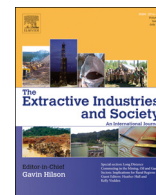




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Original article

Expansion of small-scale gold mining in Madre de Dios: ‘capital interests’ and the emergence of a new elite of entrepreneurs in the Peruvian Amazon

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ABSTRACT

This research draws on the literature on livelihood diversification that claims that artisanal and small-scale mining (ASM) is not exclusively a poverty-driven activity. Taking the case of the Madre de Dios (MDD) gold rush in the Peruvian Amazon, this article builds up on the notion of ‘capital interests’ as a driver for the expansion of the ASM (Verbrugge, 2014). For many migrants who moved to the Huepetue basin in MDD from the Andean highlands, mining was initially a subsistence livelihood but, overtime, they were able to separate themselves from the workforce, mechanize their operations, and accumulate capital. They also entered the political arena to defend their interests and contest the central government’s efforts to regulate the industry. The research analyses the factors that explain this transition and the emergence of small-scale gold mining entrepreneurs. This research concludes that among other factors, endogenous financial arrangements between the formal, informal and illegal economies were developed which engaged unexpected financiers. In the process, the new elite of small-scale mining entrepreneurs gave shape to a ‘resource-nationalistic’ discourse that resonates with that of other communities opposing large scale mining projects.

1. Introduction

In 2014 General Daniel Urresti was interviewed for a segment feature of *Cuarto Poder*, a popular TV program that Peruvians watch Sunday nights as a barometer of the country’s political and social agenda. The segment featured the Baca’s, a family of small-scale gold miners (SSGM) from the Peruvian region of Madre de Dios (MDD). According to the journalistic report, the Baca’s had built an ‘empire’ on extracting gold in the Amazon. In the interview, the general, the then head of a special task force to regulate ASM, defended himself against accusations of leading a strategy aimed at eradicating small miners. In his defense, Urresti argued that the Baca’s operated as a “business group” pretending to be small-mining operators to avoid taxation and the costs implicit in the regulatory process. The highlight of the TV broadcast was not the presence of this high-ranking official, but the appearance, in “exclusivity”, of Gregoria Casas Huamanhuilca. In an unprecedented way, the matriarch of the most powerful family of informal gold miners in Peru had agreed to talk to the media.

An illiterate indigenous Quechua-speaker from the Peruvian highland’s city of Cusco in the Peruvian Highlands, Gregoria, also known as *la Reina del Oro* (the Queen of Gold), had moved to MDD as a young servant. She married Cecilio Baca who arrived to the same town in search for work in the early ‘70 s. They mined day and night, initially in

an artisanal manner, to progressively expand their operations. By 2014, the couple and their five children owned over 42,000 ha of mining land, a float of machinery and state capital worth millions (Castilla, 2013a,b,c).

Many legends surround this family, most of which center on the controversial figure of Gregoria. She is a woman who moves with security guards and that, allegedly, controls the gold business in Huepetue (León, 2012), the mining town that she and her husband helped found. Some rumors depict her walking with a soda bottle filled with gold nuggets that she shakes in the town parades. She has also been connected with rituals in which young women have disappeared in sacrifices to mother Earth. She has even attracted the attention of Ivy League anthropologists for whom *la Reina del Oro* “represents a most enticing female target” in a male dominated world, a woman who has been instrumental in attacking small miners and diverting attention from other fortunes in MDD (Goldstein, 2015).

Despite its many dilemmas, the case of the Bacas nonetheless allows us to construct a portrait of the evolution of gold miners who migrated from the impoverished Andean highlands into the remote and isolated rainforests of MDD in the ‘70 s. Many of them settled into what are now the mining towns of Huepetue, Mazuko o Laberinto, bustling spaces from which an average of 20 tones¹ of ore have been sourced annually (GOMIAM, 2015). Using artisanal means to begin with, over time the

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¹ Figure for 2011

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miners diversified their labor force, mechanized their operations and began to accumulate capital. More so, they also penetrated the political arena. At a regional level, they run the government of Madre de Dios and the main mining towns. Cecilio Baca was elected mayor of Huepetue twice. At a national level, candidates with nicknames such as el ‘comeoro’ (the gold-eater) or *cigarrito* (the little-cigar) have been representing MDD in the Peruvian Congress. Miners have also influenced presidential elections.

Thus, Artisanal and Small Scale Gold Mining (ASGM) in Peru has expanded beyond the expectations of a low-tech, subsistence enterprise, as the activity has traditionally been defined in the literature (Bryceson and Jønsson, 2010; Hilson, 2011), to gain economic and political power. But, how has this transition taken place? What are the drivers that have allowed for the emergence of this mining elite in the heart of the Amazon? The past five years have seen a proliferation of insightful literature on the Peruvian ASM and on MDD, mostly concerned with the challenges Peruvian authorities face in regulating the sector. Internationally the study of the ASM expansion and evolution has been approached from the perspective of artisanal mining as a livelihood for poverty alleviation (Bryceson and Jønsson, 2010) in the field of development studies. Nevertheless, the one-dimensional paradigm perpetuating ASM as a poverty-driven activity has been increasingly challenged. Concepts such as the ‘entrepreneurial small-scale miner’ were used by Fisher (Fisher, 2007) in discussing Tanzania and later by Verbrugge in analyzing the case of the Compostela Valley in the southern Philippines (Verbrugge, 2014). These works bring about new perspectives to the analysis of the push and pull factors to explain not just the expansion of ASM but also its evolution overtime.

The objective of this article is twofold. First, it seeks to describe the MDD gold mining enclave and the emergence of a new elite in the Amazon. As has been documented in other countries, (Clifford, 2011; Fisher, 2007; Graulau, 2001; Hilson, 2010) the Peruvian SSGM transition cannot be explained exclusively by a poverty-driven narrative. While the livelihood perspective can be applied to the first stages of the enclave’s formation, it does not adequately explain its development. This section describes this new class of entrepreneurs. In order to address the second goal of the article, I embrace Verbrugge’s (2014) contribution to the livelihood diversification studies and the concept of ‘capital interests’ explored for the southern Philippines. In the Peruvian case, I argue that the transition of the SSGM in MDD can be explained by the development of endogenous financial arrangements and the appearance of a heterogeneous set of financiers -formal/informal/illegal- motivated by ‘capital interest’ in a context that benefited from national and international developments. Nationally, the installation of the Mining Bank of Peru in MDD in 1972 established the enclave’s economic foundation while the Regional Government, formed 30 years later, served as a platform from which to launch their political agenda and contest national politics. Internationally, the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and the construction of the Interoceanic road in Madre de Dios, further expanded the potential ‘capital interests’ in the MDD’s gold by facilitating its trade together with the necessary supplies for its extraction in and out the remote rainforest. In the context of a commodity boom with soaring gold prices, a final key factor was the Peruvian government’s failure to regulate gold trade.

In writing this article, I used four types of sources. I revised the existing scholarly literature on ASM in Peru and elsewhere, which I enriched with information from reports published by governmental institutions, NGOs and consultancy firms. For the empirical part of this study, I found the data that I acquired through close examination of the Peruvian media and some of their investigative journalists to be particularly useful. I also found social media to be a valuable source of data. A final key set of information was gained by conducting non-participant observation, informal conversations and over 100 interviews with workers, mining entrepreneurs, leaders of mining associations, and a range of authorities, including high-ranking government officials,

academics and investigative journalists. During the last five years (2013–2018) I have also travelled to Lima and Madre de Dios for spans of three/four weeks each time, to conduct interviews for my PhD.

The structure of this article is as follows. The above presentation will be continued with a description of the political economy of gold in Madre de Dios and the steps taken by the Peruvian government to regulate the sector. That will be followed by a theoretical framework of the concepts used and the angle from which we have chosen to elaborate and interpret the topics raised: the emergence of a mining elite in Madre de Dios and the factors that have enabled this phenomenon. The third and fourth sections will develop those points further, and a brief summary will conclude the article.

2. The political economy of the SSGM and the attempts to regularize the sector

Peru became a middle-income country as a result of a macro-economic model that successfully focused on the export of its natural resources. Mining was the fundamental source of fiscal revenue and the engine of an economic growth that reduced poverty from 54.3% to 25.8% (INEI, 2015). With just over 30 million inhabitants, the Andean country has been one of the top five producers of gold worldwide and the largest in Latin America. A significant portion of the gold, -an average of 19% between 2003 and 2012 (Torres Cuzcano, 2015)-, has been extracted in ASM operations, amounting to 1315 USD million per year (Torres Cuzcano, 2015). The sector employs 150,000 miners and provides indirect work to between 300,000 to 500,000 people (Salo et al., 2016).

ASGM takes place in the all (25) regions of Peru; but, for a number of years, MDD produced 80% the gold sourced in the country by the SSGM, an estimated yield of 20 tons per year (Pachas, 2011a). Huepetue alone boasted amounts of 9,3 tons for 2004, although the actual figure is probably much larger. Thanks to ASGM, MDD’s GDP grew to 816% and poverty fell from 308% to 3% (Macroconsult, 2013), the lowest figure recorded in Peru by 2011. Despite this, less than half of the population has running water and less than a third enjoys proper drainage or sewage. In successive waves of migration, mostly from poor neighboring areas, between 30,000 and 50,000 people (IIAP, 2011) have moved to MDD in the contemporary gold rush.

Despite ASM’s contribution to job creation and its significant financial flows, natural protected areas were compromised by unregulated mining operations and 3000 tones of mercury were poured into the Amazon river (Defensoría del Pueblo, 2014). In MDD alone, one of the most biodiverse places on earth, river courses were reversed impacting 25% of the wetlands (WWF, 2013) and 62,500 ha were deforested by 2016 (MAAP, 2016). In some mining camps, violence and human trafficking for sexual and labor exploitation became common practices (Barrantes, 2016; CHS, 2012; Mujica, 2014; Novak and Namias, 2009; Verité, 2013). Furthermore, the industry has been linked to transnational crime networks (Ambrus, 2016; Gestión, 2012; GIATOC, 2016; Verité, 2016) and linked to drug trafficking and other illegal economies (EIA-GLOBAL, 2012; Gestión, 2012; Semana Económica, 2012; Society for Threatened People, 2014). To some, illegal mining is a more lucrative business than drug trafficking (Gestión, 2012), no small thing considering that Peru is one of the world’s largest producers of coca leaves (Zevallos Trigos, 2017).

2.1. The regularization of ASM in Peru

It was not until 2010, under pressure from the international community concerned with the environmental damage caused in the Amazon (Dargent and Urteaga, 2016), that President Garcia passed an executive order (No 012-2010) declaring the regularization of MDD’ mining operations of national interest. Two years later, a national legal framework was enacted to regulate ASM through the country. Although it was conceived as a comprehensive strategy to address the overall

commodity supply chain (Herrera, 2014), the public policy concentrated its efforts on formalizing the sector and on eradicating illegal sites. Over 74,000 miners initiated their formalization process in 2012; 5500 of whom were from MDD. As of 2018, few miners had managed to fulfill the requirements necessary for obtaining a mining permit, none were from MDD. Most miners got stuck on the second of six steps, unable to prove ownership of the concession or provide a contract with the concessionary. In Huepetue, and in the case of the Baca's family and others, the problem was different. Reluctant to acknowledge the dimension of their business as medium-scale operations, they instead used the regularization process as an opportunity to formalize themselves as small-scale owners, which led to their application being rejected.

Together with the formalization, the government's strategy was the interdiction of illegal mining sites, located in protected areas or watercourses. Between 2011 and 2014, dredges were destroyed along the Amazon river. Just as in 2013, 78 military interventions were undertaken involving up to 1500 policemen (Gamboa, 2015). Similar to other mining bans in Africa (Geenen, 2012), the strategy did not alleviate the situation: mining expanded in natural reserves (SPDA, 2016a; SPDA, 2016b) and led to protests and deadlocks (Damonte, 2018). Moreover, interventions also targeted miners who had already invested in the formalization of their operations. In contrast, not enough efforts were made to eradicate La Pampa mining camps, a buffer zone of the Tambopata natural reserve where crime is rampant and extends into the reserve (Arriarán, 2014).

3. The debate about the expansion of the SSGM

Despite the well-documented challenges presented by ASM regulation and its economic relevance and socio-environmental implications, in Peru and in other parts of the world, research into the subject is lacking. In Latin American countries, the scant interest that the subject receives from the academia contrasts with the considerable attention that large-scale mining (LSM) has enjoyed. The literature on the extractive governance in the region has tended to focus on large and medium-scale operations and, to some extent, their relationship with ASM (Toledo Orozco and Veiga, 2018). The neo-extractivist paradigm, implying a greater involvement of the state in the mineral governance, has used the Andean countries as an analytical playground (Bebbington, 2009; Gudynas, 2009) while Peru has been a case study for the 'resource curse' literature (Arellano-Yanguas, 2011; Bebbington and Bury, 2009; Orihuela, 2013). Indeed, the behavior of the state and the social conflict it generates has traditionally captured the interest of academia in Latin American circles when it comes to the ASM. In that regard, the work of Salman and de Theije (2017); Rettberg and Ortíz-Riomalo, (2016), and Cisneros (2014); amongst others, describe the contexts for Bolivia, Surinam, Colombia and Ecuador, respectively. As Salman and de Theije (2017) put it: 'conflict is small-scale's middle name'.

Although it is impossible to provide accurate data due to the informal nature of the industry, there are an estimated 16 million artisanal and small miners worldwide (Seccatore et al., 2014) and over 100 million people depend on this activity for their livelihoods (ILO, 1999; The World Bank, 2008). There is no official definition of ASM (ILO, 1999) but there is consensus within the academic community on the key elements that compose the concept as an activity that portrays 'individual or collective labor-intensive mineral extraction with limited capital investment using basic tools, manual devices or simple portable machinery' (Bryceson and Jönsson, 2010). The difference between artisanal miners and small-scale miners may be described as 'the former employing manual low technology methods, and the latter having some degree of mechanization' (Fisher, 2007). The gold miners of MDD who are the subject of this study, started out as artisanal workers and progressively transformed themselves into SSGM entrepreneurs.

In Peru the academic output on ASM is still limited, but in the last

five years an incipient body of work from different disciplines has emerged. From the political science standpoint, state theorists and anthropologists seem intent on scrutinizing the ASM in Madre de Dios. In particular, there is a strong interest in understanding the reasons why regulating ASM has proved so difficult for the Peruvian state (Damonte, 2016, 2018; Dargent and Urteaga, 2016; Durand, 2007, 2013, 2015, 2016; Pachas, 2011a; Salo et al., 2016; Valencia, 2014). Another set of literature has as its focus the environmental harm caused by the sector (Arriarán and Gómez, 2007; Espin Moscoso, 2018); the issue of human trafficking in mining camps (Barrantes, 2016; Goldstein, 2015; Mujica, 2014; Novak and Namias, 2009; Tuesta Reátegui, 2018); or its socio-economy (Dammert B., 2018; De Echave Cáceres, 2018; Glave and Kuramoto, 2002; Mosquera et al., 2009; Perz et al., 2016; Torres Cuzcano, 2007, 2015). This literature has contributed valuable insight into ASGM activity in MDD and in the broader context of the country.

In global terms, most of the academic literature on ASM has focused on the African and Asian contexts. This geographical focus has unintentionally biased understanding of the phenomenon elsewhere, because the analysis and findings in Africa where often assumed to explain the industry in other parts of the world. The literature of development studies describes ASM as a poverty-driven activity caused by detrimental structural adjustments programs applied to the African countries (Hilson, 2006, 2010, 2010; Hilson and McQuilken, 2014) or the privatization of the mining sector (Banchirigah, 2008). The rural livelihood body of work exposes what was assumed to be a subsistence sector due to the lack of other viable means of livelihood.

International study into the expansion of ASM has approached the topic from the perspective of artisanal mining as a livelihood for poverty alleviation (Bryceson and Jönsson, 2010) within development studies departments. This one-dimensional paradigm perpetuating ASM as a poverty-driven activity has, nevertheless, been increasingly challenged. Concepts, such as the 'entrepreneurial small-scale miner' which was first used by Fisher (Fisher, 2007) for Tanzania, and later by Verbrugge in discussing the Compostela Valley in the southern Philippines (Verbrugge, 2014), offer new perspectives to analyze push and pull factors of ASM expansion that were not necessarily poverty-driven in essence.

More recently and applied to the southern Philippines, Verbrugge used the rural livelihood diversification approach to determine what drives ASM's change (Barrett et al., 2001; Verbrugge, 2014). He questions the one-dimensional focus that has characterized these studies as 'obscuring the socially segmented nature of diversification into the sector' (Verbrugge, 2014). To this author, while the majority of those who engage in ASM do so for subsistence purposes, for certain groups, the sector also harbors opportunities for capital accumulation as an activity with few entry barriers (Cartier and Bürge, 2011; Siegel and Veiga, 2009; Verbrugge, 2014) that, at the same time, can serve as route to social emancipation (Boeck, 2001; Bryceson and Jönsson, 2010; Verbrugge and Besmanos, 2016). In the Compostela Valley of the Philippines, change was driven by heterogeneous financiers with capital to invest in the SSGM (Verbrugge, 2014).

4. The small-scale gold mining elite of Madre de Dios

The debate about the expansion of the SSGM in MDD raises challenging questions, but what are the main elements that define this elite? Who are these new entrepreneurs? How do they organize themselves and connect with the outside world? The mining landscape of MDD presents a vast number of rich characters who move easily between the formal, informal and illegal world. In the middle of what was once a fertile jungle, the streets of the city of Huepetue bustle with people oblivious to environmental or social concerns. With its unpaved roads and lack of basic services, the possibility of wealth seem remote, yet the local industry produces over 9 tons of gold annually (Torres Cuzcano, 2007). Some mining groups though, like the Baca's, were able to leverage the rich deposits of the Amazon. Beginning in poverty, by

2014 they owned 42,000 ha of gold-rich land (El Comercio, 2014).

A insight into these questions is the nature of the settlers that moved to the MDD jungle from the Andean highlands in the '70s. A wave of migrants often described as frugal, hardworking and business-savvy. These core values have been crucial to taking advantage of the rich gold deposits of the Amazonian rivers and forests. They introduced machinery an increased the production to accumulate capital. Some began to diversify their business portfolio. The newspaper *El Comercio* traced their assets of the Baca's down. According to the report, they own heavy machinery, they have purchased real state with cash, and have invested in hotels, gasoline dispensers and transportation, among others investments (Castilla, 2012a). For the Peruvian government, they work "as a consortium, using heavy machinery and distributing utilities" (El Comercio, 2014).

4.1. Glocalization

The economic leverage of the Peruvian ASM entrepreneurs transcends local settings to reach international markets and foreign institutions and actors. In March 2017, Bloomberg broke the news about the Peruvian gold. The Southern District of Florida of the U.S. Department of Justice had indicted four Peruvian citizens and three conspirators. Amongst them was US citizen Juan Pablo Granda, whose WhatsApp messages from MDD were intercepted by the Federal Bureau of Investigation. In the texts messages sent to colleagues back in Florida, he described himself as the "new (Pablo) Escobar of gold" (Castilla, 2013b, 2018a,b). Granda was the intermediary between the Peruvian miners and the Miami based company, NTR metals, which bought \$3.5 billion worth of gold from South America between 2012 and 2017. The company purchased the gold directly from Peru and Madre de Dios at first, and later from Brazil, Colombia or Bolivia where the metal was smuggled into, in response to the increasing control by the Peruvian authorities. Since 2013 the Peruvian media had reported on companies being under investigation for illegally gold trading (Castilla, 2013b, 2018a). The media revealed that one such company was located in Huepetue and owned by the then the Director of the Ministry of Mines, Luis Zavaleta Vargas, and his brother (Castilla, 2012b).

4.2. Intertwined economies

Hence, a defining characteristic of this enclave is the symbiosis of the formal, informal and illegal economies (Damonte, 2018; Durand, 2007). In Peru 60% of the economy is informal and 40% of the workforce is "self-employed" (Loayza, 2008). Durand (2007) describes informality in Peru as part of a culture of transgression that installed itself in the capital, Lima, in the 1980s due to the unemployment, the weakness of the state and the incentives for informality (De Soto, 1989; Durand, 2007; Matos Mar, 1986). Perceived as an urban phenomenon at first, this *modus operandi* penetrated rural spaces of the Andeans and the Amazonia connected now with global markets (Durand, 2015). Illegal gold trading has been described as being more profitable than drug trafficking (Gestión, 2012). Once laundered, these financial flows contribute to an industry that represents 12% of the GDP, 60% of the exports and 20% of the foreign investment (De Echave Cáceres, 2016; EIA-GLOBAL, 2012; Torres Cuzcano, 2015). Miners and their intermediaries interact with numerous interest groups, including Swedish refineries of the London Bullion Market Association (Castilla, 2018b; La Republica, 2018).

4.3. A cluster of mining associations and the right to exploit their natural wealth

The formal and illicit economies interrelate systemically in micro-nets or clusters (GOMIAM, 2015; López and Vizcarra Castillo, 2014; Mujica, 2014; Pachas, 2011a; Vizcarra Castillo, 2014). This behavior has also been demonstrated by the myriad of associations and

federations in which ASM miners organize themselves (SPDA 2014a; Castilla 2012; De Echave 2016a; Fernández 2014). To exert their influence they join forces in complex settings. They stand as separate actors but "relate to each other when it is economically convenient in spite of the problem that their coexistence and bond represents" (Durand, 2013). They show some level of coordination, they mutate, transform and adapt to specific situations and goals to disintegrate or lose strength afterwards (Damonte et al., 2013; Ipenza and Valencia, 2014; Mosquera et al., 2009; Pachas, 2011b).

It is within this constellation of ASM associations that a new narrative seems to have been taken shape. Irrespective of their differences, they agree in a sort of 'resource-nationalistic' discourse (Bebbington, 2009; Gudynas, 2009). They reclaim their legitimate right to access and exploit the natural resources, in opposition to large, foreign-owned operations that leave their communities in poverty. This narrative was well exposed by the Governor of Madre de Dios, Luis Otsuka, in his speech to the Peruvian Congress while he was a candidate for the Regional Government of MDD in 2014.

"We are in favor of investment but with equity for all Peruvians. This is not a political discourse, is a technical one so people can learn how they are looting our wealth². How the government gives it away. It is very sad, but it is like that ... The ministry of mining is only the minister for the large miners, they have assigned a so-called minister for us but the only thing he does is interdicting us ... We are persecuted. I demand respect. I am proud of being a miner but they typify us as criminals. They accuse us of abusing children, of being connected to the drug-trafficking and of financing armed groups. A foreign NGO sues me! Why? For defending my right to use my wealth? For defending the right to feed poor miners' children? ... There is a persecution for those who love Peru. We want viable solutions for our children with respect for the environment. Our children deserve to live with their wealth. As yourselves, we are also entitled to vacations in Aruba, Cancun, Hawaii, just as you do. That is also our right".

Otsuka was able to put into words the feeling of the emerging elite of SSGM entrepreneurs by demanding, not just their right to work, but also their right to privileges enjoyed by other elites enjoy. Otsuka was the first miner to seize power of the Regional Government of MDD. The resource-nationalistic narrative seems to be developing in parallel to the one observed in other rural communities of the Andean country that oppose LSM projects. Peruvian scholar, Maritza Paredes (2006) views this as an ethnic discourse that gravitates around the perspective of collective rights of the indigenous people, including as such: *campesinos* (farmers), quechuas, aimaras, coca growers or miners. This was examined by Toledo Orozco and Veiga (2018) for the case of Tambogrande in northern Peru. They found out that local communities welcomed ASM while opposing LSM investments because the ASM connects with the existing 'socio-economic' order based upon ethnic and cultural bonds. As leader of the powerful Mining Federation of Madre de Dios (FEDEMIN), Otsuka led many of the organized social mobilizations and protests that took place there in fiercellyopposition to the government's regularization policy. Miners associations have proved to have an extraordinary power to use social unrest to pressure the central government in what Damonte (2018) calls a sequence or protest-negotiation.

4.4. Political leverage of the SSGM miner

Indeed, the mining entrepreneurs have a large social base that supports the sector. This has helped them to take over the regional government and the main mining towns. Miners have also appointed their candidates to represent them before the Congress and have

² Wealth as natural resources.

influenced national politics (De Echave Cáceres, 2016, 2018; Fernández, 2014). Given their social support, their voting power is significant for any presidential candidate (De Echave Cáceres, 2016). They made financial contributions to President Humana's political campaign in 2011 (Perú 21 2014). They had negotiated agreements with Humala beforehand, which he broke once in power. In 2016, the candidate Fujimori promised the miners that she would change existing policies to regularize the sector and, while she did not win the Presidency, she uses her power in the Congress to lobby for the miners.

5. Drivers of the SSGM in MDD

The Peruvian miners went from being poor miners to entrepreneurs. How did they get there? How did this transition take place? And what factors explain the upraising of the mining elite in the heart of the Amazon? To tackle these questions, I embrace the concept of 'capital interests' (Verbrugge, 2014). I argue that this transformation can be explained by the development of endogenous financial arrangements and the appearance of (formal/informal/illegal) financiers attracted by the financial gains of the sector in a setting that benefited from national and international developments. Nationally, the installation of a Mining Bank in MDD and the creation of the Regional Government. Internationally, the construction of the Interoceanic road in Madre de Dios and the commodity boom and soaring prices of gold. A final key factor worth a separate article, was the failure of the Peruvian government to regulate gold trade.

The establishment of the Peruvian Mining Bank in 1972 was an opportunity for the artisanal miners who had just arrived in Madre de Dios (Damonte, 2018; Torres Cuzcano, 2007; Valencia, 2014; Villanueva Ubillus, 2015) mainly from the city of Cusco in the '70s. The installation of the bank was the most emblematic part of a policy aimed at promoting small-scale mining in the Amazon as a means to populate the remote and isolated jungle. The financial institution extended credits to miners, purchased their gold and provided help. In the early '90s, with the new government of President Fujimori in place, the bank was dismantled (1992) as part of a structural adjustment strategy. The attention of the new Government shifted to promoting large-scale projects instead. The miners were left in a limbo. This situation has been described by the Damonte (2018) as part of the state-building process of the Amazon that, "historically governed as an extraction zone instead of a place with social and economic development potential".

5.1. Revenue sharing arrangements and the unexpected financiers

The dismantling of the Mining Bank left miners without a source of credit but led to the foundation of an economy that developed alternative sources of capital. Unexpected financiers emerged, attracted by the financial opportunities. The appearance of heavy machinery dealers was a turning point. Volvo and Ferreyros (the local brand of caterpillar) arrived in MDD in the early '90s and offered loans to miners for the purchase of their machines. Volvo sold at least US\$ 2,5 million worth between 1994–1996 and Ferreyros made US\$ 185,000 between 2003–2005 (Castilla, 2013c). In an interview, Gregoria Casas recounted the moment these companies arrived:

Managers of Volvo flew to Huetpetue's airport in a small plain o in their vans from Cusco, they stayed in the Victoria hotel. At the time, each machine cost between US\$170,000 and US \$180,000. We handed an initial payment of US\$30,000 to them. I paid cash"... (Castilla, 2013a)

The use of heavy machinery tripled the yield and allowed for a reduction in workforce numbers. The Baca family went from extracting 250 g to 800 g per month with the mechanization. By 2013, they collected 80 kg per month (El Comercio, 2015). Casas recollected that it took her 6 years to pay for some of the machinery; thus, in order to expedite the payments, a new arrangement was established. A new

financier was born: the gold dealer. As Gregoria recollected, the dealer made payments directly to the supplier and gave her the receipts.

I gave (the gold) to the merchants ... and they gave me the facility to pay the company (machinery or other supply vendor), later they gave me my receipt. We did it like this for security reasons. I have always been a good customer, everybody knows me. I have never worked in the dark or hidden" (Castilla, 2013c).

Thus, the gold buyers in MDD, many of whom are investigated for money laundering, became a key group in the advancement of the area. In this line, a third financial agreement can be mentioned, the one inspired by a system used by the local Amazonian chestnut farmers. Affected by the structural adjustment and unable to obtain loans from banks, farmers resorted to borrowing money from their clients. As described by Perz et al. (2016), under the *habilito* system farmers advanced cash to families with forest concessions; and in return, they agreed to sell their harvest at a set price. When the machinery dealers came to MDD, the miners used a similar arrangement to the *habilito*. They advanced cash for the purchase and the gold-buyer covered the remaining cost of the machinery, in exchange for a set price for the metal.

Traditional banks refused to lend money to the farmers, but they actively sought other stakeholders. The testimony of the current congressman for Madre de Dios (2016–2020), Modesto Figueroa, illustrates this point. He was a motorcycle taxi-driver in the 80s who started out selling gasoline to his colleagues. One day, as he relates, he was approached by a bank:

In the 90s they offered me loans, it is because of that I decided to form a business and invest on my first gas station with the Proveedora del Sur E.I.R.L ... I did it with bank loans..." (El Comercio, 2017).

A final set of financiers were those that came from foreign countries who ventured in the industry. Brazilians were key, transferring their knowledge of alluvial mining and dredges, but the 2010 Executive Order prohibited mining in water courses and all dredges were bombarded by the Peruvian army. At a later stage, gold was smuggled into the country due to the control on the commodity of the Peruvian authorities. Gold was also smuggled through Bolivia. There are cases of Russians, Chinese and Koreans adventuring into MDD mining camps eager for a 'piece of the cake', but Peruvian laws were tough on those investors, some of whom were heavy fined (El Comercio, 2015). That said, when it comes to the development of the ASM, their role does not seem to have been prominent for ASM expansion, although more research is needed in this area.

5.2. The role of the Regional Government

In the early 2000s, President Toledo changed the constitution in order to decentralize the administration of the country, transferring important competences to the 25 regions (MDD among them). The new political structure implied the creation of regional governments to administer the new set of competencies transferred to them, among which was the role of formalizing ASM. Within that structure a new figure was created, that of the *Gobernador*, initially referred to as the President of the Regional Government. It did not take long for the gold miners of Madre de Dios to win to take over the Regional Government in Madre de Dios due to their popular support. In 2015, the leader of the association FEDEMIN became the *Gobernador* of Madre de Dios without a real political party behind him. Two main immediate consequences emerged from this development. On the one hand, as an elected authority, Otsuka acquired the legitimacy that the representation the people gave him and was now able to talk as an equal to high-ranking authorities in Lima.

A controversial figure who rose to power as an outspoken defendant of the miner's legitimate right to exploit the land, Otsuka directly

confronted the Ministry of Environment at the time, Manuel Pulgar Vidal. Vidal was a respected figure of the political scene in Lima. He was a vehement environmentalist, connected to international environmental circles. As head of the Ministry of Environment, he took on the role of defending the Amazon against the miners of Madre de Dios. Otsuka and Vidal became enemies and openly attacked each other. The battle between the miners and the Ministry of Environment misled the governance of the ASM, which was managed as an environmental hazard instead of part of the extractive industry. The LSM in Peru had a history of polluting vital ecosystems throughout the country and was strongly rejected by local communities that had seen no benefits after decades of big projects exploiting their lands. In 2016, however, the new government adopted a more inclusive approach. It assigned more resources and competencies to the Ministry of Mines to take over ASM management, relieving the Ministry of Environment of pressures and responsibilities.

Another important consequence that the creation of the decentralization process and the Regional Governments brought about was the shift in the decision-making process. If demands formulated by the miners to previous administrations were not considered, that was to change. The development of infrastructure is a good example. For years, small-scale gold miners had demanded new roads leading to certain mining camps without success. Otsuka changed this and decided to build new roads, some of which confronted the Central Government's views as well as environmentalist groups due to the potential damage to natural protected areas. The Gobernador was consequently sued, but he defended himself by claiming that there were interests behind the attacks (Infregion, 2016).

5.3. The Southern Interoceanic road

Internationally, the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA) and the construction of the Interoceanic road in Madre de Dios further expanded the potential 'capital interests' in the MMD gold mining industry by facilitating its trade and the transportation of the necessary supplies for its extraction to and from the remote rainforest. The construction of 2600 km of road from Peru's Pacific coastline, across the Andes and through the Amazon rainforest, part of the Corridor Vial Interoceanic Sur Perú-Brazil, opened new possibilities not just for transporting the metal but also to obtaining the required supplies (machinery, gasoil, mercury ect) in a easier and cheaper way (Dammert B., 2018; Goldstein, 2015). In 2011, President Garcia inaugurated the last of the 22 bridges of IIRSA, el Puente Continental, in the capital of MDD, Puerto Maldonado. Resembling the Golden Gate bridge of San Francisco, this 723 m-long structure transformed, as the Golden Gate dridge did in 1949, the landscape of the area, reducing the commute from Cusco to Puerto Maldonado from days or, even weeks, to a journey of 8 h.

5.4. The commodity boom and the soaring price of gold

To conclude, the aforementioned factors would not have played out the way they did if the price of gold had not increased as it did. Between 1972 and 2011, the price of an ounce of gold went from \$US 70 to \$US 1895. This would not have happened either if the Peruvian government, as those of the Philippines and Bolivia did, had a greater control over the commodity transactions. And while there are cases where the price of commodities has not explained a resource boom, as documented by Heemkerk for the ASM for the case of ASM in Suriname (Heemskerk, 2001), in Peru, this factor was crucial to the financial scalation of the small-scale entrepreneurs.

6. Conclusion

The article, which analyses the factors behind the emergence of a new elite of small-scale entrepreneurs in the Madre de Dios region of

the Peruvian Amazon, shows how the ASM sector presents opportunities for 'capital interests' (Verbrugge, 2014). The article has identified a number of financial arrangements that have taken place between the miners and a heterogenous class of financiers that gradually gave shape to the economic enclave in this part of Peru. It also notes that this enclave was created by specific developments that took place, such as the establishment of a Mining Bank in Madre de Dios in 1972 to promote ASM and the creation of the regional governments as part of the Peruvian decentralization process. The wave of miners that arrived in Madre de Dios in the '70s benefited from government policies to promote ASM activity and were able to develop alternative financial mechanisms when this policy was abruptly interrupted and the Mining Bank dismantled.

The research draws on the literature on livelihood diversification and aims to contribute to those studies that reveal that ASM is not exclusively a poverty-driven activity. For the migrants who moved to the Huepetue basin from the Andean highlands in the '70s, ASM was initially a subsistence livelihood, but they were able to separate themselves from the working force, mechanize their operations and accumulate capital. In a favorable environment of soaring gold prices and high demand for the commodity, they developed strategies for growing their business and to progressively penetrate the political arena to defend their interests. This new elite of small-scale mining entrepreneurs gave shape to a 'resource-nationalistic' discourse that resonates with that of other communities that oppose large scale mining projects. The findings of this study contribute to a better understanding of the complexity of the ASM setting and to describe the political economy of the Madre de Dios gold rush in the heart of the Amazon.

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13

Digging into the Mining Subculture: The Dynamics of Trafficking in Persons in the Artisanal and Small-Scale Gold Mining of Peru's Madre de Dios

Dolores Cortés-McPherson

Introduction

There has been a considerable international concern over the expansion of trafficking in persons in the supply chain of commodities, including gold. A fifth of gold extraction worldwide is provided by artisanal and small-scale gold mining (ASGM), which is often outside government oversight and international compliance schemes. Although ASGM contributes to economic development and provides jobs to the poor, the lack of government control and regulation of this sector makes it socially destabilizing and welcomes crimes such as trafficking in persons.

Over the last decade, the nexus between trafficking in persons and the supply chain has captured the attention of the United Nations (UN), the Organization for Security and Co-operation in Europe (OSCE), and other international organizations. The topic has been included in the UN's Sustainable Development Goals (SDGs) set in 2015 as blueprint to achieve a better and more sustainable future. The central importance

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of decent work for all in achieving sustainable development is emphasized by the Sustainable Development Goal 8 (SDG 8), which aims to “promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all” (SDGs, n.d.).

Trafficking in persons has also gathered significant scholarly attention, though the literature has overwhelmingly concentrated on international trafficking of women for sexual exploitation (Andrees & Linden, 2005; Cockbain, Bowers, & Dimitrova, 2018; Laczko & Godziak, 2005), with only a small body of scholarship on trafficked men and boys. The abuse and extreme occupational hazards suffered by trafficked male victims, however, cannot be disregarded. Occupational health and safety interventions are urgently needed to protect male workers, particularly undocumented migrant laborers among them, working in high-risk, under-regulated, and labor-intensive sectors, such as ASGM. Having been ratified by 175 States Parties, the United Nations Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (henceforth, the Trafficking Protocol), supplementing the United Nations Convention Against Transnational Organized Crime (UNTOC), standardized the concept of human trafficking worldwide, creating a common legal understanding of the crime, incorporating both sex and labor exploitation of both men and women, boys and girls, and children, set forth in Article 3:

Trafficking in persons shall mean the recruitment, transportation, transfer, harboring or receipt of persons, by means of the threat or use of force or other forms of coercion, of abduction, of fraud, of deception, of the abuse of power or of a position of vulnerability or of the giving or receiving of payments or benefits to achieve the consent of a person having control over another person, for the purpose of exploitation. Exploitation shall include, at a minimum, the exploitation of the prostitution of others or other forms of sexual exploitation, forced labor or services, slavery or practices similar to slavery, servitude or the removal of organs.

The Trafficking Protocol also broke down the key elements of the trafficking process, namely (a) the *activity* by which the victim is recruited and transported (recruitment, transportation, transfer, harboring, receipt, etc.); (b) *means* by which he or she is controlled,

forced into the specific form of exploitation (violence, threat of violence, coercion, abduction, fraud, deception, abuse of power or position of vulnerability, etc.); and (c) *purpose* which involves exploitation (sexual exploitation, force labor, slavery, involuntary servitude, organ removal, etc.). Since its inception, this definition has been used as a cornerstone of legislative amendments and policy reform designed to prevent, respond, and punish trafficking in persons.

This chapter focuses on the analysis of labor exploitation of unskilled and semi-skilled mine workers, including adolescents and children, laboring at informal and illegal gold mining sites to no avail in remote areas of Madre de Dios in the Peruvian Amazon. This chapter makes use of the term “worker” and “workforce” to refer to unskilled and semi-skilled miners, which comprise the majority of the labor, force in informal gold mining in Madre de Dios. These terms have been chosen to distinguish victimized mine workers from those who own the means of production and/or those who have started the formalization process with the Peruvian authorities.

The analysis presented in the chapter is informed by two analytical frameworks: one on the role of *ethnic diasporas*, which is used for shedding light on the recruitment of victims in exploitative labor; and the other on a *mining subculture*, which is used to explain one of the key aspects of how the exploitation of mine workers is prolonged.

The qualitative analysis offered in the chapter is informed by Antonela Arhin’s approach to exploited workers’ recruitment, which, she argues, is based on ethnic diasporas (Arhin, 2016). In her analysis of over 70 court cases focusing on the trafficking of adults and children for labor exploitation filed between 2004 and 2014, she confirmed that traffickers often rely on diaspora networks in the recruitment, transportation, and exploitation of the victims. She emphasizes the strong ties between the nationalities of traffickers and victims, as well as traffickers, intermediaries, and collaborators. Arhin (ibid.) found that most traffickers prefer to recruit co-ethnics and that the first stage of the trafficking process, the *activity*, as defined by the Trafficking Protocol, is determined by what she calls the “affective economy of co-ethnic identification” (p. 82), which refers to particular cultural and socioeconomic settings of shared

ethnicities of groups that have common ethnic and national traits, identities, and affinities. These findings echo the results of previous studies on the topic, such as Jackie Turner and Liz Kelly, who argued that traffickers tend to recruit co-ethnics to “minimize costs and maximize profits,” in the same way that other victims fall into deceptive situations after trusting community members and friends (Turner & Kelly, 2009). This trend is demonstrated in informal gold mining in Madre de Dios (Cortés-McPherson, 2019), where the workforce is recruited using local diasporas. Hence, the beginning of the trafficking process is ethnically and culturally determined.

Since the 1990s, anthropologists working in sub-Saharan Africa discovered that artisanal miners expressed a particular form of masculinity, which had a strong influence on the way they behaved both in their workplace and during their spare time (Cuvelier, 2014). Some scholars have written about miners going through a male *initiation ritual* into a particular *habitus*—a term borrowed from renowned sociologist, anthropologist, and philosopher Pierre Bourdieu (1984). The latter should be understood as a “system of dispositions” and “the physical embodiment of cultural capital,” such as ingrained habits, moral positions, as well as consumption patterns and leisure activities. *Habitus* is formed through socialization and is informed by the individual’s cultural milieu and personal history (e.g., ethnicity or profession) (Grätz, 2004; Walsh, 2003; Werthmann, 2008). For example, Andrew Walsh described a sapphire-mining town in Madagascar, where young mine workers earn little and consume “daringly” to sate immediate desires (Walsh, 2003). In a similar vein, Jeroen Cuvelier’s (2017) research on the mining subculture in Katanga, the Democratic Republic of the Congo (DRC), sheds light on the functions of a “moral economy where money, migration, and masculinity shape work relations” and social interaction (Cuvelier, 2017, p. 204). The “conspicuous consumption of money,” writes Cuvelier, is one of the central pillars of the mining subculture that makes “credit and debt dominate life on the mines” (ibid.)

While Arhin’s perspective is of helpful in framing the *activity*, the first element of human trafficking, expressed in the recruitment and transportation of victims, and Walsh’s and Cuvelier’s studies elucidate the *means*, the second element, which facilitates the understanding of how

miners are captured and retained in exploitative conditions. Once in the mining camp, informal miners are controlled and retained by *soft coercion* brought about by a parallel illegal entertainment industry that encompasses the sexual exploitation of women and girls, and heavy alcohol consumption. Whereas the victims of human trafficking are commonly exploited through direct coercive means, such as physical violence or deception, there are numerous forms of coercion that prevent victims from leaving their exploitative situation. This chapter argues that the particular subculture in gold mining camps of Madre de Dios embraced the noncoercive, “soft” means to control male workers, whereby they find themselves dragged into “daring consumption” (Walsh, 2003) and a “life of excess” (Cuvelier, 2017). In doing so, they spend recklessly on alcohol and sex, digging themselves into a debt and thus perpetuating their own exploitation by creditors. Importantly, this particular mining subculture encourages the sexual exploitation of girls and young women. This chapter demonstrates that fake job offers lure women from all over Peru and neighboring countries into working in *prostibares*—bars that also offer sexual services—in the mining camps of Madre de Dios, making the entire gold mining region a hub for organized crime and trafficking in persons. It is in this geographical space that two parallel irregular economies—one based on labor exploitation and the other based on the sex trade—feed on each other.

In line with this argument, the chapter first analyzes the complexity of informal gold mining in general and the extent to which the exploitation of labor and the sex trafficking industry has penetrated informal mining in the Madre de Dios region in particular. After that, it describes specific aspects of the Peruvian context, focusing on the role that ethno diasporas, the consumption of alcohol by miners, and the illicit sex trade play in perpetuating the exploitation of unskilled miners and the trafficking of girls and young women. The chapter concludes with a short review of the anti-trafficking legislation and policy in Peru, in light of the interplay between labor exploitation and the illicit sex trade.

The chapter builds upon previous research conducted by the author (e.g., Cortés-McPherson, 2019), including fieldwork carried out in the Madre de Dios region in 2013 and 2018 as part of her doctoral studies at the University of Deusto, Spain. The findings also derive

from the data collected from interviews with miners, representatives of nongovernmental organizations (NGOs) and local authorities, among other relevant stakeholders, which were conducted in Madre de Dios and Lima during the author's employment at the International Organization for Migration (IOM) in a capacity of trafficking in persons focal point for the Andean Region.

Major Patterns of the Exploitation of Workers in Informal Mining

On January 7, 2014, *The Wall Street Journal* published an article entitled “How Companies Face Up to Human Trafficking Risk,” commencing with a reference to the use of forced labor within Apple's iPhone 5 supply chain and followed with a statement warning that “few things are worse for a company or an industry than to be associated with human trafficking or slave labor” (DiPietro, 2014, n.p.). There are about 40 million victims of modern slavery today (ILO, 2017), and the volume of trafficking for forced labor has grown across all industries (UNODC, 2016, 2018). It comes as no surprise that trafficking in persons for both labor and sex is of concern to businesses. As Siobhan McGrath and Samantha Watson (2018) put it, trafficking in persons plays an important role in contemporary global economic dynamics and consumer relations (McGrath & Watson, 2018).

With almost three quarters of the Earth's gold deposits already exhausted, global gold production has doubled over the last 50 years, soaring from approximately 1500 tons per year to almost 3000 tons annually (Rossi, 2016). In less than a decade (2003–2011), the price of the precious metal increased by 417%, stimulating the expansion of ASGM to a fifth of the global output—equal to an estimate of 400 tons (USAID, 2017). Defined as “low-tech, labor-intensive mineral exploration and processing” (Hilson & McQuilken, 2014, p. 104), the ASGM sector employs between 14 million and 30 million people, and contributes to the alleviation of poverty in gold-rich developing countries (Buxton, 2013; Labonne, 2014). However, the lack of government oversight and the persistently high prices for gold globally, has occasioned the

unrestrained expansion of mining camps, creating severe environmental and social problems, including the trafficking of persons for labor and sex.

However, the most recent data from the United Nations Office on Drugs and Crime (UNODC, 2018), indicates that the share of victims of trafficking for forced labor has remained stable at about 34% (compared to 59% for trafficking related to sexual exploitation, and 7% for trafficking related to other illicit activities). In its 2016 Global Report on Trafficking in Persons, the UNODC (2016) noted that over the last 10 years, the profile of victims has considerably changed: the ratio of forced labor (four out of every 10) and the number of trafficked male victims have increased from 13% in 2004 to a total of 21% in 2014. The most recent Global Report on Trafficking in Persons (2018) notes that more than half of the victims of trafficking for forced labor are men. The crime is also increasingly perceived as a domestic phenomenon, 42% of victims are trafficked inside their own countries (UNODC, 2016). Importantly, the 2016 report suggests that “traffickers and their victims often come from the same place, speak the same language or have the same ethnic background. Such commonalities help traffickers generate trust to carry out the trafficking crime” (ibid., p. 6). Another important aspect of the bond between traffickers and victims is that family ties play an important role in the perpetration of victimization. The 2016 report extrapolates that family ties are sometimes abused in situations when “relatives entrusted with the care of a family member ... break their promise and profit from the family member’s exploitation” (ibid., p. 10). Today, criminal justice practitioners globally become more aware of the diversity among victims and a large pool of the trafficking means, yet the policies of some countries, as this chapter will demonstrate, are often behind the changes.

McGrath (2013) examined trafficking in persons patterns within the global production networks (GPNs), focusing on the exploitation dynamics of sugarcane workers in Brazil. Her study serves as a testament to the fact that labor trafficking is part of the current global economic system that reproduces oppressive and degrading employment. To the GPN school of thought represented by McGrath, among other scholars (Barrientos, Kothari, & Phillips, 2013; LeBaron & Howard,

2015; Phillips, 2016), the fact that labor may be “voluntary” at the point of entry does not mean that the work relation would be consensual at a later stage. In this case, the person’s prior consent to work for an employer is considered irrelevant—the employer becomes a trafficker and the employee is turned into a victim of trafficking. The notions of “consent” and “voluntariness” are questioned within this paradigm, which postulates that workers’ vulnerabilities and lack of options explain why they agree to exploitative arrangements. These views are shared by advocates of a *global value chain framework* that focuses on the negative impact that global economics is having on labor standards (Crane, LeBaron, Allain, & Behbahani, 2019).

Unskilled miners are easy prey for traffickers. With a focus on the South African industrial gold mines, Sarah Steele highlighted the fine line that separates poor working conditions from trafficking in persons (Steele, 2013). She pointed out that there is a general assumption that abusive working conditions might constitute a violation of labor rights but not necessarily trafficking. Workers’ vulnerability and lack of viable alternative options are disregarded as an explanation to accept abusive labor practices, but, as Steele (2013) clarifies, “if an employer exploits the worker’s lack of alternatives, this could constitute abuse of power or a position of vulnerability, thereby fulfilling all three conditions (activity/means/exploitation) of the crime” (p. 668).

Adolescents and children are also an integral part of the mining workforce. In her key work on modern slavery, Alison Brysk expresses her concern over the expansion of child labor in the informal mining industry:

Some 20% and 30% of the world’s gold comes from artisanal mines through Africa, South America, and Asia [and] of the two million children who work in goldmines worldwide, many are forced, often through debt bondage, to do back-breaking work in hazardous conditions ... Child laborers in gold mines face a number of dangers in: West Africa, children rub mercury into their hands before sifting soil through their fingers. In South America, children reportedly wash gold while standing in waist-deep water contaminated by mercury. Prolonged mercury exposure causes retardation, blindness, kidney damage, and tremors. (Brysk, 2012, p. 80)

Within the ASGM literature, the use of children in mining has been approached in the context of the subsistence livelihoods of families whose members, including children, resort to informal mining to escape poverty (Hilson, 2008; Maconachie, 2011). Children undertake dangerous work, often in hazardous conditions, which exposes them to extreme health and safety risks (ILO, 2015). Deprived of formal education and their habitual living environment, child victims of labor exploitation face serious difficulties to integrate successfully into society outside of the mining camps (Hilson, 2008).

Children are known to have been involved in services related to mining, including work in shops, restaurants, and motorcycle and tire repair. Exploitative practices in activities indirectly related to ASGM also include exploitation of women in sexual services. Very little attention has thus far been directed to the trafficking of men into extractive industries (particularly ASGM, most of which is either informal or illegal), and the role of mining camps as sex trafficking hubs. The urgent need for artisanal miners, however, creates distinct migratory patterns that also create a demand for sex workers, which in turn propels the trafficking of girls and young women to satisfy the demand in mining settlements (Hidrón & Koepke, 2014). “Criminal gangs, realizing the profits to be made from the sex industry around mines,” are known to have turned to forcing, coercing, or deceiving women and girls into the sex trade (Steele, 2013, p. 666). As a result, there emerges “a toxic combination of vulnerable men and women,” whose appalling exploitation tarnishes the reputation of artisanal mining and undermines its potential to create viable livelihoods for local communities (ibid.).

Exploitation of Male Workers in Peru’s Artisanal and Small-Scale Gold Mining

Peru is the largest gold producer in Latin America, and sixth in the world with a registered volume of 166 tons in 2016, approximately 20% of which comes from ASGM operations (Torres Cuzcano, 2015). ASGM takes place in all 25 regions of the country, but in Madre de Dios ASGM comprises almost 80% of this volume, with an estimate of 20 tons per

year. In 2018, based on a study of satellite images taken between 1985 and 2017, the Center for Amazonian Scientific Innovation (Centro de Innovación Científica Amazónica, CINCIA) reported that in the last 34 years, ASGM has caused deforestation of over 95,000 hectares of rain forest in Madre de Dios (CINCIA, 2018). In addition to human trafficking, this sector has also been associated with organized crime, such as drug trafficking (Ambrus, 2016; GI-TOC, 2016, 2017; Verité, 2016).

It was not until 2010 that the Peruvian government reacted to the problem of ASGM. It enacted the Executive Order (No. 012–2010) designed to formalize informal gold mining and eradicate illegal mining sites located in protected areas and waterways. The government tried to toughen illegal mining laws, by means such as declaring ASGM an organized crime activity, and has offered incentives to illegal miners so they will register their activity. These legislative and policy initiatives involved 30 governmental agencies and included over 70 laws, primarily meant to promote mainstream formalization and eradicate illegal sites located in natural reserves or bodies of water.

The United States Department of State has repeatedly reported on the existence of male labor trafficking in the Peruvian ASGM in its *Trafficking in Persons Reports*. In February 2017, Peru signed a memorandum of understanding (MoU) with the United States, to reduce illegal gold mining and associated crimes, including trafficking in persons. The same year, the United States committed USD 5 million to fight child trafficking in Peru (US Embassy in Peru, 2017). In its 2018 report, the US Department of Labor listed Peru as one of the three countries¹ where gold is produced using forced labor by children and adults (US Department of Labor, 2018), while Verité (2016), an NGO dedicated to fighting against trafficking in persons, found evidence of widespread exploitation of miners for forced labor. In 2011, Gulnara Shahinian, the United Nations Special Rapporteur on Contemporary Forms of Slavery, visited Madre de Dios and recommended that the Peruvian government provide better safeguards to the mining workforce, many of which, she claimed, were living and working in slavery-like conditions (Shahinian,

¹The other two countries are Burkina Faso and the Democratic Republic of Congo (DRC).

2011). For years, international humanitarian organizations have documented human trafficking cases associated with ASGM (Barrantes, 2014; CHS Alternativo, 2012; Global Witness, 2012; Mujica, 2014; Novak & Namias, 2009; Ojo Público, 2019; Salazar & Castro, 2018).

It is impossible to measure the extent of trafficking in persons in Madre de Dios. The area has attracted between 30,000 and 50,000 unskilled mine workers, most of whom are subjected to some degree of exploitation. The unskilled workforce of miners includes different categories of workers, such as *macheteros* (cutters) who clear trees before gold mining operations can be started, *carreteros* (carters) who transport rocks and clean soil, *buzos* (divers) who dive with hoses hooked to water pumps used to collect gold-bearing particles of sand (Verité, 2013). These workers spend hours submerged in pools of water contaminated with fuel, mercury, and other toxics (Picture 13.1).

Other types of semi-skilled workers are truck operators, as well as *maraqueros* who operate the pumps, mix mercury with water in order to cause the microscopic gold particles to condense into globules, and then sort through the mercury-covered particles with their bare hands to pick out the gold (ibid.).

In 2009, the IOM published the first report on the subject, providing testimonies that illustrated how miners were deceived and coerced (Novak & Namias, 2009). According to the IOM, they were recruited with the promise of being paid every three months, but their salaries were never paid. The following testimony reveals a dynamic that applies to the current state of affairs:

We arrived, the patron Don Quispe (the boss) told us that they will pay us after every 90 days of work, and that for each 30 days, they will pay PEN 500 (approx. USD 148) so, after 90 days, we would had received PEN 1,500 (approx. USD 444). We were excited. We had never thought of earning so much money and for that reason we were very happy. We started working. After the 90 days, when we asked for our payment, the *chacal*² told us that the patron was coming over during the weekend. With that hope, we continued working. When the patron came, we asked

²The term *chacal* (jackal or wolf) is used to refer to middlemen in charge of operations, who are known for rendering brutal violence against their victims.



Picture 13.1 A *Buzo* diving in a search of gold (Photo credit Carmen Barrantes)

him to pay us, he said that he was going to pay the following week. Two weeks after the agreed 90 days had passed, we started to complain and demand our payment. Every time that we went to ask for our money, the *chacal* threw us away, and if we insisted, he threatened with beating us up. (ibid., p. 51) [Excerpt translated from Spanish by the author.]

In 2014, the International Labour Organization (ILO) conducted a survey in the neighboring region of Cusco, from where most mineworkers are recruited (Sanz, 2015). The survey used the ILO's

forced labor indicators³ to measure the extent of the problem. It found that 25% of the workers were deceived about the tasks they would perform once employed. Many were threatened with having their payment seized (13%), had their IDs confiscated (13%), or were locked down (2%). A quarter of the surveyed men had to pay back living expenses or cover the damage caused to equipment. Many miners were paid late (29%), or were not paid at all.

83% of miners working every single day in the mines (31%), some working 24-hour shifts (12%), were directly exposed to hazardous work conditions (e.g., explosions, landslides, exposure to mercury, and other toxic substances), had to work without basic safety equipment (e.g., boots, helmets, gloves, or masks), and had no health coverage. The survey also revealed that mining camps often had no access to drinking water, or the drinking water provided was too expensive. Under such circumstances, mine workers used to resort to consuming untreated water from the river or the pools created while digging for gold. Freedom of movement was also restricted. For 33% of mine workers, leaving the mining camp was also impossible due to the remoteness of the site, high costs of the scarce and dangerous forms of travel, or the absolute lack of transportation infrastructure. Almost half of them (43%) said that they were under surveillance by mine owners and their middlemen all the time while they worked and that they had restricted communication with their families.

The testimony by the United Nations Special Rapporteur on Contemporary Forms of Slavery (Shahinian, 2011) describes the trafficking process in detail:

Men and adolescents are often recruited through deception, being offered working conditions and workers' rights that are subsequently not complied with in practice. Often, the workers receive advance payments in cash or goods during their first three months of work, which are

³The ILO's indicators have been categorized in the following way: (1) deception about the nature and condition of the work; (2) confiscation of identity papers or travel documents; (3) physical violence; (4) forced overtime; (5) limited freedom of movement or communication; and (6) withholding or delay of wages, or no freedom to resign in accordance with legal requirements (Sanz, 2015).

then deducted from the salary, using a mechanism of overestimating the goods provided and underestimating the quantity and quality of the gold handed over, so that the worker is indebted to his “patron,” a situation similar to the *enganche* system seen in the logging sector. They work long hours in very dangerous conditions, are exposed to toxic substances (such as mercury) and to serious diseases (such as malaria). Workers are poorly fed and have no form of labour protection or health and social security coverage. (p. 10)

Although the involvement of children in ASGM has been decreasing, the Special Rapporteur noted that around 20% of the miners in Madre de Dios ASGM were between 11 and 18 years old (*ibid.*). No different from adults, children were at risk of serious physical injury and harm to one’s health. They breathed contaminated air and were exposed to polluted soil and water.

Internal Migration and Recruiting from Ethnic Diasporas

Although some sources originally reported on the involvement of professional human trafficking networks in the recruitment of mine workers in Madre de Dios, research based on field trips suggests the recruitment of mine workers is largely, though not exclusively, carried out by networks within familial circles and small local communities (Goldstein, 2014; Mujica & Cavagnoud, 2011; Verité, 2013). It echoes Arhin’s (2016) thesis on the *affective economy* of co-ethnic identification grounded on shared family, ethnic, and national identities, and affinities between the traffickers and their victims. Indeed, mine workers are not recruited by criminal syndicates but are enrolled by friends and family members in what workers perceive to be seasonal work. At the recruitment stage, they initially see their informal employment in gold mines as temporary and are willing to take the risk that the job may entail. In his research, Teodoro Sanz confirmed that 10% of the victimized miners were recruited by a family member, and 5% were forced to accept jobs in ASGM (Sanz, 2015).

The following testimonies support this point, exposing the interactions between victims, traffickers (*patrons*), recruiters (*uncles*), and intermediaries (*chacals/cooks*):

My uncle⁴ brought us in a truck to the town of Mazuko. We (me and two older brothers) were left with a woman. I was taken with him along the river, to the town of Laberinto. I was very scared of the river because I did not know how to swim. In Laberinto he left me with another man. He told him: “Here he is, give me the money.” He told me that I should stay with that man to work. He, *el patron* (the boss) was from the city of Cusco. The man gave my uncle the money. I don’t know how much. My uncle told me that if I do not listen, they would throw me to the river... I stayed there for five years. My uncle came from time to time, I believe every three months, to see if I was working and was given money. He came but said nothing to me. He just looked at me from afar. Martha (the cook) told me that I had been sold to the patron. I did not understand anything. (Novak & Namias, 2009, p. 51) [Excerpt translated from Spanish by the author.]

When I finished helping in the kitchen, the *chacal* sent me to wash gold in the shaft. I didn’t want to go, but Martha (the cook) helped me. She told the *chacal* that I was too young to be in the mine and that he should help. In that place they beat workers up with sticks when they do not work, and they throw stones at them to make them work harder. They also hit the cook’s son. I did not play because I was scared to be beaten up... During that time, I was very scared. They hit hard those that did not want to work or did not follow orders. One day they almost killed a worker. His name was Leo. They said that he had stolen two grams of gold, but he said it was not true. They threw him in the well and almost drowned him. They kept beating him up with a stick, they kicked him hard. They left him badly wounded. (ibid., p. 55) [Excerpt translated from Spanish by the author.]

According to the 2014 census, 80% of the miners that run an operation in Madre de Dios were internal migrants, and 50% of those came from the neighboring region of Cusco, Southeastern Peru, which is

⁴The term *uncle* in Peru does not always relate to a blood relationship.

the place of origin of the largest majority of the workforce in ASGM in Madre de Dios. They are Quechua⁵ speakers, brought into artisanal mining through family and community members. In the remote Quechua-speaking mountain regions, traffickers are able to trick parents into sending children with them. In doing so, they abuse the *padrino system*, “whereby wealthy land owners or distant wealthy relatives would offer to shelter, feed, and educate a child of a poverty-stricken family in exchange for that child’s domestic labor” (Laser-Maira, Huey, Castro, Ehrlich, & Nicotera, 2018, p. 34). Poverty and cultural isolation make these communities particularly vulnerable to deception, and many of them are recruited to work in the mines by family members or acquaintances following the co-ethnic identification pattern.

With regards to poverty, the ILO reported (Sanz, 2015) that the monthly income of the Peruvian highlands, mainly in Cusco, was PEN 243 (approx. USD 70) per family in 2014. During the five years prior to the survey, 77% of those households had been affected by severe problems (drought, freezing, floods, illnesses, accidents, etc.), and many of them were burdened with loans they could not pay back (31%). About 2% of these individuals studied did not have any means of identification. With low levels of education and socioeconomic status, *indocumentados* do not have a National Identity Document (Documento Nacional de Identidad, DNI), which means that they cannot have any formal employment in Peru or elsewhere (Wells, 2014). “In other cases, the *indocumentados* are criminals, or people suspected of having committed a crime, who are running from the law and seeking refuge in the lawless environment of the mining camps. *Indocumentados* may thus be vulnerable to labor exploitation and/or individuals who prey on others as human traffickers, robbers, armed guards, or bouncers at brothels” (Verité, 2013, p. 38). Some of these individuals were threatened by mine owners that they would surrender them to the police if they revolted against the conditions of their employment, which were clearly exploitative (*ibid.*).

⁵The Quechuan languages are an indigenous language family spoken by the Quechua peoples inhabiting the Peruvian Andes.

As in the case of miners recruited from ethno-diasporas, such as the Quechua peoples, a very similar pattern of recruitment is used for bringing young women and girls into the sex trade to satisfy the demand for sex in the mining camps. In their research, Jaris Mujica and Régine Cavagnoud (2011) research found that the girls exploited in *prostibares* for sex were related to the owners of the restaurants who acted as their godmothers or aunts (Mujica & Cavagnoud, 2011). Through their cultural perspective, they protected their relatives, with exploitation being part of the custodial relationship and tutelage. Mujica and Cavagnoud (2011) concluded that, in the Pucallpa Port, sexual exploitation was a complementary economy to the beverage industry. Moreover, traffickers were not part of transnational networks, but local business owners that run their small restaurants and bars through family ties. In order to increase their profits, they included sexual services in their business portfolios. In her work on the sexual exploitation of women in Madre de Dios, Ruth Goldstein discovered that many of the sex workers had arrived at the mining enclave through sisters, cousins, aunts, and friends (Goldstein, 2014). She also noted that the *madams*, female masterminds of human trafficking networks, and their 250 sex workers shared co-ethnic bonds that brought about solidarity ties between them (ibid.). A Verité report concluded that human trafficking in the Peruvian ASGM is mostly carried out by family networks (Verité, 2013, p. 21).

***Prostibares*: Alcohol and Sex as a Means of Indirect Coercion**

In the heart of the Peruvian Amazon, precious commodities, such as timber or gold, are smuggled through the Pucallpa Port located on the banks of the Ucayali River, on a daily basis. It is plagued with *prostibares*—hybrids between bars and brothels that operate without licenses in the mining camps and the settlements adjacent to them.⁶ *El*

⁶It should be noted here that prostitution between adults (18 years of age and older) is legal for women and men. Commercial sex services can only be rendered if the providers are registered with municipal authorities and carry a health certificate. Brothels require a license to operate.

Papillón, Miss Sagitario, El California, El Embassy are some of the evocative names given to *prostibares*. There used to be about 400 *prostibares* in Madre de Dios in 2015, in each, between 5 and 25 women, many of whom were adolescents (Yori, 2015).

Women at *prostibares* are tasked to encourage the customers to order more drinks and are forced to drink with the miners to increase the profit of this parallel irregular beverage industry. They also have to provide sexual services if requested. *Prostibares* have become pivotal spaces where masculinity is exacerbated through alcohol consumption and sexual predation of adolescents and young women. As the night falls, the enticing lights and pictures of sexually provocative women make *prostibares* an attractive destination in the mining camps.

Instead of violence, which is a common means of coercion in cases of forced labor, debt bondage seems to be most commonly used against mine workers in Madre de Dios. Miners are unable to break the trafficking cycle because their prolific consumption of alcohol and sex makes them addicted, indebted and forced to borrow from middlemen, and thus trapped in the mining camp. Not only do miners typically have to work without pay for 90-days, supposedly because of recruitment and travel expenses, but they also accrue debts for alcohol and sex services in addition to food and lodging. Some miners work unpaid for periods that far exceed the 90-days just to complete the contract and leave because of the artificially created monetary bondage.

If traditionally, trafficked victims are exploited through coercive means, the ASGM subculture has integrated noncoercive, “soft” methods for coercing and retaining a workforce. They are susceptible to falling into the trap of alcohol addiction as a way to evade the hardship of a slave-like life. Adjacent to this, women, who are recruited from the Peruvian highlands following the same pattern, find themselves in a system that exploits them. Journalist Rosario Yori spent time undercover in Madre de Dios mining camps and visited some of the *prostibares*. In her writing, she shared Mariela’s story:

Mariela says that she just turned 18 in January. (“I’m a Capricorn,” she also says with certain pride.) She has chubby cheeks, straight dark hair, and an easy, childish smile. While she is talking to us, the waiter comes

and hands her a piece of paper, a *ficha* (token), which Mariela keeps on her bra. For every drink she has with the customers, she gets a *ficha* from the owner, which she later cashes. The customers drink light beer, but the girls are only allowed to drink water, small glasses of wine, or dark beer. The drinks for the girls cost 20 soles. Only ten (USD 3) go to the girls. (Yori, 2015)

The sex trade is a parallel economy to ASGM. In 2019, the investigative platform *Ojo Público* (Salazar & Castro, 2018) analyzed over 50 notebooks seized in military operations carried out between 2016 and 2017 in the Delta 1 and La Pampa mining sites in the Madre de Dios region. Based on the notebooks, they discovered a link between the clandestine sale of beer and the trafficking in girls and young women in La Pampa. In their careful analysis of *prostibares'* revenues, they revealed that women had to drink an incredible amount of alcohol—between 15 and 24 bottles of beer every day—and sell a minimum of PEN 240 (approx. USD 70) worth of alcohol from which they received PEN 48 (approx. USD 4.15). In another investigation, the Peruvian journalist, Gabriel Arriarán, studied a notebook of one of such bar, *The Embassy*. He learned that in just a little over two weeks, the bar made a gross income of almost PEN 50,000 (approx. USD 15,000), 75% of which came to the sale of beer. Up to 15% of the revenue was made by providing commercial sexual services (Frontera Pirata, 2018).

The illicit sex trade is at the core of what Cuvelier (2017) calls a “lifestyle of excess” characterized by a mining subculture where money, migration, and masculinity are celebrated through the exploitation of women. Mineworkers fall into debt bondage, where they are encouraged to spend what they earn wastefully just to prolong their exploitation. In this subculture, mine workers’ exploitative labor is deeply intertwined with the sexual exploitation of women. These two forms of human trafficking feed on each other, blurring the boundary between mine workers, as victims of labor exploitation on the one hand, and mine workers as consumers of illicit commercial sex, thus promoting the sexual exploitation of women, on the other.

Peru's Steps Toward Bringing an End to Human Trafficking

Peru has made decisive legislative and policy-level steps toward the elimination of trafficking. It has signed and ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children (Trafficking Protocol), along with other relevant international treaties, including the following ILO Conventions: The Forced Labor Convention (No. 29), the Abolition of the Forced Labor Convention (No. 105), and the Worst Forms of Child Labor Convention (No. 182). The Peruvian government also increased the penalties for crimes related to human trafficking. Article 153 of the Peruvian Penal Code prohibits all forms of trafficking in persons, with penalties up to 15 years of imprisonment. In January 2017, the Peruvian government, in its Legislative Decree No. 1232, amended the penal code with the introduction of the slavery offense (art. 153–C) and forced labor (art. 168–B) as other criminalized forms of human exploitation, prescribing sentences of more than 25 years in cases with aggravating circumstances, such victim's death while in an exploitative situation.

In addition to the legislative amendments, Peru has a comprehensive plan to bring an end to human trafficking: the National Plan to Fight Human Trafficking 2017–2021 (Plan Nacional contra la Trata de Personas, Plan Nacional 2017–2021). However, the limited budget for its implementation, mostly oriented to law enforcement measures (Montoya Vivanco, 2017), made the fulfillment of many anti-trafficking goals impossible. The cut in the anti-trafficking budget was particularly felt in the realms of victim protection and assistance to the rescued victims. For instance, between 2016 and 2017, the Peruvian police rescued 481 female victims of labor and sexual exploitation in *prostibares* from the Madre de Dios region. They were sent back to their places of origin without adequate legal, social, or psychological assistance. In her research, Barrantes (2016) exposed how the rescued women were often revictimized by the authorities, who placed them into appalling conditions at rescue centers where women were confined against their will. Many of the rescued women decided that trafficking, although exploitative, gave them a place to sleep and some money. Thus many of them

considered going back to the mining camps because of the lack of a viable alternative (Salazar & Castro, 2018).

As in many other countries, the Peruvian anti-human trafficking policy followed a security approach centered on fighting sexual trafficking of women being trafficked by international networks. With the time, and through key research such as the one carried out by Mujica and Cavagnoud (2011), it was generally accepted in the country that human trafficking was a predominantly domestic issue that complemented local economies, such as ASGM prominent in Madre de Dios. Yet the government policies, as for the allocation of resources mainly to law enforcement measures, failed to reflect this change.

In 2010, the Madre de Dios government supplemented the national policy for bringing an end to human trafficking with its own regional strategy to fight human trafficking that was updated in 2018. Following the principles and objectives set forth in the Plan Nacional 2017–2021, the Regional Plan Against Human Trafficking in Madre de Dios 2018–2021 (Plan Regional contra la Trata de Personas de Madre de Dios 2018–2021) included broad measures to harmonize the anti-human trafficking policy with the national attempts to formalize ASGM. However, this did not translate in tangible results due to the failure to direct financial and technical resources to the implementation of this strategy. It is anticipated that the enforcement of laws against crimes facilitating sex trafficking, such as illegal mining, could also help decrease the demand for illicit commercial sex services.

In May 2018, police and prosecutors conducted a raid in the mining town of La Pampa—allegedly the biggest illegal gold mining camp in the Amazon—that led to the arrest of seven suspected traffickers. In February 2019, the government launched a large-scale operation, called “Operation Mercury,” to expel illegal miners from La Pampa, particularly the Tambopata National Reserve, where mining is strictly prohibited. In this long-term operation scheduled to last until mid-2021 at the very least, a mixed force of the police officers and soldiers was deployed: among the more than 1500 criminal justice sector officials involved in the operation, there were 20 police and 10 prosecutors from anti-trafficking units (ibid.).

In the raids carried out to destroy illegal operations and the makeshift settlements in La Pampa, law enforcement officials expected to rescue hundreds of women, but they only found 120, 63 of which were minors. After being rescued, these women did not receive appropriate support and protection, and many chose to move to other mining camps. This is the unfortunate outcome of the underfunded and incomplete policy, whereby the government of Peru carried out rescue operations without providing sufficient victim assistance programs. Among other policy gaps is that rescuing exploited male workers seems to have never become a priority. In the ASGM camps of the Amazon rainforest, male mine workers are often seen as the cause of social unrest, sexual exploitation, and environmental damage, rather than victims of labor exploitation. The Plan Nacional 2017–2021 contemplates all forms of exploitation, but it is mostly focused on problems related to the trafficking of women for sexual exploitation. The interpretation of human trafficking as a security problem primarily related to the sexual exploitation of women by human trafficking networks—as featured in several emblematic cases of Peruvian women trafficked to Japan, the United States, and several European countries—does not reflect the present reality.

Conclusion

The chapter examines the dynamics of exploitation within the ASGM workforce as part of the new geography of gold mining in the current global production system. Through the analysis of ASGM in the Peruvian Amazon, it exposes the emergence of a mining subculture where the workforce is exploited, not only through common coercive means, but also through noncoercive ones. This subculture is characterized by male workers trapped in a world of alcohol consumption and sexual predation, bringing harm to girls and young women, while putting themselves in debt to the point of no return. These exploited workers find comfort in *prostibares* (unlicensed bars/brothels), which become a pivotal part of the mining subculture, where money, migration, and masculinity shape working relations and encourage miners to spend what they earn, thus perpetuating the exploitation cycle.

In the ASGM sector, a new moral economy has emerged, characterized by the complexity of the interactions of different actors and the development of parallel irregular industries. Women are trafficked with the dual purpose of sustaining a booming illicit alcohol industry and to offer sex to miners. That said, and as it has been demonstrated for other parts of the Peruvian Amazon, the sexual services provided in *prostibares* are part of local economies based on selling alcohol, instead of lucrative businesses run by transnational crime networks, which we usually think of in relation to human trafficking. These subeconomies have become part of the ASGM landscape and are pivotal venues where the subculture takes shape. As such, artisanal mining in Madre de Dios is not just a male-dominated profession, it is a male-dominated, masculine or “machismo” subculture that promotes the exploitation of girls and young women.

Despite the fact that Peru’s government officials refer to the human trafficking in Madre de Dios mining sites as a major issue, trafficking is still mainly perceived to be a form of sexual exploitation of women which were ought to be “rescued” while carrying out military operations aimed at eradicating illegal gold mines. The exploitation of male workers in ASGM has not been seen as a serious problem that requires both prevention, intervention (rescue), and victim assistance programs. The exploitation of men working in ASGM is deeply intertwined with the sexual exploitation of women. These are the two illegal economies that feed on each other, perpetuating the exploitation cycle. Any successful strategy to bring an end to human trafficking in Peru must take this complexity into account.

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Peru: Curtailing Smuggling, Regionalizing Trade

Dolores Cortes-McPherson

7.1 INTRODUCTION

“I am like Pablo (Escobar), coming to Ecuador to get coke” boasted Juan Pablo Granda in an intercepted WhatsApp message (InSight Crime 2018). The skillful smuggler of gold likened his criminal acumen to that of the infamous Colombian drug lord, and while his charisma may have fallen short, the volume of the illicit business at stake did not. Granda was the operations manager and middleman for NTR Metals, a US-based refinery to which he helped smuggle over USD 3.5 billion worth of South American gold over a four-year period (2013–2017) (Castilla 2014; Gibbons 2017). Sourced from unregulated artisanal and small-scale gold mining (ASGM) in Peru, the mineral was laundered into the supply chain using shell companies. At first, it was shipped by air from Lima, but to avoid newly enforced controls deployed at Peruvian airports, in 2014 the merchandise began to be smuggled regionally by land into neighboring Andean countries before reaching its final destination.

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Granda is not the only unscrupulous character to have been associated with the gold industry in recent years. In 2017, Bloomberg dedicated an extensive feature article to the related case of the Chilean gold smuggler Harold Vilches. Headlined “How to Become an International Gold Smuggler,” the piece unraveled the epic journey of the 23 years old Chilean who, at 19, had set up the largest gold smuggling ring in South America with a reach that extended to Dubai, and attempts to smuggle African gold. The allure of the story is such that Vilches, under police surveillance in Chile, signed a film contract with an award-winning Hollywood producer.

Granda and Vilches are part of a network of middlemen linked to one of the largest gold syndicates in South America. This case reveals how the gold production system mutates in response to regulations, highlighting the complexity of effective policy development. In 2012, the Peruvian government developed an aggressive strategy to regulate ASGM which, besides the formalization of mining operations, considered trade management measures including improved surveillance of the ways in which gold was exported to other countries. In 2013, the Peruvian authorities seized 508 kg of gold at the Jorge Chávez International Airport in Lima (Castilla 2014), which was waiting to be cleared and sent to six Refineries abroad. The seizure was a turning point. From that point on, smuggling networks began to move their gold “by motorcycle, by mule, by armored car, and never the same way” to its final destination in neighboring Andean countries (Reuters 2014).

Despite the media coverage, the way in which ASGM-gold finds its way into global markets has not attracted much academic interest. Taking the case of Peruvian ASGM, this chapter lays bare some of the dynamics in this critical section of the global gold production system. More precisely, it demonstrates how the gold trade has responded to policy measures destined to curtail smuggling. Rather than advancing the formalization of the gold trade, these policy measures have paradoxically contributed to the increased infiltration of illicit buyers, traders and exporters (FATF 2015; GIATOC 2017). This chapter uses secondary literature and data collected in the field as part of the author’s Ph.D. research. It is divided in two sections. The first illustrates trends pertaining to the contraband of gold within the global production system. The second zooms in on the case of Peruvian ASGM to demonstrate the flexibility of the global production system in reacting to pressures. It ends with a discussion and conclusion.

7.2 SMUGGLING OF GOLD IN THE GLOBAL PRODUCTION SYSTEM

Much of the existing literature on illicit markets has overlooked the issue of gold. For example, it is notably absent from the list¹ of universally smuggled goods Hartnett and Dawdy's (2013: 43) compiled while examining the "archeology of the illegal and illicit economies" and Levi's (2018) inquisitive analysis of the anti-money laundering regime. Yet the gold economy exemplifies like no other Hartnett and Dawdy's claim that "most markets are grey, not black or white" (2013: 37), as part of a system in which formal, informal and illicit economies are interdependent (Halperin 1994). Illegally sourced gold is laundered and smuggled into the global market through a myriad of intermediaries. Before reaching its final destination, the mineral navigates multiple layers of actors across different countries. In this process, airports have become bottlenecks where gold can be seized, and illicit actors apprehended.

The Global Initiative Against Transnational Organized Crime (2016) identifies smuggling as occupying a unique position in the gold supply chain because it serves a dual purpose: generating profits and moving funds. Based on data compiled by the United Nations Office on Drugs and Crime and INTERPOL (2011), an estimated USD 2.3 billion worth of gold was laundered globally in 2010, but according to the 2016 report of the United Nations Environment Program Annual Report (2016: 7), ASGM global extraction and trade generates between USD 12 and USD 48 billion annually. In Latin America alone, this sector is worth an estimated USD 7 billion per year.

Gold is particularly appealing to criminal networks not only because it is highly lucrative, but also because it offers additional benefits: It transits between the legal and illegal sectors, can easily be blended into the legal economy and carries lighter sentences if detected (GIATOC 2017). Gold is, therefore, an extremely attractive vehicle for money laundering because it provides "a mechanism for organized crime groups to convert illicit cash into a stable anonymous, transformable and easily exchangeable asset to realize or reinvest the profits of their criminal activities" (FATF 2015: 3). Some drug trafficking organizations are already in the gold business in Peru and Colombia (GFI 2017; Rettberg and Ortíz-Riomalo 2016). In 2015, the Financial Action Task Force (FATF) published a special report on money laundering and terrorist financing associated with

gold which confirmed that organizations, such as Al-Qaeda, the Revolutionary Armed Forces of Colombia (FARC), the Liberation Tigers of Tamil Eelam (LTTE) and Hezbollah, were active in the gold economy (FATF 2015).

With that in mind, the intricacies of the gold trade undoubtedly present a challenge to policy makers. As it will be shown through the analysis of the ASGM regulatory process in Peru, measures taken to prevent the illegal export of gold ultimately stimulated unregulated cross-border trading with the participation of neighboring Andean states. A similar pattern of regionalization has been described within the Great Lakes Region (GLR) of Africa, where illegally sourced gold from Tanzania and the DRC is smuggled regionally to reach Refineries in the United Arab Emirates (UAE) (Geenen 2015). At the very end of the supply chain, India, the largest consumer of this metal worldwide has also witnessed how illicit actors have adjusted to regulations imposed to prevent the mineral being illegally introduced through its borders. These scenarios illustrate the changing nature of the global gold production system and how it adapts to new dynamics and players. The case of India, in particular, sheds light in that regard.

7.2.1 *India: At the Other Side of the Production System*

In 2013 the Indian government rose the import duty of gold by 15% to balance a record account deficit. This measure prompted a 300% increase in its contraband and the emergence of syndicates which, in 2014, smuggled 700 kg of this metal daily. Gold made its way into the country by air hidden in hand luggage and body cavities and by other methods used to circumvent customs controls at airports (BBC 2014). The syndicates use trade misinvoicing, a practice that the Global Financial Integrity (2019) estimates accounts for more of 87% of measurable illicit financial flows worldwide, to smuggle large quantities of gold. They also make use of diasporas to transport the mineral within the vast air traffic landscape in such a large and densely populated country. The *modus operandi* of these syndicates is illustrated in more details in the following example (FATF 2015).

In 2014, the French Police carried out an investigation into a syndicate being run by an Indian national and involving five countries: Morocco, Belgium, the United Arab Emirates UAE, London and India. The profitability of this illicit business rested on the conversion and resale of

untaxed smuggled gold. The metal was purchased at EUR 31 per gram in Belgium and resold for EUR 36.32 per gram in Dubai or India (FATF 2015). The syndicate bought the gold in Belgium with cash obtained in France from the sale of Moroccan cannabis (EUR 10 million in a six-month period). The investigation established two main routes. In the first, gold was sent to Dubai where it was laundered and officially exported. In Dubai, the metal was declared to customs using false invoices. In the second, gold was transported from Belgium via the hub airports of Bangkok and Singapore. In both routes, tickets and fake documentation provided by an Indian-based travel agency were distributed to family members who carried the mineral with them on the airline. The investigation traced up to 200 tickets used by the same person traveling between Dubai and India over a four-year period.

On receipt of the money, the Indian national arranged the transportation of the cash by car to Belgium where it was used to purchase gold and jewelry. The bulk of the cash was deposited in cash into the different accounts of companies associated with an identified gold trader and used to purchase gold from a wholesaler. False invoices generated by the Indian national (in the name of companies set up by him) were used to support the transactions on the gold coins and ingots as well as gold certificates. (FATF 2015: 7)

India has clearly become a major player in the global gold production system. It is now the largest purchaser of Peruvian gold with a 30% of the registered production, that is a 53% increase from the previous year. India's share of Peruvian gold exports is above traditional buyers like Switzerland and the United States whose imports declined by 12 and 5%, respectively (SIICEX 2019). Another key actor in this system is the UEA, whose gold imports increased from 67 tons (worth USD 1.6 billion) in 2006 to 446 tons (worth USD 15.1 billions) within ten years (Reuters 2019). Dubai has managed to capture 25% of the global gold trade in spite of Resistance from the London Bullion Market Association (LBMA) which has repeatedly raised concerns over Dubai's weak customs procedures and reputation for hand-carried gold smuggling; however, this reaction can also be interpreted as an attempt to maintain the status quo in a global gold market dominated by the LBMA-listed Refineries.

The core of the gold production system lies in gold-rich countries, a fifth of the mineral being sourced in the unregulated mines of developing countries. In Africa, the Tanzania Mineral Audit Agency (TMAA) was created in 2009 to monitor smuggling. To do so, the agency established auditing desks and special agents in main airports. Located at departure gates with additional X-ray machines, TMAA agents are vigilant to suspicious passengers. The units target special flights, mainly those heading to the United Arab Emirates (UAE) and India (Blore 2015). To avoid these controls, smugglers began to send the gold through Kenya and within the Great Lakes Region.

7.3 THE REGIONALIZATION OF THE PERUVIAN ASGM COMMODITY FRONTIER

In 2013, Peru ranked among the top 20 best performing countries on the anti-money laundering index issued by the Basel Institute on Governance. According to Mújica and Galdós (2016), however, the ranking did not accurately indicate the extent of the problem or the effectiveness of the National Plan to Combat Money laundering because it measured policy design without considering whether laws had been enforced. The Basel Institute has since readjusted its figures, and the Andean country has been repositioned to better reflect the extent of its illicit financial flows. In the organization's last report, Peru ranked 58th out of 125 countries (Basel Institute on Governance 2019).

The new score is undoubtedly related to improved and more accurate data gathering and processing. That said, it was only in 2012 that the Peruvian Financial Intelligence Unit (UIF) added illegal gold mining to the list of items associated with money laundering. In the space of only three years (2012–2015), the UIF registered USD 4299 million linked to this sector. This amount was almost half of the money illegally injected into the economy from 2007 to 2015, a total of USD 11,187 million. To some analysts, illegal mining seems “to generate more dirty money than drug trafficking” (Poder 2015) in a country that is one of the world's leading producers of coca (Zevallos Trigo 2017). Over seven years, USD 5125 million was accounted for by the drug economy compared to the USD 4299 of the gold economy in the space of only three years.

Article 3 of the National Mining Law (4 June 1992) states that the commercialization of gold is free in Peru. That is, anybody can buy the metal provided they obtain a traceable receipt for its purchase. Peru is

the largest gold producer of South America and ranks sixth in the world with an average extraction rate between 160 and 200 tons per year, 20% of which is sourced by ASGM. The country is considered a new gold giant, a testament to the commodity frontier's rapid expansion through ASGM. This informal sector employs 150,000 miners and provides indirect work to 300,000–500,000 people (Salo et al. 2016). To the Peruvian economist Victor Torres Cuzcano (2015) the industry is worth an average of USD 1315 million per year, a figure that amounts to between USD 3 billion and USD 5.6 billion according to The Global Initiative Against Transnational Organized Crime (2016: 18).

7.3.1 *The Peruvian ASGM Regularization Attempt*

In 2012, the Peruvian government launched a comprehensive strategy to regulate ASGM. Despite the industry's contribution to the economy and its potential to create employment opportunities for the poor, it has detrimental environmental and social impacts due to its unregulated nature. The ecological harm has been particularly widespread in the area of Madre de Dios where 110 points of illegal extraction were identified in a newly compiled map of illegal sites within the Amazon basin (RAISG 2019). ASGM leads to the deforestation and pollution of forests and rivers, and it is especially detrimental to the ecosystem due to the extended use of mercury. Mining in protected areas and water bodies is illegal in Peru, two restrictions that affect Madre de Dios greatly due to the wealth of its biodiversity and the fact that its richest deposits are along the Amazon river and its tributaries. ASGM in this Andean state has also been linked to sexual and labor exploitation, and human trafficking of children, women and men (Cortés-McPherson 2019b). In some areas, the activity becomes increasingly violent with the infiltration of criminal organizations that control access to mining camps (El Comercio 2017).

Peruvian ASGM policies are in line with the international mainstream, assuming that formalized miners will comply with fiscal, environmental and social requirements (Geenen 2012; Siegel and Veiga 2009; Verbrugge 2015). Yet, as has been the case in other countries, the Peruvian formalization process has not been successful (Salo et al. 2016). In 2012, over 74,000 miners signed up to formalize their operations, but 7 years later no real settlement was reached between them and the state. Although

the number of licensed miners has since increased, the process of formalization, mainly understood as the acquisition of “full legal and transferable mining titles to their claims” (Barry 1995), remains hampered by bureaucratic obstacles and structural limitations within the land regime (Damonte 2016, 2018; Dargent and Urteaga 2016; Pachas 2012; Perz et al. 2016).

For over a decade, Madre de Dios was responsible for 80% of the informal gold extraction in Peru. This extraordinary productivity can be partly explained by the emergence of small-scale mining entrepreneurs (Fisher 2007; Verbrugge 2014) who managed to accumulate capital, and introduced division of labor and the use of heavy machinery (Cortés-McPherson 2019a). These first miners, who had migrated from the Peruvian highlands to Madre de Dios in the early 1970s, were followed by successive waves of gold rushers with whom they competed for land. Madre de Dios has been the main focus of the eradication policy implemented by the Peruvian authorities since 2012, but military operations often targeted old miners, many of whom were already engaged in previous formalization processes. Thousands of police officers were deployed to the area in repeated military interventions which led to protests and deadlocks (GOMIAM 2015). In 2019, three military bases were established in La Pampa, an area where violence had escalated out of control.

Together with policies designed to formalize extraction and eradicate illegal mining sites, regulations to prevent the smuggling of gold were also enforced. Activos Mineros SAC was appointed as the official entity to buy gold sourced from ASGM (decree 012-2012-EM). A cadastre portal for gold traders (249-2013-EM) was enforced, and new rules were issued to control land routes and airports. Control checks were strengthened in the cargo areas of the Jorge Chávez International Airport in Lima, and detectors were installed in X-ray machines to find high-density metals carried by passengers. A task force was created² to improve surveillance at the airport, which is a South American hub. In addition to cargo surveillance, X-ray detectors for high-density metals were also installed in the key domestic airports of Cusco, Juliaca, Arequipa and Madre de Dios, disrupting the complacency with which passengers carried gold on domestic flights.

7.3.2 *Airports as Bottlenecks for Smugglers*

Approximately 80% of the ASGM-gold has historically been shipped through the Jorge Chávez International Airport via commercial cargo carriers or in hand luggage (El Comercio 2014) and, thus, particular emphasis was placed on monitoring this route. As a result, from the end of 2013 to June 2015, the Peruvian National Custom and Tax Administration Superintendence (SUNAT) seized USD 37 million in 35 interventions at the facility (Congreso Peru 2015). Investigations conducted by the country's Financial Intelligence Unit also led to the identification of shell companies stored their merchandise at the airport. In December 2013, law enforcement officials seized 508 kg of gold awaiting shipment to six Refineries abroad.

During these operations, another web of local intermediaries was exposed. The Peruvian District Attorney's Office for Anti-Laundering Crimes of the Public Ministry identified a money laundering organization that smuggled 13,289,107 kg of gold worth USD 626 million between April 2012 and April 2016 (Caretas 2017). The head of the network was Pedro David Pérez Miranda, a character well-known to Peruvian law enforcement officials and the media. An intermediary between the miners and the Refineries, Miranda was nicknamed *Peter Ferrari* due to his inclination for expensive cars and luxury goods. On the day he was sentenced to 18 months in jail, Miranda stated: "I have always been very proud that all the gold I have exported is legal. It might be informal, but it is legal" (Caretas 2017).

7.3.3 *The Regionalization of the Gold Commodity Frontier*

The new restrictions on trade provoked a 70% decrease in Peruvian gold exports (Gibbons 2017). Accordingly, other neighboring countries of the Andean region increased their trade. Bolivia acquired a special role in this context. A small producer, between January and August 2014, the country exported 24 tons of the metal, six times more than it had produced in the first seven months of 2014, and more than tripling its 2013 gold exports (Reuters 2014). Bolivia's southern border extends 1000 km along the most productive ASGM regions in Peru, Madre de Dios and Puno, from which the mineral was smuggled by land into Bolivia taking advantage of the porous borders between the two countries.

According to one local dealer, in a testimony published by Reuters, the gold was transported into Bolivia by motorcycle, mule, armored car and by plane using light aircraft. The latter method was the safest “to avoid losing a consignment to bandits stalking lawless borderlands” (Reuters 2014). The volume of the cross-border trade was such that shipments were restricted to 200 kg so as not to risk unbalancing the plane. In a new twist of events, the Peruvian gold smuggled into Bolivia was once again transported to the global market using Lima’s Jorge Chávez International Airport. In 2014, suspicious commercial flights from Bolivia carrying 35 tons of gold stopped over at the Peruvian airport en route to their final destination (Castilla 2014).

Thus, these trade management policies when coupled with investigations into money laundering have had a significant impact. In particular, measures directed at improving Peruvian airport surveillance prompted an adjustment of ASGM-gold trade patterns, which generated increased interaction between the formal, informal and illicit sectors. This point is neatly illustrated by the case of the US refinery that closes the chapter.

7.3.4 Global Refineries and Their Intermediaries

NTR metals made international media headlines, such as: “Peru Crack-down on Illegal Gold Leads to New Smuggling Routes” (Reuters 2014) and “Peru-Us Gold Case Show How Importer Shifted Gears” (InSight Crime 2017). The case was extensively documented. According to a US Homeland Security Investigation, between 2012 and 2015, NTR bought USD 3.6 billion worth of gold in Latin America. The US-based refinery started to buy Peruvian gold in 2012 and had imported USD 980 million worth of Peruvian ASGM-gold a year later. In December 2013, Peruvian authorities seized 508 kg of gold destined for six foreign Refineries, one of which was NTR Metals. That marked a turning point.

Controls and checks intensified as a result, leading to a massive decline of NTR’s imports from Peru - from an estimated \$980 million in 2013 to only \$79 million in 2014. Nonetheless, illegal gold routes only took another path. Peruvian smugglers began moving illegally mined gold into neighboring countries, from which the minerals were sent to the United States. As figures from the affidavit show, after Peru’s illegal gold crack-down, NTR imports from Ecuador and Bolivia grew by \$485 million. At the same time, the US company imported gold from other countries

in the region, most notably Colombia, as well as Chile, Guyana and the Caribbean. (InSight Crime 2017)

In order to continue purchasing Peruvian ASGM-gold, the refinery resorted to involving informal and illegal actors capable of navigating the obstacles they encountered. A web of middlemen negotiated on their behalf in the Andean region.

Authorities believe that Granda and his associates cut off competitors by offering quicker payments to costumers, and personally traveled to Peru and neighboring countries to meet with their sources of illegal gold. (InSight Crime 2017)

Intercepted WhatsApp messages indicate that members of the firm back in the United States were aware of the illegal nature of the gold business. As mentioned earlier in this chapter, in one of the messages, NTR operations manager, Juan Pablo Granda, compared himself to the Colombia drug lord Pablo Escobar. In other exchanges, NTR employees made references to the use of “mules” to carry the gold out of Peru. As Homeland Security Investigations (HSI) Special Agent Colbert Almeida wrote in an affidavit filed in March 10, 2017, the refinery sent the money “with the intent to promote the carrying on of organized criminal activity, including illegal gold mining, gold smuggling and the entry of goods into the U.S. by false means and statements, and narcotics trafficking” (InSight Crime 2017) an indication of how licit and illicit buyers, shell companies and Refineries reacted to the restrictions on transporting gold.

7.4 DISCUSSION AND CONCLUSION

This chapter has outlined how ASGM-gold ends up in international markets as part of the global gold production system, a topic that has not yet received sufficient scholarly attention. It has demonstrated the flexibility of the ASGM trade and its network of intermediaries in the face of external pressures. Paradoxically, efforts on the part of the Peruvian state to root out illegal cross-border smuggling using commercial flights have enabled the emergence of a clandestine regional gold trading system that offers ample opportunities for unscrupulous entrepreneurs.

These findings have important policy implications and serve as a stark reminder that policies aimed at formalizing ASGM need to look beyond

mining and approach the gold production system as a whole. Comprehensive policy development will need to acknowledge this complexity in order to reach political settlements among the various industry actors. The Peruvian case demonstrates the fact that measures aimed at improving trade management have proven to be effective in terms of seizing merchandise and disrupting the *modus operandi* of networks. In particular, as the chapter highlighted, airports are critical avenues to preventing the illegal transportation of gold overseas. But effective trade management will only be successful in conjunction with money laundering investigations and surveillance of illicit financial flows associated with the industry. In addition, more attention needs to be paid to strengthening customs procedures and border management.

Finally, this chapter also reveals the changing narrative of the gold economy in parallel to the expansion of ASGM worldwide. The informalization of gold production and the dynamics involved in smuggling the mineral has resulted in a growing infiltration of illicit intermediaries contributing to a narrative in which the gold economy is increasingly perceived as illicit or illegal. This factor further complicates the already difficult process for effective gold management and successful regulatory attempts within the global gold production system.

NOTES

1. The list include: tobacco, alcohol, tea, drugs, cotton, wool, pepper and butter.
2. The task force was composed by the public and private institutions in charge of managing the Jorge Chavez International Airport. The public ones being: Customs, the Money laundering Unit of the Ministry of Justice, the Financial Intelligence Unit and the National Reserve Bank, and the private involving airlines and the conglomerate Lima Airport Partners.

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