



*Embassy of Peru*

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Canberra, 10 October 2008

Ms. Janelle Saffin MP  
Chair of the Trade Sub-Committee  
Joint Standing Committee on Foreign Affairs, Defense and Trade  
Australian Parliament  
Canberra.-

Dear Ms. Saffin,

I have the honor to address to you in response to your kind letter dated 25 June 2008 related to the inquiry conducted by the Trade Sub-Committee of the Joint Standing Committee on Foreign Affairs, Defense and Trade, into ways of expanding Australia's trade and investment relations with Asia, the Pacific and Latin America.

In this regard, I am pleased to submit herewith the attached document containing the comments presented by the Government of Peru for consideration of the Sub-Committee. Allow me to stress some core ideas:

- Since 1963, when Diplomatic ties were established, Australia and Peru have forged a solid ground of shared interests and mutual goals including trade liberalization, investments and regional cooperation. Both countries are working closely on a wide range of multilateral and regional organization, notably APEC. The fact of having Peru's APEC year in 2008, following Australia, has significantly underpinned our bilateral cooperation.
- Bilateral economic relations are growing and diversifying. Australian investments in Peru amounts over 1.7 billion dollars and are focused mainly in mining and related services. Over 40 Australian companies have offices in Peru, including major mining corporations.
- Over the last eight years, Peru has experienced an outstanding economic booming process that followed a structural reform and economic liberalization program initiated in the 90's. Based on solid macroeconomic foundations and serious public finances Peru become, today, the best performing, fastest growing and stable economy in Latin America. On top of that, due to its strategic location in the central Pacific coast of South America, Peru presents itself as a natural gateway and bridge between the South American region and the Asia-Pacific economies.
- On the investment side, Peru and Australia signed, in 1995, a bilateral investment promotion and protection agreement. On 26 June 2008 Peru became the 41st country to join the Declaration on International Investment and participate in the work of the OECD Investment Committee. Furthermore, Peru has received three major "investment grades" over the last year.

- Peru and Australia share a common set of interests with the WTO, particularly with regard to the Doha Round of negotiations and agricultural reform and liberalization. With this vision in mind Peru officially joined the Cairns Group in 2007. Peru's commercial interests are consistent with those of Australia, having a strong commitment with the multilateral system and the Doha Round. Along with this, Peru is seeking to develop new bilateral trade agreements, as a way to promote trade liberalization.
- Accordingly to this policy, Peru has signed FTAs with MERCOSUR countries, the United States, Canada, Singapore and Chile, and an "early harvest" agreement with Thailand. FTAs currently being negotiated with Mexico, EFTA countries (Switzerland, Norway, Iceland and Liechtenstein) and China, as well as a partnership agreement with the European Union. Likewise, negotiations are soon expected to begin with Central America and the Republic of Korea. Peru, on the other hand, is also evaluating the possibility of joining the negotiations for the P4.
- In the context of the increasing trade and investment links with its most relevant Asia - Pacific partners, Peru has expressed its interest of entering into negotiations for an FTA ("WTO plus") with Australia. The complementary of our economic and trade structures, without major sensitivities, offers an opportunity to diversify exports and imports, in particular, increasing supply of inputs and capital goods from Australia to Peru. Additionally, an FTA would open new and greater investment opportunities and will encourage our entrepreneurial to forge joint-ventures and get the utmost benefits from the enhanced network of trade agreements already put in place by both countries.

I am confident that this inquiry will be of great assistance to identify the potential of the bilateral relation between Australia and Peru, and that with Latin America, in general. Having ahead the APEC Leaders Summit to be held next November in Lima, as well as the circumstance of celebrating in 2008 the 45<sup>th</sup> anniversary of the establishment of bilateral diplomatic relations, I respectfully invite the Sub-Committee to give adequate consideration to the comments presented by the Government of Peru, and joining us in the effort to make substantial progresses in our bilateral relations, as it could be agreeing on FTA negotiations, succeed in the proposed air services agreement, and setting an appropriate and reciprocal Australian diplomatic representation in Lima.

Sincerely yours,



Claudio De la Puente  
Ambassador of Peru

**RESPONSE DOCUMENT TO THE TRADE SUBCOMMITTEE OF THE JOINT  
STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENSE AND TRADE OF  
THE PARLIAMENT OF AUSTRALIA'S CONSULTATION ON WAYS TO ENHANCE  
TRADE RELATIONS AND INVESTMENT BETWEEN AUSTRALIA AND ASIA,  
PACIFIC AND LATIN-AMERICAN COUNTRIES**

**1. CURRENT NATURE OF THE BILATERAL RELATIONS BETWEEN PERU AND AUSTRALIA IN  
MATTERS OF TRADE AND INVESTMENT**

The bilateral relationship between Australia and Peru has steadily improved during the last few years, supported by the strong economic growth of the Peruvian economy after rebounding from the series of world crises of the late 90's and early 2000. This economic expansion was initially driven by exports. Now, it is backed by the strength of domestic demand and strong macroeconomic foundations, as shown in Table 1, below.

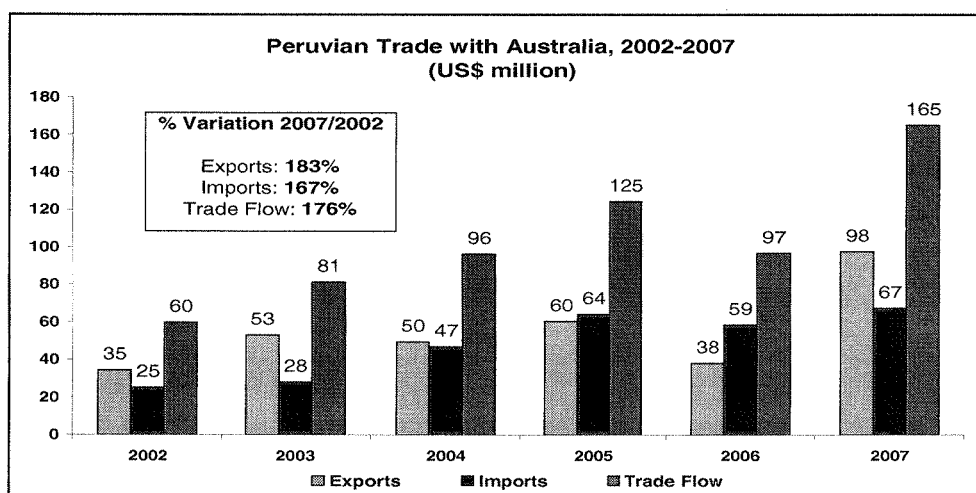
**TABLE 1**  
*Peru - Key macroeconomic indicators*

	2004	2005	2006	2007
<b>GDP (%change)</b>	5.1	6.7	7.6	9.0
<b>Private Investment (%change)</b>	9.1	13.9	20.1	23.2
<b>Public Investment (%change)</b>	5.7	12.2	13.0	19.7
<b>CPI (%change)</b>	3.5	1.5	1.1	3.9
<b>Jobs in companies with 10 or more workers (% change)</b>	2.7	4.5	7.3	8.7
<b>Exports (% change)</b>				
	40.9	35.3	36.9	16.3
<b>Capital goods imports (% change)</b>				
	19.6	29.6	35.4	41.0
<b>Construction GDP (% change)</b>				
	4.7	8.4	14.7	16.5
<b>Tax collection (% change)</b>				
	13.6	14.3	27.8	15.0

Sources: The Central Reserve Bank of Peru (BCRP), the National Institute for Statistics and Information (INEI) and the National Superintendence of Tax Administration (SUNAT).

In this context, bilateral relations with regard to trade and investment between Peru and Australia have significantly improved. As shown in Chart 1 (below), Peruvian exports to Australia have grown 183% between 2002 and 2007. During the same period, Peru's imports from Australia grew by 167%, while total trade flow increased by 176%.

**CHART 1**  
*Trade between Peru and Australia*



Sources: The National Superintendence of Tax Administration (SUNAT).

Peru is Australia's fifth trading partner in Latin America, after Brazil, Mexico, Argentina and Chile. Trade between them reached US\$ 165 million in 2007. This new record in the commercial transactions of goods between both countries represents an increase of more than 70% from the previous year. Peruvian exports grew from US\$ 34,5 million in 2002 to US\$ 97,8 million in 2007, while imports from Australia that year totaled US\$ 67 million, compared with US\$ 25 million in 2002.

The increase in quantity is qualitatively correlated with the diversification of the trade basket. Peruvian goods exports to Australia in 2003 exceeded US\$ 53 million, distributed on 277 tariff items, of which only 9 exceeded US\$ 400 thousand. Four years later, in 2007, Peruvian exports to Australia totaled almost US\$ 98 million, distributed on 367 tariff items (+ 32.4%), of which 14 exceeded the amount previously-mentioned.

For its part, Australia has further diversified its export basket to Peru. In 2003, Australian exports to Peru were just over US\$ 28 million, distributed on 462 tariff items, of which only 15 exceeded US\$ 400 thousand. In 2007, in contrast, Peruvian imports from Australia exceeded US\$ 67,1 million, distributed on 813 tariff items (+ 75,9%), of which 29 exceeded US\$ 400 thousand<sup>1</sup>. According to the Australian Trade Commission sources, there were 209 Australian companies exporting to Peru in May 2008.

Tables 2 and 3 show the 10 main products traded between Peru and Australia over the past few years. As shown, Peruvian exports to Australia include minerals, foodstuffs and natural resource-based manufacturing (zinc and zinc concentrates; fish oil and fat, fish meal; fresh or chilled asparagus, and asparagus, prepared or preserved). On the other hand, the structure of imports from Australia to Peru is less concentrated. It is focused on intermediate goods and capital goods, which are needed for the Peruvian industry (excavators and front-end shovel loaders; cyanide; crushing or grinding machines; crushing machines with rotating cones; milk; ballast for lamps and self-propelled boring or sinking machinery).

**TABLE 2**  
**Main ten products exported to Australia**

**Main Ten Products Exported to Australia**  
(in US\$ Thousand)

Product	2002	2004	2006	2007	Var. % 07/02
1 Zinc ores and concentrates.	9,903.3	13,131.9	288.5	56,313.9	468.6
2 Flours, meals and pellets of meat of fish	4,968.2	10,369.6	17,459.9	17,224.2	246.7
3 Fats and oils and their fractions, of fish, other than liver oils	1,320.8	3,713.9	130.0	5,628.6	326.2
4 Fresh asparagus	0.0	529.6	1,765.3	2,637.4	--
5 Asparagus preserved otherwise than by vinegar, not frozen	2,260.2	3,134.9	3,311.8	2,476.7	9.6
6 Fats and oils and their fractions, of fish, other than liver oils	530.0	0.0	2,772.0	1,404.2	164.9
7 Other coffee, not roasted nor decaffeinated	236.5	374.2	1,126.0	1,322.8	459.3
8 Fungicides	432.7	463.8	534.4	952.2	120.1
9 Fruit, nuts and other edible parts of plants	168.7	315.7	360.4	645.0	282.4
10 Ortho boric acid	535.6	1,021.2	654.2	581.1	8.5
Others	14,230.2	16,448.0	9,882.5	8,664.1	-39.1
<b>Total</b>	<b>34,586.2</b>	<b>49,502.6</b>	<b>38,285.0</b>	<b>97,850.4</b>	<b>182.9</b>

Sources: The National Superintendence of Tax Administration (SUNAT)

<sup>1</sup> Sources: ADEX Data Trade ([www.adexdatatrade.com](http://www.adexdatatrade.com)), based on the information provided by the National Superintendence of Tax Administration – SUNAT ([www.sunat.gob.pe](http://www.sunat.gob.pe)).

**TABLE 3**  
**Main ten products imported from Australia**  
**Main Ten Products Imported from Australia**  
(in US\$ Thousand)

Product	2002	2004	2006	2007	Var. % 07/02
1 Front-end shovel loaders	557.9	2,785.3	7,364.7	11,651.2	1,988.2
2 Cyanide of sodium	1,764.1	2,593.3	6,831.7	7,157.3	305.7
3 Games, operated by coins	1,277.2	3,624.1	6,919.4	4,254.9	233.1
4 Machinery for separating earth or other mineral substances	32.9	39.5	152.0	3,595.6	10,819.7
5 Crushing or grinding machines	0.0	0.0	0.0	2,979.1	--
6 Milk and cream in powder	4,550.1	1,535.0	1,686.6	2,815.6	-38.1
7 Ballasts for discharge lamps or tubes	244.6	742.2	1,097.0	1,776.9	626.5
8 Excavating machines	108.4	465.2	1,589.1	1,529.5	1,310.9
9 Telecommunication apparatus	254.6	25.6	480.4	1,455.1	471.4
10 Crane lorries	133.9	0.0	0.0	1,237.1	823.7
Others	16,317.1	35,145.0	32,454.2	29,017.3	77.8
<b>Total</b>	<b>25,241.0</b>	<b>46,955.3</b>	<b>58,575.1</b>	<b>67,469.6</b>	<b>167.3</b>

Sources: The National Superintendence of Tax Administration (SUNAT)

Although both countries are agriculture exporters and mining powers, upon examining their production structures it must be stressed that they are economically complementary and that there are minimal sensitivities between their respective production apparatus.

It should also be noted that when referring to trade between Peru and Australia, the figures above focus exclusively on the trade balance in goods and ignore the trade balance in services. In this regard, it must be emphasized that trade in services between the two countries is growing steadily according to the figures available. In 2007, trade balance in services totaled AU\$ 62 million (US\$ 58,9 million), of which Peruvian imports amounted to AU\$ 35 million (US\$ 33,2 million) and exports services to Australia totaled AU\$ 27 million (US\$ 25,6 million)<sup>2</sup>. If these figures would be incorporated into the trade balance in goods between Peru and Australia, in 2007 trade between the two countries exceeds US\$ 220 million.

In addition, it should also be noted that the figures related to tourism generated transactions are not visible on the trade balance in services. This sector is gaining increasing importance in the bilateral relation. The flow of Australian tourists to Peru is steadily increasing. In 2003, 2 055 Australians visited Peru, while in 2006 the figure rose to 21 294<sup>3</sup>.

If it is estimated that an Australian tourist spends in average US\$ 2 270<sup>4</sup> per visit to Peru, then it might be concluded that the revenue generated by Australian tourists was more than US\$ 48 million in 2006.

As far as investment is concerned, Peru is the No. 4 destination for investments from Australia in Latin America. It is important to note that since February 1997, Peru and Australia have a bilateral Agreement on the Promotion and Reciprocal Protection of Investments. Pursuant to this agreement, Australian investments in Peru have significantly increased in recent years, particularly those that are focused on the mining sector (exploration and exploitation of mineral resources), constituting one of the most important elements in the bilateral agenda.

According to information provided by the Australian Trade Commission (AUSTRADE) Office in Lima, Australian investments in Peru would amount to more than US\$ 1 740 million, mainly focused on mining, but also including other sectors such as gas, education, agribusiness, communications, sports clothing, food and beverages, services, etc.. There are around forty Australian companies represented in Peru, a number that has doubled in just three years.

Australia's leading mining sector companies are present in Peru, participating in major projects that are currently underway and in new exploration projects. For example, BHP Billiton owns a major share of the Antamina mining project, which is one of the largest in Peru; Xstrata Copper has control of Las Bambas, Tintaya, Antapaccay and Corocchohuayco mining projects, as well as a substantive involvement in the Antamina mining company. Rio Tinto and Newcrest are preparing to carry out

<sup>2</sup> Sources: DFAT and AUSTRADE: [www.dfat.gov.au/geo/fs/peru.pdf](http://www.dfat.gov.au/geo/fs/peru.pdf)

<sup>3</sup> Sources: DIGEMIN ([www.digemin.gob.pe/estadisticas.asp](http://www.digemin.gob.pe/estadisticas.asp)). According to DFAT, in 2007 more than 25 000 Australian tourists visited Peru ([www.dfat.gov.au/geo/peru\\_brief.html](http://www.dfat.gov.au/geo/peru_brief.html)).

<sup>4</sup> Sources: PromPeru – Profile of the Foreign Tourist, at: [http://media.peru.info/catalogo/Attach/australia\\_9805.xls](http://media.peru.info/catalogo/Attach/australia_9805.xls)

exploration of important mineral fields in Peru. For its part, Minera IRL of Australia operates the Corihuarmi gold mine, while Strike Resources plans to carry out an important project, which is currently at the pre-feasibility stage – for the exploitation of rich iron deposits, with a projected investment of US\$ 2 500 million. There are other small and medium-size enterprises carrying out mining exploration work around Peru, companies such as Alturas Minerals, Mundo Minerals and Gallipoli Mining, Latin Gold, Antares Minerals, Global Geoscience, among others.

In the hydrocarbons sector (gas and oil), Woodside Energy Limited will soon have participation in a consortium to undertake oil exploration in the Peruvian jungle. Moreover, this company has identified Peru as one of its possible recipients of its future investment in Latin America. Likewise, Karoon Gas Australia Limited has invested in the exploration of gas in the northern coast of Peru, with an initial investment greater than US\$ 50 million.

Also highlighted is the fact that Australian chemical company Orica has expanded its operations to include mining supplies, becoming the largest supplier of explosives to the industry in Peru. The firm intends to develop a major petrochemical project.

There are a number of Australian businesses involved in the provision of services and equipment to the mining and manufacturing sector, such as ALS Chemex, Goldex SA, Ausenco, Maptek, Ryco Hidraulics, Caterpillar Elphinstone, Sacosi-Radcrete Pacific, Sinclair Knight Merz, Gekko, Ludowici, Aran International, Surpac Software, Fractal Technologies, Jacono Industries, Runge, Barret, GRD Minproc, among others.

In other sectors, Australian company Amcor Pet Packaging Peru S.A. was singled out for its investments in the manufacture and export of plastics products, while Codan has ventured into the field of radio communications. Likewise, migration services company Southern Cross Alliance and staff recruitment services company Downing Teal, have expanded their operations in Peru. Sportswear manufacturer Billabong International has also increased its presence and business in Peru.

## **2. VIEW FORWARD OF THE BILATERAL RELATIONS BETWEEN PERU AND AUSTRALIA IN MATTERS OF TRADE AND INVESTMENT**

As trade between Australia and Latin America gains importance in recent years, it is clear that Australia should focus its efforts on developing trade relations with countries with a high-growth potential, such as Peru.

Peru maintains an open-trade policy, aiming to expand and diversify markets for its exports, as well as ensure the supply of capital goods, intermediate goods and technology in order to secure its medium and long-term growth. Peru and Australia are like-minded countries who share common interests (as will be discussed in the next section). Thus, a free trade agreement with Australia, to which Peru aspires, will provide an excellent opportunity and platform for the continuous development of trade relations between both countries.

Free trade agreements create incentives to increase trade by opening up markets through a mutually satisfactory arrangement. These are new instruments that establish clear bilateral rules in a globalized world, by creating a transparent framework within which to solve disputes related to bilateral trade and serving as a tool to facilitate trade and investment among members.

One of the main reasons these countries have for negotiating a free trade agreement is that Peru's commercial interests are consistent with those of Australia, considering that Peru maintains a strong commitment to the multilateral system and the trade agreements it has negotiated and seeks to negotiate are described as being "WTO-plus", i.e. go beyond what is established in the WTO, providing new tools and opportunities for trade liberalization and investment.

Also, as mentioned in the previous section, the complementarity of trade structures between of Peru and Australia offers them an opportunity to diversify their exports and imports, securing markets for their products, as well as an adequate supply of inputs and capital goods to achieve continued economic growth, without major sensitivities in the production and trade structures. Additionally, a free trade agreement would encourage greater Australian investment in Peru, not only in mining but also in energy, agribusiness, infrastructure and services, among others, as well as encourage Peruvian entrepreneurs to invest in Australia.

Due to its strategic location in the central Pacific coast of South America, Peru presents itself as a natural gateway and bridge between the South American region and the Asia-Pacific economies. With a privileged position in the South American “*hinterland*” and borders with five South American countries (Ecuador, Colombia, Brazil, Bolivia and Chile), Peru has developed a special relationship with its neighbors, especially with Brazil, by developing a strategic partnership based on the dynamic integration of their economies to allow access and the projection of goods and services from Brazil’s huge economy to the Pacific region, channeled through integration hubs and ports on the Peruvian coast<sup>5</sup>, and vice versa, encouraging trade flows from the Asia-Pacific (Australia) region to Brazil and other markets in South America by way of Peru. Thus, Peru is working hard to become a hub of the Asia-Pacific region, which shall serve as a gateway to Asia for the South American region.

In addition, Peru has an extensive network of trade agreements that will open up markets for Australian goods processed in Peru, in markets such as the U.S., Canada, MERCOSUR and the Andean Community, among others.

On the investment side, on 26 June 2008 Peru became the 41st country to join the Declaration on International Investment and participate in the work of the Investment Committee of the Organization for Economic Cooperation and Development (OECD) in recognition of its significant progress achieved in implementing reforms policies to improve the business climate and reduce poverty, which has ultimately helped Peru to enjoy a robust economic expansion and an increased flow of direct foreign investment.

To this a clear and transparent legal framework for foreign investment is added, which offers the possibility of entering into legal stability agreements and grants a non-discriminatory treatment to foreign investors with regard to national investors. The framework also guarantees free transfer of funds, free competition, the possibility of gaining access to local and foreign credit and buying shares of local partners, as well as the freedom to remit royalties. Private property is guaranteed and investment can increase in all productive activities. Aside from all of these numerous guarantees and benefits, Peru is a member of the International Center for Settlement of Investment Disputes (ICSID) and of the Multilateral Investment Guarantee Agency (MIGA), among other arrangements.

In addition to economic growth (around 8,9% in 2007), Peru has consistently registered low levels of inflation, in an overall context of accelerating prices, with a significant employment growth in recent years. In this manner, income has been successfully distributed to the most popular sectors of society, as can be seen by the significant drop in the poverty incidence in 2007 to 39,3% when compared to 2005 with an incidence of poverty of 48,7%.

Another important feature of the growth process is the high dynamism of the internal demand, associated with the recovery of income and employment growth. The rapid increase of activities in sectors such as construction, manufacturing and services must be highlighted. Construction very much depends on the dynamics of investments in the country, being the other components of investment: local production of capital goods and import of capital goods with an increase of 41%.

For more information about the Peruvian economy, see Annex No. 01.

In July 2008, the international credit rating agency Standard & Poor's upgraded Peru's long-term foreign currency rating to “BBB-“ from “BB+”. The upgrade reflects not only what has been previously said, but also the seriousness in the management of public finances and the remarkable macroeconomic performance. Peru was also granted the grade of “investment rating” by Fitch Ratings in April 2008 and by Dominion Bond Rating Service in October 2007. This improvement in the rating of Peru's external account performance is due to a strong and continuous economic growth, improved fiscal accounts (fiscal surplus of 2,9% of GDP in 2007), a reduced debt burden and the accumulation of net international reserves due to a robust trade surplus.

Real public investment, which in 2005 was only US\$ 1 700 million, will raise to US\$ 5 400 million this year and will primarily go to social projects. On the other hand, private investment has been growing steadily, becoming yet another important driving force for growth (growth rates of 13,9%, 20,1% and 23,2% in 2005, 2006 and 2007, respectively).

Peru's total exports grew by 16% in 2007, with growth forecast to be around 20% in 2008, particularly

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<sup>5</sup> Amazon Hub and the Peru-Brazil-Bolivia Hub: [www.iirsa.org](http://www.iirsa.org)

agricultural exports, which are a source of employment. In two and a half years, Peruvian exports have doubled from US\$ 17 000 in 2005 to approximately US\$ 33 000 million by the end of 2008<sup>6</sup>, while in the past 5 years total exports would have quadrupled.

Thus, Peru's economic performance, growth and stability makes it one of the countries in the Latin American region better prepared to withstand the impact of external shocks, such as the current international financial situation.

The panorama described above provides Peru with a favorable platform to further strengthen its economic-commercial ties and boost cooperation with Australia. Moreover, it provides a most propitious environment and shows very good perspectives for increasing the confidence of Australian investors.

Special mention must be made regarding the Bilateral Framework Agreement [between Peru and Australia] on Mining and Energy signed September 2007. This agreement will promote the conditions needed for enhancing trade, investment, cooperation and the sustainable development of the mining and energy sectors, both in Australia and in Peru. As mentioned earlier, it should be remembered that most of Australia's investment, which amounts to more than US\$ 1 700 million, is mainly committed to the mining sector, making Australia the seventh biggest investor in Peru.

### **Eventual expansion of the Trans-Pacific Strategic Economic Partnership Agreement (P4)**

The Trans-Pacific Strategic Economic Partnership Agreement (P4) was signed by Brunei, Chile, New Zealand and Singapore and became effective in 2006. The agreement only contains provisions on trade in goods and less ambitious clauses for trade in services.

After its entry into force, P4 members decided to negotiate the chapters on financial services and investment. The United States joined the negotiations in March 2008, while it evaluated the possibility of joining the chapters previously agreed in the P4.

Australia is seriously considering the possibility of participating in this agreement, which is in line with the interest of promoting a free trade area for the Asia Pacific, highlighting the importance that the U.S. has decided to negotiate its participation in the agreement, once the provisions on investments and financial services have been incorporated.

Australia maintains that this regional agreement should be as broad and comprehensive as possible and should include provisions on financial services and investments. Amongst the countries that could join the P4, Australia has already signed a bilateral free trade agreement with the United States.

Peru, on the other hand, is also evaluating the possibility of joining the negotiations for the P4. Among the issues being evaluated are the ability to consolidate a scenario within which it will be possible to renegotiate all aspects of the P4 (with the opportunity to evolve into a P9), and the incorporation of chapters on financial services and investments.

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<sup>6</sup> Forecast by the Peruvian Ministry of Foreign Trade and Tourism: [www.mincetur.gob.pe](http://www.mincetur.gob.pe)



### **3. THE ROLE THAT PERU COULD PLAY IN THE PROGRESS OF THE MULTILATERAL NEGOTIATIONS OF THE DOHA DEVELOPMENT ROUND OF THE WORLD TRADE ORGANIZATION (WTO)**

The promotion of foreign trade as an engine for the country's development is a matter of State policy. This vision within the trade policy is supported by responsible macroeconomic management and permanent legal stability.

Peru's foreign trade policy is aimed at attaining the country's sustained and growing development; obtaining better conditions of access and competition for the sake of proper integration into international markets; make optimal use of trade agreements signed by the country as well as the various preferential schemes; and maintain an active participation in international trade forums, schemes of economic integration, economic cooperation and trade negotiations.

Peru seeks an efficient allocation of resources and promotion of the development of economic activities in line with market signals, with a view to creating the quality and quantity of jobs needed to increase the population's well-being on a lasting basis.

In order to promote economic development, Peru has intensified its participation in bilateral, regional and multilateral negotiating forums to turn Peru into a platform for investments that combines the various foreign markets with neighboring markets.

At the bilateral level, Peru has signed trade agreements with MERCOSUR, the United States of America, Canada, Singapore and Chile, as well as an "early harvest" trade agreement with Thailand. Trade agreements are currently being negotiated with Mexico, EFTA countries (Switzerland, Norway, Iceland and Liechtenstein) and China, as well as a partnership agreement, within the framework of the Andean Community, with the European Union. Likewise, negotiations are soon expected to begin with Central America and the Republic of Korea.

It should be stressed that the trade policy that Peru has been implementing is based on the fact that the dynamics of bilateral and regional free trade agreements are "building blocks" that contribute to the process of deepening trade liberalization within the framework of the multilateral trade system. In that sense, in parallel with its bilateral agenda, Peru has reiterated its commitment to the goals expressed in the Doha Agenda for Development within the framework of the current round of trade negotiations of the World Trade Organization (WTO). Peru deems that there is a complementarity between normative advances and the access that Doha can offer with the bilateral processes concluded.

Within the WTO, Peru has been maintaining an active participation in the different negotiating groups within the framework of the Doha Round, promoting the strengthening of the multilateral trade system and the improvement of its rules. With this vision in mind, better access for products from developing countries is sought and the reduction of agricultural trade barriers, as its main interests in the negotiations currently being conducted. Likewise, Peru prioritizes the protection of genetic resources and traditional knowledge at the multilateral level, proposing that the disclosure of the origin of genetic resources, proof of prior, informed consent of the people or community involved and benefit-sharing requirements must be met before a patent can be granted.

Peru and Australia share a common set of interests with the WTO, particularly with regard to the Doha Round of negotiations. Both countries have shown convergence in terms of attaining agricultural reform, emphasizing the opening up of markets through tariff reduction and the elimination of nontariff barriers, particularly of domestic support and export subsidies that distort agricultural trade. With this vision in mind Peru officially joined the Cairns group in 2007, of which Australia is responsible for the coordination.

The coincidences between Peru and Australia, however, are not solely confined to agricultural products, as they share common criteria on other issues of the Doha Round, such as the proposals put forward by a group of countries calling themselves "Friends of Fish" to increase regulation of fisheries subsidies within the framework of the Negotiating Group on Rules. In general, they share the same systemic interests in a successful Doha Round, with an ambitious and balanced outcome, the further liberalization of international trade in goods and services, the improvement and updating of rules and standards of international trade, as well as the strengthening of the World Trade Organization's (WTO) dispute settlement mechanism.

It is in this sense that the shared systemic interest was reflected in the deliberations of the recent APEC Meeting of Ministers Responsible for Trade (MRT) held in Arequipa, Peru, on 31 May and 1 June 2008. During the meeting Peru, in its capacity as Chair of APEC, was responsible for coordinating the drafting of the "Stand Alone Declaration", which the Ministers of Trade of the APEC economies issued to reiterate their deep commitment to strengthen the global trading system with transparent, predictable and fair rules, promote trade liberalization and provide more economic opportunities to WTO members and, in that sense, give their political support for a prompt and ambitious conclusion of the Doha Round of negotiations.

In the recent informal consultations at ministerial level convened by Pascal Lamy, the WTO Director-General toward reaching an agreement on modalities in agriculture and in non-agricultural market access (known as NAMA), Australia's Trade Minister Simon Crean played a key role in the "Core Group" of negotiations with trade representatives from the U.S., EU, Japan, China, Brazil and India, which the press calls the "G-7".

Peru, through its Minister for Trade, reiterated its deep commitment to the multilateral trading system. Peru's Trade Minister got actively involved in many coordination meetings and negotiations that took place in Geneva during the week of July 21, 2008, particularly in the negotiations on Tropical Products, as well as in the Cairns Group and in the G-20, which is composed of developing countries with offensive interests in agriculture, and especially contributed, as part of the countries of the middle-ground group, in the search for rapprochement concerning positions and provided support for the generation of consensus always from the perspective of attaining an ambitious and yet balanced agreement.

It is in this sense that Peru has endorsed from the very beginning the package presented by WTO Director-General Pascal Lamy on July 25, and which was also accepted by six of the seven countries in the G-7, including Australia.

Peru is aware that while the proposal presented by the Director-General of the WTO could not represent in 100% the interests of all participants, it reflected the balance that would help build the necessary consensus for the Doha Round of negotiations to reach an outcome agreeable to all, as part of the "single undertaking".

Within the framework of the Cairns Group and the G-20 Group of Developing Countries, and in the informal meeting of the Trade Negotiations Committee on July 26 during which the Director-General briefed on the mentioned proposal, Peru's Minister for Trade conveyed the country's acceptance of the Lamy package, aimed at unlocking the negotiating process with a view to reaching a conclusion by the end of the year.

Unfortunately, the informal consultation meeting did not achieve the expected results because the Lamy Package failed to attract consensus among WTO member nations.

Notwithstanding the result of recent consultations, Peru and Australia share the view that it is important to take advantage of the technical efforts and political support showed over the ten days of consultations held last July and of continuing the process in order to put an end to pending issues. It is in that spirit of commonality and shared interest for the multilateral trading system's effect that we received the letters from Australia's Minister for Trade of Australia addressed to Peru's Minister for Trade and Minister for Agriculture, respectively, reasserting the need for coordinated positions on the advancement of agricultural reform within the framework of the Doha Round of negotiations (see Annex No. 02).

#### **4. THE ROLE THE AUSTRALIAN GOVERNMENT COULD PLAY TO IDENTIFY OPPORTUNITIES AND ASSIST AUSTRALIAN COMPANIES, ESPECIALLY THOSE IN RURAL AND REGIONAL AREAS IN OPTIMIZING THE OPPORTUNITIES PRESENTED IN PERU**

Identification of business opportunities depends largely on knowledge and the availability of timely and accurate information regarding the target market. In the case of Peru, Australia would be interested in information regarding the Peruvian economic situation, its most dynamic sectors and the opportunities those sectors have to offer, the legal framework, complementarity and potential strategic partnership with Peruvian businesses and, above all, contacts in and knowledge of the environment and potential business partners.

Notwithstanding the information already furnished to the Australian Government by its Consulate General in Lima, an instrument that could be used by the government is organizing business rounds and commercial missions to Peru. Based on the experience of recent years, it can be observed that Australia has promoted some activities in this area, as has been the case of promoting educational services in several Latin American capitals, including Lima. The result of this campaign is obvious. There were less than three hundred Peruvian students in Australia in 2005. Today, there are over a thousand. In absolute terms, the community of Peruvian students is smaller than that of other countries of the region, including Brazil and Colombia, but it has by far recorded the highest annual growth rate in Latin America.

Based on this experience, the government of Australia by means of the appropriate institutions (The Australian Trade Commission – AUSTRADE; Council on Australia Latin America Relations – COALAR; Australia-Latin America Business Council – ALABC), could organize trade missions to develop other trading links than those related to education or the promotion of export products that are already available in the Peruvian market, such as wine, cheese and sportswear. These trade missions could prioritize other sectors that might be of interest to the Australian economy or those that are more dynamic in Peru and, therefore, provide business opportunities for the establishment of strategic partnerships. In general, these sectors could be for example agribusiness, tourism, energy, gas and oil, as well as participation in infrastructure projects, just to name a few.

It is no coincidence that Peru's mining sector is the main recipient of Australian investments. Peru and Australia are two of the countries with the greatest mining potential in the world and vast resources potential. Australia's leading companies have full capacity and resources to make direct investments, participate as shareholders and provide services to the mining sector. For example, the leading Australian mining companies, or those based in Australia, have a presence in Peru. Some fund projects directly, while others participate indirectly as stakeholders in large mining projects, such as Antamina. This scenario offers great opportunities for Australian companies supplying services (technology, software, security, and engineering), as well as equipment and machinery. As a matter of reference, more than 30 Australian companies participated in EXPOMIN 2007, Peru.

Because of Peru's huge mineral reserves, macroeconomic and political stability and a legal framework that favors foreign investment, the presence of Australian investors could be larger. The support that the Australian Government could give to the promotion of opportunities in the Peru mining sector, would be extremely useful to that end.

It should also be noted the desirability of implementing the bilateral Framework Agreement that was signed between the countries on Mining and Energy a year ago. This framework agreement could be an appropriate means to promote new synergies between governments and private sectors linked to the mining sector in both countries.

At the institutional level, the generation and exploitation of opportunities by Australian companies depends largely on the efforts of Peruvian representatives in Australia, and vice versa, and the feedback process that is generated due to the nature their functions.

To this regard, while commending the outstanding work of the Consulate General of Australia in Lima, it is clear that an Embassy has the possibility of developing a work that is broader in spectrum, has a greater level of access to business and government circles and, in short, become an engine for promoting business opportunities. Therefore, it is important to note, once again, Peru's expectation that Australia will re-establish its embassy in Lima. For information purposes only, Peru and Australia began diplomatic relations in 1963 (one of the first countries in the Latin American region) and in 1986 Australia decided to close its embassy in Lima. It is paradoxical that Peru is the only APEC country in

which Australia has no resident diplomatic representation. Especially in a year that holds special significance for both countries since they will be celebrating forty-five years of diplomatic relations and in which the APEC Forum is being held in Peru.

Circumstances in Peru in 1986, when Australia closed its embassy in Lima and even in 1999 when AUSTRADE office in Lima was set up, are very different from those of today. Any objective observation of the Latin American region reveals that Peru has been in a leading position as the largest and fastest growing economy in the past nine consecutive years, and has the best economic performance and stability in Latin America. These improvements, which are unquestionable, put Peru in natural position to want to establish mutual diplomatic representation in the respective capitals. The persistence of this situation (Australia's lack of resident representation in Peru) suggests a wrong perception of Peru's conditions, which is definitely not in line with its current reality.

In short, the eventual reopening of a resident Embassy of Australia in Lima would be a decision consistent with not only the common goal of identifying and exploiting potential business opportunities offered by Peru for Australian companies, but also of developing with the necessary ease, without intermediaries or competition, cooperation and political dialogue on issues of bilateral, regional and global interest, and thus bring the whole of the relationship to higher stages of development.

There are three elements that could have a significant impact in the generation of new business opportunities that should be added to the above suggestions.

The first relates to the difficulties posed by the lack of air routes between the two countries, which will undoubtedly affect the flow of tourists and trade. To this regard, it should be noted that the relevant authorities in Australia and Peru will start formal negotiations in Lima on November 3 and 4, aiming towards the conclusion of a bilateral Air Transport Agreement.

The development and flourishing of business depends, in no small measure, on having knowledge (*awareness*) of the realities and cultural patterns of countries. The "psychological distance" between Australia and Latin America, because of the distance imposed by geography, can be overcome to some extent through the promotion of contacts between people (*people to people contacts*). In that sense, the Australian government could replicate the experience of inviting Peruvian journalists to visit Australia and collaborate in the organization of reciprocal visits, and bring Australian journalists to Peru who could later help in this process of mutual understanding.

In the same vein, parliamentary visits can play a key role in promoting business, in addition to developing political dialogue. There is an important experience that shows the soundness of such a statement. In the late 90s, after a parliamentary mission came to Latin America, the Australian Government was aware of the potential offered by Latin American countries for the development of business<sup>7</sup>. That mission opened the door for a series of recommendations to be elevated to the Australian Federal Government and which resulted, among other measures, in the establishment of the Council on Australia Latin America Relations (COALAR), whose objectives are to establish different kinds of linkages with our region.

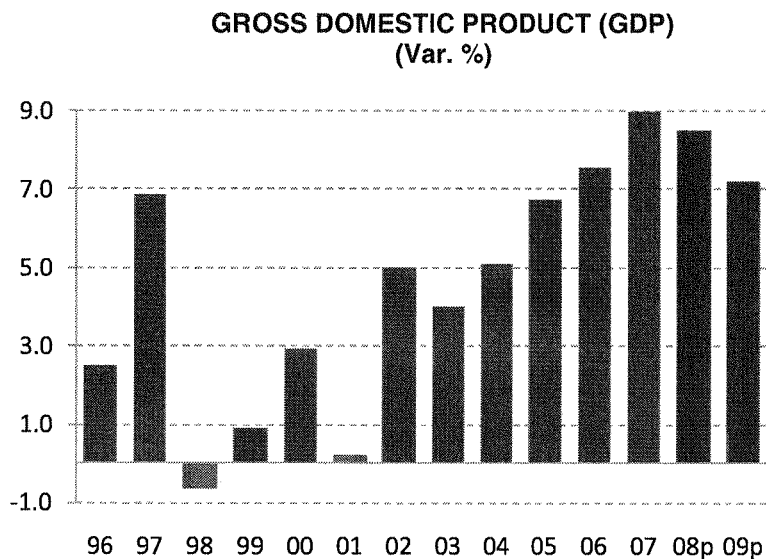
Finally, the negotiation of a bilateral Free Trade Agreement would certainly be beneficial for both countries, and in that sense, convenient for the interests of the Australian private sector. From the perspective of the process pursued by APEC economies for trade liberalization and regional integration, a bilateral trade agreement between Australia and Peru would not only add an additional element to the features of the regional agreements, as it is a broad and comprehensive agreement, but could also be part of a larger scheme for integration pursued at APEC. Therefore, it would be desirable for the Australian Government to favorably consider Peru's proposal to negotiate a bilateral free trade agreement.

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<sup>7</sup> Report of the Australian parliament: "South America: Why not?", Chairman: Senator Alan Ferguson; Chapter 13: Perú; 2000; pp. 207-220.

## PERU: A STEADILY-GROWING LATIN-AMERICAN ECONOMY

In recent years Peru has secured sustained growth in its production levels, and hopes this trend continues in the future. The average Gross Domestic Product (GDP) growth rate during the years 2002-2006 was 6 percent per annum. In 2007, GDP increased to 9 per cent and is expected to be around 8.5 percent in 2008 and 7.2 percent in 2009. Moreover, if Peru can sustain an annual growth rate of 6 percent between 2010 and 2012, Peru would double its GDP in a little over a decade (2001-2012).



Source: The National Institute for Statistics and Information of Peru – INEI ([www.inei.gob.pe](http://www.inei.gob.pe))

The strong growth observed took place in a climate of businesses and consumer confidence, spurred on by a stable macroeconomic environment (low inflation, fiscal and external surplus, more dynamic credit), in an international context of high growth and high prices of our leading export products. This situation has given rise to a significant increase in per capita income, which since 2006 has stood above the highest level registered in history in 1975. Furthermore, GDP per capita grew by 8.1 percent in 2007 from the previous year and by 14 percent since 1975. It is expected that for the next years to come this indicator will continue with an annual average variation rate of around 6 percent.

During the last years domestic demand has been steadily rising at a high rate, delivering double digit growth rates since 2006. Dynamism in private investment and consumption shows the expansive phase of the economy.

In 2007, private consumption registered the highest increase in more than a decade, which goes in line with the increase in employment at national level (8.3 percent in urban Peru, according to the Ministry of Labor and Trade Promotion). Among the factors that demonstrate this behavior is the increase in consumer loans and the sale of new cars, as well as the greater import and production of consumer goods.

In addition, increases in public investment are also expected thanks to the simplification of the National Public Investment System (SNIP) procedures and of the Superior Council for Public Procurement and State Contracting (CONSUCODE).

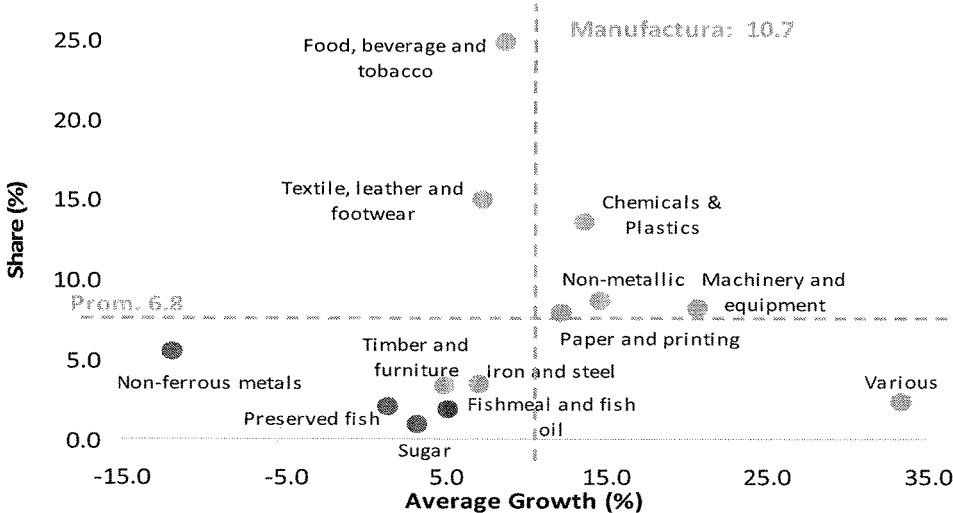
Private investment is the most dynamic component of the internal demand. In 2007, private investment grew 25 percent thanks to the development of mining, energy and infrastructure projects, among others.

Unlike in past decades when economic growth was driven by primary sectors, ever since 2003 it is those sectors that are related to the internal demand (non-primary) that propel this dynamism. In particular, it is the construction and manufacturing sectors that registered, respectively, a 16.5 percent and 10.6 percent increase in production in 2007.

The dynamism of the construction sector can be traced to the growing demand for cement from the public and private sectors, largely for the construction of industrial and hydroelectric plants, mining units, highways and sidewalks, as well as shopping centers and houses. During the course of the last years this development was favored by the facilities provided by the financial system and housing programs administered by the State. In examining the production of individual companies operating in the cement industry, it is observed that there is greater growth in the North coast of the country and then in the rest of the coast and, finally, in the central mountain range. The construction sector is expected to maintain its leadership position in the productive structure and to grow about 15 percent over the next two years.

Growth in the manufacturing sector was driven by non-primary industries, especially by strong orders in the capital and consumer goods industry. There are three main reasons behind this development. The first one is a powerful internal demand. The second reason is that there are tax measures that will improve cooperative business efficiency and increase trade openness. The third reason is the potential of the products and services offered by the financial sector. It is expected that the upward trend in non-primary industries will continue for the next years and that all the industries of the primary manufacture sector recover smoothly, so that the Manufacturing sector continues to grow beyond 8 percent.

**DYNAMIC AND SHARE OF PERUVIAN ECONOMIC SECTORS 2007 - 2009 (P)**

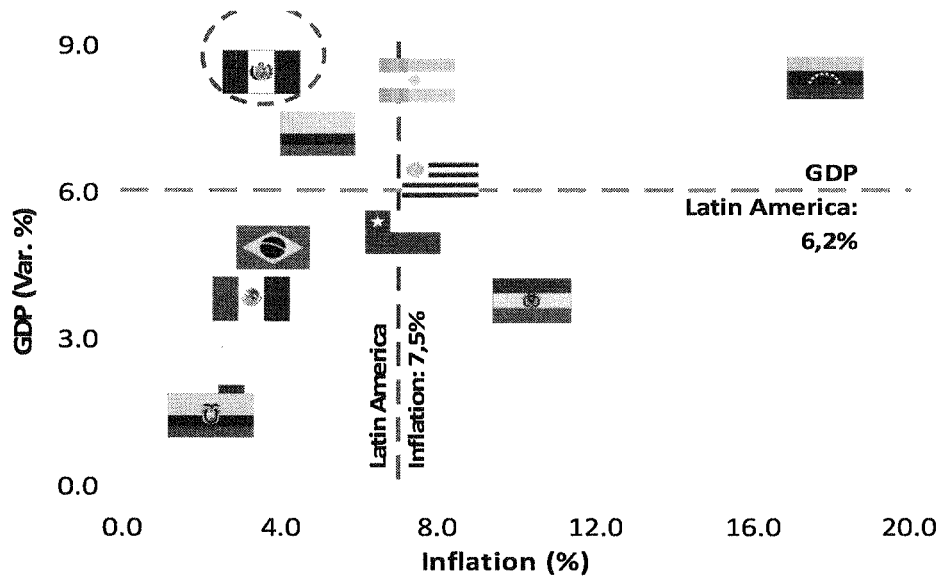


Source: The Central Reserve Bank of Peru – BCRP ([www.bcrp.gob.pe](http://www.bcrp.gob.pe))

Finally, the trade and services sectors, which together account for half of the national GDP, grew 10.5 percent and 9.3 percent in 2007, respectively. The growth in the number of shopping malls is indicative of the expansion of local and international chains mainly centered in the capital and in the main cities of the country. Announced investment in the trade sector for next the three years will total around US\$ 2.000 million.

Thus, assuming that it is possible to maintain the stability of the macroeconomic policy, without a political crisis or adverse climatic phenomena in the short term, everything would seem to indicate that the Peruvian economy will truly continue to grow. Moreover, Peru emerges as one of the leading countries in Latin America, whose economy grew the most during 2007, that has the lowest inflation rates in the region (3.9 percent), as well as external, tax and monetary “shields” that enables it to overcome a transitory international crisis.

## INFLATION AND ECONOMIC GROWTH IN LATIN AMERICA (Var. %)



Source: The Ministry of Economy of Peru – MEF ([www.mef.gob.pe](http://www.mef.gob.pe)) and other central banks.



**OFFICE OF THE HON SIMON CREAN MP**  
**Minister for Trade**

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Her Excellency Mrs Mercedes Aracz  
Minister of Foreign Trade and Tourism  
REPUBLIC OF PERU

Dear Minister

*Mercedes*

I am writing to thank you for your efforts in support of the Cairns Group and its objectives during the July Ministerial meeting in Geneva. The Cairns Group engaged constructively in the discussions and made a strong contribution to efforts to finalise the agriculture modalities.

It is disappointing that it was not possible to conclude the talks in July. We did, however, make substantial progress, and with continued strong commitment, I believe it should be possible to finalise the modalities in the near future. We cannot afford to lose the progress we have made, or to allow the Round to drift. We have strong interests in securing the reforms that the Round would bring to the distortions in global agricultural markets.

The Cairns Group is well placed to contribute to efforts to conclude the modalities. Over the coming weeks I believe it will be important for our officials in Geneva to share and discuss ideas to resolve the deadlock on the outstanding issues, including the Special Safeguard Mechanism. I have asked my officials to convene work in the Group on these issues.

Technical solutions alone will not be sufficient, of course, to finalise the Doha negotiations. I am encouraged that Pascal Lamy and others are making considerable efforts to build political support for a resumption of the negotiations. Prime Minister Rudd and I have also been in contact with a number of counterparts since the July Ministerial and we will continue to do so over the coming weeks. I know a number of others in our Group have been active to this end.

I look forward to working closely with you through the Cairns Group to bring the agriculture modalities to a successful conclusion. Please do not hesitate to contact me to share your views and ideas as we work together to fulfil this objective.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Crean', written over a horizontal line.

**SIMON CREAN**

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