SUMMARY

1. Peru's economic performance since its last TPR in 2007 has been exceptional, with strong real GDP growth, low inflation, an improved fiscal position, reduced debt and strengthened external accounts. This reflects prudent macroeconomic management and the continuation of structural reforms that have facilitated the expansion of FDI inflows. The Peruvian economy also weathered the global financial crisis well, partly as a result of a countercyclical fiscal stimulus that supported economic activity and sustained employment. While poverty has been reduced and living standards have improved, progress in social inclusion has been slow. Continuation of high growth in the years to come will require enhancing competitiveness and innovation, further improving the business climate, and investing more in human capital and infrastructure.

2. Peru's trade policy developments during the period under review were marked by its active participation in regional trade agreements. Since 2007, 14 new regional trade agreements have entered into force, one more has been concluded but is not yet in force, and several others are under negotiation. As a result of the agreement with the United States, and in order to fully benefit from its wide network of regional trade agreements, Peru made important changes to its trade policies and practices by issuing new laws on, *inter alia*, customs, government procurement, and intellectual property rights. Peru also made changes to its regulatory framework to promote competitiveness and investment. Most of these changes are applied on an MFN basis. Despite its emphasis in regionalism, Peru continues to be an active member in the WTO and has unilaterally liberalized its trade regime including through a reduction of its MFN applied tariff from an average of 8% in 2007 to 3.2% in 2013.

Economic environment

3. The Peruvian economy recorded a strong performance during 2007-2012, with an annual average GDP growth rate of almost 7%, despite the deterioration in the international economic environment. Growth benefited from the dynamism shown by non-primary sectors (construction, trade, and services), strong public and private investment, and consumption, and increased exports of goods and services.

4. Rapid economic growth during the period under review resulted in a continued increase in GDP per capita in dollar terms, which rose from US$3,772 in 2007 to US$6,623 in 2012. Unemployment fell from 8.4% to 6.8% during the period, as did both total and extreme poverty. However, social disparities throughout the country remain high, particularly between rural and urban areas.

5. The Peruvian economy weathered the global financial crisis of 2008-2009 relatively well, partly as a result of a countercyclical fiscal stimulus of about 1.25% of GDP. Consequently, in 2009 there was a fiscal deficit of 1.3% of GDP. The fiscal stimulus was gradually removed as economic activity recovered, which allowed fiscal surpluses of about 2% of GDP in 2011 and 2012.

6. Peru had current account deficits throughout the period under review except in 2007. The current account went from a surplus of 1.4% of GDP in 2007 to a deficit of 3.6% in 2012. The trade balance surplus narrowed substantially in 2008-2009 and in 2012 because of deteriorating terms of trade due to the global economic crisis. Peru is a net importer of services, with a deficit of around US$2 billion per year during 2007-2012. Significant net capital inflows allowed an increase in the stock of international reserves to almost US$64 billion in 2012, equivalent to 32% of GDP.

7. The period under review was particularly dynamic for Peru’s trade, with exports and imports almost doubling. As one of the world's leading producers of raw materials, Peru has increased its dependence on mineral exports, particularly copper and gold which accounted for about 10% of GDP in 2012. Agricultural and manufacturing exports represented 17% and 12%, respectively, of total merchandise exports in 2012. China, the European Union and the United States together accounted for almost half of Peru's total exports in 2012, with China overtaking the United States as the main buyer.

8. Manufactured imports accounted for almost three quarters of total merchandise imports in 2012, led by machinery and transport equipment, and chemicals. The United States, China and the European Union are Peru's main source of imported goods. Together, they accounted for 49% of the total in 2012 (41% in 2007).

9. Peru's annual inflow of FDI jumped from an average of US$2 billion in 2000-2006 to US$7.900 billion in 2007-2012. Further expansion of FDI flows will benefit from improved infrastructure and business environment.

Trade and investment policy framework

10. Peru attaches particular importance to its participation in the multilateral trading system, considering it fundamental to achieving its main trade policy objective of a sustained increase in trade, particularly of non-traditional sectors, enhancing the competitiveness of Peruvian goods and services, and fostering trade and investment flows with the world at large.

11. Peru remains committed to the successful conclusion of the Doha Development Agenda (DDA), where it has presented, independently and together with other delegations, a number of proposals. During the review period, Peru participated in one case brought before the WTO Dispute Settlement Body as respondent but did not participate as complainant; it was involved six times as a third party. Peru is not a member nor has observer status in the plurilateral Agreement on Government Procurement. It has participated in the Information Technology Agreement since 2009. During the period under review Peru presented numerous notifications to the WTO and by mid-2013 only a small number remained outstanding, in particular concerning domestic support to agriculture.

12. Since 2007, Peru has actively negotiated several regional trade agreements, 14 of which have entered into force: Canada, Chile, China, Costa Rica, European Free Trade Association (EFTA), European Union, Japan, Korea (Rep. of), Mexico, Panama, Singapore, Thailand, the United States, and the Bolivarian Republic of Venezuela. Peru also concluded a trade agreement (not yet in force) with Guatemala, and is negotiating others with El Salvador, Honduras, as well as in the context of the Pacific Alliance, and the Trans-Pacific Partnership (TPP). In addition, Peru is a founding member of the Andean Community, has a free trade agreement with MERCOSUR and other agreements within the framework of the Latin American Integration Association (LAIA). In total, Peru has 17 regional trade agreements in force with 52 countries. In 2012, about three quarters of Peru's total exports and imports went to trading partners with which Peru has regional trade agreements.

13. In general, foreign investors in Peru receive the same legal treatment as local investors. However, foreign investment is restricted in certain activities, such as maritime services, air transport and broadcasting. The Government seeks to promote public-private investment partnerships, particularly in transport, energy, and other technology-intensive sectors, in order to overcome infrastructure bottlenecks, spur competitiveness, and uphold economic growth. The investment incentives generally consist of tax exemptions and low-cost financing; normally, they do not distinguish between domestic and foreign investors.

Trade policy by measure

14. Peru considers trade as one of the pillars to promote economic growth and development. Reflecting this, since 2007 Peru has implemented policies to facilitate trade and continued its programme of unilateral tariff liberalization. Peru has simplified its customs and administrative procedures by creating the single window for foreign trade in 2006 as a system to facilitate trade, operational in 2010, and by fostering the use of a risk-analysis system to clear merchandise through customs, thus reducing the frequency of inspections. Despite these achievements, further efforts are needed to facilitate trade, including through the improvement of infrastructure.

15. During the period under review, Peru has continued to reduce its tariffs on a unilateral basis, as a result the simple average rate declined from 8% in 2007 to 3.2% in 2013, one of the lowest in the continent. The reduction of the maximum applied rate from 20% in 2007 to 11% in 2013 has been one of the most important changes in Peru's tariff structure. In addition, the percentage of duty-free tariff lines increased from 43.6% to 55.9% during the same period. However, amidst

this generally liberal policy, Peru continues to apply a price band system on some agricultural goods: rice, sugar, maize and dairy products. In general, the tariffs applied by Peru are *ad valorem*, with the exception of those under the price band system, which have an *ad valorem* and a specific component; the duties that result from the application of the price band system vary according to the international price of the products concerned. This adds some opaqueness to the otherwise transparent and simple tariff structure. The price band system has been partially eliminated under certain regional agreements and totally eliminated in others, such as the agreement with the United States.

16. Peru applies tariff quotas as an instrument to enhance market access on a preferential basis. As such, Peru has negotiated preferential tariff quotas under certain regional agreements; however, these are rarely used.

17. Peru bound all its tariff lines at: 0%, 30% and 68%. The highest rate applies to agricultural goods, some of which are also subject to the price band mechanism. However, according to domestic legislation, the rate which results from the calculation of the application of the price band system cannot exceed the WTO bound tariff rate, which is the maximum rate applied.

18. In addition to the tariff, imports are also subject to domestic taxes and other charges. Definitive imports and those to be deposited in customs warehouses are subject to an *ad valorem* charge for processing the Customs Declaration for Goods (*Declaración Aduanera de Mercancía*, DAM) of 2.35% of the Tax Unit (*Unidades Impositivas Tributarias* UIT), when the declared value of the merchandise equals or exceeds a threshold defined as three times the value of a Tax Unit. The procedure to apply the Selective Consumption Tax (*Impuesto Selectivo al Consumo*, ISC) on most nationally-produced and imported alcoholic beverages has changed since the last review; at present its application depends in most cases, upon the spirit's alcohol content. The additional tax of 5% that applied to some 392 tariff lines (HS 2012 at the ten-digit level) was eliminated in 2007.

19. Peru introduced modifications to its legislation regarding trade remedies in 2009. These changes relate to, *inter alia*, the method to calculate the normal value and the margin of dumping in special cases; the duration of the antidumping and countervailing measures; the time periods and procedures to file for reimbursement of provisional duties unnecessarily imposed or paid in excess; and the procedure to undertake sunset reviews. During the period reviewed, Peru initiated eight new investigations. In the same period, four countervailing investigations were conducted, resulting in the imposition of two countervailing measures, and only one safeguard investigation was initiated but no measure was applied.

20. Imports and exports subject to restrictions or prohibitions are few and remain largely unchanged since the last review. These restrictions are imposed on health, security and environmental grounds, and to comply with commitments contained in international agreements to which Peru is a signatory. Peru's standardization and sanitary policies also aim at protecting human, animal and plant health. In general, technical regulations and SPS requirements are based on international standards. The SPS system operates on the principle of the harmonization of policy in the different sectors and Peru considers it key to promote the quality and competitiveness of its exports.

21. One of Peru's most important trade policy objectives is to promote exports. To this end, Peru has simplified export procedures and continues to apply a number of export support and promotion programmes. The drawback system, which allows for reimbursement of a specific percentage of the f.o.b. value of exports, is still in place. The drawback system applies to exports whose value exceeds US$20 million. The drawback rate is at present 5%; however, this rate may be modified in accordance with economic circumstances, as was the case in 2009 when it was increased to 8% in response to the financial crisis. Some of Peru's traditional exports (about 279 tariff lines at the ten-digit level) are excluded from this regime. To qualify for benefits under certain programmes to finance exports of goods and services, certain criteria have to be met, including complying with export or domestic origin thresholds.

22. Peru continues to use fiscal incentives as an instrument to promote investment in specific sectors, as well as other support programmes to promote regional development and to contribute to social equality, such as the programme to establish the "special treatment zones" in disadvantaged areas of the country.

23. In 2008, with a view to updating the rules on protection of competition, Peru adopted a new law on the subject. In addition to this piece of legislation that addresses competition issues on a horizontal basis, Peru has legislation that deals with competition issues in specific sectors such as electricity and telecommunications. These sector-specific laws have not undergone major changes during the period under review. The institutional capacity of the bodies in charge of competition issues within INDECOPI has been strengthened since the last review. As a result, the number of cases initiated ex-officio has increased since 2007 and so have the fines.

24. During the period under review, Peru also strengthened the legal and institutional framework related to government procurement, through the introduction of new legislation. This aims particularly at increasing efficiency, competition and transparency. Some preferences remain in place to benefit small and medium enterprises and local producers. Peru also made important changes to the legal framework of its intellectual property protection regime, some of them to comply with commitments undertaken in the context of regional trade agreements and others to adequately protect Peru's biodiversity, genetic resources and traditional knowledge. Protection in these areas has been a priority for Peru, hence its active participation in the DDA in this regard.

Trade policy by sector

25. Peru's agriculture sector contributes 7.2% to GDP, and plays an important role as a source of exports and employment. During the review period, agricultural GDP (including hunting and forestry but excluding fishing) grew at an annual average rate of 4.7%. However, productivity in various segments remains low. Peru’s support to agriculture consists of measures to facilitate access to credit and debt reduction programmes.

26. Using the WTO definition of agriculture, the average MFN applied tariff fell from 12.9% in 2007 to 3.9% in 2013. One of the reasons for this decline was the elimination of the 20% rate affecting mainly agricultural products such as meat, dairy products, fruits and vegetables, cereals and food preparations. Also, Peru abolished the 5% tariff surcharge which was applied on 392 ten-digit tariff lines.

27. Peru continues to operate a "price band system" on 47 ten-digit tariff lines (HS 2012) related to rice, sugar, maize and dairy products. Calculating the price band system for the first quarter of 2013, the average MFN tariff on agricultural products increased from 3.9% to 4.3%.

28. The value of fisheries production has increased every year since 2007, albeit at a lower rate than the economy as a whole. The fisheries sector contributes only about 1% to total exports because only a small amount is processed and exported. The average MFN applied tariff on fish and fish products is 0.4%, with a maximum rate of 6%. Peru's legislation does not limit foreign ownership of fishery enterprises, processing plants, or aquaculture operations. However, foreign-flag vessels may be granted fishing permits only to the extent that this supplements the activity of the Peruvian fleet. Certain tax benefits and reductions in the price of fishing permits are contingent upon unloading the catch in Peru.

29. Mining is a cornerstone for the Peruvian economy: it contributes about 5% to GDP, accounts for about 20% of fiscal revenues, is an important source of employment, generates almost two-thirds of export revenues, and is one of the main targets of FDI inflows. Production of basic metals (copper, zinc, molybdenum, iron and lead) and precious metals like gold and silver has declined in recent years partly due to the postponement of some new mining projects because of fears about their environmental impact. The average MFN tariff applied to the mining sector is 2.7%, with a maximum rate of 6%. Holders of mining concessions benefit from sector-specific tax stability contracts. In 2011, the mining royalty system was modified to raise about US$1 billion or 0.5% of GDP per year for social and infrastructure projects in the poorest areas.

30. Peru has a diversified manufacturing sector led by food, chemicals, textiles, and leather products. The share of manufacturing in GDP fell from 15.7% in 2007 to 14.2% in 2012 due to an erosion of competiveness which translated into rising imports and slow-growing exports. The average MFN applied tariff on manufacturing products is 3.2%, with a maximum rate of 11% for some textiles and clothing, and other manufactured goods. Peru is taking steps to encourage innovation and technological development in the sector.

31. Peru made commitments in seven of the 12 services sectors under the GATS, signed the Fourth Protocol on Basic Telecommunications, accepted the Reference Paper on regulatory principles in telecommunications, and signed the Fifth Protocol on Financial Services. Peru's services commitments in its various regional trade agreements go beyond those included in the GATS schedule or in the offer presented in the context of the DDA. Peru is also part of a group of WTO Members that are negotiating a new international agreement on services.

32. Peru's financial system managed to weather the global financial crisis of 2008-2009 in part because of the existence of an appropriate regulatory framework. The sound situation of the financial sector has been reflected in a higher level of financial intermediation through a growing volume of loans and deposits. Despite progress in recent years, there is still a high level of dollarization in the financial system. Prudential indicators for the banking sector have been maintained at adequate levels even though the quality of the bank's loan portfolios deteriorated somewhat in recent years. Peru lowered its tax rate on financial transactions from 0.08% in 2007 to 0.005% nowadays.

33. The liberalization process in telecommunications has continued since Peru's previous review, although one private firm still controlled over 70% of all fixed telephone lines and almost 60% of the mobile market at the end of 2012. The price basket for fixed-line services, mobile telephony and broadband are still relatively high in Peru despite falling tariffs and improved service quality. Peru recently eliminated its restriction on foreign participation in radio broadcasting services (up to 40% of the capital stock or of stakeholders).

34. In the transport sector, regulatory progress continues to be made but problems related to infrastructure persist in certain activities. In air transport, up to 49% foreign participation is allowed at the start of operations by firms established in Peru, which may be increased to 70% after six months. Peruvian firms that provide regular international air transport services are required to provide a similar national service. In maritime transport, cabotage services are reserved to national flag vessels with majority Peruvian ownership. A maximum of 25% of the volume of hydrocarbons transported on national routes is reserved for Peru's navy. Although the law establishes freedom of routes, the reciprocity principle may be applied to foreign trade cargoes.