2000 Country Reports on Economic Policy and Trade Practices
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PERU

Key Economic Indicators

(Millions of U.S. dollars unless otherwise indicated)

	1998	1999	2000 1/
Income, Production, and Employment:			
Nominal GDP 2/	57,080	51,963	54,365
Real GDP Growth (pct) 3/	-0.4	1.4	4.5
GDP Growth by Sector:			
Agriculture	1.3	12.0	5.5
Manufacturing	-3.6	0.3	11.0
Services	-0.4	1.4	1.3
Government [included in "Services"]	1.5	3.6	1.3
Per Capita GDP (nominal US$) 2/	2,299	2,062	2,119
Labor Force (000s)	9,768	10,077	10,387
Unemployment Rate (pct) 4/	7.8	7.7	7.8
Underemployment Rate (pct) 4/	44.3	43.4	45.0
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	6.4	22.8	3.0
Consumer Price Inflation 5/	6.0	3.7	4
Average Exchange Rate (Sol/US$)			
Inter-bank	2.93	3.38	3.50
Parallel	2.93	3.38	3.50
Balance of Payments and Trade:			
Total Exports FOB	5,757	6,113	6,700
Exports to the U.S. 6/	1,861	1,743	1,999
Total Imports FOB	8,222	6,729	7,600
Imports from U.S. 6/	2,582	2,097	2,419
Trade Balance	-2,466	-616	-900
Balance with U.S.	-721	-354	-420
External Public Debt	20,318	20,089	20,000
Fiscal Deficit/GDP	-0.8	-3.0	-2.8
Current Account Deficit/GDP	-6.4	-3.5	-3.6
Debt Service Payments/GDP	2.7	3.8	4.1
Net International Reserves	9,183	8,404	8,400
Aid from U.S.	105	123	111

Total Aid	288.9	626.2	N/A

1/ 2000 figures are year-end estimates based on data available as of October.
2/ GDP data calculated using nominal soles figures at average exchange rates. The Peruvian government has released re-calculated GDP figures, with 1994 as the new base year (which replaced the former 1979 base year).
3/ Percentage changes calculated from GDP data in local currency at 1994 prices.
4/ Urban, at the Third Quarter.
5/ Inflation at year-end.
6/ Estimates based on annualized official data for August 2000.

Source: Central Reserve Bank of Peru, National Institute of Statistics, Ministry of Labor, Presidency of the Council of Ministers, and Embassy estimates.

1. General Policy Framework

Peru is essentially a free market economy which provides significant trade and investment opportunities for U.S. companies. Over the past ten years, the government has implemented a wide-ranging privatization program, strengthened and simplified its tax system, lowered tariffs, opened the country to foreign investment, and lifted exchange controls and restrictions on remittances of profits, dividends and royalties.

Macroeconomic/Fiscal Overview: Following two years of stagnation caused by a series of climatic and external shocks in 1997 and 1998, Peru's economy began to recover in 1999. The economy remained sluggish, however, posting growth of only 1.4 percent, primarily as a result of uncertainty in the run-up to the April 2000 national elections, which took their toll on domestic demand and investment. A marked recovery in the first half of 2000 (six percent growth over 1999's low base) slowed down as the result of political turmoil and the eventual resignation of President Fujimori. Real GDP growth for 2000 is now estimated to be 4.5 percent, although this and other projections for 2000 were made as of October 2000, prior to Fujimori's resignation and the subsequent appointment of a new government. The current account deficit is expected to contract in 2000 to about 3.6 percent of GDP. Inflation remains low by Peru's historical standards and is expected to hit 3.2 percent for the year. The government's overall budget deficit will be larger than expected for 2000 as a result of election-related expenses and a sharp drop in revenues. Peru's macroeconomic stability has brought about a substantial reduction of the high official underemployment rate, from 74 percent during the late 1980's and early 1990's to 45 percent in 2000. Poverty has also gone down since 1991, but unofficial sources estimate that 50 percent of the population still lives in poverty and 15 percent lives in extreme poverty.

Trade Policy: Peru's economy is largely open to imports. As Peru's largest trading partner, the United States exported about $2 billion to Peru in 2000, slightly above the level of 1999. Peru's average tariff rate has dropped consistently since it hit 80 percent in 1990, reaching the current level of about 13 percent. Some countries (not including the United States) avoid tariffs on a number of their exports to Peru because of preferential trade agreements. As a member of the Andean Community and of the Latin American Integration Association (ALADI), Peru grants duty-free access to many products originating in those countries. In June 1998 Peru signed a free trade agreement with Chile, which will be phased in over a number of years. In April 1998 the Andean Community signed a framework agreement with MERCOSUR to establish a free trade area after the year 2000; further negotiations must still take place to define the implementation of the agreement. Peru is a member of the World Trade Organization and APEC, and is an active participant in negotiations toward the Free Trade Area of the Americas.

Monetary Policy: The central bank manages the money supply and affects interest and exchange rates through open-market operations, rediscounts and reserve requirements on dollar and sol deposits. Dollars account for at least two-thirds of total liquidity (the legacy of hyperinflation), a situation that complicates the government's efforts to manage monetary policy. Net foreign reserves stand at about $8 billion, down from over $10 billion three years ago but still well above accepted norms (they were negative in mid-1990). Peru reached an agreement in July 1996 to reschedule its official debt (Paris Club), and closed a deal with its commercial creditors (Brady Plan) in March 1997.

2. Exchange Rate Policy

The exchange rate for the Peruvian New Sol is determined by market forces, with some intervention by the central bank to stabilize movements. There are no multiple rates. The 1993 constitution guarantees free access to and disposition of foreign currency. There are no restrictions on the purchase, use or remittance of foreign exchange. Exporters conduct transactions freely on the open market and are not required to channel their foreign exchange transactions through the central bank. U.S. exports are generally price competitive in Peru.

3. Structural Policies

Peru has a liberal economy largely dominated by the private sector and market forces. The government has reduced its role in the economy since it began a privatization program in 1992. Since that time, most major state-owned businesses, including the telephone company, railroads, electric utilities and mining companies, have been sold. The government backtracked from its original plan to sell off substantially all its companies by 1995, and has kept the remaining parts of the petroleum company (Petro Peru), some electrical utilities, and the Lima water company. The government announced in August 2000 that it would begin a new phase of the privatization program by selling concessions to build and/or operate public facilities such as airports, roads, and ports. After several years of delay, the giant Camisea natural gas field concession was granted in February 2000 and the transportation and distribution contract was awarded in October 2000. A thirty-year concession to run and modernize Lima's Jorge Chavez International Airport was successfully auctioned to international bidders in November 2000. The Bayovar phosphate mine and a number of regional ports are among concessions expected to be auctioned shortly. U.S. companies have participated heavily in the privatization program, particularly in the mining, energy, and petroleum sectors.

Price controls, direct subsidies, and restrictions on foreign investment have been eliminated. A major revision of the tax code was enacted at the end of 1992, and the tax authority (SUNAT) was completely revamped, as was the customs authority. Tax collection has improved from 4 percent of GDP in 1990 to almost 18 percent by 1999. Customs collections have more than tripled since the early 1990s, despite the sharp cut in tariff rates. Although income tax collection has increased, the government still relies heavily on its 18 percent Value-Added Tax (VAT). There are also several high excise taxes on certain items, such as automobiles, fuels and beer.

4. Debt Management

Peru's long and medium-term public external debt at the end of June 2000 totaled about $20 billion, or about 38 percent of GDP. Total service payments due on the debt for 2000 are estimated at $1.8 billion. Peru has reduced its burden of the external public debt steadily since 1993. The ratio of debt service to exports of goods and services, stood at 32.7 percent in 1999. Although this debt burden appears high when compared with similar countries, the Peruvian government has almost no domestic debt and, in recent years, has maintained a high level of international reserves. Moreover, about two thirds of deposits in the banking system are in dollars.

Peru cleared its arrears with the Inter-American Development Bank in September 1991. In March 1993 it cleared its $1.8 billion in arrears to the International Monetary Fund (IMF) and World Bank, and negotiated an Extended Financing Facility (EFF) with the IMF for 1993-95. The government negotiated a follow-on EFF for 1996-1998 and an unprecedented third EFF for 1999-2001. This program remains precautionary in nature; the government of Peru has not drawn on these funds. The Paris Club rescheduled almost $6 billion of Peru's official bilateral debt in 1991. A second Paris Club rescheduling in May 1993 lowered payments for the period March 1993-March 1996 from $1.1 billion to about $400 million. A third rescheduling was completed on July 20, 1996, under which the Club creditors agreed to reschedule approximately $1 billion in "official debt" payments coming due between 1996 and 1999, and to reschedule some debt originally rescheduled in 1991 in order to smooth out Peru's debt service profile.

Peru closed out a $10.5 billion Brady Plan commercial debt restructuring in March 1997. The government estimates annual obligations under the deal at about $300 million. With the Brady closing and the Paris Club rescheduling, Peru is now current with nearly all its international creditors. After pursuing a claim in U.S. courts for several years, a private firm that had bought $11 million in private commercial debt not included in the Brady deal succeeded in achieving a $58 million settlement, including interest and fees, with the government of Peru. There is approximately $100 million in similar non-Brady debt on secondary markets.

5. Significant Barriers to U.S. Exports

Almost all non-tariff barriers to U.S. exports and most obstacles to direct investment have been eliminated over the past ten years.

Import licenses have been abolished for all products except firearms, munitions and explosives; chemical precursors (used in illegal narcotics production); ammonium nitrate fertilizer (which has been used as a blast enhancer for terrorist car bombs), wild plant and animal species, and some radio and communication equipment. The following imports are banned: several insecticides, fireworks, used clothing, used shoes, used tires, radioactive waste, cars over five years old and trucks over eight years old.

Tariffs apply to virtually all goods exported from the United States to Peru, although rates have been lowered over the past few years. A new tariff structure that went into effect in April 1997, for example, lowered the average tariff rate from 16 to 13 percent. At the same time, the government did raise some tariffs on agricultural products and imposed an additional "temporary" tariff on agricultural goods, in a move to try to promote domestic investment in the sector. Under the new system, a 12 percent tariff applies to more than 95 percent (by value) of the products imported into Peru; a 20 percent tariff applies to most of the rest, while a few products are assessed rates (because of the additional "temporary" tariffs) of up to 25 percent. Another set of import surcharges also applies to four basic commodities: rice, corn, sugar and milk products. (The surcharge on wheat was eliminated in July 1998). Imports are also assessed an 18 percent value-added tax on top of any tariffs; domestically produced goods pay the same tax as well. Some non-U.S. exporters have preferential access to the Peruvian market because of Peru's bilateral and multilateral tariff reduction agreements.

There are virtually no barriers to investing in Peru, and national treatment for investors is guaranteed in the 1993 constitution. However, in an effort to preclude competition from foreign investors in recent privatizations of electrical utilities, COPRI, the Privatization Agency, has interpreted that a foreign company or individual is an investor only when the company or individual has actually invested, not when it is considering investing. Furthermore, a conflicting provision of law restricts the majority ownership of broadcast media to Peruvian citizens. Foreigners are also restricted from owning land within 50 kilometers from a border, but can operate within those areas through special authorization. There are no prohibitions on the repatriation of capital or profits. Under current law, foreign employees may not make up more than 20 percent of the total number of employees of a local company (whether owned by foreign or national interests) or more than 30 percent of the total company payroll, although some exemptions apply.

Customs procedures have been simplified and the customs administration made more efficient in recent years. As part of the customs service reform, Peru implemented a system of pre-shipment inspections, through which private inspection firms evaluate most incoming shipments worth more than $5,000. (Exceptions include cotton and heavy machinery). The importer must pay up to one percent of the FOB value of the goods to cover the cost of the inspection. Some U.S. exporters have complained that the inspection system contributes to customs delays and conflicts over valuation.

6. Export Subsidies Policies

The Peruvian government provides no direct export subsidies. The Andean Development Corporation, of which Peru is a member, provides limited financing to exporters at rates lower than those available from Peruvian banks (but higher than those available to U.S. companies).

Exporters can receive rebates of the import duties and a portion of the value-added tax on their inputs. In June 1995 the government approved a simplified drawback scheme for small exporters, allowing them to claim a flat five-percent rebate, subject to certain restrictions. Exporters can also import, on a temporary basis and without paying duty, goods and machinery that will be used to generate exports and that will themselves be re-exported within 24 months. There are several small-scale export promotion zones where goods enter duty-free; they must pay duty if/when they enter the rest of the country.

7. Protection of U.S. Intellectual Property

Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention, Bern Convention, Rome Convention, Phonograms Convention, Satellites Convention, Universal Copyright Convention, and the Film Register Treaty. In April 1999 the U.S. Trade Representative placed Peru on the “Special 301” Priority Watch List, where it remains because of concerns about the adequacy of IPR law enforcement, particularly with respect to the relatively weak penalties that have been imposed on IPR violators.

The government is generally proactive in promoting and protecting intellectual property rights for domestic and foreign interests. Although enforcement efforts have increased, piracy remains widespread. Industry data show that piracy in the software and motion picture industries has declined sharply since the mid-1990s. The Business Software Alliance (BSA) estimates that software piracy fell from 86 percent in 1994 to 63 percent in 1999. The International Intellectual Property Alliance (IIPA) estimates that video piracy fell from 95 percent in 1995 to 50 percent in 1998. During the same period, piracy of sound recordings increased slightly from 83 percent to 85 percent. Peru’s market for sound recordings grew so rapidly between 1995 and 1998 that estimated trade losses due to piracy increased from $16 million to $50 million. IIPA’s estimates for trade losses in all other sectors remained the same or fell slightly during the same period.

In April 1996 Peru passed two new laws to improve its intellectual property rights protection regime and bring its national laws into conformity with Andean Community decisions and other international obligations on intellectual property. Although the new laws were an improvement, they contained several deficiencies. The government believes that the Andean Community's September 2000 adoption of Decision 486 brings its laws into conformity with the WTO TRIPS Agreement. Nonetheless, there is some question within the Andean Community about whether national law or the Community Decisions on IPR would prevail in the case of conflict between them. Although it had been previously thought that the higher standard would prevail, the Andean Community Secretariat issued rulings in 2000 which determined that Peru violated Decision 344 by issuing "second use" patents. These rulings (Andean Community resolutions 358 and 406) threaten to undermine the ability of member states to implement national laws that are stronger than Andean Community norms. U.S. pharmaceutical companies are particularly concerned that, in light of resolutions 358 and 406, ambiguities in the new Decision 486 regarding the patentability of "second use" innovations could undermine the Peruvian government's ability to enforce second use patents. They are also concerned that

Decision 486 is not sufficiently explicit regarding the confidentiality of data included with patent applications, thereby opening the way to the possible erosion of protections for such information.

Patents and Trademarks: Peru's 1996 Industrial Property Rights Law provides an effective term of protection for patents and prohibits devices that decode encrypted satellite signals, along with other improvements. Based on an agreement reached with the U.S. government, in June 1997 the Government of Peru resolved several apparent inconsistencies with the TRIPS Agreement provisions on patent protection and most-favored nation treatment for patents. Peruvian law does not provide for pipeline protection for patents or protection from parallel imports. Although Peruvian law provides for effective trademark protection, counterfeiting of trademarks and imports of pirated merchandise are widespread.

Copyrights: Peru's Copyright Law is generally consistent with the TRIPS Agreement. However, textbooks, books on technical subjects, audiocassettes, motion picture videos and software are widely pirated. While the government, in coordination with the private sector, has conducted numerous raids over the last few years on large-scale distributors and users of pirated goods and has increased other types of enforcement, piracy continues to be a significant problem for legitimate owners of copyrights in Peru.

8. Worker Rights

Articles 28 and 42 of the Peruvian Constitution recognize the right of workers to organize, bargain collectively and strike. Out of an estimated economically active population of 10 million, only about five percent belong to unions. Close to one half the work force is employed in the informal sector, beyond government regulation and supervision.

a. *The Right of Association:* Peruvian law allows for multiple forms of unions across company or occupational lines. Workers in probational status or on short-term contracts are eligible for union membership, but cannot join the same unions as permanent employees. Union leaders complain that increasing numbers of employers are hiring workers under temporary personal service contracts to complicate union affiliation. Labor experts assert that companies prefer this type of hiring because it affords them the chance to adapt their total payroll to the business cycle without the hassle of having to seek government approval to release workers. Public employees exercising supervisory responsibilities are excluded from the right to organize and strike, as are the police and military. The amount of time union officials may devote to union work with pay is limited to 30 days per year. Membership or non-membership in a union may not be required as a condition of employment. However, there is no provision in the law requiring employers to reinstate workers fired for union activities. Although some unions have been traditionally associated with political groups, law prohibits unions from engaging in explicitly political, religious or profit-making activities. The International Labor Organization (ILO) in June 1996 called on the Peruvian government to enhance freedom of association.

b. *The Right to Organize and Bargain Collectively:* Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. Strikes may be called only after approval by a majority of all workers (union and non-union) voting by secret ballot. Unions in essential public services, as determined by the government, must provide sufficient workers, as determined by the employer, to maintain operations during the strike. Companies may unilaterally suspend collective bargaining agreements for up to 90 days if required by *force majeure* or economic conditions, with 15 days notice to employees. The Peruvian Congress approved legislation in 1995 and 1996 amending the 1992 Employment Promotion Law which union leaders claim restricts union freedom and the freedom to bargain collectively by making it easier to fire workers. The unions filed a complaint about this law with the ILO, and the ILO noted that the new legislation failed to effectively guarantee the protection of workers against acts of anti-union discrimination and to protect workers' organizations against acts of interference by employers.

c. *Prohibition of Forced or Compulsory Labor:* Forced or compulsory labor is prohibited, as is imprisonment for debt. Nevertheless, there were two reports of such labor in informal gold mines in a remote area of Peru during 1999. However, information received during the year indicates Peruvian authorities are addressing the practice. Although the constitution does not specifically prohibit forced or bonded labor by children, Peru has ratified ILO Convention 105 on the abolition of forced labor, including forced or bonded child labor.

d. *Minimum Age for Employment of Children:* The minimum legal age for employment is 12. In certain sectors, higher minimums are in force: 14 in agricultural work; 15 in industrial, commercial or mining work; and 16 in the fishing industry. Although education through the primary level is free and compulsory, many school-aged children must work to support their families. Child labor takes place in the informal economy out of the reach of government supervision of wages or conditions. In recent years, government surveys have variously estimated the number of child and adolescent workers to be anywhere from 500,000 to 1.9 million.

e. *Acceptable Conditions of Work:* The 1993 Constitution provides for a maximum eight-hour work day, a 48-hour work week, a weekly day of rest and 30 days annual paid vacation. Workers are promised a "just and sufficient wage" (to be determined by the government in consultation with labor and business representatives) and "adequate protection against arbitrary dismissal". No labor agreement may violate or adversely affect the dignity of the worker. These and other benefits are readily sacrificed by workers in exchange for regular employment, especially in the informal sector.

f. *Rights in Sectors with U.S. Investment:* U.S. investment in Peru is concentrated primarily in the mining and petroleum sectors, and more recently in electrical generation. Labor conditions in those sectors compare very favorably with other parts of the Peruvian economy. Workers are primarily unionized, and wages far exceed the legal minimum.

Extent of U.S. Investment in Selected Industries—U.S. Direct Investment Position Abroad on an Historical Cost Basis—1999

(Millions of U.S. dollars)

Category		Amount
Petroleum		268
Total Manufacturing		192
Food & Kindred Products	66	
Chemicals & Allied Products	83	
Primary & Fabricated Metals	(1)	
Industrial Machinery and Equipment	1	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	(1)	
Wholesale Trade		81
Banking		133
Finance/Insurance/Real Estate		293
Services		48
Other Industries		1,516
TOTAL ALL INDUSTRIES		2,532

(1) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.