Located in the mountainous Piura region of Northern Peru along the border with Ecuador, the Rio Blanco mine is a 6,473 hectare (about 16,000 acres) copper and molybdenum concession. With an estimated 1.257 billion tons of copper, this planned open pit mine will be amongst the 20 largest copper mines in the world, if developed. It is predicted to produce about USD 1 billion worth of copper per year for at least twenty years. Zijin-owned Monterrico Metals began exploration of the mine following purchase in April 2007, and production is expected to begin in 2011. Residents of the local community protested the development of the mine and Zijin’s investment in it on the grounds that it is an illegal concession without the consent of local communities as required by Peruvian law, and that pollution from the mine is infiltrating the regions waterways (on which local people depend for organic farming) and destroying the fragile cloud forest ecosystem.

The concession was first established in 2002 by the British company Monterrico Metals, and 90 percent of the company was later acquired by a consortium of Chinese companies headed by Zijin Mining Group Ltd. Together these companies have formed Rio Blanco Copper SA.

Brief history

The Rio Blanco concession was first explored by UK-based Monterrico Metals in 2002. According to Oxfam America, at that time the company failed to get permission to mine from local communities, which is required by Peruvian law, before beginning exploration. Citizens upset by the mine’s illegal exploration activities held demonstrations throughout 2004 and 2005, during which two people were killed and many were arrested. In one of the worst incidents, more than 25 citizens were held against their will for multiple days and tortured by mine security guards after a protest; one person died during the ordeal. In 2009, charges were brought against Monterrico Metals in the United Kingdom by victims of the 2005 kidnapping and torture, for which £5 million of the company’s assets were frozen by the UK courts.

In 2006, Peru’s Ombudsman confirmed the position of the communities that the company failed to get citizen approval. In 2007, a consortium of Chinese miners led by Zijin Mining Group bought a controlling stake in Monterrico Metals, whose primary asset was the Rio Blanco Mine. That same year, the local governments of several districts held non-binding referenda to allow citizens to voice their opinions on allowing mining in their communities. Not surprisingly, voter turnout was strong and the majority voted against the proposed mine.

Conflict has continued between the communities and Rio Blanco’s new management. Several violent conflicts erupted at the end of 2009, leading to more casualties on both sides. The company has also violated Peruvian environmental laws - including drilling beyond the approved limits and improperly disposing of toxic waste - which has fostered distrust among the communities and has drawn fines from the Peruvian government.

Despite the unresolved social conflicts and environmental violations, Chinese media announced in July 2010 that Zijin will seek to increase its investment in the Rio Blanco Mine. Subsequently, there were reports that the Zijin Consortium was making preparations for the exploitation phase of the project, in an effort to meet its goal of commencing production in 2011.

On the company: In July 2010, toxic waste spills at Zijinshan, Zijin’s flagship gold mine in southeast China’s Fujian Province contaminated a nearby river and poisoned 2,000 tons of fish (enough to feed 72,000 people for a year). The July 3 accident was the worst mining spill in China in over two years. The company failed to report the incident for nine days and attempted to bribe journalists to overlook the story. Once the spill was reported, the China Banking Regulatory Commission announced that it was investigating Zijin for violating rules for listed companies on public disclosure of major incidences. Top executives of the company, including Vice-President CHEN Jiahong were detained in connection with the mishandling of the Zijinshan disaster.

Following the July 3 and July 16 spills, the Fujian government reportedly fined Zijin 30 million yuan (US$4.5 million) for environmental damages. This included a 9.6 million yuan (US$1.4 million) fine from Fujian environmental protection authorities in October 2010 and a subsequent fine from the Fujian courts in February 2011. In December 2010, Zijin’s Chairman Chen Jinghe was fined 705,997 yuan (US$106,366) and Vice President Zou Laichang was fined 449,768 yuan by the Fujian Provincial government for the toxic waste leaks, according to China’s Caijing news citing the Shanghai Stock Exchange. Five company executives were also criminally charged for the spill and sentenced to a maximum of 3.5 years in prison (some with a suspended sentence), plus fines. Zijin appealed the ruling, but the verdict was upheld by a higher Fujian court in May 2011. The fines were well below earlier estimates, which media reports had stated could amount to as much as 500 million yuan, or US$74 million. Zijin also may have suffered financial losses of 254 million yuan (US$37 million) in revenues because of an order from the Shanghang local government to reduce gold production at the Zijinshan mine and 300 million yuan (US$45 million) that the company said it would invest in environmental clean-up and environmental management systems at Zijinshan; although it is unclear if there has been independent monitoring to ensure the company held to its promises.
In March 2011, Zijin made a statement to the Shanghai Stock Exchange that the Chinese government had increased its tax rate by 10% as a result of the Zijinshan spill. The company’s tax rate went up to 25% starting in July 2010.

Five local Shanghang County government officials, including environmental protection and pollution monitoring officers, were charged with crimes related to the spill in June 2011. They faced various charges including neglect of duty, corruption and bribery.

That same year, a dam collapse at a Zijin mine site in Guangdong during September 2010 killed 22 people and decimated homes in surrounding villages. An investigation by the Guangdong Provincial government found that Zijin “holds direct liability for the accident [at the Yinyan tin mine]” particularly citing faulty dam construction that was unable to withstand extreme weather. Subsequently, Zijin agreed to sell the Yinyan mine to cover the costs of the accident, and said it would donate 50 million yuan (US$7.5 million) to the nearby Xinyi city government to assist victims of the dam collapse. Additionally, local victims of the dam collapse have sought to hold Zijin accountable for the deaths and damage it brought about. According to media reports citing Xinhua News in mid-February 2011, the local court in Xinyi city reported that over 800 lawsuits had been filed by residents against the company’s Xinyi subsidiary and claims against the company could eventually amount to 300 million yuan. Zijin was fighting the lawsuits.

In October 2010 Zijin temporarily suspended trading of its shares on the Hong Kong Stock Exchange pending an announcement of penalties the company was to incur in connection with the July 2010 spill. The company faced harsh criticism from the media, civil society and financial analysts, in China because it has neglected internal management, risk management and the environment as it aggressively seeks to expand globally.

What must happen

Zijin and the government of Peru must:

- Respect community rights and the results of the 2007 referendum.
- Investigate human rights violations against community members, clarify exactly what happened, identify those who are responsible, and bring them to justice.
- Stop the persecution of community members under investigation for terrorism.
- Acknowledge the company has operated illegally while exploring without community permission, and compensate the communities.

Issues

Social issues

Threat to local livelihoods

According to information from Oxfam America, the mine concession is in a forest region in the Huancabamba Mountains, which comprise a fragile biological corridor for endangered species such as tapirs and bears, and feeds major rivers running to the coast and into the Amazon River. Communities in this area rely mainly on farming for their livelihoods, and have successfully obtained organic certification so their avocado, banana, coffee and mango crops can be sold at a premium on the international markets. Many farmers also raise cattle and grow corn and other food crops to feed their families and sell on the local market. Pollution from the Rio Blanco Mine into the regions waterways puts at risk the organic certification that is the bread-and-butter for local farmers.

Local communities want to increase farming in the region, and have been working with Peru’s Ministry of Agriculture to make more land available to them and boost production. As a result of their efforts they increased production of organic bananas by more than 40 percent in 2005. However, if the Rio Blanco mine goes forward it could open up additional areas of Piura to mining, and significantly change the entire region from one primarily oriented to farming, to an industrialized mining region.

Failure to obtain community authorization.

Under Peruvian law*, mining companies must obtain the two-thirds approval of local community assemblies before entering community land to do exploration or other activities. The owners of the mining concession failed to obtain this legal authorization when it entered the Rio Blanco project area in 2003. Further, a legal referendum held in September 2007 clearly displayed community members’ strong opposition to the project. Thus its presence in the area does not comport with existing legal requirements, a point that has been sustained by Peru’s national Public Defender’s office.

The illegality of the company’s presence in the project area is contributing to suspicion and resentment toward the company amongst the local population. The company has not taken action to address this issue despite repeated efforts by local stakeholders to raise this concern with company and government officials.

*Peruvian Laws: Article 89, paragraph 2 of the Peruvian Constitution; Law 24656 on Native and Peasant Communities; Law 26505 on Private Investment in Economic Development.

Environmental issues

In February 2008, the Peruvian government fined Zijin US$100,000 for noncompliance with the Environmental Evaluation Study approved by the government for the initial phase of exploration. Among the issues cited by the government in assessing the fine were:

- Carrying out a greater number of drilling perforations than had been approved in the environmental assessment (129 vs. 60).
- Modifying its exploration project without having the necessary environmental studies required by the Ministry of Energy and Mines.
- Exceeding limits for liquid metallurgic effluents in its exploration activities.
Human rights

Torture and killing of local people: The Rio Blanco project has been the site of a number of violent incidents, including the killing of four community leaders and three company personnel, since 2004. In August 2005, 28 people were allegedly detained and tortured by the mine's security forces after protests at the project site. One person was killed in the incident. According to Peru's National Human Rights Coordinator and Peruvian human rights organization FEDEPAZ, members of the company's security force, private security contractors, and the Peruvian National Police (PNP) were involved in the torture.

Evidence of the torture was made public in early 2009 when photographs taken of the incident were released by a journalist who had also been tortured. These incidents could amount to a violation of the victims' rights to personal security and to not be subjected to torture as established in the UN Universal Declaration of Human Rights and the UN Convention Against Torture, both of which Peru has ratified. Violations of these rights by contractors or police working directly for or at the behest of the company could implicate the company in the violations. In 2009, the UK High Court froze GBP 5 million in assets of Monterrico Metals, a subsidiary of Zijin, in response to torture allegations brought against the company by victims of the 2005 incidents. In July 2011, Monterrico settled with the victims out of court without admitting liability for an undisclosed amount.

Although Zijin was not involved in the Rio Blanco project when violent conflicts initially broke out in 2004, the company has not taken the appropriate steps to rectify complaints made by the communities and violence has continued. In November 2009, three company workers were killed in an attack on the project site by unidentified assailants.

In December, two more people were killed and eight injured in a conflict with local police as police tried to arrest a suspect in the November attack. In September 2008, members of a local civil association that had made false accusations of terrorism against 35 people, including local authorities, community leaders and environmental and human rights activists, stated to government prosecutors that they had received financing by Rio Blanco Copper for their activities.

Governance

Other applicable regulations

China's State Council's Nine Principles on Encouraging and Standardizing Foreign Investment (October 2007);
China's Ministry of Environmental Protection's Green Credit Policy;
China's State-owned Assets Supervision and Administration Commission's Guidelines on Fulfilling Social Responsibility by Central Enterprises (January 2008);
China's Export-Import Bank's Environmental Assessment Policy

Updates

Latest update

Jul 25 2011

In July 2011, the case brought by Peruvian torture victims against Monterrico Metals in the UK High Court was settled when the company agreed to pay the claimants an undisclosed amount.

In March 2011, Friends of the Earth-US, in collaboration with Peru's CooperAccion and Fedepaz and Belgian solidarity organization CATAPA, petitioned the Hong Kong Stock Exchange to ensure that Zijin Mining Group (listed as 2899:HK) fully discloses material risks associated with the Rio Blanco Mine. The letter raised concern about specific conflicts between the Zijin-led consortium and local Peruvian communities, and environmental violations Zijin was faulted for by the Peruvian government during the mine's exploration stage. It also noted that Zijin had not disclosed any of these problems to its shareholders and the public. The groups called on the HKSE to use its state-of-the-art disclosure standards to ensure that Zijin adequately report non-financial risks.

In September 2010 several Peruvian organizations from northern Peru, along with international solidarity group Catapa, launched a campaign against the Rio Blanco mine project. The 'Mining in Paradise? No-go zones for mining' campaign, which was launched on the third anniversary of a community referendum that overwhelmingly opposed new mining concessions in the area, demands that mining companies and the government of Peru respect the communities' decision to keep mining off their land.

Despite the unresolved social conflicts and environmental violations, Chinese media announced in July 2010 that Zijin will seek to increase its investment in the Rio Blanco Mine.

The company faced harsh criticism from the media, civil society and financial analysts, in China because it has neglected internal management, risk management and the environment as it aggressively seeks to expand globally.

Financiers
According to the 18 June 2011 edition of China Daily, Zijin International Finance Company Ltd, a unit of Zijin Mining Group, has hired Bank of China International Ltd. (Paris Branch) and BNP Paribas SA to help with the sale of US dollar bonds to raise capital for acquiring copper concentrates overseas for the 200,000 ton copper smelter project of Zijin Copper Co., Ltd., a wholly owned subsidiary of the Company, and for other overseas activities of the Group.

According to the 2 September 2008 edition of Central Asia & Caucasus Business Weekly, China Exim Bank, the government of Tajikistan and Zijin International Mining Co. Ltd. signed a Memorandum of Cooperation in August 2008.

In May 2008, Agricultural Bank of China and Zijin Mining signed an Agreement of Strategic Cooperation to provide Zijin Mining a line of credit of CNY 10 billion.

In January 2008, Bank of China and Zijin Mining signed a CNY 10 billion worth of Agreement of Strategic Cooperation that was reportedly to facilitate the mining company’s forays into overseas markets as well as domestic developments.

According to China Metallurgy Daily, in December 2007 China Construction Bank signed a strategic cooperation agreement with Zijin Mining that made CCB a long-term partner and would allow Zijin priority treatment in securing financial services from the bank. Zijin also agreed to give CCB priority treatment as its financier.

In November 2007, Industrial and Commercial Bank of China signed an Agreement of Strategic Cooperation with Zijin Mining that would provide Zijin with various financial services from the bank, including financing.

According to the 11 March edition of China Metallurgy Weekly, in March 2008 Sinosure entered into a global project financing agreement with Zijin in which its branch office in Fujian would support the mining company’s overseas investments, mergers & acquisitions and global sales.

Some of Zijin’s major shareholders include Minxi Xinghang State Owned Assets Investment Co., Ltd. and to a lesser extent other Chinese businesses that are registered with and partially owned by provincial and local branches of the Chinese government. Major public shareholders include Gold Fields of South Africa (5.7%) and Merrill Lynch (According to Zijin’s 2006 Annual Report, Merrill Lynch holds 20.97% of H shares and 6.39% of total registered capital).

Related companies

Zijin Mining Group China