

Structural reform and privatization in Peru

By Rafael Toledo

In 1969 the decision was taken that the Peruvian state should participate actively in production. Until 1968 there were 28 state companies – none in the mining sector. By 1991 there were 181 state companies, 18 of them in mining. In 1992 a process of privatization was initiated. In this paper the author describes and explains the structural reform and privatization that has been taking place in Peru during the 1990s.

In 1991, a process of structural reform was initiated in Peru in order to attain sustainable development with economic resources allocated by the market and therefore on the basis of competition and efficiency.

Almost all the State companies that today are being privatized or have already been transferred to the private sector were created after 1969, when the decision was taken that the State should have an active participation in production. Until 1968 there were only 28 State companies overall and none in the mining sector; by 1991 there were 181, of which 18 in mining.

The policies for development of the mining sector had a marked statist orientation. Of the three large foreign mining companies that existed in Peru, two were expropriated, and the State reserved almost all large ore deposits for itself, intending to develop and exploit them through its own companies. The State's influence over the mining sector was not confined to exploitation. A monopoly on commercialization was also created, and State-owned smelters and refineries were

Table 1. Peru. Gross domestic product 1985-1995

Year	GDP ¹ (MUSD)	GDP per capita (USD)
1985	22 437	1 151
1986	25 507	1 281
1987	29 061	1 429
1988	27 772	1 336
1989	25 198	1 191
1990	25 025	1 163
1991	26 651	1 213
1992	26 550	1 188
1993	28 866	1 269
1994	33 611	1 453
1995 ²	37 216	1 582

Notes: 1. Real GDP in 1979 USD assuming 3 per cent annual inflation. 2. Assuming 8 per cent real growth in GDP. Source: INEI.

Table 2. Peru. Total exports and mining exports 1985-1995

Year	Exports fob (MUSD)	Mining exports fob (MUSD)
1985	3 019	1 205
1986	2 572	1 041
1987	2 700	1 219
1988	2 732	1 205
1989	3 556	1 548
1990	3 323	1 446
1991	3 391	1 474
1992	3 534	1 649
1993	3 515	1 432
1994	4 555	1 859
1995 ¹	2 647	1 143

Note: 1. First six months. Source: BCR.

accorded priority access to the supply of concentrates. Many other regulations were introduced to ensure State control over the sector.

The financial results of the State companies could not have been worse, and their consistent losses contributed to the fiscal deficit. Table 5 shows the financial results of the four most important State mining companies in Peru in 1991. These companies, which enjoyed monopoly positions and various privileges, and which operated without any financial risk, were not interested in utilizing advanced technologies to reduce costs. The lack of real managerial autonomy and the political interference in operations served to distance them from their objectives.

All these problems are common to State companies worldwide. Other problems include over-staffing, a high rate of turnover of managers, administrative rigidities, under-capitalization, lack of maintenance, corruption etc.

In addition to all those problems, Peru experienced a sharp economic and social crisis. For this reason, the decision was taken to privatize all State companies, including the mining companies. Not all

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Table 3. Peru. Mining exports 1985-1995

Year	Refined silver			Lead			Zinc		
	Volume (M troy oz)	Price (USD/ troy oz)	Value (MUSD)	Volume (kt)	Price (cents/lb)	Value (MUSD)	Volume (kt)	Price (cents/lb)	Value (MUSD)
1985	22	6.30	140.0	174	52.70	202.0	459	26.40	268.0
1986	19	5.60	107.0	136	57.40	172.0	477	23.40	246.0
1987	14	6.80	92.0	149	78.50	256.0	445	25.50	250.0
1988	9	6.70	60.0	107	81.10	191.0	402	31.70	281.0
1989	17	5.70	98.0	170	54.20	204.0	459	42.40	429.0
1990	16	4.90	79.0	158	53.10	185.0	524	36.00	416.0
1991	17	4.10	68.0	158	46.40	162.0	464	31.70	324.0
1992	20	3.90	78.0	182	40.10	161.0	463	32.80	335.0
1993	19	4.10	76.0	175	33.90	131.0	523	22.40	258.0
1994	19	5.20	98.0	178	49.00	193.0	536	25.50	302.0
1995 ¹	10	4.85	48.4	99	58.65	129.9	253	29.25	162.2

Note: 1. First six months. Source: BCR.

cases are similar and State mining companies exist that fulfill their principal objective: to earn money. However, in Peru, a country with a very important potential for mining, where the natural conditions for the development of this activity are very favourable, the State companies in this sector showed negative economic results and did not develop the projects under their control during more than 20 years; they did not even carry out sufficient studies on these projects.

Organization of the privatization process

The process of privatization that was initiated in 1992 is organized in a very simple manner, at three levels:

- The steering organ, the Commission for Promotion of Private Investment (COPRI), is composed of five ministers who decide which companies to promote, appoint the managers of the process and approve the

conditions and prices defined by CEPRI;

- The organ that supervises and supports the process, the Executive Directorate of the COPRI; and
- The executors of each individual privatization process, the "Special Committees" (CEPRI), which have a broad mandate to take decisions of all kinds, including the definition of strategies and revision of the objectives and the structure of the company. Examples in the mining sector include studies of reserves, machinery, equipment, processes, products, commercialization etc. The Committees review legal, labour (including the reduction of personnel), judicial and registration aspects, and contract with financial advisers or investment banks as well as with the Technical Adviser, who is responsible for the valuation of the enterprise.

In the case of the Peruvian mining sector, the fundamental objective of the privatization, rather than a mere transfer in order to obtain funds, has been to develop projects, expand capacity and generally improve the functioning of the mining operations, that is, investment has been the principal objective.

Privatizations undertaken in the mining sector

Table 6 shows the privatizations undertaken since 1991. With respect to the first of them, Minas Buenaventura, it needs to be kept in mind that it was a simple transfer of a ten per cent minority interest, and that since it concerned a private company which was quoted on the stock exchange, the operation was relatively simple.

The second, Minera Condestable, was the first sale of an entire company. It was a small company and the auction took place on the stock exchange, which gave more transparency to the early process of privatization. A positive factor was the good attitude of the personnel, who with-

Table 5. Statement of earnings and losses, MUSD, 31 December 1991

	Hierro Perú	Centromin	Minero Perú	Tintaya (1992)
Sales	28.7	395.5	207.1	102.6
Cost of sales	69.6	404.9	218.7	68.3
Gross profit (loss)	(40.9)	(9.5)	(11.6)	34.3
Cost of administration and sales	9.2	95.6	36.1	37.5
Operating profit (loss)	(50.2)	(105.1)	(47.6)	(3.2)
Financial and another expenses	0.8	(68.7)	(15.2)	12.4
Profit (loss) before taxes	(51.0)	(173.8)	(62.8)	(15.6)
Profit tax	—	—	—	—
Net profit	(51.0)	(173.8)	(62.8)	(15.6)

- Hierro Perú, which was expropriated from the Marcona Mining Corporation; and,
- Tintaya, developed by the State.

The first privatization that was completed was that of Hierro Perú, the most distinctive feature of which was the reversal that took place during the promotion, since initially the conditions demanded were not accepted by the market. An investment of 60 MUSD and a minimum sales price of 25 MUSD were requested, with the buyer being asked to assume liabilities of 30 MUSD. Almost unexpectedly, and with very little advance notice, the Chinese mining company Shougang appeared with a surprising offer of an investment commitment of 150 MUSD and a purchase price of 120 MUSD, while other bidders offered only the minimum amounts.

In a very short time, the sale of the first mining concession of Minero Perú, the Quellaveco deposit, was completed. It was acquired by the Chilean company Mantos Blancos, the principal sharehold-

out exception acquired shares, totalling 25 per cent of the capital.

As seen, at these first two auctions, the shares were acquired by Peruvian investors.

Almost at the same time, the process of privatizing the four most important State mining companies was initiated:

- Minero Perú, to which had been assigned almost all large deposits, of which it had only developed Cerro Verde and Tintaya, and which owned the zinc and copper refineries;
- Centromin, which was expropriated from the Cerro de Pasco Corporation;

Table 4. Peru. Mining exports 1985-1995

Year	Copper			Iron ore			Gold		
	Volume (kt)	Price (cents/lb)	Value (MUSD)	Volume (Mt)	Price (USD/t)	Value (MUSD)	Volume (ktr.oz)	Price (USD/tr.oz)	Value (MUSD)
1985	363	59.30	476.0	5	14.60	76.0	135	320.60	43.0
1986	347	58.70	449.0	4	14.40	60.0	20	353.10	7.0
1987	351	72.20	559.0	4	14.00	61.0	2	353.80	1.0
1988	266	104.50	613.0	5	13.40	60.0	0	0.00	0.0
1989	295	116.80	759.0	4	14.80	56.0	6	356.30	2.0
1990	286	111.10	700.0	4	15.80	58.0	25	371.70	9.0
1991	328	102.00	738.0	3	17.40	46.0	388	351.70	137.0
1992	374	97.70	806.0	3	17.90	54.0	630	340.70	215.0
1993	359	83.20	658.0	5	17.70	84.0	636	353.10	225.0
1994	387	96.50	824.0	6	16.80	105.0	886	381.00	338.0
1995 ¹	188	129.80	538.2	3	16.10	48.2	569	386.20	219.9

Note: 1. First six months. Source: BCR.

Table 6. Privatizations in Peru

Property	Type of contract	Sales price (MUSD)	Investment (MUSD)	Buyer
1. Buenaventura	Transfer of shares	1.50	–	Sold on stock exchange (10.6.1991)
2. Condestable	Transfer of shares	1.30	–	Serfin group and others (26.5.1992)
3. Hierro Perú	Transfer of shares	120.00	150.0	Shougang Corp. (30.10.1992)
4. Quellaveco (MP)	Transfer of shares	12.00	562.0	E.M. Mantos Blancos
	Feasibility study	2.50		(Angloamerican group) (15.2.1993)
5. Cerro Verde (MP)	Transfer of shares	37.00	485.3	Cyprus Climax Minerals (17.3.1994)
6. Jehuamarca – Cañariaco (MP)	Option: Mine title	2.10		Placer Dome Inc. (24.5.1994)
	Investment	2.45		
	Transfer price	5.00		
7. Las Huaquillas (MP)	Option: Mine title	0.10		Vegsa C.G./ Andescorp. S.A. (10.5.1994)
	Investment	1.90		
	Transfer price	0.84		
8. La Granja (MP)	Option: Mine title	31.00		
	Investment	25.00		
	Transfer price	5.0 per cent		
9. Ilo refinery (MP)	Transfer of assets		20.2	Southern Peru Copper Corp (31.5.1994)
	Transfer price	65.00		
10. Colpar, Hualatán and Pallacochas (MP)	Option: Mine title	0.06		Mining San José Ltd. (24.6.1994)
	Investment	4.68		
	Royalty	1.75		
11. Tintaya	Transfer of shares		85.0	Magma Copper Co. (6.10.1994)
	Transfer price:	218.00		
	– Cash	55.00		
	– Debt	273.00		
	Total			
12. Cajamarquilla ref. (MP)	Transfer of shares		50.0	Cominco Ltd./Marubeni Corp. (15.5.1995)
	Price of Transfer:	41.00		
	– Cash	112.00		
	– Over four years	40.00		
	– Debt	193.00		
	Total			
13. Berenguela (MP)	Option	0.04	0.8	Kappes, Cassiday & Associates (03.03.1995)
14. Mishki	Option	1.0	1.2	Minera Sunshine del Peru (19.7.1995)
15. San Antonio de Poto (MP)	Option			Andrade Gutierrez Mineracao (25.8.1995)
	Transfer price	7.15		
	Royalty	6.3 per cent		

Note: MP = Property of Minero Perú S.A.

Table 7. Copper production at privatized properties in Peru

Property	Annual production (kt of copper)	
	Before privatization	Projected in the year 2000
1. Quellaveco	–	100
2. La Granja	–	130
3. Berenguela	–	10
4. Cerro Verde	18	110
5. Tintaya	47	100
Total	65	450

er of which is the Angloamerican group. Very recently, the buyers have completed the feasibility study that they were committed to carry out, according to which an investment of 650 MUSD will be made in mine development. This will permit an annual production of 100 kt of copper.

In November 1993, the transfer of the first production unit of Minero Perú, Cerro Verde, was successfully completed. This installation had a design capacity of 33 kt of copper cathodes per year based on oxide ores and transformed sulphide ores, with the primary sulphide ores which constituted the major portion of reserves awaiting exploitation. Thus, the property should be seen as an ore deposit. The buyer, Cyprus Climax Metals Co. of the United States, paid 37 MUSD for 91 per cent of the shares and committed itself to invest 485 MUSD in five years. The relevant feasibility studies have already been completed, and during the first year 56 MUSD were invested.

The next privatization process concerned five small deposits, about which very little information was available. For this process, option contracts were adopted for the first time. Three minimum con-

ditions were demanded: an annual fee for the option, a price for the eventual transfer, and a commitment to invest in further studies. The Jehuamarca-Cañariaco prospects (copper and gold), which were sold as one prospect, and the Huaquillas (gold) prospect were handled in this manner. There were no bidders for the remaining three prospects, which were offered separately.

The following privatization, that of the La Granja deposit, also by means of an option contract, was one of the most important successes of the process from the point of view of new project development. For the option, the buyer will have to pay 31 MUSD if the entire five years of the option's life span are used. The fee starts at 1 MUSD for the first year, and is doubled each year in order to accelerate the development of the deposit. The buyer is committed to invest 25 MUSD in studies and, something which constituted an innovation, will pay royalties according to a sliding scale with 5 per cent of the net sales value being paid at a copper price of 1 USD per pound. From studies received it is known that reserves three times larger than anticipated have been identified and that the investment in mine development will exceed 771 MUSD.

The case of the Ilo copper refinery, also a property of Minero Perú, presented particular aspects. The plant was constructed by the State in order to treat the blister copper produced by a private company, for which reason it was located near to the blister copper smelter. The copper smelter was legally obliged to give the State refinery priority of supply and the refining fee contracted until the year 2000 was higher than that obtainable on the international market. The problem that arose was then how to fix a price that would make an interested company present its best offer and that at the same time would stimulate competition. Fortunately the buyer demonstrated rational behavior and paid a fair price which reflected the

benefits accruing both to the State and to the buyer.

Because of the company's potential, the bidding for Tintaya attracted the largest number of offers and therefore a better price: 218 MUSD in cash, 55 MUSD in a debt swap, and 85 MUSD in investment commitments. Currently, the operation is producing twice as much mined material per day as before, the cost per pound of copper has been reduced by 5 cents, and production has increased by more than 30 per cent, without any capital investment yet having been made in the plant.

The transfer of the Cajamarquilla zinc refinery, which at times was difficult because of the low zinc price and the international trend to close this type of plant, necessitated a great marketing effort which succeeded in forming a consortium composed of a trading company with a solid presence in the market and one of the world's most important operators of zinc refineries. The transaction was concluded with 41 MUSD in cash, 112 MUSD paid over four years, 40 MUSD in assumed debt, and an investment commitment of 20 MUSD.

In the case of Berenguela, a copper deposit with anticipated metallurgical problems, it proved difficult to find interested buyers. For this reason, the merit of this case, albeit a small prospect, lies in the patient effort of identifying a potential investor with a possibly adequate technology.

Colpar, Hualatán and Pallacochas, also objects of option contracts, were awarded as a package to one contractor.

Finally, in the case of San Antonio de Poto, an alluvial gold deposit, the winner of the first auction did not sign the contract. However, after the letter of deposit was executed to the benefit of the State, a new auction was carried out, which resulted in even better conditions than the first one.

One of the clearest illustrations of the results of the privatization process in the Peruvian mining sector is seen in Table 8,

which shows the estimated copper production in the year 2000 of only five of the privatized companies and deposits. It suffices to recall that Peru's copper production in 1994 was 387 000 t and that production from only these installations will increase by 385 000 t, that is, production will be doubled.

Centromin, the country's largest mining company, remains to be privatized. It was initially intended to sell it as one unit, but due to a lack of bidders, the operations and reserves will be privatized separately, as shown in Table 8.

Preparatory actions and establishment of conditions

For each company, the first step at the preparatory stage is to identify everything that should be done in order to transfer the enterprise at the best conditions for the buyer and the State. Several of the many matters that needed attention posed problems that were difficult to resolve. For example, when companies with large assets were divided and the assets were over-valued or under-valued, there were no experienced advisors to assist.

Recruitment of specialists

The recruitment of specialists, which took place at the beginning of the process, was done with support from the World Bank which offered valuable cooperation in this respect, the result of which was the first momentum given to the privatization process. It is advisable to be very careful when negotiating contracts with advisers such as investment banks and technical advisers on valuation of companies. In both cases one has to try to demand the maximum in the contract and establish concrete goals that are related to payments, with a view to ensure that the advisers assign resources proportional to their fees.

Also important is the contracting of lawyers and other types of technical support. This should be guided more by the efficiency of those supplying the service than by the name of the institution to

Table 8. Installed capacity and ore reserves at Centromin (kt)

	Installed capacity	Proven and probable	Potential reserves	Life of mine (years)	Potential life of mine reserves (years)
Production units:					
Andaychagua	360	1 474	5 061	4.1	18.2
Casapalca	979	6 205	12 800	6.3	19.4
Cerro de Pasco	2 160	29 082	54 020	13.5	38.5
Coppery	3 276	29 082	54 020	13.5	38.5
Morococha	522	3 823	3 578	7.3 ¹	14.2
San Cristóbal	666	5 859	29 055	8.8	52.4
Yauricocha	482	3 300	4 755	6.8	16.7
Total	8 446	67 479	113 269	8.0	21.4
Projects:					
Antamina ²		60 000	924 000		
Toromocho ²		55 000	310 000		
Others ³			544 000		

Notes: 1. Assuming full capacity utilization, which is not the case at present due to the ore characteristics. 2. Cut-off grade 1.5 per cent for Antamina and 0.8 per cent for Toromocho. 3. Figures do not include coal mines or alluvial gold projects.

which they belong. It is also important to note the necessity of a stringent coordination and supervision of the suppliers of the services.

Clearing up mine titles

This is one of the problems that face the privatization process for mining and which causes more delay than is usually calculated.

External debt

As in most other countries, the State assumes the debt of each company directly, which in each case necessitates calculating the debt and disposing of it according to legal norms. This task is not easy.

Environment

In line with the trend in most countries, since 1990 changes have been introduced

in Peruvian legislation with a view to protecting the environment and natural resources.

In this way, dispositions linked to assessment and environmental control have been established. In the case of new projects, there is an obligation to prepare an Environmental Impact Assessment (EIA), which has to be carried out in order for work on mining concessions to be approved. The objectives of the EIA are to determine existing conditions and absorption capacities, carry out analyses of the natural environment and foresee the effects and consequences of the project in search of a harmonic development of both the mining industry and the environment. With respect to existing operations, including those that are privatized, it has been necessary to introduce an "Environmental Adaptation and Management Programme" (PAMA), with the

purpose of incorporating into the operations technological advances and alternative measures allowing the reduction or elimination of emissions and effusions to maximum permissible levels. However, norms and quantitative standards have not yet been established.

The competent authority in environmental matters concerning the mining sector is the Ministry of Energy and Mines, which, in addition to establishing environmental protection policies, approving EIAs and monitoring environmental effects resulting from mining and metallurgical activities, also has the authority to conclude agreements on administrative stability with respect to environmental matters on the basis of approved EIA or PAMA studies. This constitutes a guarantee for the investor.

The option contract

This is an important stimulus to investment in exploration, that is, the highest-risk activity in mining. The following should be emphasized:

- The necessity of agreeing on investment commitments with penalties;
- The importance of using mechanisms that contribute to accelerating the development of the projects; and,
- Guarantees.

Forms of payment

With regard to the forms of payment utilized for the process of privatization in Peru, in addition to cash payments, it has been envisaged to use duly guaranteed instalment payments, payments in Peruvian Government bonds and, specifically for mining, royalties. When debt swaps have been used this has been in combination with cash payments: a fixed payment in bonds is required and the variable element is in cash.

Guarantees to the investors

Knowing that the instability of legal norms that has existed in the country has

affected its credibility with investors, Peru offers various modalities in contracts with the State. Through these it can be agreed:

- Directly with the State, that all obligations assumed by the entity that is party to a contract under the privatization process will be fulfilled. Considering that it is normally agreed that liabilities arising after the signature of the contract and which originate prior to this date are assumed by the seller, this generic guarantee is important.
- In the case of an investor in mining, through the sectoral Ministry, or in general, for any other activity through the National Commission for Foreign Investment and Technology (CONITE), the following guarantees are given:
 - Stability of the tax regime;
 - Free disposal of foreign currency;
 - Free remittance of profits, capital, dividends, royalties and other payments;
 - Right to apply the most favourable rate of exchange;
 - Right to non-discrimination in matters concerning prices, tariffs, form of enterprise etc;
 - Rules for recruitment of personnel;
 - Stability of export promotion schemes;
 - Free commercialization of the production internally or externally;
 - Simplification of administrative procedures
 - Stability of special regulations;
 - The length of these contracts varies from ten to fifteen years.

It should also be kept in mind that Peru has subscribed to many of the international guarantee agreements such as OPIC, MIGA etc.

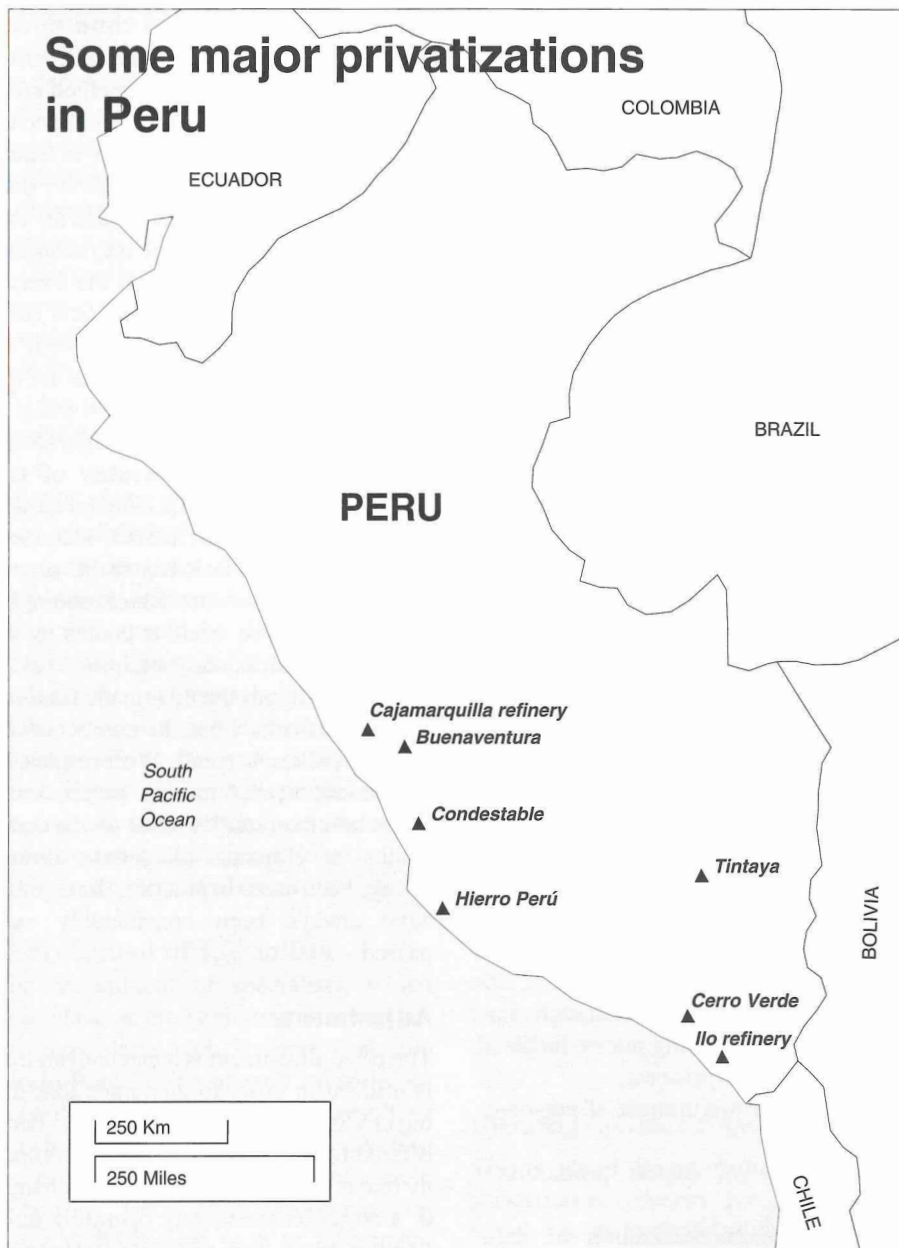
Establishing prices and conditions

In order to establish minimum sales prices for shares, the most used method consists of determining the potential value of the yield of the enterprise. This is based on a calculation of the cash flow, discounted so that the buyer can take his expectations of future income into account. This definition, under which the executors of the process assume political risk, is very delicate, since variables such as the estimation of product prices in the international market or the rate of interest for discounting purposes are subjectively determined. Thus the necessity of entrusting this work to a specialized entity, preferably with international standing. Nevertheless, the task has to be supervised so that elements which could be counterproductive when it comes to attracting investors or obtaining better prices are not introduced into the final report, in particular when the number of interested parties is small. With respect to investment in the mining sector, estimates based on studies made on the companies' development plans have almost always been used. In practice, these plans have always been considerably surpassed.

Adjustments

The price adjustment is a mechanism that is utilized in order to guarantee that the buyer will receive the value that has been offered for sale when acquiring a company that is not listed on the stock exchange or a large, independently operating unit. For this purpose, a projected balance of the company at the time of contract signature is drawn up. But since this estimate is simply a calculation, which will be subject to variations, the final price is adjusted by the difference between the projected and the closing balances, the latter having been audited by independent firms of international standing. In anticipation of any contingencies, which could be against the State, an amount corresponding to no more than five per cent of the price is paid into a special ac-

Some major privatizations in Peru



Peru. Some major properties privatized in the 1990s.

have been given the option to acquire shares and have been authorized to use as payment their shares of social security funds. In some cases, instalment payments over a period of approximately five years have been permitted. The price paid for the shares is the same as that paid by the investor.

In the majority of the privatizations these sales have been very successful, with employees' share participation reaching ten per cent, which is the maximum permitted by the law (with the exception of the case of Condestable referred to earlier).

Control and monitoring of the privatization process

In Peru, the continuous monitoring of the privatization process is the responsibility of the Controller General of the Republic, who audits carefully everything that is enacted. Furthermore, the Congress of the Republic often carries out special audits. In order to allow proper control, each Special Committee has to compile all the relevant documentation at the conclusion of the privatization process and prepare a so-called "White Book." This also permits the members of the Special Committees to maintain in their control important documentation that could be required to allow them to discharge themselves of alleged responsibilities that could be ascribed to them.

Factors contributing to success of privatization

Five factors have contributed to the successful implementation of the privatizations.

1. The political decision was firm and it was never questioned, in spite of the criticisms that were made of privatization in general at the outset.

2. Since the main interest was to promote investment and efficient management of resources, special attention was paid to identifying those who had financial capability and experience in the activity.

count that is used for any refund. Up to now, this mechanism has covered the contingencies in all cases.

Control of investment

In order to control in an orderly fashion that buyers comply with their investment commitments, the buyers have to submit annual reports which are subjected to a simple audit by specialized firms of standing. If the investment is insuffi-

cient, compensation formulas are established, according to which, in most cases, a direct payment to the State corresponding to 25 per cent of the uncompleted the investment is made. In some cases, guarantees for investment commitments have been given.

Sales to employees

In cases where companies with employees have been privatized, the employees

3. The exchange of views with the potential interested parties was one of the key factors. Efforts were not stinted and time plans were not hurried in the search to attract the greatest number of possible investors, so that the process could benefit from their competition. All routes were utilized: invitations through national and international newspapers and magazines, participation in forums, road-shows, etc.

4. Great attention was paid to the presentation of the information, placing special emphasis on providing technical, fiscal and legal information. Although an "Information Memorandum" was prepared for each individual case, which included general information about the country, such as treatment of foreign investment, tax regime etc., this document, albeit good, was insufficient. It is always necessary to call, visit and stimulate the interest of potential investors in every way. At each moment, attempts have to be made to determine the conditions which investors may be prepared to offer. Care should also be taken to keep all possible technical information available in a "Data Room". At least in the case of *Mínero Perú* very favourable comments were received on this practice. Personalized and direct attention to the investors' requests for facilities also contribute to reducing differences.

Since tax information is one of the types of information in which investors have most interest, clear and simple information on the principal kinds of taxes in Peru was provided: the profit tax¹, general sales tax², amortization of expenses³, depreciation⁴, investment in social infrastructure⁵ and the profit tax paid by technical service enterprises⁶.

5. The legal framework regulating the process has permitted flexibility and dynamism in decision-making.

Orientation of the State's future functions concerning mining

Since mineral resources belong to the State and individuals and companies ex-

plot them under a system of concessions of indefinite duration along with work obligations, the State, which has already decided that mining should be a private sector responsibility, should limit itself to:

- Establishing norms;
- Granting concessions, maintaining the register of mine titles and mining methods;
- Monitoring of mining activities and of compliance with the obligations of concession holders, including environmental control;
- Facilitating the construction of ports⁷ and highways⁸ and making efforts to make energy and water available to the mining industry, jointly with agriculture;
- Facilitating financing for small producers;
- Attending to problems such as the refund of taxes (draw-back) or the re-establishment of a balance of interest with agricultural land owners; and,
- Promotion activities: These activities should only concern those deposits which are still under State control and those where the private sector does not show an interest in participation; in practice, the activities are seen as oriented more towards supporting small and informal sector producers.

This means that in Peru, a country with a tradition of mining and where the private sector has generally been efficient, the State should only intervene when its presence is indispensable.

In conclusion, it is very important to have a firm political decision, and transparent and efficient management. Privatization entails the disposition of significant sums of money and of goods. If one really endeavours to improve the quality of life of most people, the process of privatization could be

one of the means that contribute to this end. This is an obligation of all involved in the process.

Notes

1. Levied at a rate of 30 per cent, not affected by payment of dividends or remittances to other countries.
2. The rate is 18 per cent and it is recovered when products are exported.
3. Exploration expenses are written off in the year that they are incurred; development costs over two additional years; losses can be carried forward for four years.
4. 30 per cent per year on machinery and equipment; 3 per cent per year on buildings and furnishings.
5. Considered as operating expenses.
6. The rate of the tax is 30 per cent on profits generated domestically; there is no tax on profits from work abroad; on combined work, the rate is 12 per cent.
7. In spite of having a 1 800 kilometer coastline, Peru has only four ports that can be utilized by non-ferrous mining.
8. Freight costs within the country are very high due to geographical factors and the bad state of the roads. ■