

Peru

RISK & COMPLIANCE REPORT

DATE: January 2017

Executive Summary - Peru	
Sanctions:	None
FATF list of AML Deficient Countries	No
Higher Risk Areas:	Not on EU White list equivalent jurisdictions International Narcotics Control Majors List Corruption Index (Transparency International & W.G.I.)
Medium Risk Areas:	Compliance with FATF 40 + 9 recommendations US Dept of State Money Laundering assessment World Governance Indicators (Average Score) Failed States Index (Political Issues)(Average Score)
<p>Major Investment Areas:</p> <p>Agriculture - products:</p> <p>asparagus, coffee, cocoa, cotton, sugarcane, rice, potatoes, corn, plantains, grapes, oranges, pineapples, guavas, bananas, apples, lemons, pears, coca, tomatoes, mangoes, barley, medicinal plants, palm oil, marigold, onion, wheat, dry beans; poultry, beef, pork, dairy products; guinea pigs; fish</p> <p>Industries:</p> <p>mining and refining of minerals; steel, metal fabrication; petroleum extraction and refining, natural gas and natural gas liquefaction; fishing and fish processing, cement, glass, textiles, clothing, food processing, beer, soft drinks, rubber, machinery, electrical machinery, chemicals, furniture</p> <p>Exports - commodities:</p> <p>copper, gold, lead, zinc, tin, iron ore, molybdenum, silver; crude petroleum and petroleum products, natural gas; coffee, asparagus and other vegetables, fruit, apparel and textiles, fishmeal, fish, chemicals, fabricated metal products and machinery, alloys</p> <p>Exports - partners:</p> <p>China 19.7%, US 15.5%, Canada 9.4%, Japan 6.5%, Spain 5.2%, Chile 4.8% (2012)</p> <p>Imports - commodities:</p>	

petroleum and petroleum products, chemicals, plastics, machinery, vehicles, color TV sets, power shovels, front-end loaders, telephones and telecommunication equipment, iron and steel, wheat, corn, soybean products, paper, cotton, vaccines and medicines

Imports - partners:

US 24.4%, China 13.9%, Brazil 6.3%, Argentina 5.4%, Chile 4.7%, Ecuador 4.5%, Colombia 4.2% (2012)

Investment Restrictions:

The Peruvian government seeks to attract investment -- both foreign and domestic -- in nearly all sectors of the economy.

The 1993 Constitution guarantees national treatment for foreign investors and permits foreign investment in almost all economic sectors. Under the Constitution, foreign investors have the same rights as national investors to benefit from any investment incentives, such as tax exemptions. Article 6 of Supreme Decree No. 162-92-EF authorizes private investors to carry out any economic activity, provided investors comply with all constitutional precepts, laws and treaties. However, a few exceptions exist. For example, the law excludes investment activities in natural protected areas and manufacturing of war weapons, pursuant to Article 6 of Legislative Decree No. 757. Some laws require that Peruvians own a majority share in companies operating in certain sectors: media, air and land transportation, and private security surveillance services. Foreigners are legally forbidden from owning a majority interest in radio and television stations in Peru; nevertheless, foreigners have in practice owned controlling interests in such companies. Prior approval is required for domestic or foreign investment in banking (for financial regulatory reasons) and defense-related sectors. Under the Constitution, foreign interests cannot "acquire or possess under any title, mines, lands, forests, waters, or fuel or energy sources" within 50 kilometers of Peru's international borders. However, foreigners can obtain concessions and rights within the restricted areas with the authorization of a supreme resolution approved by the Cabinet and the Joint Command of the Armed Forces.

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Section 1 - Background

Ancient Peru was the seat of several prominent Andean civilizations, most notably that of the Incas whose empire was captured by Spanish conquistadors in 1533. Peruvian independence was declared in 1821, and remaining Spanish forces were defeated in 1824. After a dozen years of military rule, Peru returned to democratic leadership in 1980, but experienced economic problems and the growth of a violent insurgency. President Alberto FUJIMORI's election in 1990 ushered in a decade that saw a dramatic turnaround in the economy and significant progress in curtailing guerrilla activity. Nevertheless, the president's increasing reliance on authoritarian measures and an economic slump in the late 1990s generated mounting dissatisfaction with his regime, which led to his ouster in 2000. A caretaker government oversaw new elections in the spring of 2001, which installed Alejandro TOLEDO Manrique as the new head of government - Peru's first democratically elected president of indigenous Quechuan ethnicity. The presidential election of 2006 saw the return of Alan GARCIA Perez who, after a disappointing presidential term from 1985 to 1990, oversaw a robust economic rebound. In June 2011, former army officer Ollanta HUMALA Tasso was elected president, defeating Keiko FUJIMORI Higuchi, the daughter of Alberto FUJIMORI. Since his election, HUMALA has carried on the sound, market-oriented economic policies of the three preceding administrations.



Section 2 - Anti – Money Laundering / Terrorist Financing

FATF status

Peru is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Peru was undertaken by the Financial Action Task Force (FATF) in 2008. According to that Evaluation, Peru was deemed Compliant for 10 and Largely Compliant for 14 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 4 of the 6 Core Recommendations.

US Department of State Money Laundering assessment (INCSR)

Peru was deemed a Jurisdiction of Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

Perceived Risks:

Peru is neither a major regional financial center nor an offshore financial center. Peru remains one of the world's top producers of cocaine. Money laundering is often used as a tool to integrate significant illegal earnings from drug trafficking and other transnational organized criminal activity into the Peruvian economy. As the Peruvian economy grows, financial crimes also increase. The most common methods of money laundering in Peru are believed to be illegal mining, the illicit gold trade, illegal logging, real estate sales, casinos, business investments, high-interest loans, construction, export businesses, money exchange, and investments in hotels and restaurants. Other factors which facilitate money laundering include Peru's cash-based and heavily-dollarized economy, a large informal sector (estimated to be 70 percent of GDP), and deficient regulatory supervision of designated non-financial businesses and professions (DNFBPs), such as informal money exchanges and wire transfer services.

A large black market for pirated and smuggled goods exists, exacerbated by cash transactions. Pervasive corruption remains an issue of serious concern in Peru. There are reports that illicit funds may make up 3.5 percent of Peru's GDP.

DO FINANCIAL INSTITUTIONS ENGAGE IN CURRENCY TRANSACTIONS RELATED TO INTERNATIONAL NARCOTICS TRAFFICKING THAT INCLUDE SIGNIFICANT AMOUNTS OF US CURRENCY; CURRENCY DERIVED FROM ILLEGAL SALES IN THE U.S.; OR ILLEGAL DRUG SALES THAT OTHERWISE SIGNIFICANTLY AFFECT THE U.S.: YES

CRIMINALIZATION OF MONEY LAUNDERING:

"All serious crimes" approach or "list" approach to predicate crimes: All serious crimes
Are legal persons covered: criminally: YES civilly: YES

KNOW-YOUR-CUSTOMER (KYC) RULES:

Enhanced due diligence procedures for PEPs: Foreign: YES Domestic: YES
KYC covered entities: Banks, insurance companies, stock funds and brokers, stock and commodities exchanges, credit and debit card companies, money exchange houses, mail and courier services, travel and tourism agencies, hotels and restaurants, notaries, the customs agency, casinos, auto dealers, construction or real estate firms, and dealers in precious stones and metals

REPORTING REQUIREMENTS:

Number of STRs received and time frame: 5,831: January 1 - September 30, 2015
Number of CTRs received and time frame: 47.3 million: January 1 - September 30, 2015
STR covered entities: Banks; casinos; investment houses; dealers of arms, antiques, art, pawned goods, jewelry, and precious metals and stones; warehouses, construction, and real estate firms; financial and insurance companies; travel agents; vehicle dealerships, import and export agents; credit card companies; courier and postal services, money lenders, and money exchanges; the customs agency; mining companies; individuals and enterprises that manufacture and commercialize explosives or chemical components used in drugs and explosives; public entities that receive funds from other than the national treasury; traders and/or rental agents of machinery and equipment that can be used for illegal mining and/or logging; and non-governmental organizations that receive donations

MONEY LAUNDERING CRIMINAL PROSECUTIONS/CONVICTIONS:

Prosecutions: 531: January - September 2014
Convictions: 2: January - September 2014

RECORDS EXCHANGE MECHANISM:

With U.S.: MLAT: NO Other mechanism: YES
With other governments/jurisdictions: YES

Peru is a member of the Financial Action Task Force of Latin America (GAFILAT), a FATF- style regional body.

ENFORCEMENT AND IMPLEMENTATION ISSUES AND COMMENTS:

In 2015, the Government of Peru continued the implementation of the "National Plan to Combat Money Laundering and Terrorist Financing" (National Plan). On July 1, 2015, the Peruvian Congress extended special legislative powers to the Executive branch to write legislation on economic, administrative, and security matters. Under this authority, regulations were established that will reinforce criminal investigations, including the creation of the National Registry of Mobile Phones Terminals, which will be available to the National Police,

and creation of an evidence database that will assist in identifying patterns of organized crime.

On October 28, 2014, the Financial Intelligence Unit (FIU) published regulations to strengthen controls and reporting requirements for money changers. The regulations require individuals or companies that purchase or sell foreign currency to implement a ML/TF prevention system, develop an ethics code, and appoint a compliance officer. The entities are also required to follow KYC rules, register transactions of over \$5,000, and submit suspicious transaction reports (STRs) as necessary. Despite the above improvements, supervision of the DNFBP sector is weak.

The National Superior Prosecutor and Coordinator (NSP/C) for Money Laundering and Asset Forfeiture (ML/AF) leads the office that has responsibility for all complex money laundering cases with national or international import where illicit activities involve more than one judicial district. The NSP/C can also assume jurisdiction for money laundering cases that involve organized criminal organizations. Since November 2014 there have been four different Coordinators of the Public Ministry's Anti-Money Laundering office. This frequent leadership change stalled progress on several key projects. Although constrained by a lack of institutional cooperation, the special prosecutor's office secured the November 5, 2015 conviction of two defendants accused of laundering narcotics-related funds. The NSP/C's most noteworthy case is the ongoing investigation into a former president for money laundering and conspiracy in connection with a series of multi-million dollar real estate deals. An ongoing investigation also is examining the First Lady's finances due to alleged irregularities during the 2011 campaign of President Humala.

The National Commission for Seized Assets (CONABI) has held nine auctions (three per year since 2013), which has garnered nearly \$6.5 million. Most of the proceeds support CONABI's budget, with the Office for ML/AF and National Superior Criminal Court also receiving funding. CONABI is currently administering assets including real estate, vehicles, jewels, and bars of gold.

Casinos remain an area of money laundering concern. Much of this concern relates to the casinos' supervisory authority. The Ministry of Foreign Commerce and Tourism (MINCETUR) is the principal regulator of casinos. The FIU cannot monitor or investigate casinos for money laundering independent of MINCETUR. MINCETUR is a participant in the National Plan and provides information to the FIU by requiring casinos to report suspicious transactions.

Peru's Superintendent of Banking and Insurance (SBS) believes that 44 percent of suspicious financial transactions since 2010, amounting to \$4.35 billion, are linked to gold mining. In contrast, 31 percent are connected to drug trafficking (approximately \$3 billion) and 7 percent to corruption (approximately \$700 million).

Currently, businesses involved in the transfer of funds only need prior authorization by the SBS while cash couriers need a signed agreement with the Ministry of Transportation and Communication. Informal remittance businesses, including travel agencies and small wire transfer businesses, remain unsupervised and vulnerable to money laundering. Peru would benefit from expanded supervision and regulation of financial institutions and DNFBPs; however, the FIU needs additional resources to deal with its monitoring responsibilities.

Even with the existence of the Specialized Office for ML/AF, weaknesses continue in the capacity of the prosecutorial system. Prosecutors continue to complain they cannot understand the format or language of many of the FIU's investigative results; and the lack of financial experts to decode the FIU's reports makes it difficult for prosecutors to investigate the results within the required 120-day time frame. Compounding the problem, many judges lack adequate training to manage the technical elements of money laundering cases, and banks often delay providing information to judges and prosecutors. Convictions tend to be for lesser offenses or predicate crimes, such as tax evasion or drug trafficking, which are easier offenses to prosecute successfully. Frequently judges require prosecutors to develop parallel cases for predicate crimes, essentially discounting the money laundering investigation.

Peru's bank secrecy law remains a primary obstacle to effective investigation and enforcement. The National Plan emphasizes the importance of adopting legislation that allows the SBS and FIU to have greater access to bank and tax records, but two important bills have been pending before the Peruvian Congress's Banking, Finance, and Financial Intelligence Committee since 2012. On February 16, 2015, Resolution SBS 1132-2015 was published as a measure to speed the response times of financial institutions to FIU requests. The resolution establishes a designated authority to issue and receive the requests, mandates the process and response times, and outlines sanctions for institutions for non-compliance.

There is no common database tracking money laundering convictions, and the FIU, police, and prosecutors often have different figures on money laundering convictions. Many convictions are registered under a predicate crime rather than money laundering, which explains, in part, the low number of convictions during the reporting period. The Government of Peru lacks consolidated statistics on money laundering investigations. Different official sources show inconsistencies in their figures. Although the number of prosecutions increased in 2015, according to the Peruvian Judiciary's International Affairs and Technical Cooperation Office, there were only two money laundering convictions for the first nine months of 2015.

While taking welcome steps to implement the National Plan, Peru should publicly recognize the growing threat of money laundering and associated crimes in the country. A workable AML/CFT infrastructure exists; however, supervision of the DNFBP sector should be strengthened. Sufficient resources must be allocated to the regulatory, enforcement, and prosecutorial arms. Most importantly, the political will must be developed to aggressively identify, investigate, and prosecute money launderers.

Current Weaknesses in Government Legislation (INCRS Comparative Tables):

According to the US State Department, Peru conforms with regard to the government legislation required to combat money laundering and the terrorism of financing.

EU White list of Equivalent Jurisdictions

Peru is not currently on the EU White list of Equivalent Jurisdictions

World Governance indicators

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

Failed States Index

[To view Failed States Index Ctrl + Click here](#)

Offshore Financial Centre

Peru is not considered to be an Offshore Financial Centre

US State Dept Narcotics Report 2016 (introduction):

Peru remained the world's top producer of cocaine and was the second-largest cultivator of coca, with an estimated 46,500 hectares (ha) under cultivation as of 2014, the most recent year for which data is available. The majority of cocaine produced in Peru goes to South American countries for domestic consumption, or for onward shipment to Europe, the United States, East Asia, Mexico, and Africa via private and commercial aircraft and land and maritime conveyances. Peru is a major importer of precursor chemicals used for cocaine production.

President Ollanta Humala's administration has dedicated substantial resources to implement Peru's 2012-2016 counternarcotics strategy. This document, prepared in 2012, originally set the 2015 eradication goal at 26,000 ha; however, late in 2014, President Humala increased the goal by more than 34 percent to 35,000 ha. The terrorist group Sendero Luminoso (SL or Shining Path), operating in the Valley of the Rivers Apurimac, Ene, and Mantaro (VRAEM) region, continued to rely on drug trafficking for funding and wounded two and killed eight Peruvian security personnel during counternarcotics operations in 2015.

Domestic consumption of illicit drugs is growing, particularly in mid-sized cities east of the Andes where much of the drug production occurs and in coastal transit cities where most of Peru's population lives. The number of treatment centers falls short of what is needed to treat the estimated 32,000 to 60,000 people addicted to cocaine, and the larger number of marijuana users. Abuse of the low-priced and highly addictive coca paste is also increasing.

Corruption

As a matter of policy, the Government of Peru does not encourage or facilitate the illicit production or distribution of drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. Nonetheless, corruption remains a serious concern. Corruption is widespread at the regional government level. At the end of 2015, 11 of the 25 regional governors were under investigation for corruption-related charges, with three awaiting trial. Electoral authorities barred two additional elected governors from serving based on corruption-related charges. In a September 20 poll, 79 percent of respondents said they lacked confidence in the judiciary system and 55 percent said they lacked confidence in the police. In separate incidents in October, five counternarcotics police were arrested transporting drugs, and a Peruvian Army officer was arrested for complicity in allowing drug flights into the VRAEM.

US State Dept Trafficking in Persons Report 2014 (introduction):

Peru is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Peru is a source, transit, and destination country for men, women, and children subjected to forced labor and sex trafficking. Indigenous Peruvians are particularly vulnerable to trafficking. Peruvian women and girls, and to a lesser extent boys, are exploited in sex trafficking within the country, often recruited through deceptive employment offers. Women and girls exploited near mining communities are often indebted due to the cost of transportation and unable to leave due to remoteness of camps and complicity of miners in their exploitation. Peruvian police estimated that in La Riconada, a mining community near the Bolivian border, there were more than 4,500 Peruvian and Bolivian girls in sex trafficking. To a lesser extent, Peruvian women and children are exploited in sex trafficking in neighboring countries—including Ecuador and Argentina—and women and girls from neighboring countries, especially Bolivia, are found in sex trafficking in Peru. Child sex tourism is present in areas such as Cuzco, Lima, and the Peruvian Amazon.

Peruvian men, women, and children are exploited in forced labor within the country, principally in informal gold mining and related services, logging, agriculture, brick-making, the informal sector, and domestic service. Peruvians working in artisanal gold mines experience forced labor, including through deceptive recruitment, debt bondage, restricted freedom of movement or inability to leave, withholding of or nonpayment of wages, and threats and use of physical violence. Forced child labor occurs in begging, street vending, and cocaine production and transportation. There are continued reports that the terrorist group Sendero Luminoso, or Shining Path, recruits children and adults to serve as combatants and in the illicit narcotics trade. Peruvian men, women, and children are found in forced labor in Argentina, Chile, Ecuador, Brazil, and the United States, among other countries. Peru also is a destination for forced labor victims from other countries, including Bolivia. During the year, five Indian citizens were identified in forced labor in a Peruvian hotel. Haitian migrants transiting through Peru to Brazil were reportedly vulnerable to trafficking.

The Government of Peru does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. During the year, authorities established a labor inspection unit to investigate forced and child labor, increased the number of regional-level anti-trafficking working groups, and doubled the Ministry of the Interior's budget for anti-trafficking prevention activities. In spite of the large number of trafficking victims in Peru, authorities failed to fund specialized services for these victims. Officials often failed to refer identified victims to any care services, and some officials' lack of understanding of human trafficking resulted in poor treatment of victims and impunity for traffickers. Trafficking-related complicity among officials remained a serious and largely unaddressed problem, as the government reported limited efforts to hold corrupt officials accountable through criminal investigations, prosecutions, or convictions. Efforts to identify and assist forced labor victims—particularly those exploited in informal gold mining—and to prosecute and convict labor traffickers remained inadequate. Government data on victim identification and law enforcement efforts was unreliable, making it difficult to assess these efforts.

US State Dept Terrorism Report 2015

Overview: The Shining Path (Sendero Luminoso or SL) constitutes a localized and declining threat to Peru's internal security, and maintained a low profile in 2015. SL's membership numbers continued to dwindle, and by the end of 2015 it consisted of one single active

faction, whose area of activity and influence was confined to the special military emergency zone known as the Apurimac, Ene, and Mantaro River Valley (VRAEM) – a remote and rugged region slightly larger than Switzerland which accounts for more than one-half of the cocaine produced in Peru. Within the VRAEM, SL has retreated to its stronghold in the Vizcatan area, approximately 500 square kilometers along the Mantaro River. To sustain itself, SL is involved in all logistical aspects of drug trafficking in its area of influence: it collects “revolutionary taxes” from those involved in the drug trade, and for a price, provides security and transports narcotics for drug trafficking organizations. SL continues to use Maoist ideology to justify its illegal activities.

SL has yet to recover from an August 2013 operation conducted by the Peruvian security forces that resulted in the deaths of two of the terrorist organization’s top four commanders, Orlando Borda, aka “Comrade Alipio” and Martin Quispe Palomino, aka “Comrade Gabriel.” Operations have severely weakened SL in the Upper Huallaga Valley, a former stronghold. As a result, after nearly 30 years, the government lifted the emergency zone in the Upper Huallaga Valley on June 27. President Humala also announced on December 8 that the government would soon lift the state of emergency in parts of the VRAEM. A decree published on December 11 stated that the Peruvian National Police (PNP) would regain authority over internal security from the military in the remaining VRAEM emergency zone while the military will continue to combat SL.

Estimates of SL’s strength vary, but most experts and the Peruvian military assess SL to number 250-300 combatants of which 60-100 are hardcore fighters.

Security forces took limited actions to counter the SL during 2015, reflecting President Humala’s strategy, announced in July 2013, of gaining control of territory in the VRAEM at the lowest cost in human lives. In two separate operations, security forces rescued 54 people, including 37 children. Some of those rescued are children of SL members and others the SL had captured more than 30 years ago. Security forces also captured two mid-level SL leaders who were active in the northern edge of the VRAEM in the La Convención province of Cuzco region.

The government did not initiate coca-eradication operations in the VRAEM, which many analysts argue is necessary in the long run to regain control over this area. Officials in the Government of Peru believed that eradicating in the VRAEM would create a serious social conflict that could provide a boost to SL.

SL founder and leader Abimael Guzman and key accomplices remained in prison serving life sentences for numerous crimes committed in the 1980s and 1990s. Two top SL leaders – Osman Morote and Margot Liendo – completed their 25-year sentences in June 2013, but were still in jail at the end of 2015. These individuals remain in prison pending trials for other crimes committed in the early 1980s, but according to the Minister of Interior could be released soon. Most SL leaders were convicted of crimes long before new legislation allowing for life sentences was approved and should start leaving prison in 2017. Peter Cárdenas, a former top commander of the now defunct Túpac Amaru Revolutionary Movement (MRTA), was released from prison on September 22 after serving his full 25-year sentence. American Lori Berenson, who was convicted on terrorism charges in Peru for collaborating with the MRTA, finished serving her 20-year sentence on December 1; she was expelled from Peru and returned to the United States on December 3.

In October 2014, Peruvian police arrested Muhammad Ghaleb Hamdar, a 28-year old Lebanese citizen suspected of links to Hizballah. According to reports, there were residue and traces of explosives in Hamdar's apartment. A Peruvian judge rejected Hamdar's bail request on November 17; he remained in pretrial detention at year's end. The police also arrested Hamdar's wife, dual U.S.-Peruvian national Carmen Carrion McKay, on November 26. She was charged with violating the "collaborating with terrorism" statute and placed in preventative custody, which may be imposed for up to 18 months in Peru for terrorism, espionage, and other cases, where the charged offense meets a minimum threshold and the individual poses a demonstrable flight risk. The charge carries a minimum sentence of 20 years, if she is found guilty.

2015 Terrorist Incidents: According to Peruvian government statistics, the SL committed 13 terrorist acts in 2015, in comparison to 20 terrorist acts recorded in 2014 and 49 acts in 2013. Over the course of the year, SL attacks were limited to small, mostly harassing attacks that resulted in few casualties. In 2015, SL attacks and operations resulted in the deaths of two soldiers and three civilians. Seven members of the security forces were wounded in action. In 2014, two soldiers were killed compared to three in 2013 and 19 in 2012. Incidents included the following:

- On March 21, an alleged SL column shot and killed two people, a former community president and a justice of the peace in Huancamayo, a remote community in Junin region's Santo Domingo de Acobamba district.
- In early August, SL attacked a counterterrorism base in Junin region, killing one soldier.
- On September 2, SL fighters wounded five soldiers in a clash in Ayacucho region, Huanta province. Security forces claimed two SL fighters were killed although no bodies were found.
- On October 24, approximately 30 SL members targeted and blew up a telecommunication tower in Tintay Puncu district in Huancavelica region's Tayacaja province.

Legislation, Law Enforcement, and Border Security: Over the past three decades, Peru has promulgated a variety of laws specifically designed to counter terrorism. These measures receive broad public support. The government published legislative decree 1233 on September 26, 2015, adding the crime of "conspiracy to commit terror" to existing legislation. This legislation could apply to "anyone who conspires to promote, benefit, or facilitate terror" and carries a maximum 20-year prison sentence. Peru's congress also approved Law 30353 on October 29, 2015, which prohibits convicted felons who have not paid the fines levied against them as part of their sentences from running for public office. Imprisoned MRTA and SL terrorist leaders owe millions of dollars to the state for damages.

Peru has steadily improved its ability to detect, deter, and respond to terrorist incidents in the 22 years since the police captured the SL's founder and chief ideologue, Abimael Guzmán.

The most significant Peruvian government actions against SL this year included:

- The police captured and arrested Neymar Maldonado on June 17. Maldonado was considered to be one of the successors to "Comrade Artemio," the former SL leader in the Huallaga valley. The police also captured a large cache of weapons and documents in the operation.

- On July 7, the police captured alleged SL unit leader Ever Cabanillas Chuquilin, aka "Cajacho," who operated in the Huallaga valley.
- On July 27, the military and police conducted a joint operation in Satipo province in Junin region that freed 39 people (26 children and 13 adults), who were held at an SL base. Security forces freed 15 more people in a second operation. Some of the adults had been under SL control for 30 years.
- Peruvian security forces captured SL leader Alexander Alarcón Soto, aka "Comrade Renán," on August 8 and his lieutenant Dionicio Ramos Limaquipe, aka "Comrade Yuri," on August 9. Renán and Yuri commanded one of the SL's principal units operating in the Cuzco region of the VRAEM. Renán took command of this unit in August 2013 after Peruvian security forces killed Comrade Alipio and Comrade Gabriel. Renan is believed to have been involved in various high-profile kidnappings and attacks against the police/military, including one in 2012 that left eight soldiers and four police dead.

On border security, immigration authorities collected no biometrics information from visitors. Citizens of neighboring countries were allowed to travel to Peru by land using only national identification cards. There was no visa requirement for citizens of most countries from Western, Central, and Eastern Europe, as well as Mexico. Peruvian immigration used a database called "Movimiento Migratorio" at 18 points of entry to track entries and exits of travelers. The database also connects to the PNP's database to flag outstanding arrest warrants. The Government of Peru announced that it would issue biometric passports in 2016 for all Peruvian citizens.

Countering the Financing of Terrorism: Under Decree Law 25475, Peru criminalizes any form of collaboration with terrorists, including economic collaboration. Peru is a member of the regional Financial Action Task Force of Latin America. Peru's Financial Intelligence Unit is also a member of the Egmont Group.

In 2015, the Government of Peru continued to make progress in implementing its national plan to combat money laundering and terrorism financing. Most notably, Peru tightened controls on money changing entities and introduced measures to ensure timely reporting of bank information by financial institutions. In 2015, Peru did not prosecute any terrorism financing cases and/or identify frozen terrorist assets of sanctioned organizations.

SL's ability to sustain itself and finance its terrorist and other criminal actions depends on profits from drug trafficking activities. The PNP lacks specific intelligence on the amounts of terrorism financing derived from narcotics trafficking and the methods used to move those payments to SL. It is understood that SL narcotics proceeds enter the VRAEM as bulk, physical dollars from neighboring countries via the same aircraft used to transport cocaine out of the region (commonly known as the "air bridge"). Experts estimated that SL has returned at least \$170 million back into the VRAEM to launder into local currency to fund its operations. To address this issue, the PNP is forming a 15-person specialized unit that will focus on investigating SL financing.

Countering Violent Extremism: The Government of Peru publicly stressed the importance of heavily investing in the VRAEM as a means of breaking the symbiotic relationship that has existed for years between the VRAEM's residents and SL. Since 2007, the Peruvian government has provided the equivalent of approximately \$6 billion to districts and regions in

the VRAEM to pave roads, provide basic health and education services, and establish a greater state presence. In November, the Minister of Agriculture announced the government would spend \$18 million on alternative development in the VRAEM in 2016.

International and Regional Cooperation: Peru's Foreign Ministry energetically and publicly condemned terrorist attacks around the world in 2015. Peru actively participated in the White House Summit on Countering Violent Extremism in February and the Leader's Summit on Countering ISIL and Violent Extremism hosted by President Obama in New York in September. Peru participates in counterterrorism activities in international and regional organizations, including the UN, OAS, and UNASUR.

International Sanctions

None applicable

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	35
World Governance Indicator – Control of Corruption	32

US State Department

It is illegal in Peru for a public official or employee to accept any type of outside remuneration for the performance of his or her official duties. Peru has ratified both the UN Convention Against Corruption and the Organization of American States Inter-American Convention Against Corruption. Peru is not a member of the Organization of Economic Cooperation and Development (OECD). It has not signed the OECD Convention on Combating Bribery, although it has participated as an observer in the Working Group. The Contraloría General is the responsible government agency for combating corruption.

U.S. firms have reported problems directly resulting from corruption, usually in government procurement processes and in the judicial sector, with defense and police procurement generally considered among the most problematic in spite of PTPA's stipulations and of Peru's Government Procurement Law (Legislative Decree No. 1017, DL 1017, one of several laws passed with the specific intention to implement PTPA). Transparency International ranked Peru 83rd out of 177 countries in its 2013 Corruption Perceptions Index, unchanged since 2012, and down from 80th out of 183 countries in 2011. While anti-corruption efforts have been a stated priority of both the Garcia and Humala governments, in practice most resources to date have been directed at investigating extensive corruption during the Fujimori era (1990-2000). Former Presidents Garcia and Toledo and several sitting members of Congress are also under investigation for corrupt practices. The Peruvian armed forces and national police continue to prefer to execute government-to-government procurements (i.e., purchases by a GOP agency from a foreign government agency or government-owned company). In July 2012, the Government Procurement Supervisory Agency ruled that government-to-government procurements do not fall under the government procurement law (DL 1017). An article in the 2013 Budget Law also specified that procurements by the GOP from another state are not under the scope of DL 1017. Since then, there have been a number of local media reports of overvalued prices in several government-to-government purchases, of goods or services for the police or the armed forces. Cases include purchases of a satellite, planes, helicopters, and technical assistance training. Overvaluation has apparently occurred even in the case of open tenders, as in the notorious recent case of the purchase of 591 binoculars by the Interior Ministry for the National Police in December 2013. El Comercio, Peru's paper-of-record, published a report in January 2014 alleging the Interior Ministry bought 591 binoculars at a price more than ten times the market rate. In early-March 2014, local media reported that the Public Prosecutor's Office will investigate a technical assistance-training procurement made in 2009 by the Armed Forces Joint Command. This

probe comes after the Comptroller General found irregularities and circumstantial evidence of collusion, embezzlement and other crimes.

Corruption and Government Transparency - Report by Global Security

Political Climate

Peru has experienced impressive economic growth in recent years with stable macroeconomic policies, improved investment rules, new labour laws, and privatisation policies that have made the country attractive to foreign investors. Extra effort has been made in the energy sector to attract foreign investment in Peru's mining industry, its fast-growing oil and gas sector and the ever-growing tourist industry. President Humala's goal is to make tourism Peru's second largest sector. The economic upswing over the past decade has halved the number of people living in poverty; the percentage of the population that continue to live in poverty now stands at 28%. Excluding 2009, the economy has grown over 6% annually over the past 5 years. However, the last decade has been characterised by an unstable political climate. Efforts to alleviate social and economic inequality and reduce unemployment have been impeded by corruption and by the government's failure to deal successfully with these problems. The leftist former army officer, Humala, narrowly won Peru's presidency in the June 2011 presidential election with over 51% of the vote, pledging to fight corruption in Peru, according to a 2011 article by MercoPress. In February 2012, the Humala government introduced the National Plan to Combat Corruption. The government's progress on combating corruption has been praised by the leading transparency NGO, Proética, according to a December 2012 Andina article.

Former President García, who took office in 2006, saw his popularity fall sharply and encountered turbulence due to a major corruption scandal over oil contracts in October 2008, which forced his entire cabinet to resign. The scandal involved the Norwegian oil company, Discover, which was accused of having bribed officials in order to obtain five oil concessions, accusations that the company denies. Peru has witnessed a large number of high-level corruption cases in the past involving high-ranking politicians, the most prominent case being that of ex-President Alberto Fujimori. According to Freedom House 2012 and several newspaper articles, after a decade in power, Fujimori fled to Japan in 2000, taking with him an alleged USD 600 million of national assets. Since his extradition to Peru in 2007, Fujimori has faced four trials on charges of having ordered killings, embezzlement, abuse of power and corruption. He has been found guilty on all charges and sentenced to a total of more than 30 years in prison. His national security advisor, Vladimiro Montesino, has also been involved in corruption scandals and is currently in jail convicted on charges of corruption, murder, arms smuggling, and drug dealing. Videos and reports have revealed how Montesino bribed judges, politicians and the news media, and how his network reached deep into the courts, the military, the Congress, the police, and the private sector. In the wake of the Fujimori and Montesino era, approximately 1,800 individuals have been indicted on charges of corruption and abuse of authority, and Peruvians are now highly sensitised to political corruption. In November 2011, Vice President Omar Chehade was suspended from Congress by the ethics committee over corruption allegations. Chehade is one of Peru's two vice presidents and finally resigned in January 2012, three months after his suspension. According to a 2011 article by MercoPress, Chehade is accused of illegal lobbying, namely, asking a police general to help his brother evict workers from a cooperative sugar farm to

help a company that wanted to take it over. This was the first big corruption challenge for the new president, who, however, cannot dismiss Chehade as his power has been limited by the Constitution, meaning that only Congress can remove a vice president from office in an impeachment proceeding.

Various sources reveal that Peruvian households identify corruption as a major problem. For example, a Proética National Opinion Survey 2012 (in Spanish) reveals that public concern over corruption has grown considerably over the past decade and is perceived as the second largest national problem after crime. According to the same survey, half the population believe that corrupt officials are the largest impediment to development. According to Transparency International's Global Corruption Barometer 2010/2011, 85% of the respondents perceive the former government's actions against corruption to be 'ineffective', while the judiciary is reported to be the most corruption-prone public institution. According to an Ipsos Apoyo, Opinión y Mercado October 2011 public opinion poll (in Spanish), current President Humala has been off to a better start, with 41% of respondents supporting him primarily for his promise to fight corruption. Peru's fight against corruption seems to focus primarily on the offences of the Fujimori era and on other high-profile corruption crimes that took place in the past, whereas 'everyday corruption' has not been targeted in the same way. Attempts to combat corruption have been restricted, and many initiatives following the fall of the Fujimori regime have proven unsuccessful or have been abandoned. Given a political environment rife with corruption, business executives surveyed in the World Economic Forum Global Competitiveness Report 2012-2013 reveal that the level of public trust in politicians is very low. Similarly, Freedom House 2012 reports that Peruvian citizens consider Congress as the country's most corrupt institution.

Business and Corruption

The business climate in Peru is generally attractive. Foreign trade has been extensively deregulated in recent years, state interference in free trade is minimal and the present government is continuing many of the business-friendly policies of previous governments. The country has a liberal foreign investment regime, and the 1993 Constitution guarantees foreign investors the same treatment as nationals. Business executives surveyed in the World Economic Forum Global Competitiveness Report 2012-2013, cite corruption as the second-most problematic factor for doing business in Peru behind an inefficient government bureaucracy. According to the report, companies consider the occurrence of irregular payments and bribes in Peru as common. Companies also identify the favouritism of government officials in rewarding contracts to well-connected companies and individuals, and the ethical behaviour of companies operating in Peru as significant competitive disadvantages. In contrast, according to Transparency International's Global Corruption Barometer 2010/2011, the private sector is perceived as less corrupt than other sectors in the country and is given a score of 2.9 on a 5-point scale (1 'not at all corrupt' and 5 'extremely corrupt'). The difficulties that companies experience when trying to deal with Peru's extensive bureaucracy has led some companies to make use of facilitation payments or to contract local agents who they hope can expedite business transactions. However, since companies can be held accountable for corrupt behaviour performed by agents on their behalf, they are advised to conduct extensive due diligence on business partners and agents when investing in or already doing business in Peru.

According to the World Bank & IFC Enterprise Surveys 2010, 44.5% of the companies surveyed identify corruption as a major constraint for doing business, while 12.4% report that they are expected to give gifts in order to obtain an operating licence and 26.3% report that they are expected to give gifts to secure a government contract. There are also indications of widespread demands for facilitation payments, as more than 21% of companies expect to give gifts to public officials to 'get things done'. New and small companies are more likely to be asked for bribes than established or larger companies. Bribes are also commonly used by companies when dealing with the judiciary in order to speed up and facilitate judicial proceedings.

According to Bertelsmann Foundation 2012, several obstacles such as bureaucratic corruption have hampered growth of the private sector in Peru. Companies should be aware of government procurement processes and that the judicial sectors are susceptible to corruption. According to the US Department of State 2011, private sector groups have increased efforts to fight corruption through Proética, the national chapter of Transparency International in Peru. Companies are generally recommended to use a specialised public procurement due diligence tool in order to mitigate the corruption risks associated with public procurement in Peru.

Regulatory Environment

Although the regulatory environment in Peru has improved in recent years due to a reduction in barriers to trade, faster customs procedures and improved dispute settlement processes, many foreign companies still cite regulatory issues as constraints for their business operations in Peru. Business executives surveyed in The World Economic Forum Global Competitiveness Report 2012-2013 perceive inefficient government bureaucracy to be the most problematic factor for doing business in Peru, closely followed by corruption. Moreover, business executives also report that government policy-making is somewhat opaque and that government officials usually favour well-connected companies and individuals when deciding on policies and contracts. Commercial regulations can be sometimes inconsistent, and the lack of transparency may increase start-up and overall operational costs. In a similar vein, in Transparency International's Global Corruption Barometer 2010/2011, more than 38% of Peruvian households perceive public officials to be 'extremely corrupt'.

According to the World Bank & IFC Doing Business 2013, a company must go through 5 procedures taking an average of 26 days at a cost of nearly 11% of GNI per capita to start a company in Peru. The public institutions granting relevant business licences suffer from widespread corruption and a deficiency in the rule of law, and according to the US Department of State 2009, companies continue to complain about excessive red tape and confusion about which licences they need and where to obtain them. One initiative to improve this situation is the private investment agency ProInversion, established as a 'one-stop shop' advisory agency for current and potential investors. ProInversion has successfully completed both concessions and privatisations of state-owned enterprises and natural resources. Foreign investors are advised to register with ProInversion in order to obtain a guarantee that they will be able to repatriate capital, profits and royalties. In December 2012, the European Parliament approved the EU-Central America Association Agreement, paving the way for the creation of a free-trade agreement between the EU and Peru. It is hoped that the agreement will result in a more stable and predictable environment for companies and the formation of a mediation mechanism to settle bilateral disputes.

Intellectual property rights are protected in Peru within a legal framework which is consistent with international standards. According to the Bertelsmann Foundation 2012, property rights are also properly defined and protected by law, with the exception of areas inhabited by the indigenous population, where they are not clearly defined. However, according to the US Department of State 2011, legal enforcement is problematic as the judicial system is often very slow to hear cases and court decisions have been difficult to predict and enforce. The competence of individual judges is said to vary substantially, and allegations of corruption and outside interference in the courts are common. The Peruvian appeals process also tends to delay the resolution of cases. Thus, foreign investors have found that contracts are often difficult to enforce in Peru. However, the Peruvian government has taken steps to improve dispute settlement procedures. Between 2004 and 2007, 24 commercial courts were established, with the purpose of ruling on investment disputes, including two courts of appeal, which have substantially improved the process of resolving commercial disputes. The amount of time required to resolve a case has, on average, been reduced from two years to two months, and the enforcement of court decisions has been reduced from 36 months to 3-6 months. Several private organisations operate their own arbitration centres, such as the Universidad Católica, the Lima Chamber of Commerce and the US Chamber of Commerce. Peru has also been a full member of the International Centre for Settlement of Investments Disputes (ICSID) since 1993 and of the New York Convention of 1958 since 1988. Access the Lexadin World Law Guide for a collection of legislation in Peru.

Section 3 - Economy

Peru's economy reflects its varied topography - an arid lowland coastal region, the central high sierra of the Andes, the dense forest of the Amazon, with tropical lands bordering Colombia and Brazil. A wide range of important mineral resources are found in the mountainous and coastal areas, and Peru's coastal waters provide excellent fishing grounds. Peru is the world's second largest producer of silver and third largest producer of copper. The Peruvian economy has been growing by an average of 5.6% for the past five years with a stable exchange rate and low inflation, which in 2013 was just below the upper limit of the Central Bank target range of 1 to 3%. For the last three years, this growth was due partly to high international prices for Peru's metals and minerals exports, which account for almost 60% of the country's total exports. Despite Peru's strong macroeconomic performance, dependence on minerals and metals exports and imported foodstuffs makes the economy vulnerable to fluctuations in world prices. Peru's rapid expansion coupled with cash transfers and other programs have helped to reduce the national poverty rate by 28 percentage points since 2002, but inequality persists and continues to pose a challenge for the Ollanta HUMALA administration, which has championed a policy of social inclusion and a more equitable distribution of income. Poor infrastructure hinders the spread of growth to Peru's non-coastal areas. Peru's free trade policy has continued under the HUMALA administration; since 2006, Peru has signed trade deals with the US, Canada, Singapore, China, Korea, Mexico, Japan, the EU, the European Free Trade Association, Chile, Thailand, Costa Rica, Panama, Venezuela, concluded negotiations with Guatemala, and begun trade talks with Honduras and El Salvador, Turkey and the Trans-Pacific Partnership. Peru also has signed a trade pact with Chile, Colombia, and Mexico, called the Pacific Alliance, that rivals Mercosur. Since the US-Peru Trade Promotion Agreement entered into force in February 2009, total trade between Peru and the United States has doubled. Although Peru has continued to attract foreign investment, political activism and protests are hampering development of some projects related to natural resource extraction.

Agriculture - products:

asparagus, coffee, cocoa, cotton, sugarcane, rice, potatoes, corn, plantains, grapes, oranges, pineapples, guavas, bananas, apples, lemons, pears, coca, tomatoes, mangoes, barley, medicinal plants, palm oil, marigold, onion, wheat, dry beans; poultry, beef, pork, dairy products; guinea pigs; fish

Industries:

mining and refining of minerals; steel, metal fabrication; petroleum extraction and refining, natural gas and natural gas liquefaction; fishing and fish processing, cement, glass, textiles, clothing, food processing, beer, soft drinks, rubber, machinery, electrical machinery, chemicals, furniture

Exports - commodities:

copper, gold, lead, zinc, tin, iron ore, molybdenum, silver; crude petroleum and petroleum products, natural gas; coffee, asparagus and other vegetables, fruit, apparel and textiles, fishmeal, fish, chemicals, fabricated metal products and machinery, alloys

Exports - partners:

China 19.7%, US 15.5%, Canada 9.4%, Japan 6.5%, Spain 5.2%, Chile 4.8% (2012)

Imports - commodities:

petroleum and petroleum products, chemicals, plastics, machinery, vehicles, color TV sets, power shovels, front-end loaders, telephones and telecommunication equipment, iron and steel, wheat, corn, soybean products, paper, cotton, vaccines and medicines

Imports - partners:

US 24.4%, China 13.9%, Brazil 6.3%, Argentina 5.4%, Chile 4.7%, Ecuador 4.5%, Colombia 4.2% (2012)

Banking

With the opening to foreign institutions in the early 1990s, the Peruvian financial system modernized rapidly and became fairly competitive. Peru's financial system is composed of 16 commercial banks, 36 municipal and rural savings banks and microfinancial institutions, and 4 government-owned entities: the Central Bank (Banco Central de Reserva del Peru, or BCRP), the government's financial agent (Banco de la Nacion), and two development banks (COFIDE and the Agrarian Bank). These institutions—along with 34 finance companies, 5 leasing companies, 4 private pension fund administrators, 13 insurance companies, and 20 miscellaneous companies—are regulated by the Superintendence of Banks, Insurance and Pension Funds Administrators (known by its Spanish initials, SBS). SBS policy is generally to follow regulatory guidelines set by the Switzerland-based Bank for International Settlements (BIS) where possible. For example, bank financial statements must be audited in compliance with internationally accepted auditing standards; in cases not covered by BIS guidelines, regulators use standards set by the U.S. Financial Accounting Standards Board. In addition, SBS regulations require that all deposit-taking institutions have periodic compulsory assessments by at least two independent credit rating agencies, whose capacity to perform is assessed by the SBS.

Customer deposits carry insurance financed by commercial bank contributions to an insurance fund. The amount is adjusted quarterly on the basis of the wholesale price index. For the December 2008 - February 2009 period, accounts are insured up to S/.84,240 (about US\$26,7000). As it is legally empowered to do, the Central Bank envisions having to act as a "lender of last resort" in the case of a run on any commercial bank only up to the limit of the bank's net worth, since the SBS has set liquidity requirements on deposits and other short-term liabilities at relatively high levels. Banks must also meet liquidity requirements on all short-term liabilities, including amounts due to banks outside of Peru.

The banking system is highly concentrated after a consolidation process underway since 1998. As of November 2008, the three largest banks held 72.7% of loans and 75% of deposits. Total commercial banking system assets were US\$47.3 billion, on an uptrend from 2004.

Stock Exchange

In 2008, the global financial crisis severely hit the local capital markets. The Lima Stock Exchange (BVL) suffered the worst hit showing an almost continuous decline beginning in July 2007, dominated, as it is, by mining shares. The BVL General Index reached an all-time high of 23,418 in July 2007, and tumbled consistently until October 2008, when it reached 7,055 points. Since March 2009, the index began a steady recovery hovering around the 15,000 level from September 2009 until early 2010, making it the world's fifth most profitable stock exchange at 99% in 2009.

Executive Summary

Peru has been one of the fastest growing Latin American economies for the past ten years. Since 2002 the Peruvian economy has grown by an average of 6% per year, a trend forecasted to continue in 2014 at 5.5%, twice the regional average. Consumption and private investment are the main driving forces of this growth. Investment grew by 8.3% to a value of \$33.5 billion in 2013. The Ministry of Economy and Finance has set a target of 30% growth in public investment, and has pledged a total of \$30 billion over the next five years to address the infrastructure gap. As the economy has grown, poverty in Peru has steadily decreased. HSBC describes Peru as "the third-fastest growing consumer market globally, and set to be a bigger economy than Chile, Colombia, or even South Africa in the long term."

The steady economic growth began with the pro-market policies enacted by former President Alberto Fujimori in the 1990's. All subsequent governments have continued these policies, including the current administration inaugurated in July 2011 for a five-year term. President Ollanta Humala pledged to encourage private and public investment in infrastructure projects in transportation, telecommunications, energy, sanitation, airports, and ports. Congruent with his other campaign goals to reduce poverty and narrow the nation's socioeconomic gap, President Humala has increased social spending and raised taxes on mining companies.

Peru's currency, the "Nuevo Sol" (Sol), has been the least volatile of all Latin American currencies in the past few years, and was the least impacted by the downturn of the U.S. dollar. Since the mid-1990's, the Sol's exchange rate with the U.S. dollar has fluctuated between 1.25 to 3.55 to U.S. \$1. The exchange rate, as of April 28 2014, was 2.79 Soles per U.S. \$1.

The Peruvian Government has encouraged integration with the global economy by signing a number of free trade agreements, including the United States-Peru Trade Promotion Agreement, which entered into force in 2009. In 2013, trade between the United States and Peru doubled from \$9.1 billion to \$18.2 billion. From 2009 to 2013, Peruvian exports to the United States jumped from \$4.2 billion to \$8.1 billion (193% increase) while U.S. exports to Peru jumped from \$4.9 billion to \$10.1 billion (1106% increase). Peru has preferential trade agreements with 49 countries and unions, including the United States, Argentina, Brazil, Uruguay, Paraguay, Bolivia, Colombia, Ecuador, Canada, Chile, China, Mexico, Japan, Singapore, South Korea, Norway, Iceland, Liechtenstein, Switzerland, Thailand, Panama, and the European Union.

In its *Doing Business 2013* publication, the World Bank ranked Peru 42nd among 189 countries surveyed in terms of ease of doing business. The report rates the ease of processes like starting a business, dealing with construction permits, registering property, and obtaining credit.

1. Openness To, and Restrictions Upon, Foreign Investment

The Peruvian government seeks to attract investment -- both foreign and domestic -- in nearly all sectors of the economy. Several high level Peruvian officials, including President Humala, the Minister of Economy and Finance, and the Central Bank President, have

attended global business conferences and toured several countries in 2013 in an effort to attract foreign investment. Some of these tours were organized and sponsored by INPERU, a private industry organization (<http://inperu.pe>). Peruvians and Americans benefit from the United States-Peru Trade Promotion Agreement (PTPA) which entered into force on February 1, 2009. Since entry into force, total trade (exports and imports) between Peru and the United States has doubled from \$9.1 billion to \$18.2 billion. The PTPA establishes a secure, predictable legal framework for U.S. investors operating in Peru. The PTPA protects all forms of investment. U.S. investors enjoy in almost all circumstances the right to establish, acquire and operate investments in Peru on an equal footing with local investors.

The 1993 Constitution grants national treatment for foreign investors and permits foreign investment in almost all economic sectors. Under the Constitution, foreign investors have the same rights as national investors to benefit from any investment incentives, such as tax exemptions. In addition to the 1993 Constitution, Peru has several laws governing foreign direct investment (FDI) including the Foreign Investment Promotion Law (Legislative Decree (DL) 662 of September 1991) and the Framework Law for Private Investment Growth (DL 757 of November 1991). Other important laws include the Private Investment in State-Owned Enterprises Promotion Law (DL 674), the Private Investment in Public Services Infrastructure Promotion Law (DL 758), and specific laws related to agriculture, fisheries and aquaculture, forestry, mining, oil and gas, and electricity. Article 6 of Supreme Decree No. 162-92-EF (the implementing regulations of DLs 662 and 757) authorizes private investors to enter all industries except investments in natural protected areas and manufacturing of weapons.

Some laws also require that Peruvians own a majority share in companies operating in certain sectors: media, air and land transportation, and private security surveillance services. Foreigners are legally forbidden from owning a majority interest in radio and television stations in Peru; nevertheless, foreigners have in practice owned controlling interests in such companies. Prior approval is required for domestic or foreign investment in banking (for financial regulatory reasons) and defense-related sectors. Under the Constitution, foreign interests cannot "acquire or possess under any title, mines, lands, forests, waters, or fuel or energy sources" within 50 kilometers of Peru's international borders. However, foreigners can obtain concessions and rights within the restricted areas with the authorization of a supreme resolution co-signed by the President of the Cabinet of Ministers and the corresponding Minister, which should also have a favorable opinion from the Joint Command of the Armed Forces.

The Peruvian Government has passed several laws and related implementing regulations aimed at encouraging more private investment, such as two important decrees in 2008. The first was a legislative decree containing the Law on Public-Private Partnerships (PPPs). The second decree presents a priority list of projects for PPPs. Congress passed a law to reform regulations that would make PPPs less bureaucratic and more transparent, thus more attractive to foreign companies, in March 2014. Among these public-private partnerships are upgrades of major infrastructure projects of national importance: maritime ports (in San Martín (Pisco), Salaverry, San Juan de Marcona), the Amazon waterways- Marañón and other Amazonas rivers, Chinchero (Cuzco) airport project, Line Two of the Lima Metro system, a South American Integrated Regional Infrastructure Project (IIRSA), water supply to Lima and related headwater works, a southern gas pipeline and commensurate support infrastructure, an agricultural project (in Majes-Siguas), and three 220 kV power transmission lines. Project opportunities are available on ProInversion's Project Portfolio page, available at:

<http://www.proyectosapp.pe/modulos/JER/PlantillaProyectoEstadoSector.aspx?are=1&prf=2&jer=5892&sec=32>.

Although all Peruvian administrations since the 1990s have vowed to support private investment and abide by Peruvian laws, the Peruvian Government occasionally has passed measures that some observers have regarded as contravening legal principles. For example, the Garcia Administration in 2011 rescinded a Canadian company's rights to operate a silver mining project in Puno after violent protests opposing the project. The Canadian company delivered to the Peruvian Minister of Economy and Finance a Notice of Intent to submit a claim to arbitration under the terms of the Canada-Peru Free Trade Agreement in February 2014. Furthermore, current President Ollanta Humala signed into law a 10-year moratorium on the entry into Peru of live genetically-modified organisms (GMOs) to be used for cultivation in December 2011. Peru also has implemented two inconsistent sets of rules for importing pesticides, one for "regular" importers, which is extremely restrictive and requires importers to file a full dossier with technical information, and another for farmers, which is rather loose and only requires a written affidavit.

The Peruvian Government created the Private Investment Promotion Agency, ProInversion, in 2002, based on an existing similar agency. ProInversion has completed both privatizations and concessions of state-owned enterprises and natural resource-based industries. Major recent concession areas include ports, power generation facilities, electrical transmission lines, oil and gas distribution, and telecommunications.

Peru has made significant strides in various areas measured in The World Bank's "Doing Business" reports, including reformed procedures on starting a business, securing construction permits, registering property, and closing a business. Although Peru's efforts to reform business start-up procedures made significant advances according to the 2011 report, Peru declined by three places in the World Bank's business start-up ranking from 60th in 2013 to 63rd in 2014. At the same time, Peru lowered the average amount of time it takes to start a business from 41 days (in 2010) to 25 days (in 2014). Although the 2013 report noted Peru's efforts to strengthen investor protections through a new law regulating the approval of related-party transactions and making it easier to sue directors when such transactions are prejudicial, the 2014 does not show any relevant legal modifications for Peru.

Below follows a list indicating Peru's rankings in international studies.

TABLE 1: The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
Transparency International Corruption Perceptions Index	2013	83 of 177	http://cpi.transparency.org/cpi2013/results/

Heritage Foundation Index of Economic Freedom	2014	47 of 186	http://www.heritage.org/index/about
World Bank Ease of Doing Business Rank	2013	42 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	69 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	6, 060 USD	http://data.worldbank.org/country/peru

Peru received \$35.6 million Millennium Challenge Corporation Threshold funding in 2008 for health and anti-corruption programs. In 2009 Peru reached upper-middle income country status and is officially ineligible for further Millennium Challenge Corporation assistance.

2. Conversion and Transfer Policies

There are no reported difficulties in obtaining foreign exchange. Under Article 64 of the 1993 Constitution, the Peruvian government guarantees the freedom to hold and dispose of foreign currency. The Peruvian Government has eliminated all restrictions on remittances of profits, dividends, royalties, and capital, although foreign investors are advised to register their investments with ProInversion to ensure these guarantees. Exporters and importers are not required to channel foreign exchange transactions through the Central Reserve Bank of Peru (BCR) and can conduct transactions freely on the open market. Anyone may open and maintain foreign currency accounts in Peruvian commercial banks. U.S. firms have reported no problems or delays in transferring funds or remitting capital, earnings, loan repayments or lease payments since Peru's economic reforms of the early 1990s. Under the PTPA, portfolio managers in the United States are able to provide portfolio management services to both mutual funds and pension funds in Peru, including funds that manage Peru's privatized social security accounts.

The 1993 Constitution guarantees free convertibility of currency. However, limited capital controls still exist as private pension fund managers (AFPs) are constrained by how much of their portfolio can be invested in foreign securities. The maximum limit is set by law (currently 50% since July 2011), but the BCR sets the operating limit AFPs can invest abroad. Over the years, the BCR has gradually increased the operating limit, which reached 36% in April 2013. The BCR announced plans to establish a schedule of monthly increases from 36.5% starting on December 15, 2013, to 40% by July 15, 2014. For several years, AFPs have protested the low operating limit on grounds that the Peruvian securities market remains small and unable to absorb the incessantly increasing funds the AFPs manage.

The BCR is an independent institution, free to manage monetary policy to maintain financial stability. The BCR's primary goal is to maintain price stability, via inflation targeting. Inflation at

year-end in Peru reached 3.9% in 2007, 6.7% in 2008, 0.3% in 2009, 2.1% in 2010, 4.7% in 2011, 2.7% in 2012, and 2.8% in 2013.

The Peruvian Government has implemented policies to de-dollarize the economy, but in the last few years market forces have been more effective in reducing dollarization as the Peruvian Nuevo Sol has trended to appreciate vis-à-vis the U.S. dollar. U.S. dollars account for a decreasing share of banking system transactions, according to the Peruvian Banking Superintendence (SBS). In 2001, U.S. dollars accounted for 82% of loans and 73% of deposits. As of December 2013, U.S. dollars accounted for 40% of loans and 40% of deposits.

The foreign exchange market operates freely, for the most part. To quell “extreme variations” of the exchange rate, the BCR intervenes through purchases and sales in the open market without imposing controls on exchange rates or transactions. In the last few years, the BCR has consistently purchased U.S. dollars to mitigate the risk that spillover from expansionary U.S. monetary policy might result in over-valuation of the Peruvian Nuevo Sol relative to the U.S. dollar. This policy is likely to continue for the foreseeable future, until U.S. economic recovery begins to tighten credit conditions.

3. Expropriation and Compensation

According to the Peruvian Constitution, the Peruvian government can only expropriate private property on public interest grounds such as public works projects or for national security. An expropriation requires the Congress to pass a specific act. The Government of Peru has expressed its intention to comply with international standards concerning expropriations. On January 12, 2012, Congress approved legislation to expropriate a number of homes and other real estate adjacent to the Lima Airport for an airport expansion project. Compensation for expropriations is based on fair market value. Notably, concessionaires have complained that the government has been extremely slow in implementing expropriations, which have caused delays to their investment commitments.

4. Dispute Settlement

The PTPA includes a chapter on dispute settlement, which applies to implementation of the Agreement’s core obligations, including labor and environment provisions. Dispute panel procedures set high standards of openness and transparency through the following measures: open public hearings, public release of legal submissions by parties, enlisting special labor or environment expertise for disputes in these areas, and opportunities for interested third parties to submit views. The Agreement emphasizes compliance through consultation and trade-enhancing remedies. The Agreement also encourages arbitration and other alternative dispute resolution measures for disputes between private parties.

Peru is a party to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention of 1958) and to the International Center for the Settlement of Investment Disputes (the Washington Convention of 1965). Disputes between foreign investors and the Peruvian Government regarding pre-existing contracts must still enter national courts, unless otherwise permitted, such as through provisions found in the PTPA. In addition, investors who enter into a juridical stability agreement may submit disputes with the government to national or international arbitration if stipulated in the agreement. Several private organizations -- including the American Chamber of Commerce, the Lima Chamber of Commerce, and Universidad Catolica -- operate private arbitration centers. The quality of such centers varies, however, and investors should choose arbitration venues carefully.

Dispute settlement generally and arbitration awards enforcement remain problematic in Peru, although in 2004 the Peruvian Government began taking steps to improve the dispute settlement process by establishing commercial courts to view investment disputes, including two courts of appeal. These commercial courts have substantially improved the process for commercial disputes. Prior to the existence of the commercial courts, it took an average of two years to resolve a commercial case through the civil court system. With their specialized judges, the commercial courts have reduced the amount of time to resolve a case to just two months. The appeals level resolves most of these cases, so that few appeals cases reach the Supreme Court.

The criminal and civil courts of first instance and appeal are heard at the provincial level. The Supreme Court is located in Lima. In principle, Peruvian law recognizes secured interests in property, both movable and immovable. With the exception of the commercial courts, the judicial system is often extremely slow to hear cases and to issue decisions. A large backlog of cases further complicates decision-making by business litigants.

Court rulings and the degree of enforcement have been difficult to predict. The proficiency of individual judges varies, and allegations of corruption, political interference, and outside interference in the judicial system are common. Frequent use of appellate processes as a delay tactic lead to the belief among foreign investors that contracts can be difficult to enforce in Peru.

The 1997 Law of Conciliation (DL 26872) requires disputants in many types of civil and commercial matters to consider conciliation before a judge can accept a dispute for litigation. Private parties often resort to arbitration to resolve business disputes, avoiding involvement in lengthy judicial processes.

Peru has a creditor rights hierarchy similar to that established under U.S. bankruptcy law, and monetary judgments are usually made in the currency stipulated in the contract. However, administrative bankruptcy procedures under INDECOPI (the Antitrust, Unfair Competition, Intellectual Property Protection, Consumer Protection, Dumping, Standards and Elimination of Bureaucratic Barriers Agency) have proven to be slow and subject to judicial intervention. Compounding this difficulty are occasional laws passed to protect specific debtors from action by creditors that would force them into bankruptcy or liquidation.

The 1993 Constitution permits international arbitration of disputes between foreign investors and the government or state-controlled firms. Previously, the Government of Peru appealed arbitration cases to the judiciary, where they were typically delayed until the international companies conceded the cases. To reinforce Peruvian law, the Supreme Court ruled that effective July 2005, all arbitration findings and awards are final and not subject to appeal.

5. Performance Requirements and Investment Incentives

The PTPA has resulted in benefits to U.S. enterprises seeking to invest in Peru. Under the PTPA, Peru has made concessions beyond its commitments to the WTO and has dismantled significant investment barriers, such as measures that required U.S. firms to hire nationals rather than U.S. professionals, and measures requiring the purchase of local goods.

Peru offers both foreign and national investors legal and tax stability agreements to stimulate private investment. These agreements guarantee that the statutes on income taxes, remittances, export promotion regimes (such as drawbacks, or refunds of duties),

administrative procedures, and labor hiring regimes in effect at the time of the investment contract will remain unchanged for that investment for 10 years. To qualify, an investment must exceed \$10 million in the mining and hydrocarbons sectors or \$5 million within two years in other sectors. An agreement to acquire more than 50% of a company's shares in the privatization process may also qualify an investor for a legal or tax stability agreement, provided that the added investment will expand the installed capacity of the company or enhance its technological development.

There are no performance requirements that apply exclusively to foreign investors. Peruvian civil law applies to legal stability agreements, which means the Peruvian Government cannot unilaterally alter agreements. Notwithstanding these protections, investors should be aware that government officials have delivered negative remarks to the press regarding companies exercising their contractual rights and obligations.

Laws specific to investment in the petroleum and mining sectors provide assurances to investors in those sectors. However, a history of tightening of benefits has occurred in these industries. In 2000, the government modified the General Mining Law, reducing some benefits to investors in that sector. Among the changes were reductions in the term concessionaires are granted to achieve the minimum annual production, increases in fees for holding non-productive concessions, increases in fines for not achieving minimum production within the allotted time, reductions in the maximum allowable annual accelerated depreciation, and revocation of the income tax exemption for reinvested profits.

After a growing number of local communities demanded a share of mining profits from operations in their areas, the incoming Garcia Administration and mining companies agreed in 2006 to a "voluntary contribution" system whereby companies agreed to provide funding to the government (in addition to the regular corporate income tax) for community infrastructure projects. This voluntary contribution averted adoption of exacting taxes. The agreement allowed mining companies to control where their contributions were invested and did not apply if the prices of metals or minerals drop below certain levels. As the voluntary contribution agreement was to expire at the end of 2011 during a period of windfall profits for extractive industries, the incoming Humala Administration and mining companies agreed in August 2011 to replace it with a new tax regime on mining profits called the "gravamen minero." It produced tax revenues (including the royalty tax) of \$1.97 billion in 2012; but with declining metals prices the contribution in the January-November tax 2013 period was \$1.48 billion.

With regard to licensing arrangements, private parties may freely negotiate contractual conditions related to licensing arrangements and other aspects of technology transfer, needing no prior governmental authorization. Registration of a technology transfer agreement with INDECOPI is required for a payment of royalties to be counted against taxes.

Current law limits foreign employees to 20% of the total number of employees in a local company (whether owned by foreign or national interests). The combined salaries of foreign employees are limited to no more than 30% of the total company payroll. However, DL 689 from November 1991 provides a variety of exceptions to these limits. For example, a foreigner is not counted against a company's total if he or she holds an immigrant visa, has a certain amount invested in the company (currently about \$4,000), or is a national of a country that has a reciprocal labor or dual nationality agreement with Peru. The United States and Peru tolerate dual nationality, but do not have a formal agreement. Furthermore, the law exempts foreign banks, and international transportation companies from these hiring limits, as well as

all firms located in free trade zones. Companies may apply for exemption from the limitations for managerial or technical personnel.

The Peruvian government does not maintain any measures that are inconsistent with Trade-Related Investment Measure (TRIM) requirements, according to a WTO Committee on Trade-Related Investment Measure notification dated August 19, 2010.

Although there are no discriminatory or onerous visa, residence, or work permit requirements that inhibit foreign investors' mobility, the application and approval process can be cumbersome and lengthy.

6. Right to Private Ownership and Establishment

Peruvian law generally grants foreign and domestic entities the right to establish and own business enterprises and to engage in most forms of remunerative activity. Subject to the restrictions listed earlier in this document, both foreign and domestic entities may invest in any legal economic activity -- including foreign direct investment, portfolio investment, and in real estate. Private entities may generally freely establish, acquire, and dispose of interests in business enterprises. In the case of some privatized companies deemed important by the government, the privatization agency ProInversion has included a so-called "golden share" clause in the sales contract, which allows the government to veto a potential future purchaser of the privatized assets.

7. Protection of Property Rights

The Peruvian Government recognizes and enforces secured interests in property, both movable and immovable. The Peruvian Government is working on improving the registry of those rights, which will further enable the government's enforcement capabilities.

Intellectual Property: Peru's legal framework provides for easy registration of trademarks, and inventors have been able to patent their inventions since 1994. 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. Peruvian law does not provide pipeline protection for patents or protection from parallel imports. Peru's Copyright Law is generally consistent with the TRIPS Agreement.

While the legal framework for protection of intellectual property (IP) in Peru has improved over the past decade, including the law enacted in 2011 to criminalize the sale of counterfeit medicines, enforcement mechanisms remain weak. Peru has remained on USTR's Section 301 "Watch List" since 1992 because of continued high piracy rates, inadequate enforcement of IP laws, and weak or unenforced penalties for IP violators.

Under the PTPA, Peruvian law should treat U.S. companies at least as well as Peruvian companies in all IP categories. The PTPA provides for improved IP protection on a broad range of intellectual property rights. Such improvements include protections for digital products such as U.S. software, music, text, and video; protection for U.S. patents, trademarks and pharmaceutical and agrochemical test data; legal penalties to deter piracy; and an electronic system to register and maintain trademarks.

Despite PTPA implementation and recent legal code amendments creating stricter penalties for some types of IP theft, the judicial branch has failed to impose sentences that adequately deter future IP theft. Prosecutors do not pursue piracy cases through the entire process to

final judgment. Furthermore, the Peruvian public lacks motivation to change perceptions regarding IP theft. The public continues to purchase pirated software, CDs, DVDs, pharmaceutical products, and books from vendors in public. The purchases continue openly since most Peruvians realize their government will not prosecute this theft.

Some Peruvian Government institutions, sometimes with the support of the U.S. Embassy in Lima, sponsor public awareness campaigns to raise awareness about the damage that IP theft causes the Peruvian economy and Peruvians consumers. Peruvian newspapers complain about piracy, including pirated versions of Peru's Nobel Laureate Mario Vargas Llosa's books. While the Peruvian government occasionally has carried out raids against small-time vendors of pirated goods, piracy remains a significant problem for legitimate owners of copyrights in Peru.

The International Intellectual Property Alliance (IIPA) estimates that the piracy level in Peru for recorded music is at 98% and 100% for video content and books. The Business Software Alliance estimates that software piracy level is at 67%, costing the industry \$209 million in 2013.

The U.S. pharmaceutical industry advises that the Peruvian Government fails to provide data exclusivity protection for all pharmaceutical products and does not provide patent linkage or "second use" medical patents. The pharmaceutical industry also advises that the Peruvian Government does not offer any extension of the patent term for pharmaceutical products to compensate for processing delays at the patent office. There has also been at least one instance of GOP initiatives creating a backdoor for domestic companies to avoid complying with IP laws. This backdoor can be seen in the pharmaceutical sector in the registration of biosimilar products of biologics, drugs made from organic material that infringe upon patented U.S. biological products.

The Peruvian government agency charged with promoting and defending intellectual property rights is the Antitrust, Unfair Competition, Intellectual Property Protection, Consumer Protection, Dumping, Standards and Elimination of Bureaucratic Barriers Agency (INDECOPI, www.indecopi.gob.pe), established in 1992. Peru belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is also a signatory to the Paris Convention on Industrial Property, Geneva Convention for the Protection of Sound Recordings, Bern Convention for the Protection of Literary and Artistic Works, Brussels Convention on the Distribution of Satellite Signals, Phonograms Convention, Satellites Convention, Universal Copyright Convention, the World Copyright Treaty, and the World Performances and Phonographs Treaty and the Film Register Treaty. In December 1994, the Peruvian Congress ratified the World Trade Organization's Agreement on Trade-Related Aspects of Intellectual Property (TRIPs).

Pursuant to the terms of the PTPA, Peru has ratified or acceded to the following agreements: the Convention Relating to the Distribution of Program-Carrying Signals Transmitted by Satellite; the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure; the WIPO Copyright Treaty; the WIPO Performances and Phonograms Treaty; the Patent Cooperation Treaty; the Trademark Law Treaty; and, the International Convention for the Protection of New Varieties of Plants (UPOV Convention). Although Peru has ratified or acceded to several of the above agreements as part of its implementation of the PTPA, it has not yet fulfilled its PTPA commitments by ratifying or acceding to the following agreements: the Patent Law Treaty; the Hague Agreement

Concerning the International Registration of Industrial Designs; and, the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks.

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Local lawyers list: http://lima.usembassy.gov/acs_peru.html

The American Chamber of Commerce in Peru can be contacted via this link:
<http://www.amcham.org.pe/contactenos/escribanos.php>.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

8. Transparency of Regulatory System

Regulatory transparency and independence have become central issues for foreign investors in Peru. Although many of the central government regulators related to foreign investment have relatively transparent and predictable procedures, delays and the lack of predictability in the rulings of these institutions, have been impediments to doing business in Peru.

The Securities Market Superintendence (SMV) maintains the company registry and supervises the securities market. ProInversion handles privatization and most concessions. INDECOPI handles competition policy, bankruptcy, and intellectual property matters. The Superintendence of Banking and Insurance (SBS) regulates banks, insurance companies, and private pension funds, including determination of whether potential market entrants qualify to operate in Peru.

When the Peruvian Government privatized state-owned monopolies in the areas of telecommunications, energy, and the hydrocarbons sector in the late 1990s, it also established regulatory institutions to oversee the new private sectors – among them OSIPTEL for telecom, and OSINERGMIN for energy, mining and hydrocarbons – the GOP created the Environmental Enforcement Organism (OEFA) in 2008 which is progressively taking over the environmental enforcement functions previously held by OSINERGMIN and other agencies.

In 2010, OSIPTEL established a “glide path” plan to continuously lower the mobile termination rates for all carriers by October 2013. This created a more favorable and competitive environment for the smaller carriers. While a company may be pleased that its final rate in 2013 will be more competitive with the other carriers than before, concerns remain that the planned 2013 rates are based on the cost structure from 2010. Historically, telecommunication companies have experienced a downward trend in cost per call. Therefore, the telecommunications sector may face an outdated cost structure.

U.S. and other non-Peruvian firms and investors have complained about the reinterpretation of rules and the imposition of disproportionate fines coupled with usurious interest charges on unpaid taxes or fines by the Peruvian tax agency, SUNAT. U.S. firms and other investors allege SUNAT's capricious behavior and reinterpretation of tax laws are often contrary to the spirit of

the law and intent of government policies, thereby complicating and making normal business operations costlier. This situation may be at least partly explained by the fact that the remuneration of SUNAT employees is partially determined by the theoretical tax liability they assess in audits. The U.S. Embassy continues to hear that this perverse incentive leads to overzealous tax collection practices.

Businesses point out that SUNAT's retroactive reinterpretation of regulations and laws, levying of disproportionate fines, usurious interest rates on the alleged assessments and below market interest rates on payable tax rebates, lengthy resolution processes, and initiation of full company audits when companies request a refund or legal revaluation of assets for depreciation purposes, create additional investment and trade barriers. In one case, a U.S. firm requested, by clerical mistake, an improper drawback of \$1,345, only to face SUNAT fines of \$645,000. Although the case was resolved, new legislation was needed to correct the problem. To correct such problems, an independent tax tribunal acts to check any abuses by SUNAT. However, SUNAT normally appeals the tax tribunal's rulings, thereby extending indefinitely both the resolution of disputed assessments and liabilities on companies' balance sheets. As a balance to this tendency, a tax ombudsman must approve SUNAT's request to appeal adverse tax tribunal decisions. At times, the ombudsman has also acted to end unwarranted litigation of disputed assessments. For example, in 2005, a U.S. company won long-standing tax cases against SUNAT as a result of these improvements. Nevertheless, the U.S. Embassy has heard of cases of companies deciding to pay long-disputed assessments in order to eliminate continually-increasing potential liabilities from their books. A conspicuous case was that of a Canadian bank, which in late-February 2014 decided to pay under protest about \$170 million for tax liabilities, most of it accumulated interest. In recent years a number of companies have opened international arbitration cases against the Peruvian government.

Businesses also have complained about the high health insurance and pension tax rates and a number of labor laws. Businesses state these tax and labor policies increase labor costs and hinder investment capital flows. The lack of a U.S.-Peru treaty on double taxation also disincentivizes foreign investment.

9. Efficient Capital Markets and Portfolio Investments

Credit is allocated on market terms and the banking industry in Peru is generally considered competitive in offering services to business customers. Private pension funds have keenly competed in recent years with financial companies for bonds issued locally by companies and the Peruvian Government. These entities compete because the supply of local securities is insufficient given the small size of the market. Foreign investors are increasingly making use of the local market conditions by obtaining credit and floating bonds. Under the PTPA, U.S. financial service suppliers have full rights to establish subsidiaries or branches for banks and insurance companies.

The private sector has access to a variety of credit instruments. In 2013, firms placed \$1.75 billion on the local bond market, 3.7% below the year earlier. Mutual funds managed \$5.9 billion in December 2013, a large 16.3% decrease from the December 2012 level. By December 2013, private pension funds managed a total of \$36.2 billion.

The Securities Market Superintendence (SMV) is the Peruvian Government entity charged with regulating the securities and commodities markets. Following the IMF's recommendations, the Peruvian government passed a law reforming the SMV's predecessor,

CONASEV (the National Commission for the Supervision of Companies, Securities and Exchanges). SMV's mandate includes controlling securities market participants, maintaining a transparent and orderly market, setting accounting standards, and publishing financial information about covered companies. SMV requires stock issuers to report events that may affect the stock, the company, or any public offerings. This requirement promotes market transparency, and aims to prevent fraud. Trading on insider information is a crime, with some reported prosecutions in past years. One case at the end of 2010 involved three (government-owned health care provider) ESSALUD employees, a stock brokerage firm and an employee of the stock brokerage firm. CONASEV fined these individuals and the stock brokerage firm, and their cases are moving through the Peruvian court system. SMV must vet all firms listed on the Lima Stock Exchange (Bolsa de Valores de Lima) or the Public Registry of Securities. SMV also maintains the Public Registry of Securities and Stock Brokers. SMV is studying ways to improve the regulatory system to encourage and facilitate portfolio investment.

The banking system is considered generally sound, thanks to lessons learned during the 1997-1998 Asian crisis, and continues to revamp operations, increase capitalization, and reduce costs. Under the SBS's conservative criteria, non-performing loans rose in the last two years, to 2.14% of total loans as of December 2013, yet down from a high of 11% in early 2001. Able bank supervision and strong GDP growth over the last decade through 2013 also helped banks weather the 2008-2009 global financial crisis with little trouble.

Economic opening since the 1990s, coupled with competition, has led to banking sector consolidation. Sixteen commercial banks comprise the system, with assets accounting for 88.9% of Peru's financial system. Three banks account for 73% of local loans and deposits among commercial banks. Of \$93.2 billion in total banking assets at the end of December 2013, assets of the three largest commercial banks amounted to \$67.3 billion. As of December 2013, foreigners had significant shares in thirteen banks, of which they were majority owners of eleven (including one of the country's largest ones) and operator of one of the largest commercial banks. Notably, two of the four banks that are majority-owned by residents account for 45.1% of commercial banks' assets.

Peru's financial system has 12 specialized institutions ("financieras"), 31 thriving micro-lenders and savings banks (although several large banks also lend to small enterprises), two leasing institutions, two state-owned banks, and one state-owned development bank. In 2013, the Economist Intelligence Unit again ranked Peru number one worldwide on microfinance business environment for the sixth consecutive year because of its sophisticated legal and regulatory framework and competitive microfinance sector. Nevertheless, Peru's over 150 savings and loan cooperatives operate in an environment almost devoid of government oversight.

Peruvian law and regulations do not authorize or encourage private firms to adopt articles of incorporation or association to limit or restrict foreign participation. There are no private or public sector efforts to restrict foreign participation in industry standards-setting organizations. However, larger private firms often use "cross-shareholding" and "stable shareholder" arrangements to restrict investment by outsiders -- not necessarily foreigners -- in their firms. As close families or associates generally control ownership of Peruvian corporations, hostile takeovers are practically non-existent. In the past few years, several companies from the region, China, North America, and Europe have actively been buying local companies in power transmission, retail trade, fishmeal production, and other industries.

10. Competition from State-Owned Enterprises

The Peruvian government initiated an extensive, but not yet complete, privatization program in 1991 in which foreign investors were encouraged to participate. Since 2000, the Peruvian government has promoted multi-year concessions as a means of attracting investment in major projects. In 2000, the government granted a 30-year concession to a private group (Lima Airport Partners) to operate the Lima airport. In 2006, the government granted a 30-year concession to Dubai Ports to build and operate a new container terminal in the Port of Callao. The terminal's first phase became operational in May 2010. In 2006, the Swiss-Spanish-Peruvian consortium Swissport received a 25-year concession to manage nine of Peru's northern airports. In 2011, the Peruvian Government awarded the Argentine-Peruvian consortium AeropuertosAndinos a 25-year concession to manage six of Peru's southern airports. Also in 2011, the government granted a 30-year concession to a Danish-Peruvian consortium led by the Danish-based A.P. Moller-Maersk Group to operate and modernize the multipurpose northern terminal at the Port of Callao. The Peruvian Government continues to award multi-year concessions for various energy, natural gas, hydro-energy and irrigation, telecommunications, ports, sanitation, roads, and tourism projects.

Several electricity, water and sewage, bank, and oil companies remain state-owned and state-operated. The most notable area of SOE activity pertains to the petroleum sector, namely Peru's state-owned petroleum company PetroPeru, which currently is an oil refiner and the operator of an underutilized oil pipeline. Congress passed several laws since that purport to strengthen PetroPeru and free it from bureaucratic controls, so that it can enter into all stages of the petroleum and petrochemical sectors, especially upstream. In 2008, PetroPeru took center stage in a corruption scandal related to oil and gas concessions. The scandal led to the resignation of the Minister of Energy and Mines and the PetroPeru President. The scandal forced the Peruvian government to implement a number of changes in PetroPeru's management. Over the last two decades, PetroPeru has experienced significant attrition in managerial and technical expertise. This, coupled with its limited financial resources, cast into doubt the company's ability to implement its long-held plans to expand and upgrade its aging Talara refinery – which continues to produce dirty gasoline and diesel fuel, a situation the government permits by not enforcing regulatory standards. Limited resources and expertise also downplay expectations following repeated announcements from its leadership regarding entrance to upstream, and participation in a proposed gas pipeline and petrochemical complex in southern Peru. Up until recently, PetroPeru's leadership's plans even included a return to oil production through participation in tenders of oil producing blocks that the GOP was set to auction in 2013, with a requirement to partner with PetroPeru. Limited or no interest shown by oil companies in that auction and in several exploration blocs' pending auctions, have left those plans up in the air.

11. Corporate Social Responsibility

Peruvian businesses participate in Corporate Social Responsibility (CSR) programs, primarily on a voluntary basis. For the energy and mining sector, certain regulations do exist to promote social responsibility. Supreme Decree No. 042-2003-EM promotes social responsibility within the mining sector, encouraging local employment opportunities, support to communities' projects, development activities, and purchase of local goods and services. The decree requires mining companies to publish an annual report on sustainable development activities. The Ministry of Energy and Mines has prepared a guidebook for community relations, as well as public information on social measures related to the mining

and energy sectors. In February 2011, INDECOPI adopted the Peruvian Technical Regulation of Social Responsibility ISO 26000 that serves as a voluntary guide to CSR activities.

On February 15, 2012, Peru was listed as a compliant country under the Extractive Industries Transparency Initiative (EITI), as the GOP and extractive industries openly publish all company payments and government revenues from oil, gas, and mining. Peru is the only EITI-compliant country in Latin America.

Peru continues to be recognized for its 2013-2017 National Strategy to Combat Forced Labor. Its plan emphasizes the state's role to protect and promote labor rights. Simultaneously, it strives to build capacity and empower vulnerable groups to transform their environment and enforce their rights. The plan addresses both medium and long-term multi-sector plans to eliminate or reduce conditions that enable forced labor. Despite these efforts, the government did not effectively enforce labor law in all cases. The exploitation of child labor, particularly in informal sectors, forced labor, and employers engaging in antiunion practices remained significant problems.

12. Political Violence

Although political violence against investors is rare, protests, sometimes violent, have taken place in or near communities with extractive industry operations. Environmental concerns were often the cited pretext, with protestors objecting to the fact that environmental impact assessments are reviewed by the Ministry of Energy and Mines, rather than the Ministry of Environment, when in fact, the Ministry of Environment along with other national agencies do participate in assessment reviews. In many cases, protestors sought public services not provided by the government. Ideological opposition to foreign mining firms, not opposition to mining itself, often leads to protest in communities incited by NGOs, bringing in protestors from outside the local community to foment protests against the companies. Groups blocked roads in 2013 to protest extractive industry operations; hydroelectric projects; restrictions on informal gold, mining, and gas exports; and the Government's coca eradication policies. In several of these protests, police and civilians were injured. There are 220 conflicts in Peru, and more than half of these conflicts involve extractive industries.

Politically motivated movements at times have opposed large extractive projects. In some cases, these movements have been successful in delaying large investments, as occurred in the \$4.8 billion Conga mine project in Cajamarca in August 2012. In other cases, protests have stopped such investments entirely.

The National Office of Dialogue and Sustainability is actively engaged in mitigating social conflict connected to extractive industry in Peru. Under the direction of a charismatic former regional president, this office addresses conflict in a broader community development context, rather than only responding to social conflicts after they have already erupted. To this end, the government is providing more education, infrastructure, and health care services in areas where extractive industry projects are planned or under development, which will increase government presence and reduce potential for conflict in those (historically underserved and often remote) areas. Peru's Prior Consultation Law was signed in 2011, and its implementing regulations were approved in 2012. The law requires the Peruvian government to consult with indigenous communities before enacting any legislation, administrative measures, or development projects that could affect communities' rights of territorial demarcation. However, skeptics deny that the law will fulfill its purposes, and many believe it will simply create further problems and delays. The industry association Peruvian

Society of Hydrocarbons alleges that work on 30 oil exploration blocks is paralyzed due to extremely lengthy permit processing. The National Society of Mining, Electricity and Petroleum (SNMPE) and the government have become involved in assisting local governments to access the extractive industry "canon" (tax revenue-sharing scheme with funding for public works projects) as a way to both stimulate local development and prevent conflicts. Although these efforts have been effective in some mining regions, in others, conflicts have continued or expanded.

Violence remains a concern in coca-growing regions. Members of two Shining Path factions conducted 50 terrorist acts (including armed actions) in remote coca-growing areas that resulted in the killings of three soldiers, injuries to three police and three soldiers, and two civilian deaths in the Apurimac, Ene, and Mantaro River Valleys (VRAEM) and the Upper Huallaga Valley (UHV) emergency zones during 2013. On January 23, 2013 Shining Path members attacked and kidnapped workers at a construction project in the district of Sivia, Ayacucho Region. The hostages did not sustain any injuries, and the Shining Path released them a few hours later. There were reports that the Shining Path abducted children to work for the terrorist organization during the year. The Humala government continues the longstanding practice of authorizing separate 60-day states of emergency in two areas where the Shining Path operates – the Apurimac, Ene, and Mantaro River Valleys (VRAEM) and the Upper Huallaga Valley. The state of emergency authorization suspends some civil liberties and gives the security forces additional authority to maintain public order.

There is little government presence in the remote coca-growing zones of the VRAEM and Upper Huallaga Valley, although significant ramp-up of government presence and programs is underway. The U.S. Embassy in Lima restricts visits by official personnel to these areas because of the threat of violence by narcotics traffickers and columns of the Shining Path. Information about insecure areas and recommended personal security practices can be found at <http://www.osac.gov> or <http://travel.state.gov>.

13. Corruption

It is illegal in Peru for a public official or employee to accept any type of outside remuneration for the performance of his or her official duties. Peru has ratified both the UN Convention Against Corruption and the Organization of American States Inter-American Convention Against Corruption. Peru is not a member of the Organization of Economic Cooperation and Development (OECD). It has not signed the OECD Convention on Combating Bribery, although it has participated as an observer in the Working Group. The Contraloría General is the responsible government agency for combating corruption.

U.S. firms have reported problems directly resulting from corruption, usually in government procurement processes and in the judicial sector, with defense and police procurement generally considered among the most problematic in spite of PTPA's stipulations and of Peru's Government Procurement Law (Legislative Decree No. 1017, DL 1017, one of several laws passed with the specific intention to implement PTPA). Transparency International ranked Peru 83rd out of 177 countries in its 2013 Corruption Perceptions Index, unchanged since 2012, and down from 80th out of 183 countries in 2011. While anti-corruption efforts have been a stated priority of both the Garcia and Humala governments, in practice most resources to date have been directed at investigating extensive corruption during the Fujimori era (1990-2000). Former Presidents Garcia and Toledo and several sitting members of Congress are also under investigation for corrupt practices. The Peruvian armed forces and national police continue to prefer to execute government-to-government procurements

(i.e., purchases by a GOP agency from a foreign government agency or government-owned company). In July 2012, the Government Procurement Supervisory Agency ruled that government-to-government procurements do not fall under the government procurement law (DL 1017). An article in the 2013 Budget Law also specified that procurements by the GOP from another state are not under the scope of DL 1017. Since then, there have been a number of local media reports of overvalued prices in several government-to-government purchases, of goods or services for the police or the armed forces. Cases include purchases of a satellite, planes, helicopters, and technical assistance training. Overvaluation has apparently occurred even in the case of open tenders, as in the notorious recent case of the purchase of 591 binoculars by the Interior Ministry for the National Police in December 2013. *El Comercio*, Peru's paper-of-record, published a report in January 2014 alleging the Interior Ministry bought 591 binoculars at a price more than ten times the market rate. In early-March 2014, local media reported that the Public Prosecutor's Office will investigate a technical assistance-training procurement made in 2009 by the Armed Forces Joint Command. This probe comes after the Comptroller General found irregularities and circumstantial evidence of collusion, embezzlement and other crimes.

14. Bilateral Investment Agreements

The PTPA eliminated the need for a bilateral investment agreement between the United States and Peru. Peru also has free trade agreements with Canada, Chile, China, Colombia, Costa Rica, the European Free Trade Association (which includes Iceland, Liechtenstein, Norway and Switzerland), Japan, Mexico, Panama, Singapore, South Korea, and Thailand. It has Framework Agreements with MERCOSUR countries (Argentina, Brazil, Paraguay, Uruguay, and Venezuela). It has a partial preferential agreement with Cuba. More agreements have been signed and are awaiting full implementation, including with Guatemala, and the Pacific Alliance (Mexico, Colombia, Chile, and Costa Rica).

Peru has bilateral investment agreements in force with Argentina, Bolivia, Canada, Chile, China, Colombia, Costa Rica, Czech Republic, Denmark, Ecuador, El Salvador, Finland, Italy, Korea, Netherlands, Norway, Paraguay, Portugal, Romania, Spain, Sweden, Switzerland, Thailand, United Kingdom, Venezuela, and the European Union.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC), an independent U.S. Government agency, offers medium-to-long-term financing and political risk insurance. From 2010 thru 2013, OPIC supported solar power plants, consumer lending, operation and expansion of retail stores, microfinance, installation/operation of stereotactic radiosurgery equipment, consulting services, export services, import-export logistical services, and portfolio expansion of SME, micro-credit and consumer loans, in the form of commitments totaling \$21 million.

Because of the free convertibility of currency, the U.S. Embassy purchases Peruvian currency for expenses on an as-needed basis at the market exchange rate. The U.S dollar averaged 2.75 Nuevos Soles per dollar in 2013, after averaging the same in 2012. Peru is a member of the Multilateral Investment Guarantee Agency.

It is unlikely that the Peruvian government would either devalue or revalue the Nuevo Sol. The foreign exchange market mostly operates freely. However, the Peruvian BCR intervenes in the foreign exchange market to prevent significant exchange rate variations – at times day

after day. To many observers, this regime has succeeded in avoiding traumatic foreign exchange adjustments to the economy.

16. Labor

Labor is abundant, although several large investment projects in recent years led to localized shortages of highly skilled workers in some fields. While the legal framework to uphold international labor standards is well-defined, the government did not effectively enforce the law in all cases. Mining sector contacts praise the technical knowledge and professional dedication of Peruvian engineering graduates. Since the 1960s, the number of jobs created by the Peruvian economy was consistently below the number of new entrants to the labor market. The situation meant underemployment or seeking work in the informal economy. In February 2014, the Labor Ministry estimated 56.3% of workers were engaged in the informal economy. There are no precise statistics on the size of the informal economy, but it is estimated to be anywhere from 50% to 70% of the formal economy.

The Peruvian government increased the statutory monthly minimum wage in May 2012, from 675 Nuevos Soles (approximately \$241) to 750 Nuevos Soles (approximately \$268). The National Institute of Statistics and Information (INEI) estimated the poverty line to be 284 new soles (\$102 USD) a month per person, although it varied by region due to different living costs. The Ministry of Labor (MOL) enforces the minimum wage only in the formal sector. Many workers in the unregulated informal sector, most of them self-employed, make less than the minimum wage. Wages are sometimes higher than U.S. wages in the mining sector for management positions and consulting services. Workers in Peru are paid by the month, not by the year. Some workers, like formal miners, are highly paid and also (per statute) receive a share of company profits up to a maximum total annual amount of 18 times their base monthly salary. Current labor law provides for a 48-hour work week and one day of rest, and requires companies to pay overtime for more than eight hours of work per day and additional compensation for work at night. Noncompliance with the law is a punishable infraction. There is no prohibition on excessive compulsory overtime.

A 2008 law reduced severance pay and bonuses by 50%, and paid annual vacation to 15 days for small business workers. Workers readily sacrifice these and other benefits in exchange for regular employment. Another 2008 law gave micro-enterprise workers social security and pensions.

Peruvian labor law requires that employees provide advance notice to the MOL before holding a strike, with the new legislation not being as permissive as before. According to the MOL, 94 strikes took place in the private sector in 2013, 5.6% above 2012, but person-hours lost from strikes decreased by 16.2%, for a total of 1.57 million work hours. Unions in what the government determines are "essential public services" are permitted to call a strike but must provide 10 working days' notice, receive the approval of the Ministry of Labor, be approved by a simple majority of workers, and provide a sufficient number of workers during a strike to maintain operations, as jointly determined by the union and labor authorities on an annual basis. As of October 2013, the Ministry of Labor registered 33 total strikes, with 25 of those declared illegal. According to labor leaders permission to strike was difficult to obtain, in part because the MOL feared harming the economy. The MOL justified its decisions by citing failure of unions to fulfill the legal requirements necessary to strike.

On January 15, 2010, Congress adopted a new labor procedure law (No. 29497) to improve the efficiency of resolving labor disputes. The law requires that labor conflicts be resolved in

less than six months, allows unions or their representatives to appear in court on behalf of workers, requires proceedings to be conducted orally and video-recorded, and relieves the employee from the burden of proving an employer-employee relationship. On November 5, 2012, the Lima Judicial District began implementing the labor procedure law. At year's end, it was in effect in at least 15 of the 31 judicial districts in Peru.

Six percent of the labor force in the private sector was organized in 2013, with unionization highest in electricity, water, construction, and mining (from 39% to 22%) and generally low in the rest of economy. Unemployment in Lima officially stood at 5.7% during the fourth quarter of 2013, with INEI stressing that the number of jobs increased for the 58th consecutive month. A 2011 government survey showed that 34.5% of Lima's labor force was underemployed in the same period (versus 36.9% in the same period of 2012), mostly self-employed in the informal sector. The average nominal monthly salary increased 8.0% year-on-year in the fourth quarter of 2013, INEI reported. The ILO's Global Wage Report 2012/2013 released in December 2012 stated that average real wages in Peru grew at over 3% per annum between 2004 and 2011.

Labor laws have become more inflexible in the last ten years, making labor relatively more expensive. A law passed in 2008 created more restrictions on outsourcing and subcontracting, made the contracting company more responsible for the actions of its subcontracted company, and created a national registry of contracting companies. The PTPA requires Peru to respect the ILO-defined core labor rights of its workers. In January 2010, the Peruvian Government and U.S. Government established the bilateral Labor Affairs Council as mandated in Article 17.5 of the PTPA.

According to labor leaders, the current labor law has weakened unions in part because companies create competing unions that are seen as more favorable to management. Workers in probation status or on short-term contracts are not eligible for union membership. Bargaining agreements are considered contractual agreements, valid only for the life of the contract. Productivity provisions must be included in any collective bargaining agreement. The amount of time union officials may devote to union work is limited to 30 days per year. Unless there is a pre-existing labor contract covering an occupation or industry as a whole, unions must negotiate with each company individually. The government did not effectively enforce the law in all cases. Penalties for violations of freedom of association and collective bargaining exist, but were rarely enforced. Workers faced prolonged judicial processes and lack of enforcement following trade union activity-related dismissals. For instance, NGOs reported that emblematic cases of labor arbitration dating from 2012 remained in limbo, with the implementation of arbitrators' decisions delayed by ongoing judicial appeals processes.

In practice workers faced some challenges in exercising their rights of freedom of association and collective bargaining. Unions were generally independent of government and political parties. Employers continued to dismiss workers for exercising the right to strike. Dismissal of striking workers and delays in reinstatement of these workers, in both legal and illegal strikes, were the main tactic used by employers to dissuade workers from going on strike. Labor leaders and the ILO argue that current labor laws erode labor protections and encourage outsourcing in ways that undercut union activity.

Either unions or management can request binding arbitration in contract negotiations. Strikes can be called only after approval by a majority of all workers (union and non-union) voting by secret ballot, and only in defense of labor rights. Unions in essential public services, as

determined by the government, must provide a sufficient number of workers during a strike to maintain operations.

The government approved in January 2013 the formation of a national labor inspectorate and approved in October 2013 opening regional offices to represent the labor inspectorate nationally. This new inspectorate will allow Peru to more comprehensively and systematically enforce labor laws. The Ministry of Labor plans to open five inspectorate offices in 2014.

All labor in the (very small) export processing zones (EPZs) is subcontracted. With the exception of enjoying greater flexibility in hiring temporary labor, there are no special laws or exemptions from regular labor laws in EPZs.

Foreign employees may not comprise more than 20% of the total number of employees of a local company (whether owned by foreign or Peruvian persons) or more than 30% of the total company payroll. However, under the PTPA, Peru has agreed not to apply most of its nationality-based hiring requirements to U.S. professionals and specialty personnel. Peru also has bilateral agreements with Spain and Argentina, for example, so that Spaniards and Argentines working in Peru do not count as foreigners and vice versa.

17. Foreign Trade Zones/Free Ports

Peruvian law currently covers two types of trade zones: export, transformation, industry, trade and services zones (CETICOS), and a free trade zone (ZOFRATACNA) in Tacna. The rules and tax benefits applying to these zones are the same for foreign and national investors. These zones have failed to attract any sizeable investment and their importance for Peru's economy is negligible.

CETICOS exist at Ilo, Matarani and Paita. One CETICO is authorized in Loreto department, but is not operational. There is concern that the Peruvian Government does not have the proper WTO waivers to validate the CETICOS export requirement. The U.S. automotive industry has expressed a specific concern that U.S. brands are unable to compete with used Japanese vehicles that enter the Peruvian market duty-free through the CETICOS. The Ministry of Transportation and Communications banned the importation of right-hand drive vehicles in 2013, citing environmental and safety concerns. Imports of used cars more than five years old and used buses and trucks more than two years old are prohibited.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

The stock of foreign direct investment in Peru stood at \$73.6 billion in December 2013 according to the BCR, up from \$63.4 billion at the end of 2012. According to the most recent data from the BCR, the largest investors in Peru are the United States, Canada, Spain, and Chile. By industry, the main investment destinations are mining (29%), services (24%), oil and gas (17%), manufacturing (10%), finance (13%), and energy (6%).

U.S. foreign direct investment in Peru amounted to \$10.9 billion in 2012, a 21.4% increase from 2011, according to the U.S. Department of Commerce Bureau of Economic Analysis. Of that sum, \$4.1 billion was invested in mining, \$1 billion in manufacturing, and \$319 million in wholesale trade.

Major foreign direct investments included Xstrata (Switzerland), Hunt Oil (U.S.), Newmont Mining Corporation (U.S.), BHP Billiton (Australia), Cencosud Internacional Limitada (Chile), EndesaLatinoamericana (Spain), Freeport-McMoRan (U.S.), Golds Fields Corona (South

Africa), SN Power Peru (Norway), CompaniaMinera Latino-Americana (Chile), Sempra Energy (U.S.), Citibank (U.S.), Southern Peru Copper (Mexico), Pluspetrol (Argentina), Scotiabank (Canada), Telefonica (Spain), Repsol (Spain), Gerdau (Brazil), Anglo American (United Kingdom), Invercale (Chile), Asalberoamerica (Spain), Fraport AG Frankfurt Airport Services Worldwide (Germany), AeropuertosAndinos del Peru (Argentina), and the Falabella Group (Chile). When completed, Glencore-Xstrata's \$5.2 billion Las Bambas copper mine project in Apurimac will rank as Peru's largest foreign direct investment ever. The multi-year Hunt Oil-led investment is part of a consortium that invested \$3.8 billion to develop a natural gas liquefaction plant, maritime terminal, and pipeline in southern Peru.

Peru's direct investment abroad amounts to \$2.1 billion, according to the BCR. Peruvian investment in Chile, Brazil, the United States, and Bolivia comprised the vast majority of Peru's direct investment abroad.

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Host Country Statistical source*		USG or international statistical source		USG or international Source of data (Source of Data: BEA; IMF; Eurostat; UNCTAD, Other)
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (Millions U.S. Dollars)	2013	193,214	2013	No data	http://www.worldbank.org/en/country
	2012	199,608	2012	203,790	
	2011	176,727	2011	181,011	
	2010	153,710	2010	157,609	
	2009	126,910	2009	130,064	
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (Millions U.S. Dollars, stock positions)	2013	No data	2013	No data	(BEA)click selections to reach. <ul style="list-style-type: none"> • Bureau of Economic Analysis • Balance of Payments and Direct Investment Position Data
	2012	No data	2012	10,918	
	2011	No data	2011	8,993	
	2010	9,199	2010	7,196	

	2009	9,113	2009	6,435	<ul style="list-style-type: none"> • U.S. Direct Investment Position Abroad on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Host country's FDI in the United States (<i>Millions U.S. Dollars, stock positions</i>)		No national data available	2013 2012 2011 2010 2009	No data 122 235 182 112	(<u>BEA</u>)click selections to reach <ul style="list-style-type: none"> • Balance of Payments and Direct Investment Position Data • Foreign Direct Investment Position in the United States on a Historical-Cost Basis • By Country only (all countries) (Millions of Dollars)
Total inbound stock of FDI as % host GDP (<i>calculate</i>)	Year	Amount	Year	Amount	
	2013	No data	2013	No data	
	2012	No data	2012	No data	
	2011	No data	2011	No data	
	2010	0.253	2010	No data	
	2009	0.272	2009	No data	
				0.246	
				0.265	

* Peruvian (host country) statistical sources:

http://www.mef.gob.pe/index.php?option=com_content&view=article&id=1116&Itemid=100233&lang=es

<http://elibrary-data.imf.org/DataReport.aspx?c=11666795&d=33061&e=171392>

<http://www.bea.gov/international/di1usdbal.htm>

TABLE 3: Sources and Destination of FDI

Peru, 2013

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	38,841	100%	Total Outward	1,239	100%
United States	9,199	24%	Chile	367	30%
Canada	4,710	12%	United States	267	22%
Spain	3,700	10%	Panama	212	17%
Panama	2,803	7%	Jamaica	194	16%
Cayman Islands	2,590	7%	Bolivia	116	9
"0" reflects amounts rounded to +/- USD 500,000.					

Source: International Monetary Fund, <http://cds.imf.org/>

Section 5 - Government

Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

Legal system:

Civil law system

International organization participation:

APEC, BIS, CAN, CD, CELAC, EITI (compliant country), FAO, G-24, G-77, IADB, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IFAD, IFC, IFRC, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO, ITSO, ITU, ITUC (NGOs), LAES, LAIA, Mercosur (associate), MIGA, MINURSO, MINUSTAH, MONUSCO, NAM, OAS, OPANAL, OPCW, PCA, SICA (observer), UN, UNASUR, UNCTAD, UNESCO, UNIDO, Union Latina, UNISFA, UNMIL, UNMISS, UNOCI, UNWTO, UPU, WCO, WFTU (NGOs), WHO, WIPO, WMO, WTO

Section 6 - Tax

Exchange control

Foreign-exchange controls have been eliminated. Consequently, transactions are carried out in a free market at prices set by supply and demand.

Treaty and non-treaty withholding tax rates

Peru has signed Double Taxation Agreements with Chile, Canada, Brazil and the countries of the Andean Community (CAN). There is an agreement signed with Mexico pending for approval by the Congresses of each country.

	<i>Royalties</i> (%)	<i>Dividends</i> (%)	<i>Interest</i> (%)
<i>Non-treaty countries:</i>	30	4.1	30 4.99 (1)
<i>Treaty countries:</i>			
Andean Community (2)	-	-	-
Brazil	15	10/15 (3)	15
Canada	15	10/15 (3)	15
Chile	15	10/15 (3)	15

Notes:

1. Rate applied to foreign banks and also under certain conditions.
2. The Andean Community includes Ecuador, Colombia, Peru and Bolivia. The Treaty levies income under the source principle.
3. The rates are minimum and maximum. The lesser applies for related entities under certain conditions.

Methodology and Sources

Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
FATF List of Countries identified with strategic AML deficiencies	Not Listed	AML Deficient but Committed	High Risk
Compliance with FATF 40 + 9 recommendations	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
US Dept of State Money Laundering assessment (INCSR)	Monitored	Concern	Primary Concern
INCSR - Weakness in Government Legislation	<2	2-4	5-20
US Sec of State supporter of / Safe Haven for International Terrorism	No	Safe Haven for Terrorism	State Supporter of Terrorism
EU White list equivalent jurisdictions	Yes		No
International Sanctions UN Sanctions / US Sanctions / EU Sanctions	None	Arab League / Other	UN , EU or US
Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network	>69%	35 – 69%	<35%
World government Indicators (Average)	>69%	35 – 69%	<35%
Failed States Index (Average)	>69%	35 – 69%	<35%
Offshore Finance Centre	No		Yes

Section 3 - Economy

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

Section 4 - Foreign Investment

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

Section 5 - Government

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

Section 6 - Tax

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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