Latin American Markets Ripe for Trade

Secretary of Commerce Leads a Trade Mission to Chile and Peru

by the Office of Business Liaison, Office of the Secretary of Commerce

Latin America is a dynamic and diverse market for U.S. exporters. The United States is currently finalizing negotiations with Chile to establish a free trade agreement, and Peru is part of the Andean Trade Preference Act. The recent passage of the Trade Act of 2002 (see page 20) and its extension of the Andean Trade Preference Act ensure that future commercial relations with these two countries will be mutually beneficial.

In light of these encouraging developments, Secretary of Commerce Donald L. Evans will lead a senior-level trade mission to Lima, Peru and Santiago, Chile, on December 2–6, 2002. The delegation will include approximately 15 executives of U.S.-based companies eager to explore commercial opportunities. (See www.commerce.gov/latinamericatrademission for more information.)

PERU

Peru is an economically stable and growing marketplace. With a population of nearly 30 million, entrepreneurial spirit, and a democratic tradition, Peru offers both U.S. exporters and investors an attractive entry to the Andean region. As Peru seeks economic growth within a policy of fiscal prudence, future privatization and development of emerging sectors that take advantage of the Andean Trade Preference Act are creating opportunities in a number of sectors. Transparency in rule-making and customs has been strengthened in the past 10 years, and Peru is currently negotiating a bilateral investment treaty with the United States. The United States is Peru's largest trading partner, supplying 30 percent of imports and consuming 25 percent of Peru's exports, with two-way trade totaling nearly $4 billion last year.

Peru is a gateway to the rest of the Andean Community, consisting of Bolivia, Colombia, Ecuador, and Venezuela. These countries have a total marketplace of 112 million people and a combined GDP of $290 billion. With Andean Community harmonization continuing in customs rates and commercial policies, as well as a continual lowering of internal community tariffs, Peru is well situated to take advantage of these benefits.

CHILE

Chile is one of Latin America's most dynamic and promising markets. Its strength and attractiveness lie not in its size (population of 15 million people), but in the energy and professionalism of its entrepreneurs, the transparency of its regulation, and the predictability of its decision-makers.

Market-led reforms over 25 years and an increasingly diversified economy with strong ties to buyers and suppliers in the Americas, Europe, and Asia have given Chile a wide range of options for further growth. Prudent economic policy-making has secured long-term stability unknown elsewhere in Latin America.

Chile is a particularly promising market for pollution control and telecommunications equipment. While solid opportunities for U.S. goods abound in Chile, competition is stiff, especially from countries with which Chile has negotiated free trade agreements. The United States is Chile's largest single supplier (almost 23 percent of imports), but European and Asian competitors are strong. U.S. exporters to Chile find few problems in financing customers. Sufficient Chilean, U.S., and third-country banks operate in Chile.

The United States and Chile are scheduled to complete negotiations on a bilateral free trade agreement. Currently Chile has free trade agreements with Canada and Mexico, the United States' NAFTA partners. When the U.S.-Chile bilateral free trade agreement becomes law, U.S. exporters will also enjoy the elimination of import tariffs on most products. Both the Bush and Lagos administrations are optimistic about having a free trade agreement in place by the end of the year.

Chile has one of the simplest and most transparent regulatory systems in the region for commerce. A fixed 7 percent import duty on most products from those countries without a free trade agreement will be reduced to 6 percent by 2003. Careful review of regulations and full compliance with guidelines will ensure more successful and trouble-free operations in Chile. Chile maintains import and export licensing requirements, but they are more for statistical purposes rather than control. Only agricultural products and a few sensitive items face restrictions.

BEST PROSPECTS FOR U.S. EXPORTS

Energy

Peru is a net energy importer, but it enjoys the benefit of having oil and natural gas reserves. The country's proven oil reserves are 342 million barrels of oil and 8.7 trillion cubic feet of natural gas. Argentina's Pluspetro produces the majority of Peru's oil. The remaining production comes from Perupetro (Peru's state-owned oil company), U.S.-based Petro-Tech, and U.S.-based Barrett Resources Corporation. Peru's overall production has been declining. In the early 1980s, production was around 200,000 barrels per day (bbl/d), and by 2001 it had declined to 96,000 bbl/d. Peru imports oil from Colombia, Ecuador, and Venezuela. The country has five refineries with a combined capacity of 100,000 bbl/d.

Peru has approximately 5.9 million kilowatts of installed electricity generation capacity. Fifty percent is generated by hydroelectric systems and the other half by diesel and fuel oil. In 2001, Peru generated 20.7 billion kilowatt-hours of electricity, up from 19.9 billion kilowatt-hours in 2000. Rainfall patterns have caused fluctuations in hydroelectric power output. Peru is attempting to reduce its dependence on hydropower and to use natural gas as an alternative.

Equipment for generating electrical power will be in demand. Specifically, Peruvian buyers are interested in heat exchangers, interrupters, generator sets, relays, circuit breakers, static converters, hydraulic turbines and wheels less than 1,000 kilowatts, and hydraulic turbines and wheels more than 10,000 kilowatts. As the Camisea natural gas field comes on-line, similar types of power generation equipment will be needed, specifically for gas-fired power generation systems.

Chile has limited indigenous energy resources and relies primarily on imports to meet its rapidly growing energy demand. Its state-owned oil company, Empress National de Petiole (ELAP), supplies about 85 percent of Chile's oil demand. Chile imports crude oil from Argentina, Ecuador, Gabon, Nigeria, and Venezuela and processes this crude oil at three state-owned refineries. Natural gas is imported via pipeline from Argentina. Chile is now searching for alternative suppliers, due to recent gaps in supply related to Argentina's economic crisis. Natural gas demand is forecasted to climb from 16 percent of Chile's energy consumption in 2001 to 30 percent in 2008, largely in response to the 7 percent annual growth of Chile's energy demand. Hydropower currently generates electricity to meet about 50 percent of Chile's electricity consumption. Chile's dependence on hydropower was severely tested during a 1998–1999 drought that lowered reservoir levels and caused widespread power outages throughout the country.

Since new power plant construction started in 1996 and will continue through 2005, the market for power generation equipment and supplies will remain steady. Chile will continue to be a good market for high technology and infrastructure-related products. These products include equipment for electricity generation and related products such as water tube boilers, generators, switches, insulators, electric connectors, hydraulic turbines and parts, and dielectric liquid transformers.

Medical Devices

Peru and Chile are both heavily reliant on imported medical equipment, and the United States is the leading foreign supplier of medical equipment in both markets. Chile's medical device market is $195 million while Peru imports 80 percent of its $94 million market. The United States exported nearly $58 million in medical equipment to Chile in 2001, and it holds a 40 percent market share in Peru.

Although Peru is a poor country, its GDP per capita is the highest in the Andean region. According to the Pan American Health Organization, Peru spends approximately $3 billion on health. Especially if its political situation remains stable, Peru's medical device market should not be overlooked, as prospects for its continued growth are clear.

Chile is a small market with a young population. However, the proportion of those over 65 years of age is increasing. Chile spent $4.6 billion on health in 1997, of which expenditures on medical devices on a per capita basis was $13.

The United States exported $19 million in electro-medical equipment, and $13 million in surgical and medical instruments, to Chile in 2001. Chile is implementing a poverty reduction program, which includes a health improvement component. This includes construction and upgrading of numerous hospitals.

MORE ON PERU AND CHILE

The continuing liberalization of commerce in Peru and Chile bodes well for U.S. companies. U.S. exporters interested in learning more about Peru and Chile should visit www.buyusa.gov/peru/en and www.buyusa.gov/chile/en, respectively.