the justice opened an investigation of Bolsonaro's release of a sealed federal police report to the media that Bolsonaro said supported his claim that Brazil's electronic voting system is susceptible to fraud, Reuters reported. Moraes also launched an investigation of Bolsonaro over his attacks on the country's Supreme Electoral Court, which has said Brazil's electronic voting system is accurate. Bolsonaro, who is expected to seek re-election next year, has raised doubts about the voting system as his disapproval rating has risen to the highest level of his presidency. A poll conducted this month by XP/Ipespe showed that 54 percent of Brazilians rated him as "bad" or "terrible," up from 52 percent last month, Bloomberg News reported Aug. 17. His popularity also fell to 23 percent of respondents who rated him "good" or "great," down from 25 percent in July. Bolsonaro has also previously clashed with Supreme Court justices since early in the Covid-19 pandemic, when the justices ruled that Brazilian governors and mayors, not the president, have the authority to impose restrictions in order to curb the spread of the novel coronavirus, the AP reported. "For a long time, the justices Alexandre de Moraes and Luís Roberto Barroso have gone beyond constitutional limits with actions," Bolsonaro wrote Aug. 14 in a posting on Twitter. In seeking Moraes' impeachment, Bolsonaro alleges that the justice has pursued investigations in a partisan and anti-democratic manner, the AP reported. Senate President Rodrigo Pacheco now must decide whether there is enough evidence against Moraes to open a probe that could lead to his impeachment. Pacheco told reporters, however, that he

## NEWS BRIEFS

## Bolivia's Ex-President Áñez Attempts Suicide After Genocide Charges

Bolivia's former interim president, Jeanine Áñez, was in "stable" condition on Saturday following a suicide attempt in prison after prosecutors charged her with "genocide" over killings in protests that ensued in late 2019 after a presidential vote that some denounced as fraudulent, Agence France-Presse reported. Áñez's daughter, Carolina Ribera, said the former leader was suffering from "severe depression." Opposition members called for the government of current President Luis Arce to release her.

## Maúrtua Tapped as Peru's Foreign Minister

Peruvian President Pedro Castillo appointed career diplomat Óscar Maúrtua as the country's new foreign minister, replacing a leftist professor who resigned after severe criticism regarding comments he made years before taking the role, Reuters reported. Maúrtua, who previously served as foreign minister in the early 2000s under President Alejandro Toledo, was sworn in on Friday.

## Mexico, U.S. Begin Consultation Over Auto Sector Rules

Mexico on Friday began a formal consultation process with the United States over the interpretation and application of rules outlined for the auto sector in the United States-Mexico-Canada Agreement, or USMCA, Reuters reported. Mexican Economy Minister Tatiana Clouthier said in a letter that the Mexican government noticed that the United States has a different interpretation of the rules of origin for vehicles than do Mexico and Canada, which have a more flexible reading of the provisions, according to the report. Clouthier said Mexico wants to avoid or resolve a possible dispute.

does not see grounds to impeach Moraes, Reuters reported. Brazil's Senate has never taken such action against a Supreme Court justice, and it is unlikely to do so now, Paulo Calmon, a political science professor at the University of Brasília, told the AP.

## BUSINESS NEWS

# Venezuela's PDVSA Gives Up 49% Stake in Dominican Refinery

Venezuelan state oil firm PDVSA has given up the 49 percent stake it had in a Dominican refinery as part of a swap deal, the Dominican Republic's finance ministry and Venezuela's oil minister said in separate statements last Thursday, Reuters reported. As part of the bondholder deal, PDVSA subsidiary PDV Caribe exchanged its shares in the Refidomsa refinery in the Dominican Republic's coast for bonds held by a firm called PATSA, a unit of Dominican cocoa company Grupo Rizek. The Dominican finance ministry described Grupo Rizek as a "facilitator" in the transaction as PDVSA struggles to restructure billions of dollars in debt that the oil firm and the Venezuelan government have defaulted on. PATSA then immediately resold the shares to the Dominican government, which already owned the remaining 51 percent stake in the refining facility, for \$88.1 million. The figure is far below the \$135 million that PDVSA paid for the minority stake in Refidomsa in 2010. However, the Venezuelan company has neither sent crude to the refinery nor received refined products from the plant for several years, according to the report. "With this transaction, the Dominican state once again controls 100 percent of the refinery's subscribed capital and has absolute control of this very important company within the state's assets," said Finance Minister Jochi Vicente, Dominican Today reported. He added that the government had been in contact with the U.S. Treasury's Office of Foreign Assets Control to ensure the deal did not violate U.S. sanctions.

## FEATURED Q&A / Continued from page 1

terms of taxation, the plan states that the government's share from mining should rise to 80 percent. The Perú Libre party's founder and secretary general has reconfirmed this in recent media interviews. However, the government hasn't approached mining companies to start any discussion about this topic. By this time of the year in 2011, then-President Ollanta Humala's government had already delineated the structure of the royalties and the Special Mining Tax, and by September, Congress had already approved those changes. The current government has started to make announcements that will require it to increase its budget to fulfill its populist promises. For now, the increase in metals prices will help the government avoid more fiscal deficits, but the mineral's markets are volatile, and high prices won't last forever. What the government really needs to focus on is improving the management of the mining taxes already being paid; the execution record of the regional governments' budgets is less than 60 percent, so giving them more resources won't solve the issues the country needs to address."

**A Jenny Guardado, assistant professor in the Edmund A. Walsh School of Foreign Service at Georgetown University:** "Assuming that a tax hike (however watered-down) can pass through Congress, which still remains to be seen, two factors will be crucial to determine the impact of this policy on Peru's competitiveness and revenue collection. The first is: which companies will the government tax? Will companies with tax stability agreements be spared? Although higher taxes are never welcome news to investors, the prospect of renegeing on signed contracts would be even more damaging to the government's credibility and would send a chill to investors well beyond the mining sector. Moreover, contract renegotiation may lead to litigation, further delaying revenue collection. One advantage is that Peru appears to have signed fewer tax stability agreements

vis-à-vis neighboring Chile, which provides the government some room for negotiation. The second question is: how much can taxes increase? With sky-high copper prices (not seen since 2011), there are also some opportunities to obtain more revenue before undermining the competitiveness of Peru's mining sector. According to an ECLAC study this year, the government's share of revenue from mining taxes collected in Peru has historically been lower than those in Chile, and there are some incentive-compatible tax changes that could improve government finances. Politically, with the prospect of Chile (the number-one copper producer) also looking to raise mining taxes in the near future, the Peruvian government's policy might not be out of step with the regional sentiment and can blunt some of the impact on its image that it would otherwise have. Remaining within the legal framework and reasonable tax brackets will be key."

**A Beatriz De la Vega, tax advisory partner at KPMG Peru:** "Currently, President Castillo is continuing with the idea of implementing a windfall tax and changing the current royalty system. The government has not yet specified a target amount. Finance Minister Francke has indicated that he would be sending legislation to Congress before the end of this year. Its success would be uncertain, considering that the ruling party has only 28 percent of the seats in Congress. At the end of last year, Peru's fiscal deficit increased from 2.7 percent to 8.9 percent of GDP. Peru's central bank has said it expects the country's fiscal deficit to close this year at 4.5 percent due to higher export prices and the recovery of economic activity. In the mining sector, foreign direct investment represents 25 percent of total investments and has a significant contribution of income tax (12 percent in the last three years). It is not entirely accurate to say that an increase in taxes in the mining sector would not harm Peru's competitiveness. According

Continued on page 4

## FEATURED Q&amp;A / Continued from page 3

to a Fraser Institute Survey last year, Peru ranked 34th out of 77 of the most attractive territories for mining investment due to its political stability, excessive regulation and bureaucracy, and the tax system, among others. Raising taxes could bring revenues in the short term, but in the long term it would affect the potential \$56 billion investment that is currently in the pipeline. Note that the tax burden of mining companies in Peru ranges from 47 percent to 52 percent, higher rates than Chile (40.7 percent), Canada (35.5 percent) and Australia (44.3 percent)."

**A** **Roque Benavides, chairman of Compañía de Minas Buenaventura:** "Peru's mining sector must focus on competitiveness. In that respect, we have to consider infrastructure, political and social stability, geological potential and taxation. If we compare Peru to other mining countries such as Canada, Australia, Mexico and Chile, we are more

**“We should not increase taxes, but rather focus on overall competitiveness.”**

— Roque Benavides

competitive in geological potential and taxation. Mining companies pay higher taxes in Peru than in those other countries. In terms of infrastructure and political and social stability, we rank well below them. Taxation is only one of the considerations, and in that respect, we are ranked higher than our competitors in attracting investment. Peru's government must focus on efficiency, the use of taxes from the mining sector and promoting the development of the country's mining projects portfolio, which amounts to \$58 billion. It is in Peru's interest to have

valuable projects that generate employment in an efficient government environment. We should not increase taxes, but rather focus on overall competitiveness."

**A** **David Warthon, business tax advisory partner at EY Perú:** "The Peruvian mining industry's tax burden is quite high as compared to other developed countries. It is higher than Chile's and almost equal to that of Colombia and Mexico, Peru's direct competitors in the region. The Peruvian mining sector's tax burden is between 44 percent and 52 percent, averaging 48 percent. Most of the burdens are calculated in a progressive way, using operating profit as the parameter. In the end, for every \$100 of income, the government takes \$50. Hence, Peru does not need a tax increase or the creation of new taxes on the mining industry. This could affect the country's competitiveness and foreign investment. Because of the post-Covid situation, prices are higher than at other times, but this is not permanent. It happened in the past when then-President Ollanta Humala's government passed new taxes in 2011, after which the mining industry had the lowest international prices in years. Notwithstanding, all the taxes remain, disregarding the volatility of the prices, a situation that any economic policy can control. Not only does President Pedro Castillo lack a majority in Congress, but he also does not have the consensus or alliances to have an important number of parties pass new taxes, unlike former governments. Peru's reserves are at their highest level in history. The government does not need to raise taxes on the mining industry if it responsibly controls macroeconomic factors."

*The Advisor welcomes comments on its Q&A section. Readers can write editor Gene Kuleta at [gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org).*

## LATIN AMERICA ADVISOR

is published every business day by the Inter-American Dialogue ISSN 2163-7962

**Erik Brand**

Publisher  
[ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

**Gene Kuleta**

Editor  
[gkuleta@thedialogue.org](mailto:gkuleta@thedialogue.org)

**Anastasia Chacón González**

Reporter & Associate Editor  
[achacon@thedialogue.org](mailto:achacon@thedialogue.org)

**Leticia Chacón**

Reporter  
[lchacon@thedialogue.org](mailto:lchacon@thedialogue.org)



**Michael Shifter**, President

**Rebecca Bill Chavez**, Nonresident Senior Fellow

**Bruno Binetti**, Nonresident Fellow

**Sergio Bitar**, Nonresident Senior Fellow

**Joan Caivano**, Senior Advisor

**Santiago Cantón**, Director, Rule of Law Program

**Kevin Casas-Zamora**, Nonresident Senior Fellow

**Julia Dias Leite**, Nonresident Senior Fellow

**Ariel Fiszbein**, Director, Education Program

**Sandra García Jaramillo**, Nonresident Senior Fellow

**Selina Ho**, Nonresident Senior Fellow

**Edison Lanza**, Nonresident Senior Fellow

**Nora Lustig**, Nonresident Senior Fellow

**Margaret Myers**, Director, Asia Program

**Manuel Orozco**, Senior Fellow

**Xiaoyu Pu**, Nonresident Senior Fellow

**Jeffrey Puryear**, Senior Fellow

**Tamar Solnik**, Director, Finance & Administration

**Lisa Viscidi**, Director, Energy Program

**Denisse Yanovich**, Director of Development

**Latin America Advisor** is published every business day, except for major U.S. holidays, by the Inter-American Dialogue at 1155 15th Street NW, Suite 800 Washington, DC 20005

[www.thedialogue.org](http://www.thedialogue.org)

Subscription inquiries are welcomed at [ebrand@thedialogue.org](mailto:ebrand@thedialogue.org)

The opinions expressed by the members of the Board of Advisors and by guest commentators do not necessarily represent those of the publisher. The analysis is the sole view of each commentator and does not necessarily represent the views of their respective employers or firms. The information in this report has been obtained from reliable sources, but neither its accuracy and completeness, nor the opinions based thereon, are guaranteed. If you have any questions relating to the contents of this publication, contact the editorial offices of the Inter-American Dialogue. Contents of this report may not be reproduced, stored in a retrieval system, or transmitted without prior written permission from the publisher.