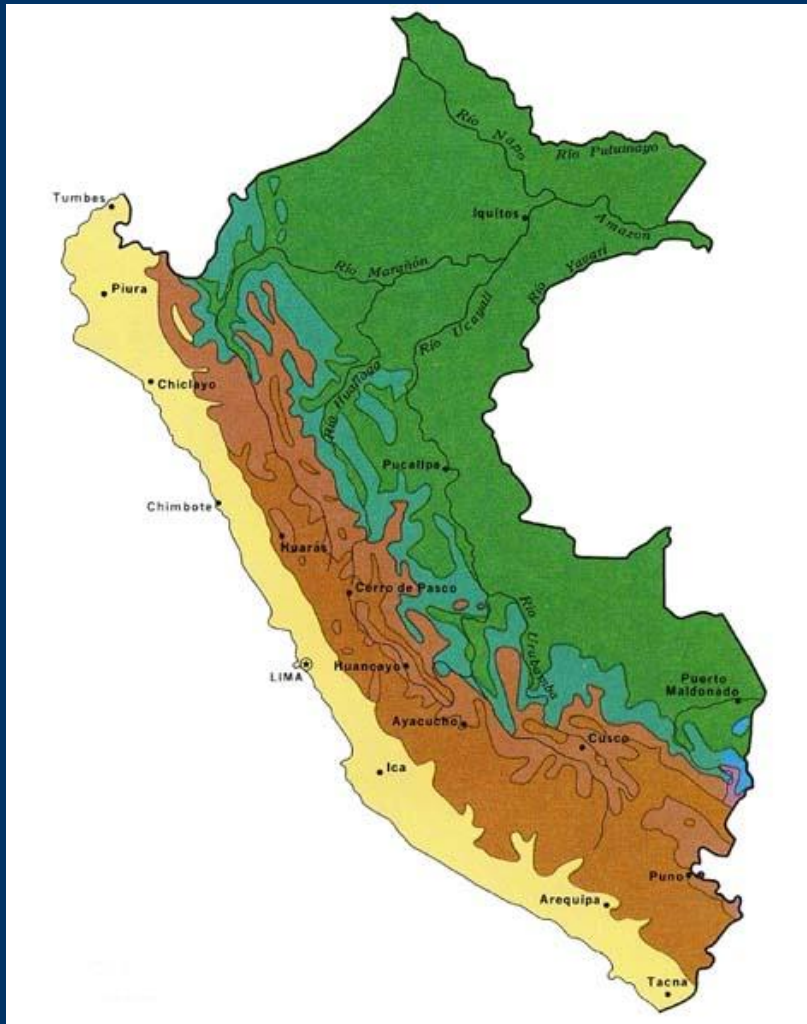




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Peru: Opportunities for U.S. Exporters March 2010



- 496,226 square miles (three times larger than California)
- Geography: desert coast, central mountains and eastern Amazon rainforest
- Rainforest “selva” 60% of the country.
- 25 regions & 1 province
- 27 million people
- Spanish language, with Quechua & Aymara spoken in the highlands
- 90% literacy rate
- Life expectancy: 70 yrs.



Prior to Global Financial Crisis One of Fastest Growing U.S. Export Markets

- U.S. Exports more than doubled in two year period from 2006 to 2008:
 - \$2.9 Billion in 2006
 - \$6.2 Billion in 2008

Exports increased by:

- 25% in 2006
- 41% in 2007
- 50% in 2008.



Factors Driving Demand for U.S. Goods

- Strong Economic Growth:
 - Peruvian economy doubled in size the last decade, growing 9% in 2007 and 2008.
- Market Reforms and Tariff Reductions
 - Pre-FTA: Peru had reduced import duties on many products.
- Exchange Rate:
 - Dollar had depreciated by about 20%, making imports from the U.S. significantly cheaper.



Impact of Financial of Crisis

- GDP Growth dropped from 9% in 2008 to 1% in 2009 .
- Peru's trade declined sharply in 2009:
 - Exports down 18% (to U.S. -25%)
 - Imports off 28% (from U.S. -23%)
- Mining investment largely stalled.
- Certain sectors, such as apparel manufacturing, were especially hard hit.



Leading Economic Sectors in 2009

- Overall Economy 1.1%
- Financial Services 11.4%
- Construction 6.1%
- Agriculture 2.3%
- Electricity and Water 1.1%
- Mining and Energy .4%

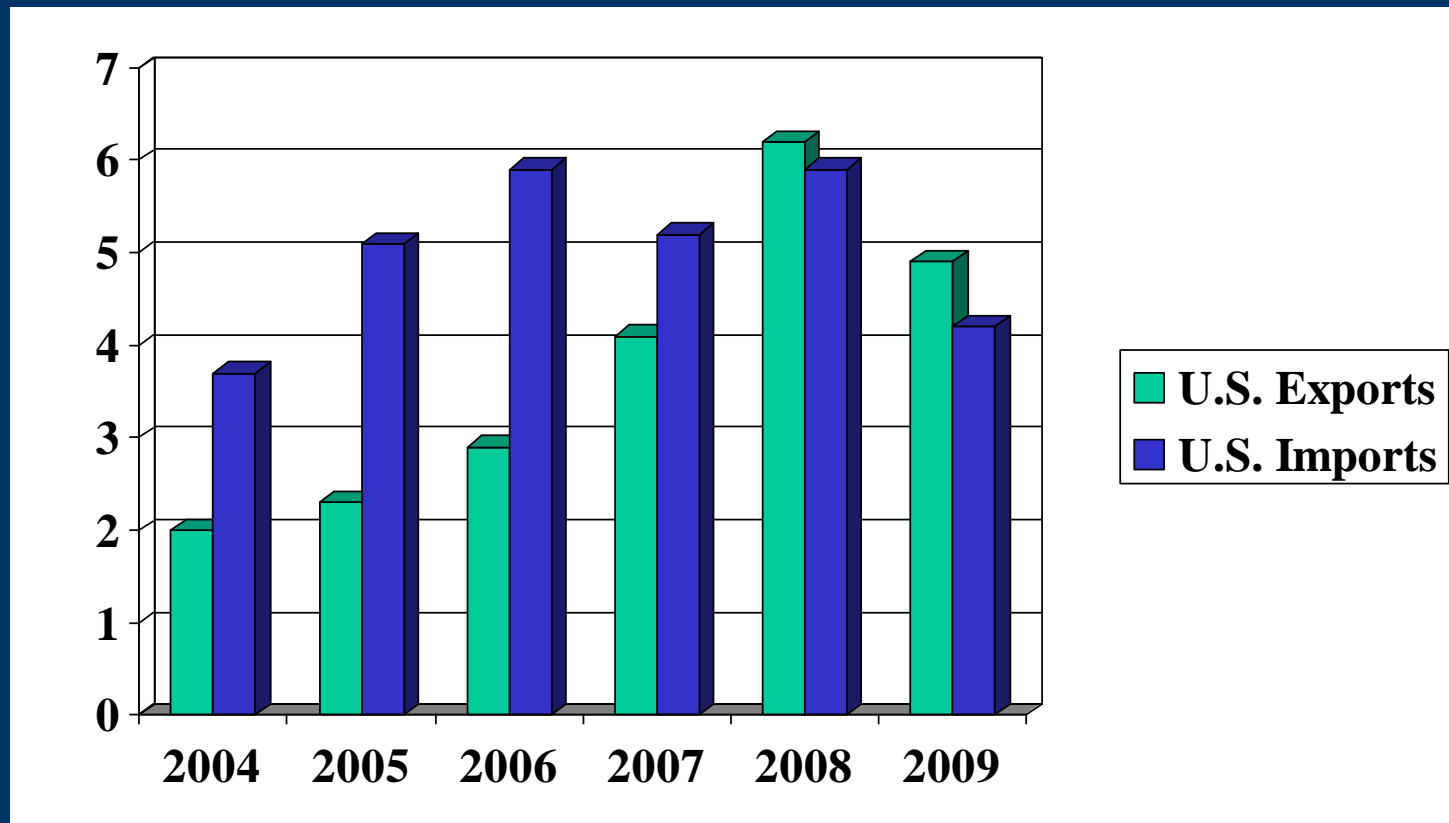


Current Economic Outlook

- Economy appears to be rebounding:
 - Growth in Dec. 2009 hit 6.4%, with key sectors showing particular strength:
 - Construction 20%
 - Financial Services 10.3%
 - Electricity and Water 6.2%
 - Mining and Energy 5.7
 - Agriculture 2.2%
-
- Consumer confidence largely unaffected by global economic crisis.
 - Economic Growth for 2010 Projected at 5%



Bilateral Trade: 2004-2009





Leading U.S. Exports to Peru: 2009

- Industrial/Power Generating Equip. 29%
- Electrical Machinery 10%
- Petroleum products 10%
- Plastics 7%
- Transportation Equipment 5%



Key Market Characteristics

1. Continued Importance of Mining Sector and Lima
2. Diversification: Sectorally and Geographically
3. Infrastructure Development
4. Evolving Retail Sector
5. Changing Competitive Environment



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Peruvian Market: Heavy Concentration

Geographically: Lima

Sectorally: Mining



Mining Sector

- Competitive/sophisticated industry that has attracted major international players.
- Accounted for 60% of Peru's Exports in 2009, totaling \$16 billion (12% decline from 2008) .
- Major Purchaser of U.S. exports, probably about 50% of total. Sector continues to be critical for U.S. firms.
- \$20 Billion in additional mining investments have been proposed – although many have been delayed due to global financial crisis.



Peru's Minerals Exports (2009)

- Gold: \$6.7 Billion
- Copper: \$5.8 Billion
- Zinc: \$1.1 Billion
- Lead: \$1 Billion
- Silver: \$0.2 Billion



Peru Market is Heavily Concentrated in Lima

- Almost one-third of population (9 million)
 - second largest city has pop. of only 800,000.
- Produces 50% of GDP.
- 55% of cell phone users.
- Home to 2/3 of Peru's manufacturing
- 80% of new car purchases.



Signs of Diversification are Appearing

- Consumer goods sales are now almost evenly split between Lima and the rest of the country.
 - Five years ago closer to 70% of such sales occurred in Lima.
- New industries are showing strong growth and attracting foreign investment.
 - Oil and Gas (Hunt Oil: \$3.5 billion LNG facility and large number of new oil and gas leases)
 - Telecommunications (Telefonica, America Mobil, Nextel).
 - Retail (major Chilean presence).
 - Strong agricultural export sector .



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Infrastructure Development Offers Significant Opportunities

- Peru has an estimated \$20 billion deficit in infrastructure projects.
- Key Priorities include planned concessions of railroads, roads, ports, airports, power transmission lines.
- Construction Sector: Currently growing at 20% annually.



Evolving Retail Sector

- Retail sales grew by 5% in 2009.
- “Mom & Pop” retail dominates, with 75,000 bodegas in Lima alone; generating \$6 billion in sales in 2009
- Formal retail outlets expanding: shopping malls generated \$1.6 billion in sales in 2009.
- Still only one mall per 1 million persons: Compared with Colombia 4; Argentina 10; Brazil 18; Chile 20; Mexico 25; U.S. 43.
- \$1 billion in mall expansion expected in 2010.
- Credit card use growing: \$3.5 billion in 2009.



Foreign Competition: Sources of Peruvian Imports 2009

- United States 20%
- China 15%
- Brazil 8%
- Ecuador 5%
- Chile 5%



Foreign Competition: Pending Peruvian Trade Agreements

Peru is reaching out to many of its key trade partners, having recently concluded or negotiating FTAs or other trade accords

- Canada/
Singapore Concluded agreement s in May 2008. Now in force.
- China: Signed agreement in November 2008, entry into force expected in 2010
- EU: Trade agreement under negotiation, conclusion expected in May 2010
- Korea/
Japan Seeking to conclude an agreement in 2010
- Asia/
Pacific Participant in Trans Pacific Partnership. Negotiations to start in 2010.



U.S. Peru Trade Promotion Agreement (FTA)

- Approved by U.S. Congress in December 2007
- Entry into Force February 1, 2009
- FTA will make it easier to sell to and do business in Peru.



FTA: Key Provisions

- 80% of U.S. exports of consumer and industrial products become duty-free immediately.
 - Remaining tariffs phased-out over 10 years
- Two-thirds of U.S. farm exports become duty-free immediately.
 - All tariffs eliminated in 17 years.
- Facilitates Trade by improving transparency and efficiency in customs procedures.



FTA: Key Provisions (cont.)

- Improved labor rights commitments
- Obligations regarding environmental protections.
- Expanded Access to services markets



Best Prospects for U.S. Firms

- Mining Equipment
- Construction and Transport Equipment
- Computers and Telecom Equipment
- Chemicals and Plastics
- Oil and Gas Equipment



Marketing Products in Peru

- Pricing is critical.
 - Despite reductions in import duties, goods in Peru can be expensive owing to a 19% VAT.
- Most goods are costlier than in the United States, in a country with a per capita GDP of only about \$4,000.
- 35% of the population lives below the poverty line.



Marketing Issues

- Local representative is often important
- Most firms with ongoing commercial activities in Peru engage a local attorney.
- Customs valuation of imports is sometimes an issue, becoming less so as import duties are reduced.
- Certificate of Origin documentation can be a source of customs clearance delays.



End Users

- For machinery and technology sales, which are the dominant U.S. imports, quality, reliability and after-sales support are important.
- For many large firms, purchasing needs are specified in annual budgets.
- Importance and need for financing is related to the size of the purchases involved.



Useful Web Sites

- www.buyUSA.gov/peru/en (Doing Business in Peru)
- ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Section_Index.html (Details of FTA)
- www.proinversion.gov.pe (Infraestructre projects)
- www.doingbusiness.org/ExploreEconomies/?economyid=152
- www.aduanet.gob.pe/aduanas/informai/trar.htm (Import tariff information)