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Peru: Politics, Economy, and Elections in Brief

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Summary

This report provides an overview of Peru's political, economic, and security conditions and of U.S.-Peruvian relations.

As President Ollanta Humala is nearing the end of his five-year term, Peru held national elections for the presidency and the 130-seat unicameral legislature on April 10, 2016. Because none of the presidential candidates won an absolute majority, a runoff will be held June 5.

For months, center-rightist Keiko Fujimori had maintained a strong lead in what began as a field of 18 candidates. However, there is strong sentiment against her candidacy, as well. Both the strong support for and the opposition to Fujimori stem mostly from the legacy of her father, Alberto Fujimori, whose harsh security policy helped to squash the *Sendero Luminoso* terrorist group but also entailed gross violations of human rights. The elder Fujimori is serving a 25-year prison sentence in Peru for crimes against humanity and corruption.

The disqualification of two popular candidates, Julio Guzmán and Cesar Acuña, in March 2016 changed the landscape of the race and raised questions regarding the electoral institutions' neutrality and competency. The removal of Guzmán and Acuña opened the space for center-right economist Pedro Pablo Kuczynski and leftist Verónica Mendoza to move up in polls to a technical tie for second place just a week before the vote. On election day, Keiko Fujimori won 40% of the vote and Pedro Pablo Kuczynski won 21% of the vote. The two will proceed to the runoff election. The new president and congress are to assume office in July 2016.

Since 2001, Peru's economy has been one of the strongest in Latin America. President Humala's economic strategy has been to maintain free-market policies while working to narrow the wide economic distribution gap and eliminate the social exclusion of Peru's poor, mostly indigenous population. Deep social divides over how to pursue this aim have continued to undercut political stability in Peru. Social unrest and debate over exploitation of natural resources has long been and will likely remain a major challenge for any Peruvian government. The more serious disputes have involved the mining industry and the rights of indigenous peoples in those areas where mining exists or where mining interests intend to operate. Humala has found it politically difficult to balance his stated desire to help the poor and indigenous with his effort to encourage investment by the business sector, especially the extractive industry. In addition, some observers project that the current El Niño weather pattern hitting Peru could hurt Peru's economic growth.

Peru and the United States have a strong and cooperative relationship. Several issues in U.S.-Peruvian relations are likely to be considered in decisions by Congress and the Administration on future aid to and cooperation with Peru. The United States supports the strengthening of Peru's democratic institutions, counternarcotics efforts, security and respect for human rights, and environmental protection. A dominant theme in bilateral relations is the effort to stem the flow of illegal drugs, mostly cocaine, between the two countries. In the economic realm, the United States supports bilateral trade relations and Peru's further integration into the world economy. A bilateral free trade agreement (FTA) between the United States and Peru entered into force on February 1, 2009. In addition, both countries are parties to the Trans-Pacific Partnership (TPP) agreement, a proposed FTA with 10 other countries.

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Political Background

President Ollanta Humala, of the left-wing Peruvian Nationalist party (PNP) and the Gana Peru coalition, is in the last year of his five-year term. Peru held general elections on April 10, 2016. Because none of the presidential candidates won an absolute majority, a runoff will be held June 5, with a new president to take office in July. Presidents are constitutionally barred from running for consecutive terms, so Humala could not run for reelection. The elections became contentious, as the Special Electoral Board ruled two candidates ineligible in March 2016, just weeks before the elections were to take place.

The Humala Administration

Humala, president since 2011, has said that his administration's accomplishments include "the reduction of poverty, improved teaching standards, a new pension system, [and] more higher education scholarships."¹ Nonetheless, his administration has also been characterized by frequent Cabinet changes and corruption scandals. The president has appointed seven prime ministers in less than five years. The sixth prime minister was censured by congress after the national intelligence agency allegedly spied on members of the political opposition. Humala, a former military officer, is said to have staffed the intelligence agency with army associates.² Brazilian federal police investigating corruption at Brazil's state-run oil company, Petrobras, are reportedly investigating President Humala in relation to \$3 million in bribes in exchange for Petrobras contracts in Peru.³ In February 2016, Peru's attorney general's office announced that it had begun its own investigations into the allegations.⁴

The Peruvian general public has expressed widespread disillusionment with the country's political class. In the regional and municipal elections held in October 2014, more than 100 candidates were shown to have links to drug-trafficking cases—and several of those candidates still won.⁵ Five of those who were elected have been investigated for corruption and/or money laundering.⁶ Several recent corruption scandals involve close associates of the president. In one high-profile case, government investigators are looking into First Lady Nadine Heredia's ties to Martin Belaunde, a former Humala adviser awaiting trial on political espionage and money-

Peru at a Glance

Population: 30.97 million (2014, est.)

Capital: Lima

Area: 1,285,216 square kilometers (slightly smaller than Alaska)

GDP: \$202.9 billion (2014, est.)

Per Capita Income: \$6,360 (2014 est.)

Ethnic Groups: Amerindian 45%; mestizo (mixed Amerindian and white) 37%; white 15%; black, Japanese, Chinese, and other 3%

Religions: Roman Catholic 81.3%, Evangelical 12.5%, other 3.3%, none 2.9% (2007 est.)

Leadership: President Ollanta Humala; Prime Minister Pedro Cateriano; Congress President Luis Iberico

Sources: World Bank; U.S. Department of State; Central Intelligence Agency; United States Trade Organization.

¹ Rohan Chatterjee, "Humala Enters Final Year with Record Low Approval," *Latin Correspondent*, August 11, 2015.

² "Peru's Government: A Jarring Defeat; The loneliness of Ollanta Humala," *Economist*, April 4, 2015.

³ "Peruvian President Investigated in Brazil Petrobras Probe," *St. Louis Post-Dispatch*, February 27, 2016.

⁴ "Peruvian President Being Investigated for Taking Illegal Bribes," Telesur, February 26, 2016, at <http://www.telesurtv.net/english/news/Peruvian-President-Being-Investigated-For-Taking-Illegal-Bribes-20160226-0007.html>.

⁵ Economist Intelligence Unit, *Country Report: Peru*, February 2015, pp. 5, 24-26.

⁶ U.S. Department of State, *International Narcotics Control Strategy Report*, vol. 1, March 2015, p. 271.

laundering charges. These scandals, combined with a slowing economy, have led to extremely low approval ratings for Humala. Heredia is now facing a new investigation into possible procedural fraud charges for denying that she was the owner of diaries containing key information regarding Humala's presidential campaign.⁷

Heredia is also the leader of the PNP. She and Humala backed off from earlier consideration of changing the electoral law to allow the first lady to run for president in the 2016 election. The PNP withdrew its eventual presidential candidate, Daniel Urresti, before the first round of elections was held. Urresti was garnering only about 2% of voters in preelection polls; each party must obtain at least 5% of the vote to remain a registered political party. Parties are allowed to skip one election, though, and remain registered. Humala's party has been losing members, however, as the president has promoted more orthodox policies over populist ones. It may be difficult for Humala to rebuild the party, as he says he plans to do.

National Elections

Elections for the presidency and the 130-seat unicameral congress took place on April 10, 2016. The dynamics of what seemed like an ordinary national election became more controversial when two leading candidates were disqualified just one month before voting took place. On March 4, 2016, Peru's Special Elections Board (JEE, by its Spanish acronym) ruled that presidential candidate Julio Guzmán could not run for president in 2016 because of technical irregularities of his *Todos por el Perú* (All for Peru) party's internal selection process. Guzmán, a centrist economist who has worked for the Inter-American Development Bank, was polling in second place when he was disqualified.

The JEE also disqualified Cesar Acuña of the *Alianza Por El Progreso* (Alliance for Progress) party, who was polling in third and fourth place. The JEE disqualified Acuña as a candidate for giving cash to voters while campaigning, a violation of a relatively new electoral law. His campaign was already faltering, though, after a string of scandals and allegations of perjury, plagiarism, and vote-buying.⁸ The expulsion from the race of Guzmán and Acuña, whom the public viewed as outsiders, stoked anger against the political establishment and front-runner Keiko Fujimori (whom Humala defeated in 2011).

Because no presidential candidate garnered 50% plus one vote, Peru will hold a run-off election between the top two contenders: Keiko Fujimori, who won 40% of the vote, and Pedro Pablo Kuczynski, who won 21% of the vote.

Fujimori, of the conservative, populist *Fuerza Popular* (Popular Force) party, is a former member of congress (2006-2011) and daughter of discredited former president Alberto Fujimori, who is currently serving a 25-year jail sentence for crimes against humanity and corruption. As the younger Fujimori remains strongly linked to her father and his legacy, thousands of Peruvians protested in the streets against her, shouting, "Never again." Fujimori is generally expected to take a hard-line approach to security issues. Candidate Fujimori also is being investigated by state prosecutors for links with drug traffickers.⁹ Transparency International Chairman José Ugaz, who prosecuted Alberto Fujimori, reportedly described Keiko's candidacy as "the product of the resurgence of Peru's drug cartels."¹⁰

⁷ "Peruvian first lady to face new probe," BBC Monitoring Americas, May 3, 2016.

⁸ Colin Post, "Peru: Political Strategist Quits Cesar Acuña's Campaign," *Peru Reports*, February 29, 2016.

⁹ Rael Mora, "Keiko Fujimori Allegedly Financed by Drug Money," *Telesur*, March 24, 2016.

¹⁰ Peter Lind, "Drug Barons Sniff Victory in Peru Poll," *Sunday Times*, March 27, 2016.

Kuczynski, a former prime minister and economy minister, held various ministerial positions from 1980 to 1982 and 2001 to 2006. He is running for the centrist *Peruanos por el Cambio* (Peruvians for Change) party. A former World Bank economist, Kuczynski espouses fairly orthodox economic views, so he appeals to the business sector. He is also considered a moderate and therefore likely to appeal to some on the left as well.

The special electoral court investigated complaints against both Fujimori and Kuczynski for allegedly handing out gifts to supporters. Public suspicion that the disqualifications of Guzmán and Acuña were politically motivated was reinforced in mid-March when a court cleared Keiko Fujimori of campaign corruption allegations for actions very similar to those that disqualified Acuña. Later, the court also cleared Kuczynski. Much of the public and many analysts felt that the rulings indicated, at a minimum, inconsistent application of the electoral law, and possibly either incompetence or corruption in the electoral institutions.

Other candidates who have been under investigation include former presidents Alan García (1985-1990 and 2006-2011) and Alejandro Toledo (2001-2006). Both former presidents have been investigated for corruption, and both say the investigations were politically driven to hamper their candidacies. García is being investigated for illicit enrichment and a payment-for-pardons case, in which hundreds of convicted drug traffickers were released early from prison during his presidency. Toledo has been indicted for money laundering in a real estate deal.

Polls before the April elections indicated that if Fujimori were to face Kuczynski in the second round, Kuczynski would get the anti-Fujimori votes and win by a narrow margin. Winning will be difficult for Kuczynski, however, if he does not attract more voters in rural areas, where his support is weakest and Fujimori's support is strongest. Left-wing candidate Verónica Mendoza, who placed third, did well in rural areas but has not committed to throwing her support behind Kuczynski. Acuña, who was polling strongly when he was disqualified, formally endorsed Kuczynski on May 3.

Various polls show the two candidates in a statistical tie. The race is expected to be very close. Fujimori's Popular Force party won 71 out of the 130 seats in the congress, an absolute majority. This majority will enable the party to pass or defeat legislation and censure ministers without having to compromise with other parties. Mendoza's Broad Front won 22 seats, and Kuczynski's Peruvians for Change party won only 18 seats.

Economic Background

Peru's economy has been one of the strongest in Latin America since 2001. Economic growth averaged 6.8% from 2003 to 2008, during the height of the country's commodity boom, led by mining and oil. Growth then fluctuated, slowing to 2.4% in 2014. The Economist Intelligence Unit reports a minor rebound to 2.7% economic growth in 2015 and predicts 3.6% growth in 2016 and an average of 4.7% economic growth from 2017 to 2018.¹¹

¹¹ Economist Intelligence Unit, *Country Report: Peru*, generated February 24, 2016, p. 9.

Figure I. Map of Peru



Source: Map created by CRS. Boundaries and information generated by (name redacted) using data from Department of State (2015), Esri (2014), DeLorme (2014), ArcWorld (2014), NatureServe.org (2013), and InfoRegion.pe (2012).

Peru's economic growth in 2016 could be negatively affected by the current El Niño weather pattern hitting the country, however. Heavy rains have caused floods and landslides that have killed some people, destroyed or damaged thousands of homes, destroyed key bridges, closed roads throughout the country, and ruined more than 8,000 acres of crops in the state of San Martín. The weather phenomenon is winding down but could continue until early summer. Economic damage has also been caused by oil spills in the first months of 2016, at least one of which may have been caused by a landslide. Peru declared a 60-day state of emergency after a

spill from the state-owned Petroperú pipeline damaged local crops and basic water services in the Loreto region in February.¹²

Humala's economic strategy has been to maintain free-market policies while also working to narrow the wide economic distribution gap and eliminate the social exclusion of Peru's poor, mostly indigenous population. Deep social divides over how to pursue this development have continued to undercut political stability in Peru, however, and have thwarted some of Humala's plans. The more radical elements of Humala's original support base and his Gana Peru party have become disillusioned with Humala, accusing him of abandoning the pursuit of more leftist policies, such as nationalization of strategic industries, which he called for during his campaign. Political forces that have resisted the more radical approaches include a strong business sector; a conservative, wealthy elite; and a centrist middle class.

Conflicts over Natural Resources

Social unrest and debate over exploitation of natural resources have long been and likely will remain major challenges for any Peruvian government. The more serious disputes have involved the mining industry and the rights of indigenous peoples in those areas where mining exists or where mining interests intend to operate. Violent protests have erupted often, sometimes resulting in loss of life. The first law Humala signed as president was a prior-consultation law requiring mining, energy, and logging companies to consult with indigenous and rural communities about projects planned in their communities. The prior-consultation law does not grant local communities veto power over investments in their area, however, and the Humala administration has allowed various mining projects to proceed without prior consultation and without a clear process or definition of eligible communities in place on which to base decisions. Humala has found it politically difficult to balance his stated desire to help the poor and indigenous with his effort to encourage investment by the business sector.

In 2016, there have also been protests over pollution caused by two (possibly three) new oil spills in Peru's Amazon region. The spills are polluting two important rivers, the Chiriaco and Marañon, affecting eight indigenous communities and between 5,000 and 8,000 people. The Marañon is a principal tributary of the Amazon River in Peru and forms the northern border of the Pacaya Samiria National Reserve. The government has reportedly declared a "water quality emergency" in the area and promised to conduct a cleanup, although environmental groups and others criticize the government's response as being too slow.¹³ Indigenous and human rights groups demand that the government also repair damaged pipelines and compensate affected indigenous communities for the loss of crops and fish and the damages to their health.¹⁴

Both presidential candidates are likely to continue Peru's current economic development policies, which base growth on mining and extractive industries. According to Global Insight, Fujimori could be expected to take a hard line against local community opposition, and so more protests and riots would be likely under an administration led by her.¹⁵ Kuczynski is a former minister of energy and mines. Although left-wing candidate Verónica Mendoza lost her bid for the presidency, her Broad Front party won about 20 seats in the congress and may seek to create an

¹² "Peru Declares State of Emergency after Amazonas Oil Spill," *Business News Americas*, February 29, 2016.

¹³ Andy Rowell, "Outrage Over Peru Oil Spills: 'It's a Crime that Has no Forgiveness,'" *Oil Change International*, February 26, 2016.

¹⁴ Andrew Miller, "Collateral Damage—Oil Stains Peru's Amazon, Again," *Amazon Watch*, February 19, 2016.

¹⁵ Diego Moya-Ocampos, "Both candidates in Peru's second-round election likely to support natural resource development after defeat of anti-mining candidate," *IHS Global Insight Daily Analysis*, April 12, 2016.

anti-mining coalition to promote her proposals. Mendoza had pledged to renegotiate gas contracts and modify the role of mining in the economy.

Falling Poverty Rates

Poverty levels in Peru have been falling for more than a decade. Nationally, poverty rates were cut by about half between 2005 and 2014, from 45% to 23% of the population.¹⁶ The proportion of the Peruvian population living below the official extreme poverty line also fell significantly during that period, from 15.8% to 4.3%. Extreme poverty remains concentrated in particular rural areas. Income inequality has also decreased, including in rural areas, although it still remains high overall. Since Humala assumed office, an emphasis on targeted social spending and poverty reduction combined with continued economic growth has led to poverty falling at a faster rate in the more poverty-stricken rural areas than in the cities. From 2011 to 2014, poverty fell in rural areas by 10.1 % and in urban areas by 2.7%.

Security¹⁷

Peru has less crime than most Latin American countries. Peru's murder rate is the fourth lowest in South America (after Argentina, Chile, and Uruguay), at 9.6 murders per 100,000 people. Robberies occur at a higher rate; one-fourth of Peruvians reported being victims in 2013, leading to a high perception of insecurity. Roadblocks and violent demonstrations are common in mining areas. According to the State Department's human rights report for 2015, "[T]here were no reports that the government or its agents committed arbitrary or unlawful killings." The report noted nonetheless that police officers killed 3 people and injured 26 others during a protest at the Las Bambas copper mine in September; the regional prosecutor was investigating the incidents at the end of 2015.

The Peruvian National Police are responsible for internal security, except in the central-southern Valley of the Apurimac, Ene, and Mantaro Rivers (VRAEM), where the military is responsible for internal security. Approximately half of Peru's potential pure cocaine is produced in the remote VRAEM, where remnants of the Shining Path (*Sendero Luminoso*) terrorist insurgency operate and rely on cocaine trafficking for funding. The Shining Path's strength has been greatly reduced from the late 1980s and early 1990s, when it posed a significant threat to national security. According to *Jane's Sentinel Security Assessment*, the Shining Path currently does not pose a major security threat outside the VRAEM. Within that area, however, according to the State Department's human rights report for 2015, the Shining Path carried out a range of human rights abuses, including killings and forced recruitment of child soldiers. In 2014, despite insurgency attacks against them, Peruvian military forces regained control of several areas of the valley that had been controlled by the Shining Path. Nonetheless, firms operating in the VRAEM continue to face threats of extortion, sabotage, and kidnapping by the group.

¹⁶ Statistics in this paragraph from Instituto Nacional de Estadística e Informática, *Evolución de la Pobreza Monetaria en el Perú al 2014*, April 2015, pp. 7, 10, at http://www.inei.gob.pe/media/cifras_de_pobreza/evolucion_pobreza_2014.pdf; and World Bank, "Peru Overview," accessed March 1, 2016, at <http://www.worldbank.org/en/country/peru/overview>.

¹⁷ IHS, "Peru: Security," *Jane's Sentinel Security Assessment*, November 23, 2015; and U.S. Dept. of State, "Peru," *Country Reports on Human Rights Practices for 2014*, 2015.

Climate Change

Peru is a developing country with an economy based on intensive use of natural resources, a significant number of people living in poverty, and a territory highly vulnerable to climate change. As a result, global climate change can create further obstacles and adverse conditions for the country's development, according to a joint study published in December 2014 by the Peruvian government, the Economic Commission for Latin America and the Caribbean, and the Inter-American Development Bank.¹⁸

The United Nations Framework Convention on Climate Change identifies nine characteristics of vulnerability to climate change. Peru has seven out of the nine characteristics, and so is classified as highly vulnerable to climate change. Peru's vulnerabilities include low coastal areas; arid and semi-arid areas; zones that are susceptible to deforestation or erosion, natural disasters, drought, and desertification; highly polluted urban areas; and fragile ecosystems.

The joint study, *The Economics of Climate Change in Peru*, predicts that the fishing, agriculture, and high Andes livestock sectors will be most affected by climate change in Peru and that the country will suffer significant economic losses by 2100.¹⁹ For example, the report said, reduced pasturelands and an expanded agricultural sector could cause up to a 90% loss in the high Andes livestock production sector. According to the study, Peru's hydroelectric power, mining, tourism, health, and infrastructure could also suffer negative consequences from climate change. The study concludes that "proper design and timely strategies, policies, programs and projects on adaptation is essential to counter the potential negative effects of climate change."²⁰

Peru has been a leader in the negotiations for the U.N. Framework Convention on Climate Change, including as president of the Conference of the Parties, which hammered out the Paris agreement in December 2015. Peru and other parties signed the Paris Agreement on April 22, 2016. After ratification of the agreement by its legislature, Peru will be committed to the agreement's intended Nationally Determined Contribution, reducing its greenhouse gas emissions by 30% from the "business as usual" scenario. A major goal toward that end is to reach zero emissions from the land use, land use change, and forestry sector by 2030.

Peru has also made significant strides in climate change policy. It developed a National Energy Policy, which supports wind and solar development; enacted maximum permissible limits on emissions for fishmeal and fish oil; and enacted the Forestry and Wildlife Law and supporting regulations, creating the National Forestry and Wildlife Service. Peru is currently designing a national adaptation plan for climate change.

Zika Virus²¹

Peru reported its first case of the Zika virus in late January 2016. It was brought into the country by a man from Venezuela, who contracted the infection in Colombia and was treated in a Lima hospital. The Health Ministry reported its seventh case on April 16, the first local transmission of

¹⁸ Banco Interamericano de Desarrollo, Comisión Económica para América Latina y el Caribe, *La economía del cambio climático en el Perú*, 2014, p. 142 (author's translation).

¹⁹ ECLAC, "ECLAC, IDB, Peru Study the Economics of Climate Change in Peru," press release, December 10, 2014.

²⁰ *La economía del cambio climático en el Perú*, op. cit., p. 142.

²¹ John Quigley, "Peru Braces for Spreading Zika Virus as First Case Confirmed," BloombergBusiness, January 29, 2016.

the virus, meaning it was spread within the local population. The virus was sexually transmitted from a man who contracted it in Venezuela to his wife back in Peru. Health Minister Anibal Velasquez says that Peru will control infection rates using the same measures used to contain the spread of mosquito-borne pathogens responsible for chikungunya and dengue diseases in recent years. Following the first sexually-transmitted case, the Peruvian government began to distribute condoms and information pamphlets to passengers arriving by air from Zika-infected countries. The Health Ministry plans to expand the program to more airports, seaports, and land crossings to help prevent the sexual transmission of Zika.²²

The current El Niño weather pattern has caused above-average rainfall and flooding, which could lead to higher incidences of mosquito-borne diseases, including Zika, according to the World Health Organization.²³ Although the weather pattern may mostly wind down by early summer, such health consequences are likely to linger throughout 2016 and perhaps longer.

U.S. Relations with Peru

Peru and the United States have a strong and cooperative relationship. The United States supports the strengthening of Peru's democratic institutions and its respect for human rights. The two countries also cooperate on environmental protection and counternarcotics efforts. In the economic realm, the United States supports bilateral trade relations and Peru's further integration into the world economy. President Humala met with President Obama in Washington, DC, in June 2013, during President Humala's official visit to the White House. According to the Obama Administration, the two leaders discussed U.S. efforts to support the Humala Administration's agenda of social inclusion, broad-based economic growth, and citizen security. They discussed joint efforts to further Trans-Pacific Partnership Agreement negotiations (negotiations were concluded on October 5, 2015; see section below on "Trade Issues") and to cooperate on education, energy and climate change, science and technology, and bilateral trade. Humala was reportedly in the United States to launch partnerships with several U.S. universities.

U.S. Assistance to Peru

The goals of U.S. assistance to Peru are to strengthen the capacity of Peru's institutions to combat transnational organized crime more effectively, improve citizen security and social inclusion of marginalized populations, manage Peru's diverse and fragile environment in a sustainable manner, and broaden the benefits of Peru's economic progress to more of its citizens.²⁴ While Congress has supported these goals through appropriated funding, foreign assistance for Peru has been declining overall since at least FY2010, when the United States provided almost \$120 million in assistance to Peru. Funding decreased to \$97 million in FY2011 and continued to decline over the next four years, to \$84 million in FY2015. The Obama Administration requested \$96 million for Peru for FY2016 and \$81 million for FY2017.

The FY2017 request includes \$9 million for Development Assistance; \$36.9 million in Economic Support Funds; \$1 million in Foreign Military Financing; \$600,000 for International Military Education and Training; and \$33.5 million for International Narcotics Control and Law Enforcement.

²² "Peru hands out condoms to visitors to curb sex-transmitted Zika virus," *The Telegraph*, Apr. 19, 2016.

²³ World Health Organization, *El Niño and Health*, pp. 28, 32, January 2016.

²⁴ U.S. Department of State, *Peru: Foreign Assistance Program Overview*, Congressional Budget Justification, Foreign Operations, Appendix 3, Fiscal Year 2017.

Counternarcotics Efforts

A dominant theme in relations between the United States and Peru is the effort to stem the flow of illegal drugs, mostly cocaine, from Peru. Most Peruvian cocaine is sent to other South American countries for consumption or for further transportation to Europe, the United States, East Asia, Mexico, and Africa, according to the State Department's *2016 International Narcotics Control Strategy Report* (INCSR). Peru is one of the three Andean countries that produce virtually all of the world's coca and was the world's top producer of cocaine in 2015, according to the State Department's report. According to United Nations Office on Drugs and Crime figures, Peru and Colombia are tied as the world's largest producers of coca leaf and cocaine.²⁵ Peru is also a major importer of precursor chemicals used for producing cocaine. Peru's national police reported that money-laundering transactions linked to narcotics trafficking amounted to about \$250 million in 2015.²⁶

The cultivation of coca and production of cocaine have contributed to social problems in Peru, such as domestic consumption of illicit drugs, environmental damage, and corruption of democratic institutions. Coca eradication is highly controversial in Peru. U.S. counternarcotics programs in Peru focus on three areas: eradication, interdiction, and alternative development.

According to the State Department's INCSR, the Peruvian government has "dedicated substantial resources" to implementing its five-year (2012-2016) counternarcotics strategy. The plan calls for a 200% increase in coca eradication by the end of the five years. In 2013, Peru contributed—for the first time—almost \$12 million to the cost of eradication and aerial support to efforts to support interdiction. Peru funded a "substantial share of alternative development and eradication operations" in 2015.

In August 2015, Peru's congress unanimously approved a law to allow Peru's air force to resume a program that called for shooting down airplanes suspected of drug trafficking.²⁷ A joint U.S.-Peruvian aerial interdiction program was ended 15 years ago after a civilian plane was accidentally shot down, killing two U.S. citizens, a missionary woman and her baby, in April 2001. The United States suspended the aerial interdiction program the same month. When Peru's congress was considering the bill, William Brownfield, U.S. Assistant Secretary of State for International Narcotics and Law Enforcement Affairs, told Peru that the United States opposed a resumption of the shoot-down program.²⁸ The State Department said, "Both U.S and international law prohibit using lethal force against civil aircraft, regardless of whether the aircraft is being used for drug trafficking."²⁹ Peru began to implement the law to resume the shoot-down program on January 12, 2016. Peru's prime minister recently said that while the military had not yet downed any planes, the shoot-down policy was forcing traffickers to smuggle drugs out of Peru by boat and on foot instead of in planes.³⁰

²⁵ IHS, "Peru: Security," *Jane's Sentinel Security Assessment*, November 23, 2015, p. 7.

²⁶ "Peruvian authorities report \$250 mn laundered from drug trafficking in 2015," EFE News Service, April 26, 2016.

²⁷ IHS Jane's 360, "Peru reinstates shoot-down law for suspected drugs smuggling aircraft," August 24, 2015.

²⁸ "Peru Eyes Backing Bill to Resume Shooting Down Drug Planes," *Reuters*, March 10, 2015.

²⁹ U.S. Dept. of State, "Country Report: Peru," *2016 International Narcotics Control Strategy Report* (INCSR), March 2016.

³⁰ "Peru shoot-down law turns drug smugglers to boats, backpackers," *Reuters*, April 26, 2016.

Colombian authorities arrested the man known as Peru's most wanted drug trafficker and deported him to Peru in May. Gerson Galvez, known as "Caracol," is wanted for over 100 killings in Peru, where he allegedly managed large shipments of cocaine from a Callao seaport.³¹

Human Trafficking

Peru is a source, destination, and transit country for men, women, and children subjected to forced labor and sex trafficking, according to the State Department's *2015 Trafficking in Persons Report*. The Obama Administration designated Peru a Tier 2 country, one whose government does not fully comply with the minimum standards of the U.S. Trafficking Victims Protection Act (P.L. 106-386) but is making significant efforts to bring itself into compliance with those standards. The report states that Peruvian "efforts to identify and assist forced labor victims and to prosecute and convict labor traffickers remained inadequate."

Trade Issues³²

The United States and Peru have a bilateral free trade agreement (FTA) that entered into force on February 1, 2009. In addition, both countries are party to the Trans-Pacific Partnership agreement (TPP), a proposed FTA with 10 other countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Singapore, and Vietnam. If the agreement is approved by congress and the other parties and enters into force, it will reduce and eliminate tariff and nontariff barriers on goods, services, and agriculture, and it will establish trade rules and disciplines covering a wide range of issues, including intellectual property rights protection (IPR), investor-state disputes, state-owned enterprises, and workers' rights. Negotiations on the agreement were concluded on October 5, 2015.³³ The proposed TPP, which Peru's congress is expected to ratify, would expand Peru's access to five new markets where there was no existing FTA (Australia, Brunei, Malaysia, New Zealand, and Vietnam). The agreement may benefit Peru's agricultural sector, agribusiness, fishing, manufacturing, cotton and alpaca clothing, and manufacturing.³⁴ Because the United States and Peru already have an FTA, the TPP will likely have little impact on U.S.-Peruvian trade. However, the TPP may change some of the rules governing U.S.-Peruvian trade and investment, because the FTA entered into force in areas such as regulatory coherence and intellectual property rights protection.³⁵

Proponents of the TPP contend that the proposed FTA has the potential to boost regulatory reforms in Peru and other member countries and provide Peru direct access to new markets in Asia. They maintain that the agreement would result in an increase of Peruvian exports; help diversify Peru's economy; and help reform Peru's regulatory system to support innovation and job creation, especially in small- and medium-sized companies.³⁶ Opponents of Peru's inclusion in the TPP contend that the agreement would have a negative impact on Peru. Social

³¹ "Colombia deports man called Peru's top drug lord," *Observer-Dispatch*, May 2, 2016.

³² Section on trade issues written by (name redacted), Specialist in International Trade and Finance.

³³ See CRS In Focus IF10000, *The Trans-Pacific Partnership (TPP): An Overview*, by (name redacted) and (name redacted), and CRS Report R42694, *The Trans-Pacific Partnership (TPP) Negotiations and Issues for Congress*, coordinated by (name redacted).

³⁴ Antoni Esteveordal, *What does the TPP Mean for Latin America and the Caribbean?*, *American Business Dialogue*, October 30, 2015.

³⁵ The text of the Trans-Pacific Partnership Agreement is available at <https://medium.com/the-trans-pacific-partnership>.

³⁶ Ambassador Demetrios J. Martins, Deputy U.S. Trade Representative, "The TPP Will Give Peru Direct Access to Markets such as Australia and New Zealand," *American Chamber of Commerce in Peru*, March 2013.

organizations, environmental groups, and other associations argue that Peru has violated its environmental and labor commitments under the U.S.-Peru FTA and that these issues should be addressed before approving the new agreement. They state that there have been major violations in logging concessions, increased exploitation of indigenous Amazonian lands, and a rollback of workers' rights protections since the agreement entered into force.³⁷

The United States and Peru have had four meetings of the U.S.-Peru Free Trade Commission, most recently in June 2014 in Peru. The commission is responsible for overseeing implementation and further elaboration of the FTA, and it reported that bilateral relations continue to strengthen and that the agreement's implementation is proceeding well. The U.S.-Peru FTA Labor Affairs Council met in October 2014 in Peru to discuss cooperation on matters such as child labor and forced labor (see "Human Trafficking," above).

The U.S.-Peru FTA Labor Affairs Council also discussed cooperation on capacity building for labor inspections in Peru.³⁸ U.S. assistance programs aim to complement U.S.-Peruvian trade and economic relations by helping to promote socially inclusive market-based economic growth.

In 2015, Peru ranked 41st among suppliers of U.S. imports and 30th among U.S. export markets. Total trade with Peru (imports plus exports) decreased by 13.7% in 2015, mostly due to a decline in oil prices. U.S. imports from Peru totaled \$5.1 billion in 2015, a 16.5% decrease from 2014. Major import items included gold, non-crude petroleum oil products, vegetables, grapes, and silver. U.S. exports to Peru totaled \$8.8 billion in 2015, a 12.9% decrease from the previous year. Major U.S. exports to Peru in 2015 included non-crude petroleum oil products, telephone sets (including cell phones), corn, automatic data processing machines, and turbojets and other gas turbines. Bilateral trade in goods between the United States and Peru has grown by over 50% since the FTA entered into force, with U.S. exports increasing more rapidly than U.S. imports.³⁹ U.S. exports to Peru increased by 78.9% between 2009 and 2015, while imports increased by 20.9%. In both imports and exports, the United States ranks second, after China, among Peru's trading partners.⁴⁰ In recent years, the United States has become one of Peru's largest investors.

Labor Issues⁴¹

On March 18, 2016, the U.S. Department of Labor's Office of Trade and Labor Affairs (OTLA) issued a report expressing "significant concerns" about Peru's Decree Law 22342, which is the law governing contracts in the nontraditional export sectors and aimed at diversifying the country's exports. The OTLA report states that Peru's decree may violate labor provisions of the U.S.-Peru FTA.⁴² The report responded to a complaint filed in July 2015 by the U.S.-based International Labor Rights Forum and other labor rights groups. The organizations argued that Peru's law violates its FTA commitments to abide by International Labor Organization (ILO) standards. The OTLA report raised concerns that the legislation allows nontraditional export sectors to employ workers using short-term contracts on an unlimited basis.⁴³ Peruvian authorities

³⁷ José de Echave, "Peru's Story Haunts the TPP," *The Hill*, June 9, 2015.

³⁸ Office of the United States Trade Representative, *Peru Trade Promotion Agreement*, at <https://ustr.gov/trade-agreements/free-trade-agreements/peru-tpa>.

³⁹ U.S. trade data in this paragraph was retrieved by CRS from the U.S. International Trade Commission trade dataweb.

⁴⁰ Trade data for Peru is from Global Trade Atlas and is based on trade data from the Peruvian government.

⁴¹ This section written by (name redacted).

⁴² Office of Trade and Labor Affairs (OTLA), Bureau of International Labor Affairs, U.S. Department of Labor, *Public Report of Review of U.S. Submission 2015-01 *Peru*, March 18, 2016. Hereinafter "OTLA Report."

⁴³ Nontraditional exports are defined as all exports other than metallic minerals, oil and gas, fishmeal and fish oil, (continued...)

and representatives from the business sector contend that the OTLA report verified Peru's compliance with the FTA, while labor groups argue that the Peruvian government must make "substantial changes" to the trade promotion legislation if it is to meet its commitments under the U.S.-Peru FTA.⁴⁴ OTLA, in coordination with the Office of the U.S. Trade Representative (USTR) and the State Department, will decide on next steps, and progress will be assessed nine months from the release of the report.⁴⁵

Environmental Protection Issues⁴⁶

Peru and the United States signed a debt-for-nature swap for 2008 to 2015 that was to reduce Peru's U.S. debt by more than \$25 million. In exchange, Peru agreed to use those funds to support grants to protect its tropical forests. Ongoing U.S. aid supports local and national capacity in creating sustainable environmental policies, practices, and livelihoods.

The United States and Peru are engaged in monitoring Peru's environmental commitments under the U.S.-Peru FTA, which include complying with and enforcing their environmental laws. In January 2013, the two countries agreed on an action plan to target continued challenges in the forestry sector, such as improving systems to track and verify timber exports from Peru to the United States. The United States has provided nearly \$75 million in technical assistance and capacity building to address these challenges. This includes the development of an electronic timber-tracking system to trace every log from stump to port. While Peru has made progress in addressing illegal logging, challenges remain.⁴⁷ In February 2016, the USTR announced that it had made its first verification request to the government of Peru to verify whether a 2015 timber shipment exported to the United States complied with all applicable Peruvian laws and regulations. USTR officials accompanied Peruvian officials as they conducted the governmental accreditation process from April 18 to April 22, and they are expected to issue a report about a month later.

In 2015, Peru made illegal logging on indigenous lands an aggravated offense, and the government committed more resources to enforcing the law. In April 2016, authorities dismantled an illegal logging operation inside a preserve established to protect the isolated Amazonian Isconahua tribe from all outsiders. Police and military seized over 5,000 cubic feet of illegal timber in their first major enforcement action since the law went into effect.

U.S. assistance also supports Peruvian efforts to mitigate and adapt to climate change. The U.S. Agency for International Development (USAID) provides technical support at the national level, strengthening the Ministry of the Environment's capacity to implement the environmental chapter of the FTA. By improving the Ministry of Environment's ability to manage and conserve natural resources such as the Amazon rainforest, these programs aim to help Peru mitigate the impact of climate change. USAID and the U.S. Department of Agriculture support a cooperative research project on climate change and agriculture. Other U.S. programs promote climate-resilient development and local capacity to adapt to climate change in the highlands.

(...continued)

coffee, cotton, and sugar. Other sectors, including apparel and textiles, can use the short-term contract mechanism for up to five years.

⁴⁴ Lucien O. Chauvin, "Peru Analyzing DOL Report on Labor Compliance," March 25, 2016.

⁴⁵ OTLA Report, pp. iii-iv.

⁴⁶ This section written by (name redacted) and (name redacted).

⁴⁷ Office of the United States Trade Representative (USTR), *USTR Requests Peru Timber Verification*, Press Release, February 29, 2016, <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2016/february>.

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