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China Boss in Peru on \$50 Billion Peak Bought for \$810 Million  
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(For more on China's Red Gold, see {EXT2 <GO>}.)

By Bloomberg News

Nov. 2 (Bloomberg) -- The Chinese entrepreneur and the Peruvian shopkeeper have never met. Yet Li Shiping's dream of riches and success in China is uprooting Victor Raul Ancieta's village 18,000 kilometers (11,000 miles) away in the Andes.

Their lives are joined by a thread of copper stretching from Dao County in southern Hunan province to a \$50 billion deposit of ore underneath the 103-year-old mining town in Peru.

Li, 47, owns a smelting company that is about to fire up a new electric furnace made with 110 tons of copper, one of thousands of industrial projects in China's developing interior. To stoke them, a Chinese state-owned mining company will tear down the peak in Peru and ship home the copper. It plans to relocate the town of Morococha, population 5,397. Many, including Ancieta, don't want to leave.

The project is part of \$11 billion in Chinese mining investments planned for Peru, a quarter of the country's total, according to Fernando Gala, the Peruvian vice minister of mines. China is prospecting for mineral treasures around the world as it develops faster than any major economy in history. Its copper use is growing so quickly that by 2035 global demand for the metal may outstrip supply by 11 million tons, according to CRU, a London-based mining and metals consulting firm.

That's equal to 55 times the planned annual output in Morococha, where a crater 800 meters (2,600 feet) deep and a third larger than New York City's Central Park will be left behind. The copper supply gap is driving up prices and foreshadows more conflicts in places like the mountain village.

#### 'Wealth and Power'

"What China wants is wealth and power," says Stapleton Roy, U.S. ambassador to China from 1991 to 1995. "What we have to fear from China is that as it gets stronger and wealthier, it does not develop a commensurate sense of responsibility to the global system." Roy, 75, was born in China and witnessed the Communist revolution. He heads the Kissinger Institute on China and the United States in Washington.

Great powers have always reached beyond their borders for wealth and resources, including the U.S. as it built the world's largest economy. Today, China's purchases of copper, iron, oil and other materials pour cash into resource-producing countries like Peru, while its exports hold down prices for consumers around the world.

"A lot of countries are benefiting" from China's demand, says Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics in Washington and an author of the

2008 book, "China's Rise: Challenges and Opportunities." "You don't hear so many complaints from the countries that are the recipients of the Chinese investment."

### 50,000 Skyscrapers

More than half of China's 1.3 billion people live in rural areas. Over the next 15 years, the country will need 50,000 skyscrapers, 170 mass transit systems and urban housing for 350 million people as it develops the interior, according to a 2009 study by the McKinsey Global Institute, a research arm of New York-based McKinsey & Co. That represents a potential doubling of the domestic market for autos, appliances, televisions and other consumer goods.

Copper -- first smelted over wood fires 10,000 years ago -- is at the center of it all, conveying the country's electrical pulse and providing the nervous system for the computers, dishwashers and microwaves China makes for the world.

Beijing-based Aluminum Corp. of China, known as Chinalco, bought the mineral rights in 2007 to the mountain in central Peru called Toromocho -- Spanish for bull without horns -- one of the world's richest copper claims. Chinalco plans to begin mining in 2013, subject to federal environmental approval.

### Afghanistan to Zambia

The \$810 million purchase is part of about \$5 billion that Chinese companies have spent buying more than a dozen copper mines and deposits from Afghanistan to Zambia in the past four years, according to securities filings and company statements.

The foreign acquisitions line up about 1.6 million tons of potential annual supply, based on data compiled by Bloomberg. China would absorb that amount by the end of 2014 at its present growth rate, according to CRU's forecast.

Former Chinese leader Jiang Zemin began articulating a "going out" strategy of buying resources abroad in 2000. It is one of China's greatest foreign adventures since the 15th century, when the admiral Zheng He led seven trade missions as far as Africa. Jiang's successor, Hu Jintao, advanced the policy, and Chinalco is helping execute it.

Peru, on South America's Pacific coast, is the world's fastest-growing copper producing country. Exports of iron and copper to China helped its economy expand almost 12 percent in the year through June, the strongest on the continent.

### Clash With Villagers

China's global ambitions are clashing with villagers' concerns in Morococha, perched at 4,600 meters. Ancieta and other landowners whose families have lived there for generations say they object to being displaced without adequate compensation for their homes, stores and land.

"We're not opposed to foreign investment," says Ancieta, 60, standing in the gloom of his family's 70-year-old general store, crammed with cooking pans, wrenches, soccer balls and beer. "We're opposed to investment that doesn't change the quality of our lives."

Chinalco hopes that differences with the villagers can be resolved through "mutual efforts," says Peng Huaisheng, vice president of Chinalco's copper division in Beijing and chairman of the company's

Peruvian subsidiary. In a report to Peru authorities last year, Chinalco projected its mine would create 2,400 jobs and produce \$1.5 billion in payments to local and regional governments over 30 years.

Mining waste will cover an area twice as big as the crater, according to the company's environmental impact assessment.

#### Tectonic Shift

The colliding interests on Toromocho are part of a tectonic shift in the global economy. Over the next 20 years, China and the rest of Asia will trade places with the U.S. and Europe for leadership, says Peter Petri, a professor of international finance at Brandeis University in Waltham, Massachusetts.

By 2030, Asia's equity markets and foreign trade will be 20 percent larger than the West's and will consume 40 percent more energy while emitting twice as much carbon dioxide, Petri says.

How China wields influence will determine the way its investments are received, says Daniel Rosen, a principal of Rhodium Group, a New York-based economic advisory firm. China's dominant market position in the production of rare earth metals is producing a backlash for the country, he says. Its 40 percent reduction in this year's export quotas on the materials used in laptop computers, hybrid cars and smart bombs "made it impossible for anybody to tell a benign story about China's intentions once it has market power," Rosen says.

#### Copper Surges

China's annual needs for copper will almost triple to 20 million tons by 2035, CRU projects. In 2010, it will consume 6.8 million tons, 38 percent of global production, after more than doubling its share of world purchases this decade, CRU says.

As a result, copper has almost tripled on the London Metal Exchange since December 2008 despite the global recession. The metal closed at \$8,200 a metric ton on Oct. 29. Jeremy Gray, global head of resources at Standard Chartered Plc in Hong Kong, calls copper "red gold." He says the price may rise almost 50 percent more to \$12,000 in six to 12 months.

As China's companies circle the globe, they are moving into more remote and dangerous corners. In Morococha, helmeted riot police fired teargas in January to disperse a rock-throwing crowd protesting the mining project. The shopkeeper Ancieta's niece was one of those arrested.

Guards hired by another Chinese company, Fujian province-based Zijin Mining Group Co., repelled an attack at its Rio Blanco copper claim in a Peruvian cloud forest last November. Two employees died. In Afghanistan, two Chinese companies were clearing military explosives to develop the Aynak copper deposit 35 kilometers southeast of Kabul.

#### Toxic Waste

The villagers in Morococha may ultimately be better off with Chinalco, says the Reverend Joseph Deardorff, a 54-year-old, white-haired American priest at the local Catholic church. The town sits on toxic waste from a century of small-scale mining. Households lack running water and almost half have no electricity, according to government data in Chinalco's environmental impact

assessment. Open sewers flow down the streets. Respiratory infections cause 40 percent of deaths, the government reports.

"A majority of the children have parasites," Deardorff says after leading a service. Outside the church, a memorial depicts a miner kneeling before the Virgin Mary.

Chinalco is offering the villagers free houses and modern utilities in a new town it proposes to build. Ten kilometers down the road, the company bought 182 hectares (450 acres) of ranchland from the Hacienda Pucara, where it says it will erect a church, cemetery, health clinic, schools and market.

#### Jobs, Revenue

Migrant workers who rent houses or live in company camps, about two-thirds of the residents, embrace the offer of permanent jobs and free homes.

"We want to go," says Estella Bedoya, whose husband is a miner. "Here we're on contaminated land. I don't like it. It's not good for the children."

China's demand means new jobs and revenue for a generation. Peru and China signed a trade agreement in April 2009 in Beijing that became effective this March. Peru's exports rose 31 percent through September, lifted by sales of copper, gold and fishmeal, according to Comexperu, a business trade group based in Lima. The U.S. and China each accounted for a sixth of those sales.

"In 30 or 40 years, this is not going to be the United States' back patio anymore," says Victor Miranda, head of communications in the Peruvian ministry of foreign investment. "It's going to be a projection of China."

#### Beckoning Treasure Seekers

Since the Spanish conquest, Peru has beckoned treasure-seeking foreigners. It is the world's largest producer of silver, second-largest of copper and zinc and third-largest of tin. After Francisco Pizarro executed the Inca king Atahualpa in 1533, the Spanish shipped home tons of bullion in a 300-year stream of galleons laden with silver and gold.

In the 19th century, American and British businessmen snatched up Peru's mineral wealth. One was George Hearst, father of newspaper magnate William Randolph Hearst. Henry Meiggs, builder of Fisherman's Wharf in San Francisco, constructed a gravity-defying railroad past Toromocho in the 1870s to carry riches from the Andes. His workforce included 5,000 indentured Chinese workers known as coolies, one step shy of slaves.

#### Road to Morococha

The 142-kilometer road to Morococha starts at the Port of Callao. The route is marked by white crosses that commemorate fatal accidents along a rise of hairpin turns. Wild daisies grow amid banana trees, weeds, donkeys, sheep and turkeys. It is a hostile environment for the unaccustomed.

Oxygen deprivation at Morococha's elevation -- three miles above sea level -- can reduce short-term memory by almost a quarter, attention span by a third and visual sensitivity by half before the

body adjusts, according to John West and Anthony Readhead, California-based researchers on extreme altitudes.

Subsistence miners have carved a living out of the treeless mountains around Morococha for decades. Bore holes pock the hillside like termite holes in rotted wood. Steel beams and metal netting prop up collapsing slopes. Amid falling copper prices and nationalization of the country's mines, the town had been in decline for two decades before the American explorer David Lowell, now 82, arrived in 2002.

Lowell surveyed the jagged peaks inhabited by condors, Andean cats and foxes. After six months, he concluded that Toromocho held a potential multibillion-dollar deposit, he said in an interview. In May 2003, he paid the Peruvian government \$2 million for an option on the mineral rights. He rolled that stake into Peru Copper Inc. and sold the company to Chinalco four years later.

#### Chinalco's Purchase

Formed in 2001 through the consolidation of 12 state companies, Chinalco employs 240,000 and owns 9 percent of London-based Rio Tinto Group, the world's third-largest mining company by revenue. Xiao Yaqing, Chinalco's former president, is a member of China's cabinet and the Communist Party's central committee.

China "has a relatively poor endowment of metal raw materials relative to its share in global consumption," according to Michael Widmer, a London-based metals strategist for the Merrill Lynch unit of Bank of America Corp. It will produce just 10 percent of the world's copper by the end of 2011, Widmer wrote in a Sept. 7 research note.

"They're trying to lock down as much as they can, which no other government seems to be doing," says Jeffrey L. Fiedler, a member of the U.S.-China Economic and Security Review Commission in Washington, which is appointed by Congress. "They seem not to trust the market or don't want to depend on it."

China's National Development and Reform Commission, the Ministry of Commerce and Ministry of Land and Resources didn't respond to requests for comment.

#### Li Shiping's Rise

A decade ago, Li Shiping was teaching in a village school in Hunan province. To buy chicken and fish, he walked 10 kilometers on a dirt path to the nearest market, he says. His transformation into an entrepreneur began when he saw neighbors getting rich selling manganese ore from local mines.

Li borrowed 50,000 yuan (\$7,500) from relatives and learned the metals trade. Within four years, he had acquired a mine and made 300,000 yuan, enough to rent a small smelting furnace. Two years later, he built his own, and his wealth grew.

In Dao County, 100 kilometers south of the village, then-Deputy Mayor Zhou Xinhui invited him in 2008 to invest in the rural area of 720,000 people. Zhou drove him down a muddy road to an abandoned weapons plant. He liked the site. Soon truckloads of steel began arriving and construction started.

#### Li's Furnace

Zhou Shunzhu, a mother of two, has one of the 80 jobs he created, pushing handcarts loaded with coke. It was her first regular employment. She and her family couldn't survive on their 1 mu of farmland (670 square meters, a sixth of an acre).

"Farming doesn't feed us enough," says Zhou, her hair tucked under a denim hat.

Li's installation is part of the mosaic China is assembling to carry out its expansion. His operation makes alloys for steel used in building houses, factories and railroads.

He also embodies the transformation of Dao County. During Mao Zedong's Cultural Revolution in 1967, the area was the scene of a 66-day killing spree whose targets included former land owners and wealthy farmers, according to a Dao almanac. More than 4,500 people died, a Hong Kong magazine reported in 2001.

Li's furnace will burn 170 million kilowatt-hours of electricity annually, equal to a third of Dao's projected usage this year, according to the local power bureau. To accommodate such demand, China plans to increase national electrical capacity 89 percent to 1,650 gigawatts in 2020 from 874 gigawatts last year, according to the China Electricity Council.

#### 'Making Money'

The rise in China's copper consumption parallels the expansion of electrical capacity. Taking into account the central government's planning cycles and time for the metal to be put to use, power-generating capacity lags behind copper consumption by about five years, based on data compiled by Bloomberg.

One sunny day in June, Li steps out of his black Chinese-made Buick LaCrosse and strides past piles of manganese to his furnace. The ore will be heated to almost 2,000 degrees Celsius (3,600 degrees Fahrenheit) during smelting. The plant will run around the clock. The trunk of his Buick is packed with bottles of Great Wall red wine, Gujing Chinese liquor and Furongwang cigarettes. These are local officials' favorite brands, he says.

"As long as the government supports us, there is great opportunity," Li says. "To be honest, making money is easy."

#### Protest in Morococha

In a dingy yellow workers' cafeteria in Morococha, Jhonny Egoavil Frias and 20 other property owners opposed to Chinalco huddle together on a rainy day in April. Throughout Peru, the company's radio and television ads promote a bright future.

"Chinalco is building a new city of Morococha with an investment of \$50 million," according to the Spanish-language announcement. "First a new city. Then the initialization of operations. This is responsible mining. We're Chinalco. We believe in Peru."

The group led by Egoavil voices dismay at its inability to negotiate on the property owners' terms.

"Chinalco utilizes mass advertising to associate itself with 'responsible mining,'" Egoavil says. "To us Chinalco isn't responsible mining. It's irresponsible mining."

Some property owners, who together make up about a third of the population, say Chinalco is offering a 10th of what they should get, and the values don't reflect the copper or the disruption of ties to the land going back generations.

"The price they're offering is rock bottom," says Ancieta. "They're paying billions of dollars for the mineral resource. Besides that, what value do you assign to the fact many of us were born here and now they want to move us out?"

#### Rocks, Teargas

Gerald Wolfe, 54, a Canadian who is president of Chinalco's unit in Peru, says the company is offering "many times more than anybody else ever would have."

The conflict boiled over at a Jan. 15 public meeting. Peruvian officials presented Chinalco's several thousand-page impact study to the community, as required by law. In a school auditorium, 1,751 people gathered, many of them outsiders brought aboard 14 company buses, according to Mayor Marcial Salome Ponce. He strode to the podium demanding the meeting be suspended and stalked out when he was refused, he said.

Outside, national police with helmets, shields and guns confronted as many as 100 villagers. A woman heaved a pail of water at policemen and people behind her threw rocks, according to a Chinalco video and security photos. Police fired teargas.

"Chinalco is using force to win approval of its project," Ancieta says. "There have been 100 years of mining exploitation in Morococha, and we remain mired in poverty." As he spoke, dust streamed to the floor from a fight between two cats in the rafters of his shop.

#### 'Asymmetrical Relationship'

"The asymmetrical relationship doesn't favor an equitable solution," says Jose De Echave, head of CooperAccion, a mining watchdog group in Lima. "You have one powerful actor imposing conditions, and a local population without reinforcements."

The townsfolk feel powerless because they have little say in the outcome, says Victor Torres, the Peruvian co-author of the book, "The Chinese Economy and Extractive Industries: Challenges for Peru." Toromocho's development has been largely a state-to-state negotiation, he says.

"When Peru has a difference with a Chinese firm, it won't be with the firm that we negotiate, but with the government itself," Torres said in an interview.

#### Li's Ambition

Wearing a yellow T-shirt, Li Shiping meets with a business partner one evening at the Miluo Café in central Dao. County records value his smelter at 60 million yuan (\$9 million). Li says he put 40 million yuan of his own money into the furnace and borrowed the rest.

He shares a metal-price quote from a message on his gold-colored Changhong mobile phone.

"I should expand production and keep the products in a stockpile," Li says, speaking rapidly in a country accent.

He also wants to list his company, Yongzhou Dao County Yuanhua Smelter Co., on one of China's stock exchanges and put its name on a hotel in Dao. Li already owns two homes and four cars, he says. His 28-year-old wife, Yang Junfeng, would be content to buy a row of shops and retire on the rental income, he says.

"But that's not what I have in mind," Li says. "I want to achieve something."

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