



Australian Government
Australian Trade and Investment Commission



MARKET UPDATE: PERU

Sound fundamentals and significant scope for growth

INTRODUCTION

'Still the fastest-growing major Latin economy despite the commodities downturn, Peru is a market with sound fundamentals, a pro-business government and considerable scope for further growth,' says Marie Hill, Austrade Trade Commissioner, Lima. Its diversified mineral base (with reserves of copper, gold, tin, silver, mineral sands, uranium and iron ore) is relatively under-explored. Less than 1.2 per cent of land under mining concession is the subject of production or exploration activities. 'While local METS capabilities, along with the presence of international firms, have increased, the market is relatively under-serviced,' says Austrade Business Development Manager Lima, Valeria Beck. 'Definite opportunities are available to Australian METS suppliers of solutions around water and environmental management, community relations, skills and safety challenges, as well as companies that can deliver mine performance improvements.'

PERU: A GLOBAL PLAYER IN COPPER, SILVER AND GOLD

Following expansion of the operations of MMG's Las Bambas and Freeport McMoran's Cerro Verde, Peru is now the world's second largest copper producer. Between January and December 2016, Peru produced a record total of 2.15 million tons of copper, 42 per cent more than the same period in 2015. (MINEM 2016). This production increase is supplemented by Hudbay's Costancia and Chinalco's Toromocho operations. Further growth in copper production is forecast, with the pipeline of copper projects estimated at US\$28 billion. Peru is also the world's second largest producer of silver and sixth largest gold producer.

AUSTRALIA'S PRESENCE

'Australia plays a significant role in the market and is well regarded,' says Beck. It is Peru's fifth largest source of foreign investment (approximately A\$5 billion).

Around 80 Australian companies have a presence, most in mining or energy, including major global players MMG, BHP Billiton, Rio Tinto, and Woodside, along with some 50 Australian METS companies and about a dozen mining juniors.

MARKET PROSPECTS

'Local firms are upbeat about Peru's prospects,' says Hill. 'Several consider that the recent upturn in commodity prices (combined with Peru's relatively low costs of production) is making formerly marginal projects viable, leading to an increase in mining investment'. Forty-five major mining projects worth US\$45 billion are forecast for 2016-21.

OPPORTUNITIES

There are several areas in which Australian expertise could be used to help explorers and producers operating in Peru, along with government agencies, overcome challenges. These include managing community relations, addressing safety issues and skills shortages, containing energy costs and enhancing mine performance, managing water usage, and creating an evidence-based approach to regulatory oversight.

Community relations

Mining has historically driven economic growth in Peru but is also a source of controversy around issues related to the environment (including the availability and use of water), land tenure, displacement of communities and social conflicts. Limited government presence in regional areas and confusion regarding the scope and obligations of mining companies have seen mining companies assume functions that would normally be performed by the state in an effort to ensure support for their operations. Managing community relations is an ongoing challenge for many mining producers and explorers and for central and regional governments, complicated by

the legacy of past players, local political agendas, the roles of NGOs and other interest groups and a lack of information about the full impact of mining operations.

Water

Higher quality standards for water discharged by industrial users, including mining firms, are scheduled to come into effect in December 2018. The changes to Environmental Quality Standards (ECAs) and Maximum Permissible Limits (LMPs) represent an important driver for mining companies operating in Peru to meet new standards, increasing demand for water treatment technologies. Industry sources estimate that this market will be worth \$20-50 million over the next 18 months.

Safety

Local regulations, corporate social responsibility and good business practice are driving local and international operators to make safety an innate part of their operations in Peru. A safety culture is not typical among local employees nor within local firms, even in the most basic actions like holding onto handrails when using stairs. To reduce mining-related fatalities, caused most commonly by road accidents, rock falls, landslides, exposure to radiation and toxic substance inhalation, the Peruvian Government introduced new regulations in 2011 to raise occupational health and safety (OHS) standards, improve practice and reduce risks. In late July 2016, following the election of the government of President Pedro Pablo Kuczynski, the regulations were revised to redefine mining firms' obligations around mine closure and OHS protocols and procedures. Peru's Mining and Energy Investment Supervision Agency (OSINERGMIN) is responsible for enforcing these regulations and is currently focused on improving supervision practices and prevention culture.

FINDING SUCCESS

'Succeeding in Peru generally requires a local presence; servicing the market from elsewhere in the region is not sufficient' says Beck. While there may be fewer players in Peru than in other markets, local suppliers (including those from regional neighbours) are more capable and competitive than new entrants might imagine. Having a local presence is also critical to gaining the confidence of local customers and picking up market intelligence. Strong local relationships are also important if things go wrong. The value of local networks in Peru, and being close to customers cannot be over-estimated. Warm introductions are what opens doors and it is frequently necessary to talk to many contacts at the same firm – technical, procurement, mine site manager or superintendent – to influence decisions.

'Industry contacts report distinct differences between the purchasing behaviour of local and foreign operators in Peru and also a difference in the way in which foreign and local METS suppliers are perceived,' said Beck. 'International firms tend to purchase products to optimise performance and generally will make purchase decisions based on quality, valuing the potential for long-term cost savings, whereas local firms tend to purchase on the basis of immediate needs, to demand more and expect to pay less. More education about the cost savings or productivity gains a quality product or service can deliver over the longer term may be needed to convince local buyers. Local firms may also expect foreign suppliers to be expensive and not to understand local conditions and the local cost base'.

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PERUMIN - EXTEMIN has been central to the successful market entry and expansion strategies of many Australian METS firms, attracting more than 100,000 visitors and delegations from 13 countries in 2015, including senior executives, mine superintendents, procurement managers and technical staff from leading firms. Peruvian mining companies are well disposed to Australian solutions and readily accessible at the well-positioned and highly recognisable Australian Pavilion, as well as at related business development activities.

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