



Peru: Mining Industry

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Summary

The Peruvian mining industry has experienced significant growth over the last several years, averaging at around 18% in 2012. With a history of resilient economic growth, averaging around 6.6% over the last five years, and business-friendly governance, Peru is expected to remain an important consumer of US mining exports. Currently the mining industry exhibits high demand for large tires, large dumpers and road tractors among other products, and growing exploration and investment in copper mining may provide additional export opportunities over the next five years. As Latin America's top producer of gold, zinc, tin and lead, and second for copper and silver, Peru offers an extensive, growing market for US exports.

Market Landscape

	Units in millions of US \$			
	2011	2012	2013 (projected)	2014 (estimated)
Total Market Size*	2,583	2,801	2,969	3,117
Total Local Production	N/A	N/A	N/A	N/A
Total Exports	112	119	126	132
Total Imports	2,695	2,920	3,095	3,250
Imports from the U.S.	812	1,043	1,106	1,161
Exchange Rate: 1 USD	2.72	2.60	2.55	

* Total Market Size = Total Local Production + Total Imports – Total Exports

Source: Global trade Atlas

Since the early 1990s, the Peruvian mining industry has seen a rapid expansion in investment and profits. Early 2013 data, recorded below, highlights a consistent growth trend in investment over the last five years, with a net investment growth in 2013 of 22.8% over 2012 levels.

	Units in millions of US \$					
Year	2008	2009	2010	2011	2012	% growth *
Plant Investment	141	320	416	125	1,135	86.6
Mining Equipment	177	500	518	776	601	90.6
Exploration	168	394	616	865	895	16.1
Extraction	440	531	738	870	1,003	21
Infrastructure	321	376	828	1,407	1,797	-38.2
Other	329	505	444	1,412	2,500	69.3
Preparation	132	196	510	788	638	-31.3
Total	1,708	2,822	4,069	7,243	8,568	22.8

*% growth represents investment growth in January through March of 2013 relative to the same period in 2012

Source: Ministry of Energy and Mines

Peru is a global frontrunner in mining exploration and production, ranking third in the world for exploration investment, and among the top five global producers of gold, zinc, lead, and silver.

Accounting for roughly 57% of the nation's exports, the Peruvian mining industry is an essential part of the nation's economy. The Ministry of Energy and Mines foresees continued trends of robust industry growth, and current plans project nearly \$53 billion in new mining investment through 2020. By the end of the first quarter of 2013, mining investment was up 23% from \$1.57 billion to \$1.93 billion from Q1 in 2012.

Below are the total imports to Peru of mining equipment for the last eight years, and the total industry exports from Peru. Increased production over the past ten years has led to dramatic growth in import demand. Despite recent economic turbulence, industry growth, as indicated by industry exports, remains strong.

	2005	2006	2007	2008	2009	2010	2011	2012
Mining Equipment Imports to Peru (US \$ millions)	1,043	1,393	1,863	2,591	1,824	2,783	3,189	3,639
Mining Exports (US \$ millions)	9,790	14,706	17,439	18,101	16,481	21,903	27,526	26,026

Source: Superintendencia Nacional de Aduanas

Recent developments in the nation's mining industry include the writing of new social licensing legislation to increase native population involvement in new mining project decisions. While the legislation has been softened from its original form to not include provisions for highland communities where most mining occurs, the new laws could potentially slow the development of new mining projects as more extensive local involvement is required. Conflict involving the suspension of Newmont's gold and copper "Conga" mining project in Cajamarca continues to draw international attention while the company continues to state that it will not pull out of the region before 2016. Also related to licensing, the creation of a new institute for all environmental and social impact assessments (ESIA) is expected to increase the efficiency and validity of impact assessments, as well as increase oversight as it expands operations over the coming years.

There are 474 companies currently registered with the Ministry of Energy and Mines in Peru. Of these, 53% of the total output came from five primary companies in large, mainly base metals projects: Toromocho (The Aluminum Corporation of China – Chinalco), Las Bambas (Glencore), Minas Conga (Newmont, Buenaventura), Antamina (BHP Billiton, Xstrata, Teck, Mitsubishi), and Cerro Verde (Freeport-McMoRan). The country's primary mining products and their annual production levels are listed below, demonstrating a slight decline in production in 2011/12, but overall strong industrial output.

Metal	Production Level					% change from March 2012
	2009	2010	2011	2012	March 2013	
Copper TMF	1,276,249	1,247,184	1,235,345	1,298,564	106,252	-2.44
Gold Grs.f	183,994,692	164,084,389	166,186,717	161,521,906	15,709,648	8.99
Zinc TMF	1,512,931	1,470,450	1,256,383	1,281,224	116,583	6.89
Silver Kg.f	3,922,708	3,640,465	3,418,862	3,480,587	265,349	-1.35
Lead TMF	302,459	261,990	230,199	249,179	20,402	-6.37
Iron TLF	4,418,768	6,042,644	7,010,938	6,684,539	687,050	20.02
Tin TMF	37,503	33,848	28,882	26,105	2,001	-12.79
Molybdenum TMF	12,297	16,963	19,141	16,790	1,333	-33.81
Tungsten TMF	634	716	546	365	4	-90.44

Source: Ministry of Energy and Mines

Peru remains the Latin American leader in the production of gold, zinc, silver, lead, tin, and molybdenum. Compared to other nations, Peru exhibits low production costs, low inflation, and a relatively supportive legal regime with respect to mining activities. Furthermore, the mining sector is expected to grow by about 12% in 2013, with similarly substantial growth predictions for 2014, and 2015. Overall, the economic status of Peru and strong sector growth offer a very attractive market for US mining exports.

Market Data

One of the primary imports to Peru is industrial machinery, predominantly mining equipment and technology. Peru obtains 34.3% of its mining machinery and other products from the United States, while Brazil supplies 15.7%, China 8.3%, Germany 6.5%, Japan 6.4%, and Sweden 4.7%. The mining equipment, technology, and services (METS) market for U.S. goods in Peru remains robust, and the top exported goods from 2012 can be found in the chart below.

Main U.S. 2012 mining exports to Peru:

Rank	HTC	Product	2012 Exports (US \$millions)
1	870410	Dumpers designed for off-highway use	361.1
2	842951	Front-end shovel loaders	135.1
3	842952	Machinery with a 360° revolving superstructure	51.8
4	843041	Self-propelled Boring or Sinking Machinery	48.9
5	842911	Bulldozers and angle-dozers	43.4
6	842959	Other mechanical shovels, excavators, and loaders	42.6

Source: Global Trade Atlas

Best Prospects

There has been some concern that the Peruvian mining industry will be hit by the global tire shortage similar to that seen in the mid-2000's resulting from a recent sudden boom in demand, providing a growing market for oversized and product-specific tires. There is also increasing demand for blasting equipment, tunnel boring machines, mill balls, concentration plants, crushers, and equipment related to flotation, leaching and other metallurgic processes. Road construction material is also highly sought after as companies perpetually seek to improve and replace deteriorating dirt paths in and around their sites.

Purchasers tend to focus primarily on price, sometimes at the expense of quality and technological soundness. However, U.S. exports offering quality products and on-the-ground service tend to remain competitive despite more inexpensive products from countries such as China. Both underground and open pit mining are common in Peru and the market for related products is highly competitive. The exploration boom and recent reporting legislation is creating demand not only for mining equipment but also for services related to environmental care and corporate social responsibility programs.

Key Suppliers

Peru has a competitive market for mining supplies, in which both foreign and national companies remain quite active. The main global suppliers have local representation (Caterpillar, John Deere, New Holland, Komatsu, Atlas Copco, Sandvik, among others). U.S. suppliers have a predominant

position, but increasingly have to contend with new suppliers from Asia (Xcmg, Liu Gong, Chan Tui, Sem, Shantui). Companies compete aggressively not only in terms of price but also on after-sales service. With this in mind many suppliers have opened offices in the provinces outside of Lima close to mine sites. Recent entrants from China tend to be very competitive on price but these companies' product quality is generally viewed as being inferior and they suffer from lacking proper in-country service and parts distribution networks.

Prospective Buyers

From the perspective of U.S. exporters the mining industry in Peru can be divided into three segments: major international companies, medium (family-owned) companies, and smaller junior companies. Large multinationals account for roughly 95% of mining production in Peru and the country currently hosts virtually all of the main global players in the industry. Some of these already have local mines (BHP Billiton, Xstrata, Freeport McMoRan, Southern Copper, Barrick, Newmont) while others are in the process of developing their own projects (Rio Tinto, Anglo American, Chinalco, Zijin). The medium family-owned local companies (Milpo, Atacocha) are experiencing major growth and some are even becoming regional players (Hochschild, Buenaventura). The junior companies (mostly from Canada) now surpass 200 in number and are exploring the vast geological potential of Peru. According to the Ministry of Energy and Mines, as of 2012, only 5% of the nation's territory had been explored.

Peru imported over US \$1.2 billion of U.S. goods in 2012, including US \$1.04 billion in mining products. Of the top 10 Peruvian companies importing US goods, 4 of them are major importers of U.S. mining products. They include:

Company	2012 imports of U.S. mining products (US \$ millions)
Ferreyros S.A.	221.2
Southern Copper Corporation	150.8
Xstrata Las Bambas	104.2
Minera Chinalco Peru	93.4

Source: Superintendencia Nacional de Aduanas

Below are the top mining companies operating within Peru and their respective profits, operating expenses and other relevant data (values in thousands of US\$)

Company	Sales	Net Profits	Profit Margin (%)	Assets	Operations Value	Operating Margin (%)
Crown Mining Company	113,577	40,205	35.4	38,966	65,856.00	58.0
Barrick Mining Misquichil	942,188	421,195	44.7	1,964,724	616,514.00	65.4
Green Hill Mining Company	1,626,028	625,851	38.5	3,303,489	970,199.00	59.7
Minsur	521,387	207,950	39.9	1,968,690	286,396.00	54.9
Shougang Hierro Peru	627,911	233,759	37.2	413,510	329,723.00	52.5
Gold Fields La Cima	386,020	139,484	36.1	889,523	207,674.00	53.8
Southern Peru Copper Corporation	2,253,701	781,710	34.7	2,829,046	1,038,331.00	46.1
Yura	175,132	59,557	34.0	312,425	82,262.00	47.0
Santa Luisa Mining Company	48,370	11,249	23.3	62,878	13,922.00	28.8
Milp Mining Company	374,298	29,807	8.0	496,808	113,317.00	30.3
Andean Cement Union	340,897	67,935	19.9	784,993	99,784.00	29.3
Pderosa Mining Company	159,994	34,041	21.3	135,932	47,792.00	29.9
Pacasmayo Cements	214,038	40,033	18.7	645,616	58,521.00	27.3
Andean Cement	137,138	29,389	21.4	419,102	37,772.00	27.5
Volcan Mining Company	427,135	80,813	18.9	1,303,249	112,508.00	26.3

Top mining companies contd.

Company	Sales	Net Profits	Profit Margin (%)	Assets	Operations Value	Operating Margin (%)
Quimpac	132,218	23,767	18.0	216,800	32,190.00	24.4
Buenaventura Mining Company	867,851	195,198	22.5	2,684,554	203,281.00	23.4
El Brocal Mining Company	185,387	20,339	11.0	379,086	32,066.00	17.3
Raura Mining Company	68,831	6,888	10.0	49,380	9,533.00	13.9
Atacocha Mining Company	82,649	-6,684	-8.1	98,457	-5,445	-6.6
San Ignacio de Morococha Mining Company	33,269	2,154	6.5	59,165	2,460.00	7.4
Marbles and Granites	681	-1,569	-230.4	76	-1,517	-222.7
Castrovirreyna Mining Company	18,575	-1,602	-8.6	26,795	-2,358	-12.7
Totals	9,737,274	3,041,468	31.2	19,128,268	4,350,780.00	44.7

Source: Ministry of Energy and Mines

As a part of the continued exploration boom, numerous firms are looking to begin operations, primarily in copper, over the next 2-5 years, though many others are exploring expansion and development in gold, silver, phosphates, zinc, and iron. Sociedad Minera Cerro Verde, Xstrata Las Bambas, Minera Chinalco Peru, Minera Yanacocha, and Anglo American Quellaveco among others will be investing several billion US \$ in expansion and new ventures by the year 2016, and as of April 30th, 2013, the nation's mining pipeline had increased to US \$54.8 billion.

The following describes those companies and projects currently in the investment pipeline.

Company	Investor	Project Name	Region	Mineral	Start date	Investment (in US \$ millions)
Expansion						
Southern Copper Corporation	Mexico Group	Cuajone	Moquegua	copper	2013	300
		Foundation	Moquegua	copper	-	TBD
		Toquepala	Tacna	copper	2014	600
		Refinery	Moquegua	copper	-	TBD
Compania Minera Miski Mayo	Vale	Bayovar	Pura	phosphates	2014	520
Minera Barrick Misquichilca	Barrick Gold Corp.	Lagunas Norte	La Libertad	gold	2013	400
Shougang Hierro Peru	Shougang Corporation	Marcona	ICA	iron	2014	1,480
Sociedad Minera Cerro Verde	Freeport-MacMoran Copper	Cerro Verde	Arequipa	copper	2016	4,400
Brocal Mining Company	Grupo Buenaventura	Colquijrca	Pasco	polymetallic	2013	305
Approved / Under Construction						
Anglo American Quellaveco	Anglo American & Mitsubishi	Quellaveco	Moquegua	copper	2016	3,300
Invicta Mining Corp.	Andean American Mining Corp	Invicta	Lima	polymetallic	2014	93
Minera Chinalco Peru	Chinalco-Aluminium Corp. of China	Toromocho	Junin	copper	2013	3,500
Minera Yanacocha	Newmont & Buenaventura	Conga Mine	Cajamarca	copper/gold	2017	4,800
HudBay Minerals Inc	HudBay Minerals Inc.	Constancia	Cusco	copper	2014	1,546
Xstrata Las Bambas	Xstrata Copper	Las Bambas	Apurimac	copper	2014	5,200

Compañía Minera Alparmarca	Grupo Volcan	Alparmarca-Rio Pallanga	Junin	lead/zinc/ copper/silver	2014	90
Minera Suyamarca	Grupo Hochschild & IMZ- International Minerals Corporation	Inmaculada	Ayachucho	gold/silver	2014	350
Reliant Ventures	Silver Standard Peru	San Luis	Ancash	gold/silver	-	-
Under Feasibility Study						
Compañía Minera Ares	Grupo Hochschild	Crespo	Cuzco	gold/silver	2014	111
Compañía Minera Milpo	Votarantim Metais	Pukaqaqa	Huancavelica	copper/ molybdenum	2016	630
Minera Shouxin Peru	Baiyin Nonferrous Group Co. & Shougang Hierro Peru	Explotación de relaves	Marcona	copper/iron/ zinc	2015	239
Bear Creek Mining Company	Bear Creek Mining	Corani	Puno	silver	2015	750
Minera Sulliden Shahuindo	Sulliden Gold Corp.	Shahuindo	Cajamarca	gold	2014	132
In Exploration Phase						
Marcobre	Grupo Bresia, Korea Resources & LS-Nikko Copper	Marcobre (Mina Justa)	ICA	copper	2015	744
Anglo American Michiquillay	Anglo American	Michiquillay	Cajamarca	copper	2016	700
Apurimac Ferrum	Strike Resources	Hierro Apurimac	Apurimac	iron	TBD	2,300
Canariaco Copper Peru	Candente Copper Corp	Cañariaco	Lambayeque	copper	TBD	1,599
Canteras Del Hallazgo	Goldfields & Buenaventura	Chucapaca	Moquegua	gold	2015	1,200
Compañía Minera Milpo	Votarantim Metais	Hilarion	Ancash	zinc	2016	470
		Magistral	Ancash	copper	2016	750
Compañía Minera Quechua	Pan Pacific Copper Corp., JX Nippon Mining Holdings & Mitsui Mining & Smelting Co.	Quechua	Cusco	copper	2014	490
Jintong Mining	Beijing Rich Gold Investment	Lima TY01	ICA	gold	TBD	-
Junefield Group	Junefields Company Limites	Cercana	Arequipa	copper	TBD	-
Lumina Copper	Minmetals & Jiangxi Copper	Galeno	Cajamarca	copper/gold/ silver/ molybdenum	2016	2,500
Minera Antares Perú	Antares Minerals Inc	Haquira	Apurimac	copper/ molybdenum	2015	1,506
Minera Hampton Perú	Metminco Limited	Los Calatos	Moquegua	copper/ molybdenum	2018	1,506
Minera Cuervo	Cuervo Resources Inc & Strike Resources	Cerro Ccopane	Cusco	iron	TBD	-
Rio Blanco Copper	Zijin Mining Group	Rio Blanco	Piura	copper	2019	1,500
Rio Tinto Minera Perú Limitada	Rio Tinto Plc	La Granja	Cajamarca	copper	2015	1,000
Southern Copper Corporation	Mexico Group	Los Chancas	Apurimac	copper	2015	1,560
		Tia Maria	Arequipa	copper	2015	1,000

Americas Potash Perú	GrowMax Agri Corp.	Salmueras de Sechura	Piura	potassium	TBD	125
Compañía Minera Vichaycocha	Grupo Volcan	Rondoni	Huánuco	copper	2016	350
Minera AQM Copper Peru	AQM Copper Inc & Teck Resources	Zafranal	Arequipa	Copper/gold	TBD	1,520
Exploraciones Collasuyo	Zincore Metals Inc.	Accha	Cuzco	zinc/lead	2015	524
Source: Ministry of Energy and Mines					Total:	\$54.8 billion

Market Entry

For U.S. exporters of large capital goods, the common approach to the Peruvian market is to establish a local branch office with representatives who know the market and are fluent in Spanish. A well-researched partnership with a local legal counsellor is also advisable (despite the predominance of the mining industry in Peru, not all legal firms have experts in mining legislation or mining contracts). U.S. exporters of smaller goods may prefer to work with local distributors, but should also pay diligent attention to the expertise and track records of those companies with whom they choose to work.

Exporters must gain credibility in the Peruvian market by demonstrating that their products can work efficiently in Peru's rugged environment and terrain. Business in Peru depends highly on personal affinity and empathy. Many deals are closed at social or industry-related events where executives with good networking skills thrive. While Asian products on the market are generally seen as highly price-competitive, there is growing recognition that such products are generally of inferior quality, and commonly lack the on-the-ground servicing or other customer care that accompanies U.S. products. U.S. companies are therefore encouraged to capitalize on the quality of their product and service, and have a significant presence at local trade events in the region.

Market Issues & Obstacles

Peru as a country fosters private investment and is very open to foreign capital. There is no discriminatory treatment toward non-nationals and the nation's legal system guarantees private property, free competition and free repatriation of profits. Tax stability agreements are available for companies that invest beyond a minimum threshold, the quantity of which depends on the individual sector. For the mining industry, firms that invest \$10 million or more in their Peruvian operations are subject to these agreements. Peru has adhered to the OECD Declaration on International Investment and Multinational Enterprise and also has a close bilateral relationship with the U.S., having adopted a Trade Promotion Agreement in 2006.

Although some had concerns regarding the 2011 election of Ollanta Humala, the new president has found that revenue from mining is necessary to implement his social inclusion programs, and has lent his support to the industry. Humala appears intent on keeping Peru on its path of steady growth, which has been led predominantly by the mining industry. He has demonstrated this through his continued support of Newmont in the Conga Mines controversy and recent compromise on citizen involvement legislation. Although elected on a social inclusion platform, the current president recognizes the importance of industrial development in moving the nation forward.

Peru's mining environment offers some unique challenges, with most mining activities carried out in

areas of high altitude, often in excess of 10,000 feet above sea level. As companies have moved toward making products more fuel-efficient, there has been, at times, a loss of efficiency at high altitudes. Infrastructure is also often limited given the remoteness of many mine-sites.

Furthermore, some regions are particularly prone to social conflicts due to an adverse preconception of the mining industry based on past environmental mistreatment and the political influence of local actors. Recently affected regions include Cajamarca in the North, and the Cusco region in the south. Protestors claim that large-scale mining operations are responsible for environmental damage and that they have not benefited from Peru's recent economic boom. Mining operations typically contribute a portion of their profits to local governments but many communities have been demanding a larger stake. In some areas multinationals and the Peruvian government will have to convince hostile indigenous communities that they can and will benefit from mining activities. This will be a crucial determinant for the future prospects of the industry in those areas.

High prices on the global market have led to a recent surge in small-scale illegal gold mining in the Madre de Dios region of Southern Peru. This has led to deforestation of the Amazon, environmental damage, and high levels of mercury in the local water supply. There is a significant risk that those companies whose equipment end up in the hands of these miners might receive negative publicity thus it is currently particularly advisable to work with scrupulous distributors.

Trade Events

The two main mining trade shows in Peru are the Mining Convention and the International Gold Symposium. These operate in alternating years.

The Mining Convention is usually held in Arequipa (the second largest city in Peru and near Freeport-McMoRan's Cerro Verde copper mine). In 2011, attendance surpassed 50,000 drawn from throughout the world. The event typically lasts five days and is composed of both conference sessions (executives from the local and international mining industry participate as speakers) and a trade show known as Extemin (which had over 1800 booths in 2011). Almost every day ends with a cocktail sponsored by an important mining-related company, allowing networking opportunities. The next edition of the Mining Convention will be held in Arequipa in September 2013.

www.convencionminera.com

The most recent session of the International Gold Symposium was held in May 2012. Its importance stemmed from the fact that Peru is the largest gold producer in Latin America. It also has two conference sessions and a trade show, which featured 80 booths. The event is usually held in Lima, lasts a couple of days, and is attended by more than 4,000 mining executives. As with the Mining Convention, government agencies are present and available for consultation. The next edition of the International Gold Symposium will be held in or around May 2014.

www.simpodium-internacional-oro.snmpe.org.pe/index-english.html

Other relevant events are the following:

Congreso Internacional de Relaciones Comunitarias
Conference on Sustainable Development promoted by the Ministry of Energy and Mines
Lima, 2014 (exact dates TBD)

<http://www.congresorelacionescomunitarias.com/>

Expomina 2014
2nd International Seminar on Mining Equipment, Supplies and Services
Lima, 2014 (exact dates TBD)
www.expominaperu.com

Congreso Nacional de Minería
9th National Congress on Mining
Trujillo, 2014 (exact dates TBD)
<http://www.congresominas.org/>

Resources & Contacts

- Ministry of Energy and Mines, www.minem.gob.pe
- National Mining, Petroleum and Energy Society, www.snmpe.org.pe
- Institute of Mining Engineers of Peru, www.iimp.org.pe
- Supervising Agency for Investment in Energy and Mining (Osinermin), www.osinerg.gob.pe
- Private Investment Promotion Agency (ProInversion), www.proinversion.gob.pe
- Institute of Geology, Mining and Metallurgy (Ingemmet), www.ingemmet.gob.pe

For More Information

The U.S. Commercial Service in **Lima, Peru** can be contacted via e-mail at: lima.office.box@mail.doc.gov; Phone: 51 1 618-2442, 434-3040; Fax: 51 1 434-3041; or visit our website: <http://www.buyusa.gov/peru/en>. We acknowledge the significant contribution of Jacob Shimkus in the preparation of this report.

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