



*cutting through complexity*

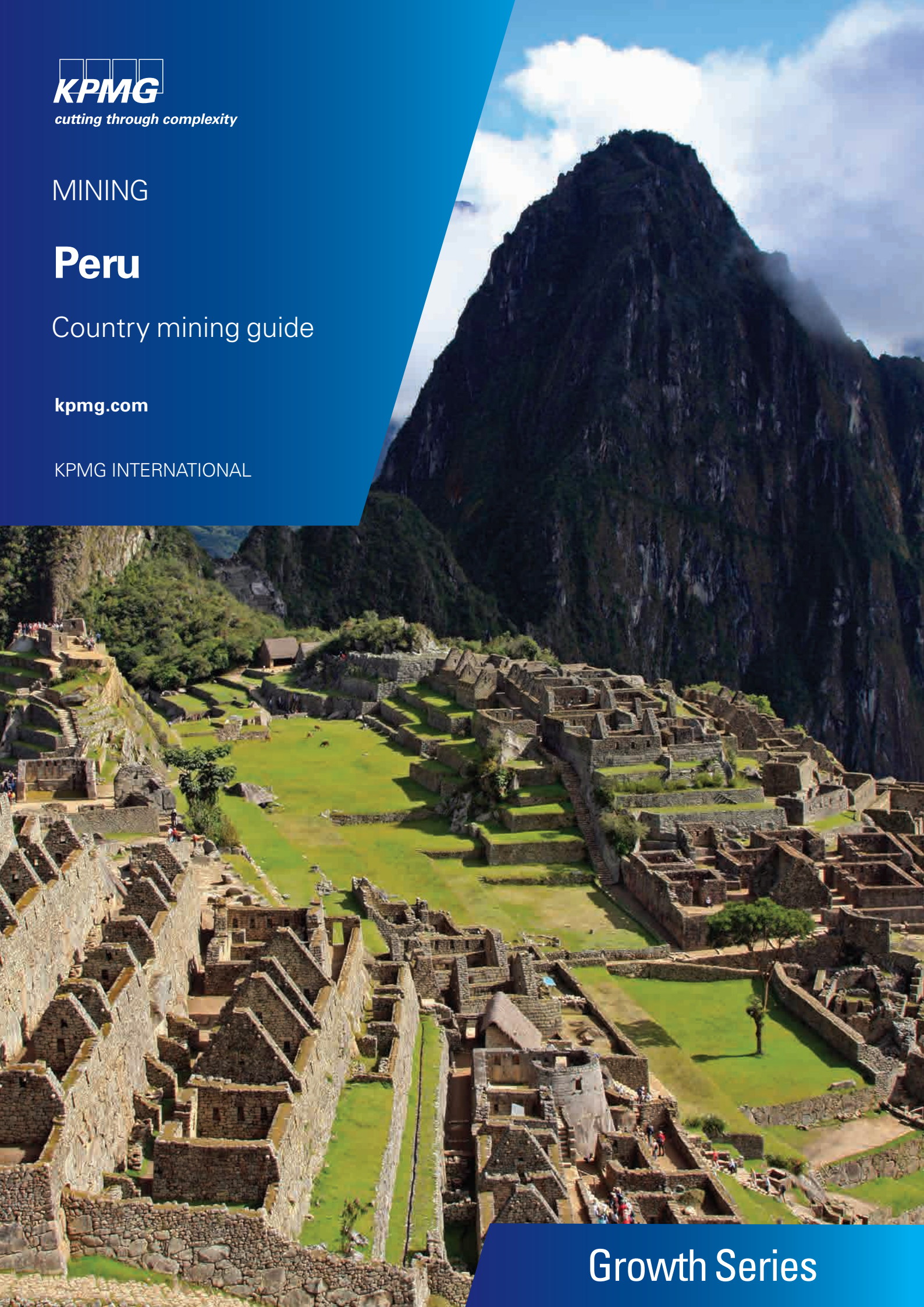
MINING

**Peru**

Country mining guide

[kpmg.com](https://www.kpmg.com)

KPMG INTERNATIONAL



**Growth Series**





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## Executive summary

Roughly the size of France, the country of Peru is endowed with valuable natural resources. It is the world's second largest producer of copper, after Chile, and holds the second-largest known copper reserves. Peru is also the second largest producer of silver in the world, and the sixth largest global producer of gold. The country also has significant reserves of coal, iron ore, silver, tin, sulfur and zinc. Mineral exports account for about 60 percent of Peru's total shipments abroad.

Given its strong mining potential, Peru has been attracting the world's major mining companies to expand activities in the country. In 2013, the Peruvian Mines and Energy Ministry estimates the production of copper will soon reach 1.57 million tons, an 18 percent increase over 2012 that stemmed from a 7.8 percent increase the year before. Foreign direct investment (FDI) is pouring into the country, of which the mining sector contributes over 13 percent. The current value of mining investment is in the neighbourhood of \$US10 billion. Since investment activity in Peru has been driven by the private sector in recent years, the country is displaying a growing commitment to become a good place for doing business.

### PERU



2ND

LARGEST GLOBAL PRODUCER OF SILVER

2ND

LARGEST KNOWN COPPER RESERVES IN THE WORLD

6TH

LARGEST GLOBAL PRODUCER OF GOLD

60%



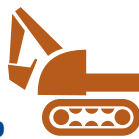
MINERAL EXPORTS ACCOUNT FOR ABOUT 60 PERCENT OF PERU'S TOTAL SHIPMENTS ABROAD

1.57 MILLION TONS



THE ESTIMATED 2013 PRODUCTION OF COPPER IN PERU (PERUVIAN MINES AND ENERGY MINISTRY)

+18%



AN 18 PERCENT INCREASE OVER 2012 AND STEMMING FROM A 7.8 PERCENT INCREASE IN 2011

13%



THE MINING SECTOR ACCOUNTS FOR OVER 13 PERCENT OF FOREIGN DIRECT INVESTMENT IN PERU

\$10B

THE CURRENT VALUE OF MINING INVESTMENT IN PERU



### A long way to go

This commitment is playing out on several fronts, but Peru clearly has a long way to go. The country is currently right in the middle of the pack in the rankings for ease of doing business. On the bright side, Peru's openness to foreign trade and participation in multiple free-trade agreements (FTAs) have helped to achieve sustainable growth in one of the emerging economies in South America. Ground transportation and electric power infrastructure is expensive and difficult to build in this country of Andean mountains and Amazon jungle. The country's environment is sensitive; and the government is hyper sensitive about protecting it.

The mining industry in Peru is well regulated and has relatively straightforward mining laws. The government grants four different kinds of concessions for various mining activities. Mining companies must pay the ongoing fees for these concessions, and submit environmental impact studies for any exploration or development activity. Water rights and surface land rights must be obtained separately, and companies are obligated by law to consult with local indigenous people about any development projects near their communities.

### A tax predictable regime

Financially, it appears that Peru expects the mining sector to contribute generously to the national treasury. The three main taxes and fees imposed on mining companies are corporate income tax, royalties and concession rights. However, mining companies are also required to pay a special mining tax and a special mining lien. In September 2011, three more new laws passed that were aimed at increasing tax revenues from mining companies. Taxation will clearly be an issue for mining companies seeking to develop Peruvian projects in the future.

The recent spike in mining activity is putting pressure on Peru's existing infrastructure and increasing the demand for new capacity. The government is responding by making infrastructure development a national priority. In July 2012, Peru announced plans to award US\$10 billion in infrastructure contracts for roads, airports and natural-gas pipelines in 2013 by launching a concession program aimed at creating public-private partnerships.

### Labour shortages

Labour is abundant and trainable in Peru, although there are shortages of highly skilled workers in some fields. In 2011, the mining sector had about 120,000 employees. The National Society of Mining, Petroleum and Energy (SNMPE) estimates that an additional 40,000 employees will be required to complete the mining projects and investment plans currently in progress. In order to fill that gap, the sector is planning to open some employment opportunities to foreign professionals and technicians. Peruvian law currently stipulates that no more than 20 percent of a company's workforce can be non-Peruvian.

# Country snapshot

## Peru <sup>1,2</sup>

<b>Geography</b>	<p>The Republic of Peru, commonly known as Peru, is the 20th largest country in the world and the third largest in South America, after Brazil and Argentina</p> <ul style="list-style-type: none"> <li>• Located in western South America (10o00S, 76o00W), between Chile and Ecuador, and spread over 1,285,216 square kilometers</li> </ul>
<b>Climate</b>	<p>Peru has three main climatic zones: the tropical Amazon jungle to the east; the arid coastal desert to the west; and the Andes Mountains and high plateau in the middle of the country. The climate of the Andes Mountains varies from temperate to frigid.<sup>3</sup></p>
<b>Population</b>	<p>With an estimated population of 29.55 million (July 2012 est.), Peru is the 42nd most populated country in the world. Its population is relatively young, with a median age of 26.5 years.</p>
<b>Currency</b>	<p>The official currency of Peru is the Nuevo Sol (PEN). Peru has had four main monetary systems since 1897. PEN is the currency introduced in 1991 when the country was facing hyperinflation.<sup>4</sup></p> <p>Average exchange rate in 2012 was:</p> <ul style="list-style-type: none"> <li>• PEN 2.5977 : US\$1</li> <li>• PEN 3.3400: EUR1<sup>5</sup></li> </ul>

Source: CIA Factbook and Economic Intelligence Unit (EIU)

<sup>1</sup>CIA: The World Factbook, Accessed on December 31, 2012

<sup>2</sup>Peru Country Profile, EIU, Accessed on December 31, 2012

<sup>3</sup>Peru Weather, Lonely Planet

<sup>4</sup>Peruvian Money – Peruvian Currency

<sup>5</sup>Oanda.com, Accessed on December 31, 2012

# EIU (Economist Intelligence Unit) rankings: Ease of doing business

Peru ranked 44th among the 82 countries covered under the EIU business environment ranking for 2007–11. The country ranked fifth in the regional ranking, which included 12 countries from the South American region.

From 2012–16, the business environment is expected to improve slightly due to improvements in infrastructure, according to EIU forecasts. Peru's openness to foreign trade is one of the favorable attributes of the country as a business location. The country has secured multiple free-trade agreements (FTAs) and has a stable macroeconomic environment. Peru's infrastructure remains weak; however, it is expected to improve markedly over the long-term. Furthermore, the country's labour market is expected to remain the weakest aspect of the business environment.<sup>6</sup>

Value of index <sup>a</sup>		Global rank <sup>b</sup>		Regional rank <sup>c</sup>	
2007–11	2012–16	2007–11	2012–16	2007–11	2012–16
6.12	6.32	44	51	5	6

Note a. Out of 10

Note b. Out of 82 countries.

Note c. Out of 12 countries: Argentina, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, El Salvador, Mexico, Peru and Venezuela.



<sup>6</sup>Peru Country Profile, EIU, Accessed on December 31, 2012





## Type of government

Peru is a constitutional republic. The president is directly elected for a five-year term and may not be re-elected to a second consecutive term. As the head of the state and the government, the president appoints a council of ministers. Peru's Congress consists of 130 members, and it can be dissolved once during a presidential term.

Peru has 25 regions and one province, constitute its administrative divisions under civil law. The provincial capitals have Courts of first instance and the Supreme Court is situated in Lima. The judges of Supreme Court are appointed by the National Council of the Judiciary.<sup>7,8</sup>

## Economy and fiscal policy

Peru has one of the best performing economies in Latin America. Backed by favorable macroeconomic policies, the country achieved an average GDP growth rate of 6.5 percent between 2002 and 2011. In the first nine months of 2012, the economy grew by 6.3 percent, which included an expansion of 6.5 percent in the third quarter, led by strong domestic demand. In 2012, the country's GDP is expected to post 6.3 percent growth according to Peruvian Finance Minister Luis Miguel Castilla. Mining plays a dominant role in the Peruvian economy as the sector is well placed to attract large investment. The country has higher GDP than any of its Latin American neighbors – nearly 30 percent higher than Chile.

According to EIU, the real GDP growth rate of Peru is expected to be 6.2 percent in 2013 spurred by robust private consumption growth and increase in exports, along with improved external conditions. The country's economy is performing far better than expected despite global uncertainties stemming from a fragile US recovery, slower growth in China and the crisis in the euro zone. GDP growth is forecast to remain firm at an annual average of 5.6 percent between 2014-17 because of improving global conditions. The main factor that could slow growth is social unrest in reaction to mining projects. The delays in projects could result in reduced business confidence, which may threaten the expected investment of US\$53.4 billion in the mining sector over the next ten years.

In addition, EIU expects President Humala's government to focus on a prudent policy mix in reaction to the weak global outlook and threat from the euro zone crisis. Moreover, due to robust public finances, the government is prepared to infuse fresh stimulus if the external economic environment has an adverse effect on economic growth between 2013-17. The EIU also cites that administrative bottlenecks can have an impact on these measures. Due to the global uncertainty for economic prospects, the government does not intend to tighten monetary conditions. EIU also states that the Banco Central de Reserva del Perú (BCRP, the Central Bank of Peru) can intervene in the currency market to keep the Nuevo Sol strong, due to rising international reserves.

According to a study conducted by the *The Economist*, Peru ranked eighth among the world's 27 emerging economies, those with the greatest capacity to use monetary and fiscal policies to support growth and withstand another global downturn.<sup>9,10,11,12,13,14</sup>

<sup>7</sup>CIA: The World Factbook, Accessed on January 3, 2012

<sup>8</sup>Peru Country Profile, EIU, Accessed on December 31, 2012

<sup>9</sup>CIA: The World Factbook, Accessed on January 3, 2012

<sup>10</sup>Peru Country Profile, EIU, Accessed on December 31, 2012

<sup>11</sup>Peru's Finance Minister Says GDP Likely Expanded 6.3 percent in 2012, WSJ, December 11, 2012

<sup>12</sup>Peru Overview, The World Bank

<sup>13</sup>Mining sector critical to Peru's economic growth, Mining Journal, September 7, 2012

<sup>14</sup>Peru among 8 emerging economies with the most monetary and fiscal wiggle-room, Peru This Week, February 1, 2012

# Fraser Institute rankings

## Economic Freedom of the World 2012 Report<sup>15</sup>

Among the 144 countries covered in the Fraser Institute's Economic Freedom of the World 2012 Report, Peru ranked 24th, with a score of 7.61 on a scale of 10.

This annual peer-reviewed report ranks 144 countries around the world, based on their policies that enable 42 different economic measures in the following areas:

- Size of government – expenditures, taxes and enterprises
- Legal structure and security of property rights
- Access to sound money
- Freedom to trade internationally
- Regulation of credit, labour and business

## Survey of Mining Companies 2011/2012<sup>16</sup>

Peru ranked 14th on Policy/Mineral Potential among the 93 countries covered by the Fraser Institute's Survey of Mining Companies 2011/2012. Peru's standing in the yearly survey has consistently fallen since 2008–09, on both the Policy Potential Index and Mineral Potential Index. Figure 1 provides the country's scores on key indices of the survey.

**Figure 1: Peru's scores, Fraser Institute's Survey Of Mining Companies 2011 / 2012**



Note \*: The Policy Potential Index is a composite index that measures the effects on exploration of government policies

Note \*\*: The Current Mineral Potential index is based on respondents' answers to the question about whether or not a jurisdiction's mineral potential under the current policy environment encourages or discourages exploration. It assumes current regulations and land use restrictions.

Note \*\*\*: The Policy/Mineral Potential Index is based on respondents' answers to the question about mineral potential of jurisdictions, assuming their policies are based on "best practices." It assumes no land use restrictions in place and the industry "best practices".

<sup>15</sup>Economic Freedom of the World 2012 Annual Report, Free The world, September 2012

<sup>16</sup>Survey of Mining Companies: 2011/2012, Fraser Institute Annual

# Regulatory environment

The mining industry in Peru is well regulated and governed by straightforward mining laws. The industry is primarily regulated by mining laws and regulations enacted by Peruvian Congress and the executive branch of government. The Mining Law was approved in 1992, with the aim of attracting foreign investment in the sector. However, since 2000, a number of countervailing laws have been enacted that focus on sustainable development.

The Ministry of Energy and Mines (MINEM), a principal central government body in Peru, has the authority to regulate mining activities within the Peruvian territory. MINEM also grants mining concessions to local or foreign individuals or legal entities, through a specialized body called The Institute of Geology, Mining and Metallurgy (INGEMMET).

INGEMMET grants four types of concessions under Peruvian mining law:

- Mining concession – allows mining activities
- Production concession – allows the title-holder to process the minerals
- General labour concession – allows the title-holder to provide ancillary services to mining concession title-holders
- Mining transport concession

Currently, these concessions are granted on first-come, first-served basis without any preference given to the technical and financial qualifications of the applicant. With the exception of mining concessions located in urban expansion areas, the term of a mining concession is indefinite, provided that the titleholder fulfils all regulatory obligations including payment of annual license fees of US\$3 per hectare. Failure to pay the applicable license fees for two consecutive years will result in the termination of the mining concession.<sup>17</sup>

Apart from obtaining a concession from MINEM, a mining company must submit and receive approval for an environmental impact study that includes a social relations plan, certification that there are no archaeological remains in the area, and a draft mine closure plan. In addition, the mining company has to separately obtain water rights from the National Water Authority and surface lands rights from individual landowners.<sup>18</sup>

In April 2012, Peru's Government approved "Prior Consultation Law" that requires prior consultation with indigenous communities before any infrastructure or projects, especially mining and energy projects, are developed in their areas. The law is expected to prevent social conflicts, similar to the social unrest that occurred in 2009, that resulted in the deaths of 24 police officers and 10 indigenous people.<sup>19</sup> The president also signed a new mining law in 2011 that is expected to generate \$US1 billion every year. This money will be directed toward social improvement for the poorest sections of the country.<sup>20</sup>

<sup>17</sup>Key aspects of mineral tenure law, Mining Journal, September 2012

<sup>18</sup>Peru – Sandra Orihuela and Orihuela Abogados, Website of Latin Lawyer

<sup>19</sup>Peru Approves Prior Consultation Regulations, April 4, 2012, Peruvian Times

<sup>20</sup>Peru's president signs mining law, September 29, 2011

# Sustainability and environment

The mining sector in Peru has been associated with pollution.<sup>21</sup> There have been instances of industrial pollution affecting the environment that have led to major protests in the country.<sup>22, 23</sup> As a result, the Peruvian government is planning to strengthen environmental enforcement in the country. Recently it introduced measures to double the fines for companies polluting the environment. Currently, these fines range from 2 million PEN (US\$769 thousand) to 30 million PEN (US\$11.535 million).<sup>24</sup>

On October 31, 2012, Peru's congressional committee on the economy approved the creation of a new oversight institution, known as SENACE (the national environmental certification service), within the Ministry of Environment. This new institution that comprises representatives of six ministries and is chaired by the environment ministry has the principal function of reviewing and approving environmental impact assessments (EIAs) for large-scale investment projects. Previously, the Ministry of Energy and Mines (MINEM) was responsible for both rewarding mining concession agreements and approving EIAs. As SENACE is still in the early stages of implementation, there is currently no clear timetable to officially transfer the EIA approval responsibilities from MINEM to SENACE.

Peru has also taken steps to address climate change by reducing carbon emissions.<sup>25</sup> These carbon emissions primarily come from Land-Use Change and Forestry (LUCF) due to deforestation of the Peruvian Amazon through power generation and industrial processes.<sup>26</sup>

Despite the government's enactment of stringent environmental laws, there are still instances of companies that are permitted to operate in the country while seemingly violating environmental regulations.

<sup>21</sup>Capitalizing on sustainable development in mining, KPMG International, January 2012

<sup>22</sup>Peru and Bolivia: Pollution Endangers Fishermen's Livelihood, November 6, 2012

<sup>23</sup>Peru industrial pollution feeds conflict, December 7, 2012

<sup>24</sup>Peru planning tougher penalties for polluting industries, September 4, 2012

<sup>25</sup>Kenya, Peru Join List of Countries Advancing Climate Change Laws, May 2, 2012

<sup>26</sup>Climate Change and Low Carbon Economy: Peru's main sources of GHG, February 2012

# Taxation

The National Superintendence of Customs and Tax Administrations (SUNAT) is the main body responsible for collecting, and managing taxes paid to the central government. Municipal governments are responsible for levying and collecting municipal taxes. The three main taxes and fees imposed on companies operating in the mining sector include corporate income tax, royalties and concession rights.

## Corporate Income Tax

The corporate income tax rate in Peru is 30 percent. The tax rate on dividends is 4.1 percent; and on interest is 4.99 percent under specific conditions. Mining companies pay the standard corporate tax on income. In addition to the corporate income tax, the mining companies pay royalties.

## Royalties

Under the 2004 Mining Royalties Law, mining companies must pay a monthly royalty to the state for exploitation of resources based on sales. The state takes a percentage of the value of the concentrates at prevailing international market prices. The law was later amended to define the distribution of royalties to the provinces in the following manner:

- Local governments of the districts in which the mining exploitation occurs receive 20 percent of royalties, of which 50 percent goes to the local communities located in the vicinity of the mine.
- The government of the province in which mining takes place receives 20 percent.<sup>27, 28, 29</sup>

## Concession Rights

Concession rights are granted by the Peruvian government for mining, exploration, production, refining, and transport of minerals by individuals or companies. The following benefits are offered to companies undertaking mining activities:

- Foreign currency: The Peruvian Constitution establishes equal protection for domestic and foreign investors who may enter into agreements with the government and guarantees free access, possession, and disposal of foreign currency.
- Taxation exemption: Investors who undertake large mining operations may enter into tax law stability agreements with the government for periods of ten and fifteen years. Tax stability would include taxes known as “impuestos”. No taxes created subsequently to the date of execution of the stability agreement shall be applicable.

<sup>27</sup>Investment in Peru 2012, KPMG

<sup>28</sup>Peru Mining Tax Law – Brief Explanation, Peru Investment Review

<sup>29</sup>Guide to Peruvian Tax Law Research

Apart from these taxes, there are three industry-specific taxes levied on the mining sector by the central government:

- **Mining Royalties (MR):** A mining company pays royalties from 1 percent to 3 percent on revenues: 1 percent on the first US\$60 million, 2 percent on the second US\$60 million, and 3 percent on all revenue above US\$120 million. The new royalty is applied to operational profit – also at a marginal-increment rate, rising from 1 percent to 12 percent, depending on operational margin, in 17 separate brackets.
- **Special Mining Tax (SMT):** A new tax that is applied as a marginal rate, from 2 percent to 8.4 percent, on operational profit, also in successive brackets for different operational margins.
- **Special Mining Lien (SML):** Mining companies that have taxation stability agreements previously signed with the government pay this contribution in the form of lien as the marginal rate rising from 4 to 13.2 percent.

SMT, MR and SML charges are assessed by multiplying an Effective Rate specifically assessed for each charge by the “quarterly operational profits”.

In September 2011, three more laws came into effect aimed at increasing tax revenues from mining companies. The new laws are expected to increase tax revenues by about US\$5.5 billion over the five-year term of President Humala’s government. Under these laws, mining companies without tax-stability agreements become subject to royalty rates of 1–12 percent. Furthermore, a new special mining tax of 2–8.4 percent will be levied on their quarterly net operating profits. Companies with stability agreements are subject to a Special Mining Charge, with rates of 6.85– 13.12 percent on quarterly net operating profits.<sup>30, 31</sup>

<sup>30</sup>Peru Country Profile, EIU, Accessed on January 1, 2013

<sup>31</sup>PERU: Mining laws approved, September, 2011

# Power supply

Peru's Minister of Energy and Mines has stated that the potential for mining and energy investment in Peru could surpass the US\$73.2 billion mark in the period of 2011–2020. Mining and energy sectors have grown significantly, from US\$1.865 billion in 2001 to US\$8.5 billion in 2011. In the foreseeable future, Peru has the potential to become a leading energy producer as it has the capacity to generate 70,000 megawatts in hydropower, 30,000 MW of power through medium term projects, 22,450 MW through wind power and 3,000 MW from solar energy.

As per a Frost & Sullivan report published in 2011, Peru's electricity industry earned \$1.02 billion revenues in 2011. Revenues are expected to reach \$1.45 billion in 2016, forecasting a compound annual growth rate of 5.5 percent.

In the past decade (2002–2011), the Peruvian economy grew at a pace of 6.4 percent per year. Demand for electricity doubled in this period. In recent years, energy infrastructure has not expanded at the same pace as demand for energy, as energy output only increased by 43 percent. This deficit in energy supply has reduced system reserves (from 57 percent in 2001 to 13.5 percent in December 2012) and has resulted in intensive use of existing capacity, increasing the risk of plant failures.

As per a Banco Bilbao Vizcaya Argentaria, S.A. research study, Peru's demand for electricity will increase by around 2,000 MW until 2016. New power stations are currently under construction to bridge the energy deficit, which have a generating capacity of over 3,500 MW.

Electricity consumption is expected to grow at an average rate of 5.3 percent from 2012-16, primarily due to the demand from mining sector.<sup>32</sup> Hydroelectricity is seen as the primary source of power generation for meeting the rising demand. Peru has about 60,000 MW of untapped hydropower—12 times its current total demand. Due to rising energy consumption, the government has started several initiatives and is focusing on increasing its investment in clean power generation facilities. For instance, in March 2012, the government announced its plans to generate an additional 4.3GW in thermal and hydroelectric power by 2016. To compensate for the current shortages in power supply, however, Peruvian miners are building their own generators for mining operations.<sup>33, 34</sup>

Electricity is supplied to mining companies through the Interconnected National Electric System (SEIN) – a national power grid that supplies electricity to different parts of Peru via generators, transmitters, and distributors of electricity. In places where SEIN does not supply power, mining companies can opt to generate their own power by applying for the appropriate concession from authorities.<sup>35</sup>

<sup>32</sup>Peru Power Report Q4 2012, Business Monitor International, October 17, 2012

<sup>33</sup>IIC Approves US\$72 Million for Clean Energy in Peru, IIC.org, December 5, 2012

<sup>34</sup>Analysis-Peru's vulnerable electricity alerts miners, Reuters, February 21, 2012

<sup>35</sup>Peru – Sandra Orihuela and Orihuela Abogados, Website of Latin Lawyer

# Infrastructure development

Peru's future economic growth depends on the growth of infrastructure. The country is currently facing an infrastructure deficit that is hampering economic growth. According to the Association for the Promotion of National Infrastructure, Peru will have a US\$88 billion infrastructure gap until 2021, which amounts to almost 33 percent of Gross Domestic Product. The export industry is facing an additional costs of 25-30 percent for logistics due to lack of infrastructure and inadequate investments, resulting in low productivity and competitiveness.<sup>36, 37</sup>

Peru's government is determined to reduce these gaps by adopting public private partnership (PPP) infrastructure projects. The country now has favourable political and economic conditions, and its participation in free trade agreements has made Peru an attractive destination for investment. Furthermore, the government is allocating funds for infrastructure development. In July 2012, it announced plans to award US\$10 billion in infrastructure contracts for roads, airports and natural-gas pipelines in 2013 by launching a concession program to cover the infrastructure deficit.<sup>38, 39</sup>

The mining sector, which is attracting a large amount of investment, is putting pressure on the country's existing infrastructure and increasing the demand for new capacity. Failure to close the infrastructure gap in timely fashion could put significant pressure on mining projects, resulting in slower growth. Therefore, investment in new desalination plants, power generating facilities and more reliable transmission and distribution of electricity is crucial for the sector. Improvement of rural electrification and access to water will result in increased demand for basic utilities. This demand will lead to more infrastructure projects in underdeveloped areas of the country.<sup>40</sup>

<sup>36</sup>Peru Infrastructure, EDC, October 2012

<sup>37</sup>Infrastructure Gap Put At \$ 88bn In Peru, oxfordbusinessgroup.com, December 19, 2012

<sup>38</sup>Peru to Award \$10 Billion in 2013 Infrastructure Contracts, Bloomberg, July 29, 2012

<sup>39</sup>Peru Infrastructure, EDC, October 2012

<sup>40</sup>Peru Infrastructure Report 2012, Business Monitor International, December 2011



# Labour relations and employment situation

Peru is an emerging economy with a work force of approximately 18 million. Most of the rights of workers are found in Peru's New Labour Procedure Law, enacted in 2010.<sup>41</sup> The Ministry of Labour and Employment Promotion, the principal labour authority in Peru, oversees enforcement of the labour laws and is responsible for administering labour relations policy, promoting job creation, and encouraging the development of small and medium-sized enterprises.<sup>42</sup>

The constitution of Peru has set various labour rights including: Law of Productivity and Labour Competitiveness; Procedural Labour Law; Law on Collective Labour Relations; Law on Days of Work, Hours, and Overtime; Regulations on Safety and Health in the Workplace; and sector-specific legislation and ratified international conventions.<sup>43</sup>

The employment agreements must be registered with the Ministry of Labour. All workers, whether domestic or foreign, or hired employees, consultants or independent contractors, are also subject to Peru's tax regime, based on the tax residency of the worker and the type of services being provided.

Employers who want to hire foreign employees must be aware of Peru's Law of Recruitment of Foreign Workers. The law clearly defines the protections that apply to Peruvian workers and the restrictions placed on the employment of foreign workers. Not more than 20 percent of an employer's local workforce may consist of foreign employees.<sup>44</sup>

Employment conditions in Peru are continuously improving with the rise in new job opportunities. The unemployment rate in Peru for the month of September 2012 was 6.6 percent, significantly lower than the peak of 8.7 percent in the month of March 2012.<sup>45, 46</sup> Small and medium-sized enterprises have reduced the number of workers they employ, in comparison to big companies, which have created more jobs.<sup>47</sup>

Peru is facing a worsening youth employment crisis, as the unemployment rate for young people is nearly three times higher than for older workers. There are over 441,000 unemployed youth in Peru, representing two thirds of the national unemployment figures. The country has 8.2 million young people between the ages of 15 and 29.<sup>48</sup> In order to encourage youth, the government has implemented a number of reforms such as reducing red tape and costs involved in applying for a job; providing free documentation containing all the information required to apply for a job; modernizing career guidance services; and implementing an information and guidance system for youth.<sup>49</sup>

Labour is abundant and trainable in Peru, although there are shortages of highly skilled workers in some fields. In 2011, the mining sector had about 120,000 employees. The National Society of Mining, Petroleum and Energy (SNMPE) estimates that an additional 40,000 employees will be required to complete the mining projects and investment plans currently in progress. In order to fill that gap, the sector is planning to open the employment opportunities to foreign professionals and technicians.<sup>50</sup>

<sup>41</sup>Employment Law in Peru, Martindale.com, July 2012

<sup>42</sup>Peru Labour Rights Report, US Department of Labour

<sup>43</sup>Peru Labour Rights Report, US Department of Labour

<sup>44</sup>Employment Law in Peru by Celia Joseph, July 19, 2012

<sup>45</sup>Employment Trends: Peru, Goinglobal.com, March 29, 2012

<sup>46</sup>Peru Unemployment Rate, Trading Economics

<sup>47</sup>Celfin: Peru – Unemployment drops to 7.2 percent, bnaamericas

<sup>48</sup>Young Peruvians speak out on jobs crisis, April 5, 2012

<sup>49</sup>The employment situation in Latin America and the Caribbean, October 2012

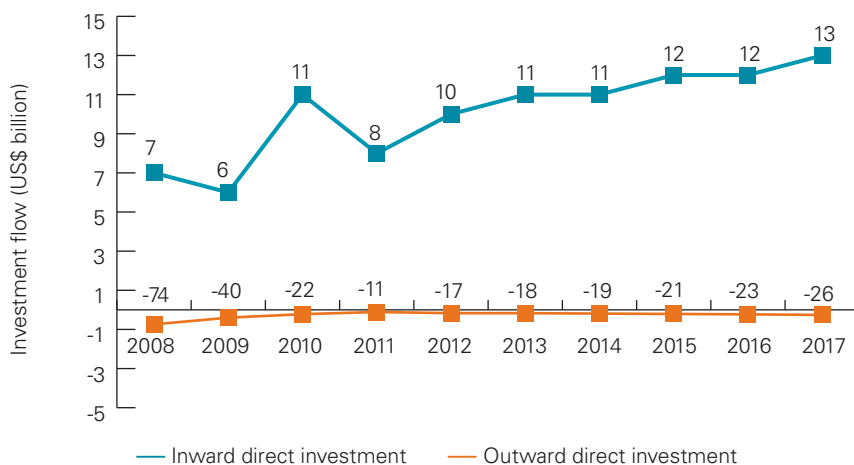
<sup>50</sup>Labour deficit will become "critical" by 2013, says SNMPE, January 4, 2011

## Inbound and outbound investment

In the first half of 2012, Peru received US\$5 billion in foreign direct investment (FDI) and was the fourth biggest recipient in South America after Brazil. In 2011, Peru reported FDI inflows of US\$7.659 billion, a US\$331 million increase year over year.

The mining sector contributed 13 percent of the total FDI inflow in 2011. The investment activity in Peru in recent years has been driven by private-sector investments.<sup>51, 52, 53, 54</sup> The country will continue to develop as a good place for doing business as it has strengthened investor protections and eased ways to obtain construction permits. Peru ranked 44th among the 82 countries covered under the EIU business environment ranking for 2007–11.

**Figure 2: Trend for inward and outward direct investment in Peru**



Mining is a major source of private-sector investments and tax revenue in Peru, while mineral exports account for about 60 percent of Peru's total shipments abroad.<sup>55</sup>

<sup>51</sup>Foreign Direct Investment, ProInversion

<sup>52</sup>Foreign Direct Investments Total \$5 Billion in Peru in 1H12 – UN, PeruvianTimes, October 24, 2012

<sup>53</sup>Peru received record high foreign direct investment in 2011, May 3, 2012

<sup>54</sup>Foreign Direct Investment Growth in Peru Is Credit Positive, Moody's Investors Service, March 5, 2012

<sup>55</sup>Peru's SNMPE sees record mining investments in 2012, Andina, November 22, 2012



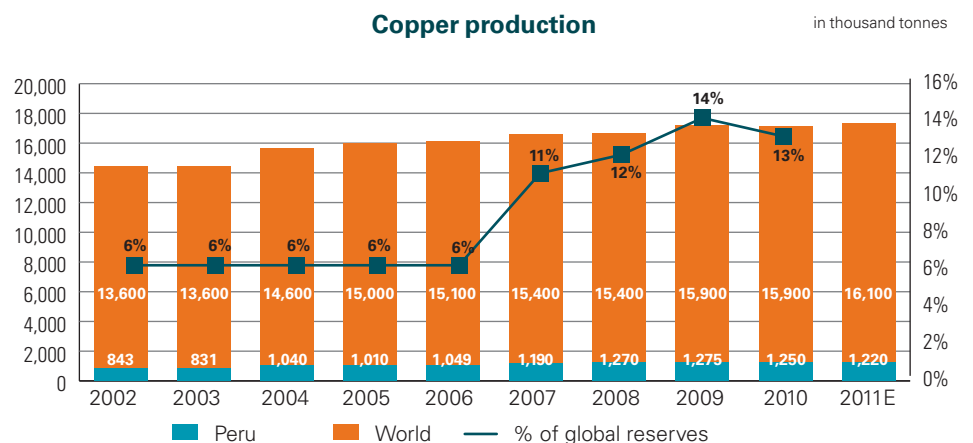
## Key commodities – production and reserves

### Production level of key commodities in Peru

Peru is endowed with significant natural resources. It is the world's second largest producer of copper, after Chile. In 2013, the Mines and Energy Ministry estimates the production of copper will reach 1.57 million tons, an 18 percent increase over the 2012 forecast. Peru is also the world's second largest producer of silver; output until September 2012 was 2,588,775 kg, an increase of 2.55 percent over 2011.<sup>56</sup>

Peru is currently the sixth largest producer of gold, after China, South Africa, Russia, Australia and the US. The Ministry plans to increase gold production to 2.5 million ounces per year by 2017.<sup>57</sup>

Figure 3: Production level of key commodities in Peru



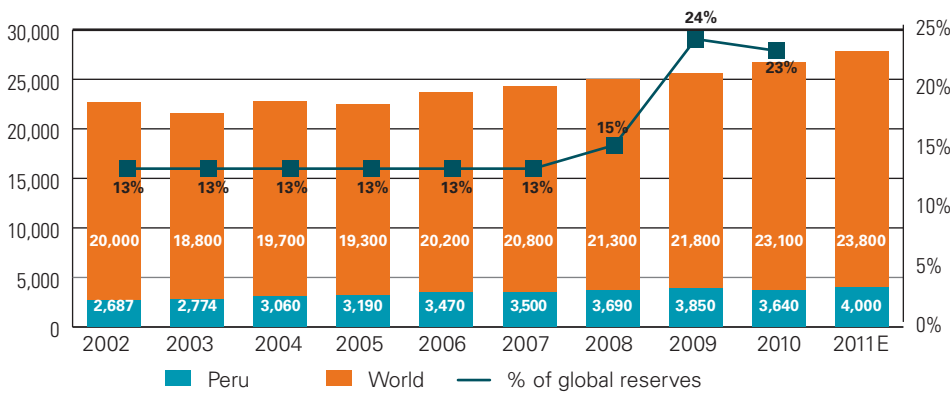
Source: DNPM/IBRAM/USGS

<sup>56</sup>Peru produces 2,588,775 kg of Silver till Sep-2012, Bullion Street, November 27, 2012

<sup>57</sup>Peru to retain sixth rank in gold production, Bullion Street, November 4, 2012

### Silver production

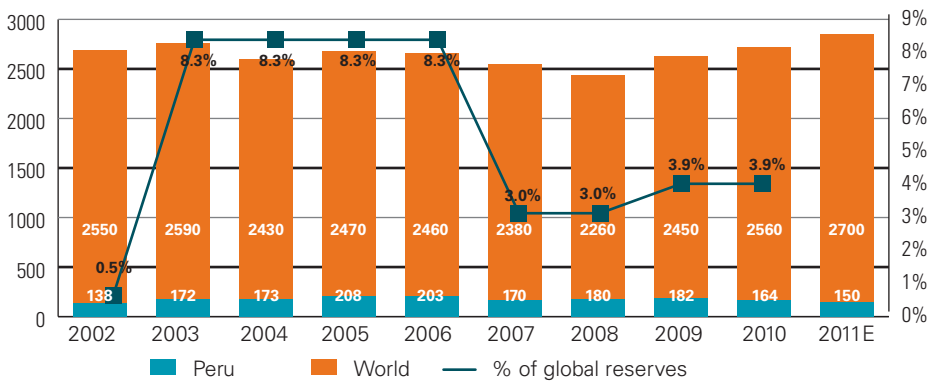
in tonnes



Source: US Geological Survey, Mineral Commodity Summaries

### Gold Ore production

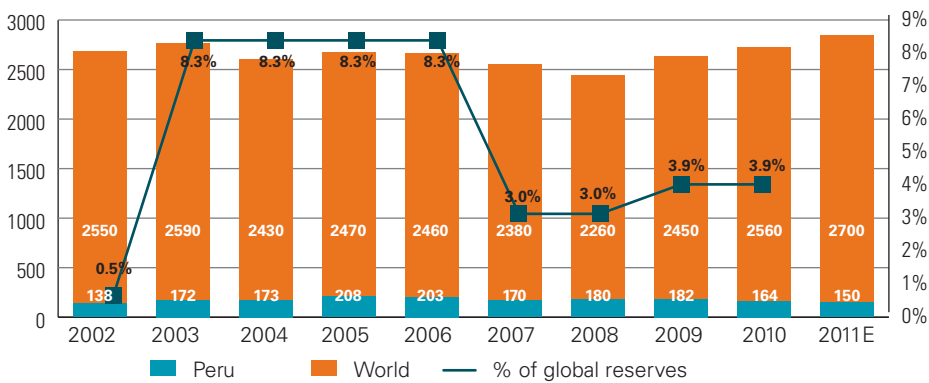
in tonnes



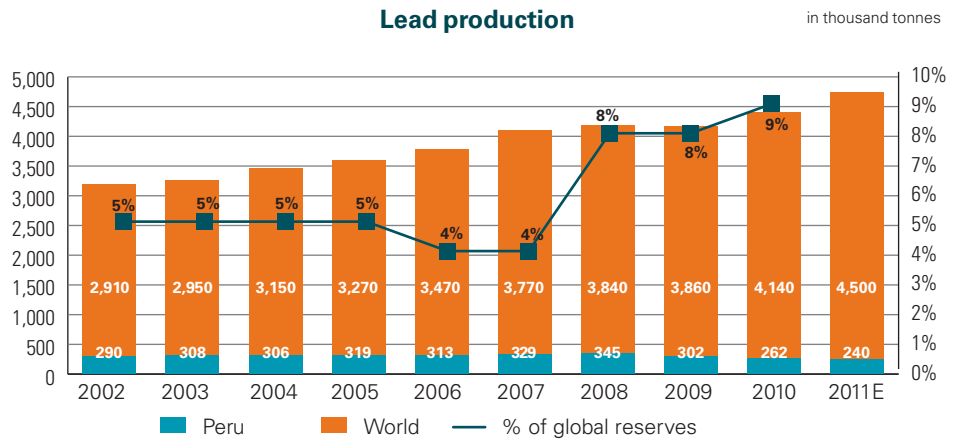
Source: US Geological Survey, Mineral Commodity Summaries

### Zinc production

in thousand tonnes



Source: US Geological Survey, Mineral Commodity Summaries



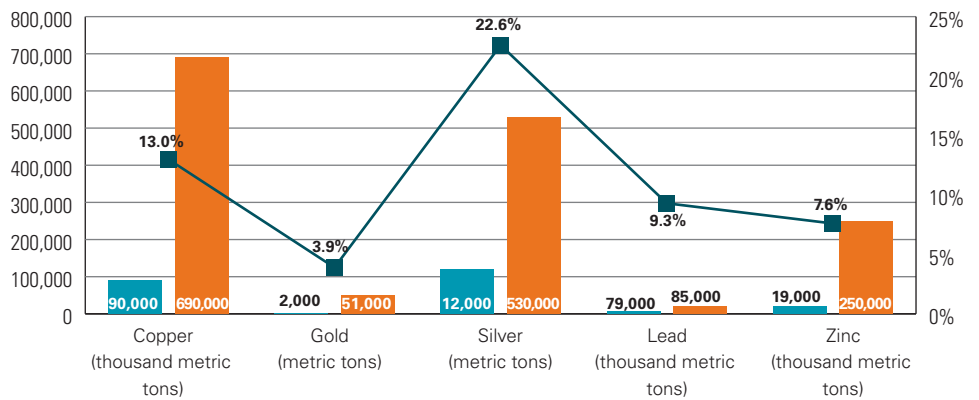
Source: US Geological Survey, Mineral Commodity Summaries

### Peru’s share in global reserves of key commodities

After Chile, Peru has the second largest copper reserves in the world. It also has significant reserves of coal, iron ore, silver, sulfur and zinc.

In addition, Peru has been attracting the world’s major mining companies to carry out activities in the country, given its strong mining potential for extracting gold, silver, copper, phosphates and zinc.

**Figure 4: Reserve level of key commodities in Peru, end of 2010**



Source: US Geological Survey, Mineral Commodity Summaries

# Major mining companies in Peru<sup>58\*</sup>

## Key domestic players

- Compañía de Minas Buenaventura S.A.
- Compañía Minera Atacocha S.A.
- Compañía Minera Milpo S.A.
- Compañía Minera Poderosa S.A.
- Compañía Minera Raura S.A.
- Consorcio Minero Horizonte S.A.
- Doe Run Peru S.R.L.
- Empresa Siderúrgica del Perú. S.A.
- Fortuna Silver Mines Inc.
- Gold Fields La Cima S.A.
- Industrias Electro Químicas S.A.
- Minsur S.A.
- Minera Barrick Misquichilca S.A.
- Shougang Hierro Peru S.a.a.
- Sociedad Minera Cerro Verde S.A.
- Sociedad Minera El Brocal S.A.
- Southern Peru Copper Corp., Sucursal del Perú
- Volcan Compañía Minera S.A.
- Xstrata Tintaya S.A.
- Zinc Industrias Nacionales S.A.

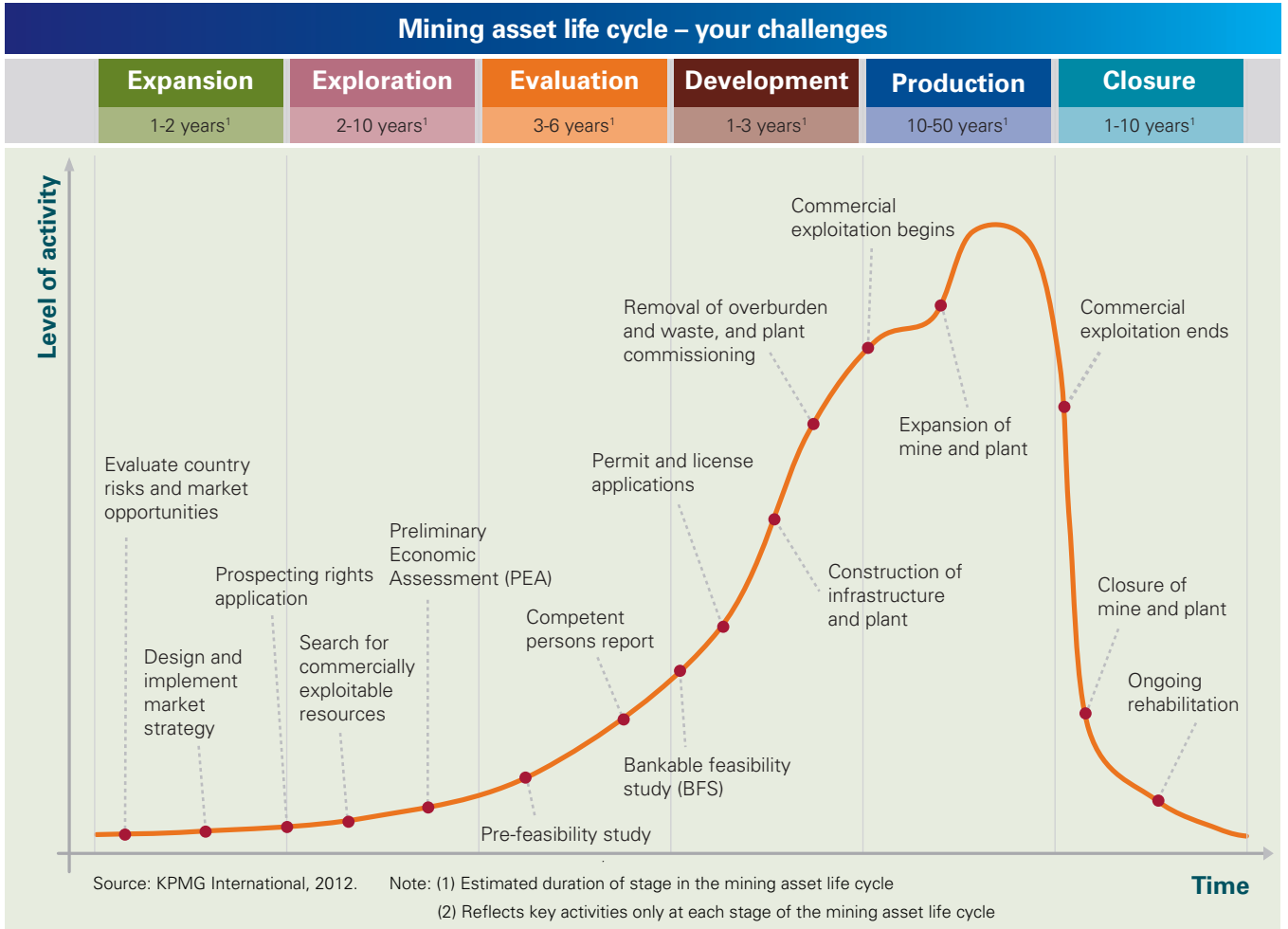
## Foreign companies with operations in Peru

- Alcoa Inc.
- Barrick Gold Corporation
- BHP Billiton
- Candente Copper Corporation
- Chinalco
- Freeport-McMoRan Copper & Gold
- Gold Fields
- The Graystone Company
- Newmont Mining Corporation
- Rio Tinto
- Shougang Corporation
- Sienna Gold Inc.
- Sulliden Gold Corporation
- Teck Resources
- Vale
- Xstrata Copper

\* Note: Methodology used for identification of mining companies:

- For the identification of top mining sector companies in Peru, we accessed Capital IQ to generate the list of companies operating in Peru in the following industry sectors: aluminium, coal and consumable fuels, diversified, metals and mining, gold and steel.
- The list was then filtered to exclude domestic Peru corporations with revenue less than US\$100 million in 2011.
- The list of foreign companies with operations in Peru includes companies whose ultimate parent company was headquartered outside Peru.

<sup>58</sup>Capital IQ, Accessed on January 4, 2013



# Further insight

## Growth Series



### Growth in a time of scarcity: Managing transactions in the mining sector.

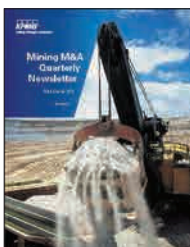
A combination of demand from the East, dwindling mineral resources and rising costs is reshaping the mining sector. As mining companies attempt to manage their asset life cycles in this new landscape, their three main strategic priorities are growth, performance and compliance. Whether organically or (increasingly) through mergers and acquisitions, growth is a perennial objective in an industry where assets continually erode. This guide is the first in a series that discuss how mining companies can best navigate the asset life cycle, and covers the five key elements of the transaction phase: geographic expansion, financing and mergers and acquisitions, tax structuring, due diligence and integration.



### Commodity Insights Bulletins – Quarterly Report

Our series of bulletins focus on key mining commodities. Each bulletin aims to provide insight into trends, issues and changes within the key mining commodity sectors.

The series currently includes Aluminum, Copper, Gold, Iron Ore, Metallurgical Coal, Nickel, Platinum, Thermal Coal and Platinum.



### Mining M&A Quarterly Newsletter

This quarterly publication provides a current snapshot of the M&A market by reviewing select key transactions while focusing on the rationale behind those deals as trends take shape.



### Investment in Brazil

KPMG in Brazil launches the 11th edition, expanded and updated, of the Investment in Brazil guide. This publication, in English, gathers essential data for the foreign investor who is interested in doing business in the country. The information promotes a better understanding of the Brazilian economy, legislation, internal market and tax system, and other important categories.

Its 14 chapters cover the following topics: investing in Brazil; how to invest; setting up a business in Brazil; controls on foreign trade; corporate taxation; incentives; international tax issues; commerce and customs; accounting; work; taxes on individuals; other legal aspects; sustainability; and KPMG in Brazil.



### Brazil – Country mining guide

A guide with relevant facts and information on various aspects of doing business in Brazil relevant to the mining industry.



## Performance Series



### KPMG Mining Operational Excellence Framework

KPMG member firms have developed their own operational excellence framework over the last several years of association with leading mining companies. The framework launches an organization on a journey of efficiency and then over time embeds characteristics that makes the change sustainable over business cycles. This puts together all the capabilities necessary to ensure that the CEO will be able to adapt to support their hunt for the next opportunity, whatever its nature.

## Compliance Series



### Business resilience in the mining industry: conditioning the organization to succeed in an increasing risk environment

With uncertainty on all sides, mining organizations have to re-evaluate their approaches to organizational resilience. KPMG International examined a number of existing and emerging risks faced by mining organizations around the world and identified the attributes of the more resilient organizations. This paper moves ahead of those findings and looks at some practical solutions that can be employed by mining executives to increase resilience and provide a platform on which sustainable, profitable growth can continue.



### Mining Financial Reporting Survey 2012

This publication publishes the results of a survey of financial reporting under IFRS by 20 major mining companies. The information builds on KPMG's previous Global Mining Reporting Surveys. The 2012 survey focuses on some of the key issues currently facing mining companies in an increasingly challenging operating environment.

## Webcasts & KPMG Mining conferences and seminars

### **LATAM Mining Road Show (Seminar)**

Mexico City, Mexico: May 28, 2013

Lima, Peru: May 30, 2013

### **Creating Growth and Value in a Time of Scarcity (webcast)**

June 12, 2013

### **Optimizing Cost Performance in an Uncertain World (webcast)**

July 23, 2013

### **KPMG Americas Mining Executive Forum (Conference)**

Toronto, Canada: September 19-20, 2013

### **KPMG Latin American Energy & Natural Resources Conference**

Rio de Janeiro, Brazil: October 2013

# KPMG's Global Mining practice

The mining clients of KPMG member firms' operate in many countries and have a diverse range of needs. In each of these countries, we have local practices that understand the mining industry's challenges, regulatory requirements and preferred practices.

It is this local knowledge, supported and coordinated through KPMG's regional mining centres, that ensures our clients consistently receive high-quality services and the best available advice tailored to their specific challenges, conditions, regulations and markets. We offer global connectivity through our 13 dedicated mining centers in key locations around the world, working together as one global network. They are a direct response to the rapidly evolving mining sector and the resultant challenges that industry players face.

Located in or near areas that traditionally have high levels of mining activity, we have centres in Melbourne, Brisbane, Perth, Rio de Janeiro, Santiago, Toronto, Vancouver, Beijing, Moscow, Johannesburg, London, Denver and Mumbai. These centres support mining companies around the world, helping them to anticipate and meet their business challenges.

For more information, visit  
[www.kpmg.com/mining](http://www.kpmg.com/mining)



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