



**P**eru's free-market economy and non-discriminatory treatment of foreign investment permits a dynamic and open business environment that increasingly appeals to Canadian companies and investors. Canadian direct investment in Peru is estimated by our embassy at \$3.8 billion (cumulative book value), principally in mining, hydroelectric transmission and printing. More than 70 Canadian companies operate in Peru, and another 200 have local representatives. Peru is Canada's third largest trading partner in the Andean region. Exports to Peru totalled \$167 million in 2002 and imports added up to \$293 million.

Services are playing an increasingly prominent role in Canada's export growth. According to a survey by our embassy in July 2002, exports of services to Peru amounted to about \$96 million in the previous 12 months. Although services exports are related chiefly to mining and capital projects, they also show potential for growth in other sectors such as energy, water and sanitation, telecommunications and security. Investment opportunities exist in agro-industry and aqua-culture.

A geographically diverse country with some 2,000 kilometres of Pacific Ocean coastline, Peru encompasses 84 of the world's known ecological zones. Its significant natural resources include gold, copper, natural gas and vast tropical forests. Fishing and agriculture represent other sources of the country's natural wealth.

*Peru is Latin America's seventh largest economy and has a population of 27 million. It offers investors a favourable macroeconomic climate, a stable currency, low inflation and low country risk as measured by the price of its sovereign debt against U.S. Treasury bonds. Peru has managed to maintain a sound economy over the last two years and is now in the midst of a full economic recovery. This has enabled Peru to differentiate itself from other countries in the region, especially given the current political turmoil and economic difficulties experienced by its South American neighbours. Peru boasted the fastest growth in the region last year, with gross domestic product (GDP) expanding 5.2%. Economic trends for 2003 and 2004 also appear positive.*

Canada and Peru have been working to strengthen trade and investment ties between our two countries. The Tax convention between Canada and Peru<sup>1</sup>, for example, entered into force on February 17, 2003. As well, on August 7, 2002, Canada and the Andean Community countries (Peru is one of five member countries) announced that they would enter into discussions toward a possible free trade agreement.

Canadian companies have been welcomed in Peru. Peruvians still remember Canada's lead role in helping to restore democracy to Peru in 2000. A growing legacy of good corporate citizenship by Canadian companies now in Peru is helping to maintain a warm reception for new players.

<sup>1</sup> Convention between the Government of Canada and the Government of the Republic of Peru for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital.

Peru presents many business opportunities in sectors where Canadian companies have a clear competitive advantage, such as forestry, mining, oil and gas, and information and communications technologies. The services of an agent or distributor are generally required to assist with sales, translation, customs clearance and servicing requirements.



## FORESTRY

With the eighth largest forest resource in the world, Peru holds significant potential for the forestry sector. The 72 million hectares of lush Amazon rainforest are one of the country's most important untapped resources: most Peruvian lumber companies operate with outdated technologies, the industry contributes a mere 1% to GDP, and Peru currently has a negative trade balance in this sector. According to FONDEBOSQUE (a local organization dedicated to promoting forestry development), there are few Peruvian companies capable of accessing international markets with value-added products. An investment of some \$640 million is needed to reposition assets for the different stages of harvesting, primary and secondary transformation, transportation and market development.

In 2000, the Peruvian government promulgated a law that increased the size and duration of concessions that could be granted to companies and native groups. In an effort to promote sustainable development, this law requires a grantee to produce a forestry management plan that includes a conservation component and stipulates auditing of the concession every five years. Despite some resistance among loggers who hold smaller concessions, the government has successfully auctioned some 4.1 million hectares and will tender another 5.0 million this year. Peru is now open to foreign investment in this sector. The potential for Canadian exports of technology, equipment and services is quite large.

FONDEBOSQUE has just signed a technology transfer agreement with the Canadian company Forintek. This could mark the start of a closer relationship between Peruvian and Canadian companies.

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### Related Web Site

Forest Development Promotion Fund (FONDEBOSQUE):  
[www.fondebosque.org.pe](http://www.fondebosque.org.pe)

## MINING

Peru's mineral endowment is one of the richest in the world. Major minerals produced include copper, gold, zinc, silver, tin and lead. Revenues from mining activities contribute 11% of Peru's GDP, accounting for 50% of Peru's total exports. Peru is Latin America's leading gold producer and the world's seventh largest producer of the precious metal, thanks to the development of the Yanacocha gold mine and Barrick Gold Corporation's Pierina gold mine. Barrick's discovery last year of the Alto Chicama gold deposit in northern Peru has spurred great interest in further exploration for gold. The \$3.68 billion Antamina copper and zinc mine, owned in part by Canada's Noranda Inc. and Teck Cominco Ltd., added 1.4% to Peru's GDP in its first full year of operation and accounted for some \$1,120 million in exports last year.

Over the next decade, Peru's Ministry of Energy and Mines estimates a total of \$24 billion will be invested in exploration and development, mine expansion and new projects, increasing the demand for mining equipment and services. Peru benefits from an efficient mining concession registration system and has legislated safeguards for foreign investors, guaranteeing 100% repatriation of profits, capital and royalties. Peru levies a 12% import duty against most mining equipment, an 18% sales tax on all products and a customs fee ranging between 0.5% and 3.0%.

Canadian companies can sell their mining equipment and services directly to the end user or retain an agent or distributor to assist with translation, customs clearance and servicing requirements. It is advisable to establish a local presence in the market by maintaining a service office or product support warehouse in a city close to mines.

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Department of Energy and Mines: [www.mem.gob.pe](http://www.mem.gob.pe)

National Society of Mining, Petroleum and Energy:

[www.snmpe.org.pe](http://www.snmpe.org.pe)

## OIL AND GAS

In 2002, Peru produced approximately 95,000 barrels of crude oil per day and had a negative hydrocarbons trade balance of \$787.2 million. With 18 sedimentary basins throughout the country, Peru has an estimated potential reserve of 16 billion barrels of crude oil. The Talara basin has seen the most exploration activity whereas the Marañon and Ucayali basins are at the initial levels of exploration. Peru has launched a campaign to attract new investment and boost development of oil and gas reserves hidden deep in the Amazon jungle and beneath the Pacific Ocean.

The natural gas market holds enormous potential, especially with the development of the Aguaytia and Camisea fields, which have an estimated reserve of 13 trillion cubic feet of

natural gas and 600 million barrels of gas liquids. Upstream development of the \$4.8 billion Camisea project is being carried out by a consortium made up of Pluspetrol of Argentina, Hunt Oil of the United States and SK Global of South Korea. Construction of the pipelines necessary to transport the gas and liquids to the coast is being done by another consortium led by Argentina's Techint, while distribution of natural gas in metropolitan Lima will be carried out by Tractebel of Belgium.



Aguaytia Energy, the main gas producer, is planning to expand its supply to the thermoelectric plant, brewery, saw mills, plywood manufacturing companies and other industries in Pucallpa, the second largest city in the Peruvian Amazon region, located 380 kilometres east of Lima and not far from the Brazilian border.

Perupetro is promoting concessions in 14 offshore and two onshore blocks and will possibly negotiate exploration and development contracts for nine jungle blocks that were returned by other companies after initial exploration. Both the new projects and projects already under development offer good opportunities for Canadian operators and suppliers of equipment and services.

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## INFORMATION AND COMMUNICATIONS TECHNOLOGIES (ICT)

### Overview

ICT is a priority area for the Peruvian government and economy. A key engine of investment growth, technological advance and education, ICT has seen average annual growth rates of 22% over the last five years. Fixed and mobile telephone voice services account for the majority of the ICT sector, but the Internet, high-speed data services for corporate clients and new value-added telephone services are growing rapidly in importance.

The Peruvian market offers interesting opportunities for Canadian companies in the domestic and international long-distance carrier sectors, broadcast services, fixed telephony, wireless communications, Internet, broadband, satellite communications and value-added services. In the e-commerce field, market potential in the medium term is very promising, especially for Canadian firms, since Canada introduced the concept of Public Key Infrastructure (PKI) in Peru and is recognized by Peruvians as a world leader in secure e-commerce.