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Searching for Gold in the Highlands of Guatemala

Lyuba Zarsky

For nearly a decade, Goldcorp's Marlin gold and silver mine in the Guatemalan *altiplano* has been at the center of intense local conflict and international scrutiny. The conflict was ignited in 2005 when local Mayan communities overwhelmingly rejected mining in popular plebiscites called *consultas*. Chief among their concerns was the potential for water contamination in the agricultural areas.

Virtually every international human rights organization—from the ILO to the UN Special Rapporteur – has weighed in, urging Goldcorp and the Guatemalan government to suspend mine operations to ensure protection of the rights, health and livelihoods of the indigenous people. In mid-2010, the Inter-American Commission on Human Rights of the Organization of American States (IACHR) went one step further and issued precautionary measures ordering the Guatemalan government to suspend operations at the Marlin mine.

Through it all, the Marlin mine has continued to operate, raking in a bonanza for Goldcorp shareholders. Between 2006-2009, Marlin generated nearly \$1 billion in revenues and almost \$350 million in earnings, making it Goldcorp's third best performing mine. According to the company's [annual report](#), 2010 was a banner year: Marlin generated a record \$500 million in revenues and \$268 million in earnings, nearly double over the previous year.

Costs of production at Marlin are the lowest of all of Goldcorp's operations, generating what the company calls "tremendous cash flow". While production costs have stayed flat or even decreased since mine operations began in December 2005, the price of gold has increased by more than 300%. The forecast is for more of the same: [analysts predict](#) the average gold price in 2012 could hit as high as \$2500 per ounce.

Crumbs off the table

Guatemala's share of the bonanza can best be described as "crumbs off the table". In a [report published in October by the Global Development and Environment Institute](#), Leonardo Stanley and I show that between 2006-2009, royalties and taxes paid to the Guatemalan government averaged a paltry \$13 million per year and amounted to only 5.8% of total mine revenues and 15% of total earnings.

Comparisons are tricky because mining royalties and taxes vary so much within and between countries. But as a ball park figure, a [PWC report](#) estimated that South Africa—the world's second largest gold producer—charged

mining companies an income tax of 28% in 2010, *plus* remittance taxes and royalties. [Venezuela](#) recently imposed a royalty rate of 13% on gold mining, compared to Guatemala's all-minerals royalty rate of 1%.

[Goldcorp](#), which calls itself a “responsible mining” company, claims that it brings substantial benefits to Guatemala through local jobs, local procurement, and social investment in sustainable development projects, including a clinic, schools, and deforestation projects. There is little doubt that the 2000 or so jobs at the mine—about half of which are held by locals—bring significant benefits in the very poor local Mayan communities. Indeed, the availability and competition for mining jobs has generated intense social conflict. However, these jobs will vanish when the mine closes and there is little evidence of any lasting development benefits.

We found no data to support Goldcorp's claim that it spends \$150 million annually procuring local goods and services. Based on case studies in other countries, it is likely that a substantial portion is accounted for by goods and services *purchased* locally from importers. Local economic benefits flow when companies buy goods and services *produced* by local companies. When they are imported, economic benefits mostly flow out of the country.

As for social investment, [Goldcorp claims](#) it has invested \$20 million in sustainable development and reforestation projects. Local communities also received about \$8 million of the royalties, bringing their total “return” on the mine to date to \$28 million. Between 2006-2010, Marlin earnings totaled about \$863 million. That means that the share of local communities in the Marlin bonanza amounted to about 3% of the income it generated—crumbs indeed. Meanwhile, Goldcorp has generously contributed to Canadian universities, including \$10 million to [Simon Fraser](#) and \$25 million to the [Teffler Business School](#) at the University of Ottawa.

Environmental risk

Gold mining poses severe environmental risks stemming from the use of cyanide and the potential release of heavy metals into ground and surface water. While the economic benefits of the mine are flowing largely to far-away shareholders, the risks are borne by local communities. As we document in the GDAE report, four [independent studies](#) have found evidence of heavy metals contamination, including [arsenic leaking into groundwater](#). Heavy metals are extremely toxic to humans and other living beings—and they can remain in the environment for generations.

Goldcorp claims that “credible third party investigations” have found no evidence to date of water contamination. The available government reports, however, are not based on independent environmental monitoring but simply review and accept reports provided by Goldcorp. The other source Goldcorp points to, the Community Environmental Monitoring Association, is financially supported by the company.

Two other environmental risks afflict the Marlin mine. Despite its promise to do so, Goldcorp has not made public a mine closure report and provides a surety bond of only \$1 million. A [report](#) published by the Catholic Peace and Ecology Commission in July of 2011 estimated the costs of reclamation and monitoring following closure at \$49 million. In addition, the mine was built to specifications that did not take climate change into account. High-intensity floods could breach the tailings pond and increase the risk of cyanide and heavy metals

contamination. The number of high-intensity floods in Guatemala between 1990-2009 was nearly 300% greater than between 1970-1989.

What's next?

Last month, in the face of substantial pressure from the Guatemalan government, [the IACHR lifted its suspension order](#) of the Marlin mine. Ignoring independent studies, the Government argued that company reports had found no proof of imminent or probable harm. While lifting the order to close, the IACHR ordered the government to “implement effective measures to prevent environmental pollution” and ensure that local people have access to water fit for human consumption and agriculture.

The IACHR is coming under increasing pressure by Latin American countries to back off from intervening in large development projects. In April, the [Commission ordered Brazil](#) to immediately suspend operations at the Belo Monte Dam Complex and undertake a consultation process to gain the “free, prior and informed consent” of local indigenous people. The [IACHR backed down after](#) Brazil threatened to withdraw from the Commission.

But Goldcorp and other large mining companies will continue to face scrutiny and pressure. In 2011, Ernst and Young found that “resource nationalism” – the attempt by host governments to get a larger share of the returns from mining – was the [number one business risk](#) facing mining and metals companies. In Guatemala, bills to reform the Minerals Royalty Law have been introduced in the legislature.

Shareholders, including large pension funds, are [increasingly scrutinizing the human rights and environmental practices](#) of mining operations. In September, [Goldcorp was de-listed from the Dow Jones North American Sustainability Index](#).

And local opposition to the mining projects continues to grow. Dozens of plebiscites have been held in the Mayan communities in the Guatemalan highlands, including one in [Quetzaltenango](#) last February in which all but 30 of 6,758 voters rejected seven exploration licenses granted to Goldcorp.

With independent environmental monitoring and a closure report still lacking, and the continued failure to gain consent from indigenous communities – and the lack of a fair share of benefits – there is a long way to go before “responsible mining” comes to Guatemala.

Download the full report in English or Spanish at:

http://ase.tufts.edu/gdae/policy_research/marlinemine.pdf

http://ase.tufts.edu/gdae/policy_research/marlinmine_spanish.html

Read the executive summary at:

http://ase.tufts.edu/gdae/policy_research/marlinexecsummary.pdf