

Trade Policy Review Body

TRADE POLICY REVIEW

PERU

Report by the Secretariat

This report, prepared for the Trade Policy Review of Peru, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Peru on its trade policies and practices.

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Document WT/TPR/G/69 contains the policy statement submitted by the Government of Peru.

Note: This report is subject to restricted circulation and press embargo until the end of the meeting of the Trade Policy Review Body on Peru.

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SUMMARY OBSERVATIONS

(I) INTRODUCTION

Peru's generally open trade and investment regimes have remained relatively stable since its previous Trade Policy Review in 1994. The continued consolidation of earlier, far-reaching reforms has paid off during the last six years in the form of significant growth in GDP, employment, trade, and foreign investment, as well as in improved social welfare indicators. In the context of the Uruguay Round, Peru consolidated within the WTO many of its unilateral liberalization and economic reforms, and has subsequently enacted or amended domestic regulations to ensure implantation of its multilateral obligations. Peru's trading partners have thus benefited from growing market access for their merchandise exports and services suppliers.

A still relatively modest GDP per capita (some US\$2,500 per person), which in real terms is no higher than in the mid 1960s, highlights the need for Peru to achieve higher rates of growth. Eliminating remaining impediments to greater economic efficiency would be of crucial importance in this regard both by enhancing the international competitiveness of Peruvian producers and exporters, and by making Peru more attractive as an investment destination. A fresh round of reforms might include further customs simplification, more even and predictable tariff protection, the elimination of minor remaining local-content or export performance requirements, and greater transparency in support programmes. Current support for certain agricultural activities is out of line with the principle of sectoral neutrality. Pressing forward the privatization and concession programmes would create new opportunities for private investments and inject greater competition in the domestic market.

(2) ECONOMIC AND INSTITUTIONAL ENVIRONMENT

GDP grew at an average annual rate of 5.6% during 1993-99. Growth, however, has tended

to oscillate, with 1998 in particular registering an important slowdown, due mainly to a series of exogenous shocks. Inflation has been brought down, and stronger external balances have allowed international reserves to rise to comfortable levels. Regaining investor confidence, through the normalization of relations with external creditors and debt restructuring, has also been an important ingredient of Peru's economic recovery.

In the wake of the economic reforms of the early 1990s, trade and investment flows have increased substantially. Between 1994 and 1998, total recorded merchandise trade grew at an average annual rate of 8.5%. Peru's export supply is concentrated in primary and semi-processed products, mainly from mining and fishing activities, and is exposed to sharp fluctuations both in terms of volume (output variations) and earnings (price variations). Trade in non-factor services has also grown substantially since Peru's previous Review, driven by the economic liberalization process and in parallel with rising merchandise trade. The stabilization process and the establishment of a legal framework for the promotion and the protection of investment has seen the stock of foreign direct investment increase five-fold since 1993.

There have been no significant changes to the general structure of trade policy formulation or implementation since Peru's last Review. The sectoral regulatory framework has also remained relatively stable, after earlier, wide-ranging reforms led to the comprehensive liberalization of sectoral investment rules and an ambitious privatization programme that saw the State withdraw from many production activities particularly during 1994-96. Investors are offered additional incentives through "law stability agreements", conditional on meeting minimum investment, job creation or export performance criteria.

The competition policy framework continues to be developed with a view to ensuring that consumers benefit from the liberalization process. Aware of the interlinkages and the need for consistency between competition policy and protection of intellectual property

rights and the use of contingency measures, responsibility for all three areas has been given to a single agency, INDECOPI.

(3) TRADE POLICY DEVELOPMENTS

The aim of Peru's trade policy is to liberalize the trade regime so as to provide non-distorting incentives that allow an efficient allocation of resources and foster the development of economic activities according to market signals. Consistent with this aim, Peru uses tariffs as its main instrument of border protection. The average applied MFN rate was 13.6% in 1999, down from some 16% in 1993. The tariff is based on a two-level ad valorem structure applied on the c.i.f. value of imports. In 1997, the two main rates were reduced to 12% and 20% (from 15% and 25%); simultaneously, tariffs on some 300 agricultural products were increased from 15% to 20%. Some 84% of all tariff lines are subject to the 12% duty rate. The entire tariff is bound but the wide margin between applied and bound rates (generally 30%) may undermine the predictability of the tariff regime.

Some 330 tariff items involving agricultural products receive additional protection through a 5% or 10% tariff surcharge. Of these, 23 items are also subject to variable specific duties intended as a price stabilization and protection mechanism. In early 2000, these duties affected five product groups: milk, maize, sorghum, rice, and sugar (also wheat products until 1998). As, in effect, variable specific duties provide open-ended ad valorem protection, concerns arise about their use undermining predictability, distorting production and possibly leading to the breach of tariff bindings.

Peru's basic import formalities have remained essentially unchanged since its previous Review and in the main appear to be straightforward. Preshipment inspection, introduced in 1992 to prevent under-valuation, is still in use although the range of goods covered has been reduced. Peru receives technical assistance to implement the WTO Agreement on Customs Valuation, and was

granted a waiver to delay full implementation until April 2000. Both preferential and non-preferential rules of origin are applied, the latter in relation to contingency measures.

Non-tariff barriers to trade appear generally low. Anti-dumping measures have been used sparingly, with only nine measures in force in early 2000, the majority affecting non-WTO exporters; there are no countervailing or safeguard measures in force. Peru maintains local-content requirements in relation to various government nutrition programmes, as well as a trade-related investment measure in dairy. A number of provisions favour domestic suppliers in government procurement, which is governed by a more transparent regulatory framework introduced in 1997. Peru is not a member of the WTO plurilateral Agreement on Government Procurement.

Regional, sectoral, and social policies make use of fiscal incentives whose scope and complexity raise some concern, although amounts involved are relatively small. Free zones and other special fiscal zones are largely used for regional development objectives but seem to have fallen short of their goals; fiscal exemptions provided under the CETICOS scheme established in late 1996 are conditional on export performance. Preferential credit to selected sectors is available from the national development bank, COFIDE.

Peruvian exports appear to receive limited direct government support. Peru's drawback regime refunds 5% of the f.o.b. value of the good exported regardless of the actual amount of duties paid on imported inputs. Export restrictions apply on guano, rough wood and certain animals. Visas are required for textile exports to the United States, with export restraints on cotton towels. Under the WTO Agreement on Textiles and Clothing, the European Union applies quotas to Peruvian exports of cotton yarns and fabrics. A number of non-tariff measures implemented in foreign markets (e.g. sanitary and phytosanitary measures) may also hinder certain other Peruvian exports.

(4) SECTORAL POLICY DEVELOPMENTS

Since its last Review, Peru has continued to pursue a sectoral policy approach that emphasizes neutrality of incentives across activities. Nevertheless, a small number of activities are still favoured through special fiscal incentives or tariffs.

In the agricultural sector, liberalization and reductions in state assistance initiated in the early 1990s have resulted in difficult adjustments which, nevertheless, underlie strong output expansion directed at both domestic and foreign markets. However, the concentration of various border and internal support measures in a limited range of favoured products (certain crops and dairy products) may well hinder further gains by misallocating labour, land, and capital resources at the expense of other activities. Driven by international demand, production of coca leaf and derived products still appears sizeable albeit declining.

Peru has a revealed comparative advantage in certain fishing and mineral products, which together typically account for some 60% of its total merchandise exports. Peru has a large fishing industry which is, however, highly cyclical and suffers from apparently policy-induced over-investment and over-fishing. Peru's strategy to attract local and foreign private investment has been particularly successful in the mining industry, which has regained its leading role in the economy. Mining and energy attracted just over one third of total direct foreign investment into Peru during 1992-99.

Besides the processing of mineral, agricultural and fisheries products, manufacturing activities make only a small contribution to Peru's economy; these activities have experienced extensive restructuring from increased import competition.

The Peruvian State used to be a major supplier of services, including in financial, transport, and telecommunications activities, but such involvement has decreased

dramatically since the mid 1990s. In parallel, foreign access to Peru's services market has improved markedly. The ambitious privatization programme and the general policy of promoting private investment has induced important structural changes in most service areas. With respect to privatized public services, the Peruvian authorities are seeking to establish a strong regulatory framework in particular to prevent the abuse of dominant positions in service markets where competition is limited by technical constraints.

(5) TRADE POLICY AND FOREIGN TRADING PARTNERS

Through its participation in the WTO and regional initiatives, Peru has tried to enhance access to international markets so as to generate economies of scale and specialization. While welcoming the strengthening of the multilateral trading system and increased transparency and predictability that followed the conclusion of the Uruguay Round and the establishment of the WTO, the Peruvian authorities have noted that in some areas actual results have not met expectations. In their view, this is particularly the case in sectors such as agriculture, textiles, and clothing, and in respect to new disciplines for the adoption of anti-dumping measures.

Peru ratified the Marrakesh Agreement Establishing the WTO in December 1994, which is an integral part of the Peruvian legislation. Peru has enacted or amended various domestic regulations to harmonize them with its international obligations and thus facilitate their application, in particular in the area of intellectual property rights. As a result of the Uruguay Round, Peru bound its entire tariff, compared with previous bindings on only 460 lines. Peru grants at least MFN tariff to all partners.

Under the WTO's General Agreement on Trade in Services (GATS), Peru undertook horizontal commitments with respect to movement of natural persons and treatment of

foreign investment; although these commitments apply only to sectors included in its GATS Schedule, in practice Peru's legislation grants similar market access across most service activities. Sector-specific commitments cover 7 out of 12 broad categories of services. Reflecting Peru's legislation, market access and national treatment for services supplied through commercial presence (i.e. treatment granted to foreign investment) has been in general fully committed. Peru's commitments in telecommunication services are particularly comprehensive, with all services bound except for the granting of national treatment in relation to the presence of natural persons.

In parallel with its participation in the multilateral trading system, Peru takes part in

regional integration schemes within the Andean Community and the Latin American Integration Association, as well as in the Asia-Pacific Economic Cooperation forum and the negotiating groups of the Free Trade Area of the Americas. Despite Peru's long-standing participation in the regional integration processes within Latin America, the share of reciprocal preferential trade in total trade remains relatively modest. In addition to the negotiated schemes, Peru benefits from increased market access to several countries under Generalized System of Preferences schemes, including under the special regimes granted by the European Union and the United States to promote alternatives to coca cultivation and production. According to the Peruvian authorities, these schemes have resulted in substantial export diversification.