

INSTITUTE OF CURRENT WORLD AFFAIRS

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WHM - 5
Foreign Investment
in Perú

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Mr. Walter S. Rogers
Institute of Current World Affairs
522 Fifth Avenue
New York 36, New York

Dear Mr. Rogers:

Several weeks ago, the American delegation to the inter-American economic conference at Petropolis strongly urged that the Latin American countries try to attract private U.S. capital as one of the principal means of bolstering their economies. It looks as though the Age of Loans is being replaced by that of Private Investment - as though the Latin countries are going to have to step up their advertising campaigns as to the advantages of investing money within their borders. Certainly flashy ads, such as those currently being issued by Mexico, will be on the increase. Financial advantages will be stressed, climate and resources touted. But what about the disadvantages? What about the labor laws, the customs and characteristics of the working men? No ad is going to mention these things. Only those foreigners who have been working in Perú can tell you the advantages and disadvantages of starting an enterprise on Peruvian soil.

Jaime Terrassa, Managing Director of the Leche Gloria evaporated milk plant in Arequipa, knows whereof he speaks when it comes to laws, customs, characteristics and the like. In his position he has to know. Last week I went down to the big white Leche Gloria plant on the road to the village of Tingo to talk to Jim and to get his impressions on the advantages and disadvantages of running a U.S. capital-financed business operation in Perú.

As I walked through the gates into the yard of the plant, several milk trucks, among them a big tanker, were unloading at the main ramp. Milk from the chaora around Socabaya, Yarabamba, Chilina, and from the lonely districts back of El Misti was being processed through the big vats and pipes of the complicated condensing machinery. From the door to the main office, I could hear the rattle of the filling machines and can chutes and the distant ruckus of the can making factory. Workmen in blue coveralls tended the big machines of the raw-milk-to-sealed-carton assembly line. In the offices typists and accountants, men and women, worked at their desks. The faces of the workmen and white collar people were those of indios, mestizos, blancos, a hodgepodge of skin coloring. The races have mixed thoroughly in coastal Perú.

Although he is a Puerto Rican by birth, Jim Terrassa has the blue eyes and ruddy complexion of an Irishman fresh from the auld sod. He waved a hand at me and finished signing some papers on his desk; then he leaned back in the swivel chair and started rattling off facts and figures in reply to my questions.

"The first thing you must realize is that this is a Peruvian corporation. Most of the stock is owned by the General Milk Company I. in the States, but the dividends are declared in soles. We have nothing to do with dollars."

How did the plant get started?

I. Producer of Carnation Milk in the United States

"Both General Milk and Nestlé ^{2.} came down to Perú at about the same time. We picked the South and the Nestlé people decided on the region around Chiclayo in the North. We arranged a contract with the Government in 1940 which is due to expire next June. The contract calls for the development of a milk plant in general terms - evaporated milk, condensed milk, etc." ^{3.}

What about import duties on plant machinery in the beginning?

"There were no restrictions. We brought our own capital in and started to work. All equipment needed to build the plant came in duty-free. The same thing applies today, as a matter of fact. We do pay duties at Mollendo as our shipments come in, but that is just to speed up delivery to Arequipa. We file a petition and get a refund on the duties paid for each shipment. The law works this way: we are entitled to buy duty-free from a U.S. market all equipment needed for our milk production, unless that equipment is manufactured in Perú and sells for more than 10% below the U.S. cost.^{4.} Now, we buy such things as can labels and cartons right here in the country. Our big items - tin plate, for example - come from the States and are exempt from



Jaime Terrassa

most import duties."

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2. The Nestlé Company, Inc., New York - General Milk's rival in certain areas.
 3. Evaporated milk ("evap") is whole milk minus about three-fifths of its water content. Condensed milk is whole milk and sugar cooked down to specified thickness.
 4. The Leche Gloria contract states that when 10% is added to the cost of an American-made item at Mollendo (port for Arequipa and other cities) and the total is still less than the cost of the same item manufactured in Perú, import duties will not be placed on the item.

What about the reaction of the arequipeños to the construction of the plant?

"In the four years that I've been here, there hasn't been too much feeling against us. Sometimes the newspapers take a few digs at us because we don't buy advertising space from them. One look at the figures would tell you that we don't need to advertise. The demand for "evap" and condensed milk is greater than the supply. We turn out over 375,000 cases per year, but Perú still has to import more than the equivalent of our yearly production from countries such as Holland. What is more, those imported cases of milk range from 15% to 25% higher prices than ours (110 soles per case)"

What about Peruvian tax rates?

"Our corporate tax and income taxes are slightly less than in the States - about 40%-45%, but they are getting close to the mark. General Milk gets credit for the taxes we pay here."

I asked Jim if he would give me a general picture of his employees and workers and the laws which governed and protected them.

"We have about 240 obreros here," he said. "They are paid an hourly wage of about 2.20 soles basic. They work a normal day of eight hours - seven to eleven-thirty in the morning, one to four-thirty in the afternoon. The work week is six days - Monday through Saturday".

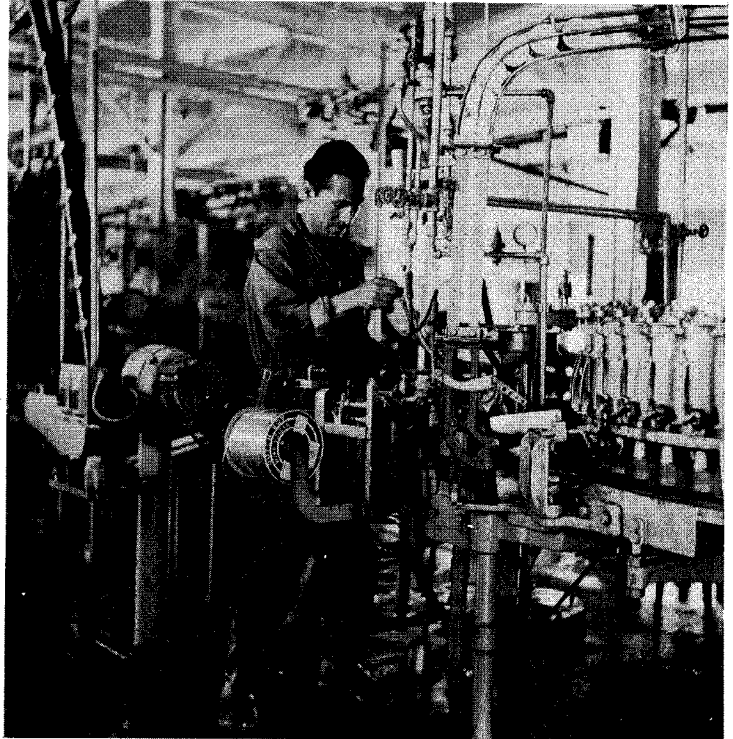
What type of work does an obrero usually perform?

"You find your obreros doing manual labor in the plant or driving a milk route."

How many employees do you maintain?

"We have about 42 empleados here. There are six foreign technicians and personnel supervisors: myself; Cornelius Karreman, the plant superintendent; Art Reinke, the can factory superintendent; Takele Koster, the plant engineer; Jan Stuive, assistant to Karreman; and Conrad Visscher, assistant to Reinke. There are twenty-two office workers and the rest hold supervisory positions. Empleados are paid a monthly salary on a 25-working-day basis. The pay is higher than that of the obreros, but still very low. For instance, a head accountant may get between 3,000 and 3,500 soles a month. Your exchange rate now is about nineteen to the dollar. Not very much pay, is it? Well, the empleado works five and a half days a week, from 0800 to 1200 and from 1400 to 1730 Monday through Friday and from 0800 to 1230 on Saturday."

How do you deal with overtime and holidays?



Obrero working at a filling machine.

"Generally speaking, obreros get 50% overtime during a normal working period. On holidays, however, it's a different story. If a man works during any of sixteen stipulated holidays, we are bound by law to pay him 80% extra. On the First of May, we must pay him 200% extra if he works, 100% extra if he doesn't. Empleados are usually paid 25% extra if they work on a holiday; if they don't, they receive their normal pay. These holidays can do us a lot of harm, you know. We have a perishable product; we can't shut down the plant for several days while some fiesta or other is going on. The obreros get hurt too. They don't get paid on some holidays unless they work. Most of them can't do much during the holidays because they simply don't have the money."

Jim handed me a typed list of holidays. Covering twenty-three and one half days in all, they were listed under religious and civil fiestas as follows:

Religious holidays

January 1 - New Year's Day
 January 6 - Day of the Kings
 Monday of Carnaval ^{5.}
 Tuesday of Carnaval
 Wednesday of Carnaval - (1/2 day in Areq.)
 March 19 - St. Joseph's Day
 Holy Thursday
 Holy Friday
 Ascension of the Saviour
 Corpus Christi
 June 29 - St. Peter's and St. Paul's Day
 August 15 - Assumption of the Virgin
 August 30 - St. Rose of Lima
 November 1 - All Souls Day
 November 2 - Day of the Dead (1/2 day in Areq.)
 December 8 - Immaculate Conception
 December 25 - Christmas

Civil Holidays

May 1 - May Day
 June 24 - 1/2 day - Indian Day
 July 28
 July 29 - National Holidays
 July 30
 September 24 - Virgin of Mercy
 October 12 - Día de la Raza ^{6.}
 November 27 - Tarapacá ^{7.}

I remembered conversations with other Arequipa businessmen and civic leaders about the problem of the fiestas. A doctor friend of mine told me that many families were hard put to it to feed themselves during the extensive national celebrations in July. Those men who worked for themselves or in a factory which shut down went without pay for several days. When a man is making 10 to 15 soles a day, this sort of thing means temporary but complete destitution.

"Jim," I asked, "you mentioned a basic wage for obreros a little while ago. What are the benefits added to the basic pay?"

"Oh, such things as the dominical, indemnities, social security, workman's compensation, vacation with pay. Your dominical is really Sunday pay. If a man works at least eight hours a day for six days a week, he is entitled to an extra day's wages. Actually, this is a darn good idea. Without the dominical, the obrero would get paid on Saturday, get drunk on Sunday, and

5. A real ripsnorting holiday period immediately preceding Lent

6. Corresponds to our Columbus Day.

7. The Battle of Tarapacá, November 27, 1879, wherein a Peruvian division defeated a larger Chilean force.

probably not show up at all on Monday. With it, the man knows that he is losing a full day's pay if he doesn't report for work on time every day during the week. Of course, if a man has a legitimate reason for being late, we still give him his dominical. If he shows signs of slacking off, then we withhold the Sunday pay. The system works quite well."

As far as indemnities go, the obrero gets the equivalent of 15 days wages for each year he works. The money is withheld in a fund and paid to him when he leaves, unless he is fired for being drunk or for stealing. By the way, it's almost impossible to make these accusations stick. You have to prove them in front of a Labor Inspector or a higher court, and it's not worth the time and trouble. You know the length of time it takes to get anything through the Peruvian courts. In any case, the worker gets the indemnity or, if he dies, his widow collects the money."

"Social security is worked in the following way: Leche Gloria withholds 3% of the obrero's salary as the cuota servidor and pays 6% out of its own funds as the cuota patronal. The whole sum is paid in to the Government. Then, in case our man gets sick, the Gobierno will pay for his hospitalization." (obreros have their own hospitals, empleados the same)

In addition to social security, each plant must either take out accident insurance or set up a separate fund to cover the matter of workman's compensation. In the case of injury, the man is paid 70% of his wages during disability. You have to watch some of the men on this score. For instance, if an obrero hears that Juan Fulano needs some help on his farm during the next few weeks and is offering high wages, the man is apt to stick his hand in a machine, get a doctor's certificate saying that he is entitled to workman's compensation for the next ten days, and go out to join his buddies at the farm. Not only is he getting a farmhand's pay but also 70% of his Leche Gloria pay as well."

"In addition to his other benefits, the obrero gets two weeks vacation with pay per year. Of course, everything except social security hinges on one point. The employer has a three-month trial period in which to try out an empleado or an obrero. If he finds him unsatisfactory, he can fire him on the spot; he will not be entitled to any indemnities. Beyond that three-month period, however, all his benefits go into effect."

I asked Jim about the empleados' benefits.

"They are entitled to one month's vacation with pay per year," he said. "They get the equivalent of one month's pay in indemnities. Then they have the regular social security ^{8.} and workman's compensation. As a matter of fact, although they are entitled to only 70% workman's compensation, we give them 100% here."

And what about the psychological differences between an empleado and an obrero?

"An empleado feels different from an obrero. It's a question of pride, of knowing that he doesn't have to perform manual labor. Here's something to illustrate my point. When I first came here four years ago, I found that my predecessor had helped an obrero complete an extension course in accounting. The boy really tried hard, so we gave him a job as a junior accountant keeping track of supplies. We made him an empleado. After a while, we found that he couldn't command the respect of the obreros under him, exactly because of the fact that at one time he had been an obrero himself."

"You can see this silly pride in both the obreros and empleados. If

8. The quotas now are 1.5% and 3%, but will be raised to 3% and 6% when the new Hospital de Empleados is finished.

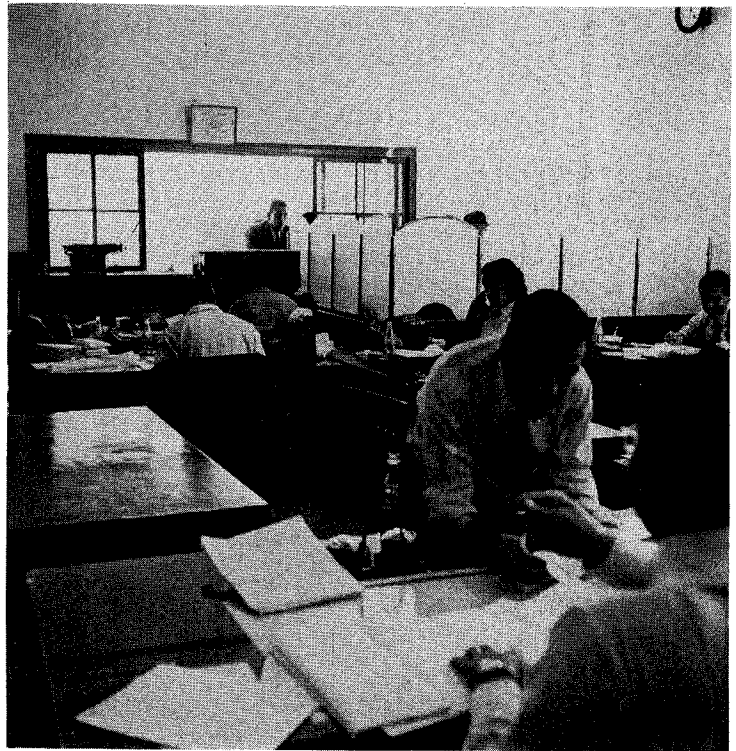
an obrero thinks you have insulted him, he'll turn in his letter of resignation on the spot. "Insulting him" may mean using a loud voice in his presence. After he has quit or you have fired him, he will turn up with his family - kids and all - and beg you to take him back. Not so long ago, we gave an obrero a job as an empleado in the office. The plant superintendent came in and, having been used to asking the man to run errands for him, asked him to carry a typewriter into his office. The man didn't say a word. Instead he went to the phone and called the Labor Inspector to ask him if he was required to do manual labor. We never knew what the reply was. However, when the superintendent came back and wanted to know where his typewriter was, the man said that he was not supposed to do any manual labor. After all, he was an empleado now. He got pretty obnoxious, so we fired him. Usual thing happened in a few days, though. His wife went over to the superintendent's house and begged him to take the man back. In the end we rehired him. You know, if it weren't for their childish pride, these people would be a lot better off."

I asked Jim about the laws governing firing and resignation.

"After the three month trial period, you must give an empleado 90 days notice if you want to fire him. If he wants to quit, he must give you 40 days notice. An obrero who wants to quit must deliver his notice in writing. Each January 1 and July 1, the notices are examined and approved on a priority system. This prevents a general disaster which might happen if all the obreros in, let us say, our "kitchen" suddenly decided to quit in a group. By means of the priority method, we are able to control the turnover in the critical areas of the plant. Of course, if we want to fire an obrero, we can do so on the spot, without giving him any notice. He may complain to the Labor Inspector, but by law we're entitled to fire him anytime we want to."

"What agency does the Labor Inspector come under?" I asked.

"Under the Ministerio de Trabajo in Lima," said Jim. "Actually, the Dirección General de Trabajo handles this work. The Labor Inspector in Arequipa acts as a regulator of Government labor decrees within the city. Although he renders decisions on labor matters, there is a separate labor judge for the more important labor cases. The Regional Inspector takes care of labor matters in the Provinces of Arequipa Department. Here's a case history that came up a few weeks ago. The obreros here wanted to get overtime for working during a regional holiday. They went to the Labor Inspector, who told them that they were entitled to the extra pay. It just so happened that the Regional inspector had told us previously that the workers were not entitled



Empleados in the main office

9. The section of the plant in which the most delicate operations of evaporation, etc., are performed.

to it. However, when we tried to get in touch with the Regional Inspector, we found that he was on vacation. Things got a little confusing all around. We're still waiting a decision on that case."

I asked how strong the Sindicado (union) was in the plant.

"This is a local belonging to a larger union. Their meetings were sanctioned in the middle of last July for the first time since February of 1954. The Gobierno clamped down on the unions because of some strong general strikes and because, so the Government claimed, of Communist influence discovered in the sindicados' headquarters. The unions can bargain for wages and benefits. They must give us 72 hours notice before calling a strike. I must say that the sindicado here has never given us much trouble. The workmen pay their union dues - about one sol a month, I think - and in turn feel themselves in a better bargaining position because of it."

What about an empleados' union?

"There is the Sociedad Nacional de Empleados in Lima, but it doesn't function here at all. By the way, there is an industrial and commercial employees' pension plan in effect. After 35 years with a firm, an empleado gets full pay for the rest of his life. In case he dies, however, the relatives get nothing. After thirty years' service, the employee's salary has to be boosted by 30%. After 30 years' service, if he becomes sick in the line of duty, he gets thirty thirty-fifths of his salary for the rest of his life. You know, that full pay clause almost wrecked several small companies. It was made retroactive, and some companies were faced with a number of ex-employees who came out of retirement to demand their monthly checks and then went right back into retirement again. The railroad was especially hard hit because they had a lot of thirty-five-year men who were still living. Some companies get around the clause by raising an employee's salary substantially when the time comes, and by showing him the advantages of sticking with the company and making more money over those of quitting."

The talk swung around to the production of milk in the back areas of the Siguan and La Joya irrigation projects (WHM - 2) and in the small villages in the foothills. Jim told me that Leche Gloria pays according to the butterfat content per kilo of milk. The price is low - usually less than the sol or sol-veinte that can be charged if the farmer sells door-to-door in the city - but it cannot be raised, due to a Government-imposed ceiling. "A small butter manufacturer can pack up his gear and move on if the government tries to fine him for buying milk above the ceiling price," Jim said. "Leche Gloria is too big an outfit for that. If we tried to up our offers for raw milk in an attempt to increase production, we would have to pay a hefty fine. That's a drawback in the development of the milk industry in the new irrigation areas and elsewhere."

"How many producers do you carry now?" I asked.

"About 2200 all told. They produce on an average of around 23 liters per day for us. A few, not over fifty, produce over 100 liters. When you figure that the average daily yield of a criollo cow is around 5 or 6 liters, you can get an idea of how small the herds are in these sections."

I remembered the cows I had seen feeding on the terraces of the Chili valley - Holsteins mostly, not more than five or six grazing together. I remembered seeing the Leche Gloria cans beside the 'dobe walls of the hovels near the dust road.

"We know that the farmer can get more for his money by loading the milk on his burros and selling it in the city," Jim said. "Our milk producers are, therefore, those who carry cows as a sideline or who want to get paid

regularly every fortnight instead of waiting to collect from a hundred and one customers in the city."

"The Ministry of Agriculture sponsors a program of artificial insemination, and we help them out, using our bulls in Vitor. Result: twice as much milk yield and a small drop in fat content. Whereas before a farmer was getting, let's say, 5 liters with 4% fat content, now he is getting 10 liters with 3% fat content. Just the simple laws of mathematics seem to escape these people. They can't see that the improvement of their herds will net them as much as a 50% increase in profits. All they know is that we buy milk from them on the basis of fat content per liter. Because their fat has dropped one point, they think they have been ruined. It never occurs to them that they now have twice as much milk to sell. It is very discouraging to us to see the results of trying to help these people improve their herds."

As we were driving back towards the center of Arequipa, we talked about the general prospects for foreign investments in Peru. "There is no reason why there should be any future restrictions on the profits that can be taken out of the country," Jim said. "That and the fairly stabilized exchange rate are both advantages for your foreign investor to consider. The facts that tax rates are somewhat lower here than in the States and that there is not so much competition here are another pair of points in favor of investment. The Government seems to have slowed down inflation, a hard thing to do when wages are so low. The current rumor is that the Government's National Reserve Bank is buying up dollars to keep the exchange rate at around 19. Otherwise, it would drop to 17 or 18. Seeing that the National budget has been computed according to the exchange rate of 19, you can see why it is necessary to try to hold the exchange at that point. Another good point in the eyes of a foreign investor is that Peru has exported more than she has imported for the last four or five months. Of course, sugar and cotton aren't too high, but minerals are doing very well. That's all on the good side."

"On the other hand, no investor can afford to sink all his money into the Latin American countries. None of the countries are politically stable enough to insure the investor against a future change in policy. And there is the devaluation of the currencies. Our investment devaluated three-fold during the time we have been here. Then there is the desire of Latin American governments - and Peru is no exception - to build whopping big public works which are either not reproductive by nature or else are on much too big a scale for the countries involved. That's all on the bad side."

I asked Jim about the opportunities for investment in Peru right now.

"In my opinion, the only big items now are irrigation and mining. Sure, you can start a textile or shoe factory, but you are going to run up against some stiff national competition. You can try consumer goods, but they are ticklish. The buying power of these people is too low for most consumer goods in quantity. Mining and irrigation are the things to look into - and by mining, I mean oil also. The oil companies got permission to work in Peru last year - after their agents had been sitting around Lima for years waiting for the thing to break. So far, they haven't struck anything really big, but if they ever do, it will mean a big change in this country."

"All of which brings us around to the basic question," I said. "What is your opinion of the Peruvians who work for you? Are they honest? Are they loyal to the company?"

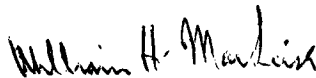
Jim thought a minute, then said, "Honesty is a luxury with these people. They are too poor to be able to afford honesty. As far as loyalty is concerned, there are only a few Peruvians in the plant whom I would trust 100%. The

thing is, you cannot tell how a Peruvian is going to react; everything depends entirely on the situation confronting him."

Jaime Terrassa's opinions are primarily based on his experience in dealing with the workers and employees at Leche Gloria. They are, however, representative of the thoughts of many employers in Arequipa - gringos and Peruvians alike - concerning the arequipeno factory worker.

A friend of mine and I were talking last night about the problem of Peruvian labor and how it differed in each section of the country. He had been in the mining business for many years and knew the Indian miners who worked for him about as well as a gringo can. "You know," he said, "it's all in the way you treat these people. If you're good to them, they will give you their full support." He was talking, of course, about the sierra mining country. In Arequipa, the situation seems to be somewhat different. The overpopulation and the slightly more sophisticated atmosphere of the city have created a new kind of worker - a union man, a man protected by his labor laws, a man who can bargain for his wages and benefits and strike if necessary. The situation is raw and new in this its beginning stage. Until the edges wear off a little, there will be distrust and friction. However, as my mining friend said, good treatment will pay off. The Leche Gloria plant is a model in that respect. The wages are higher than in most of the city's plants; the factory is clean and well-lighted; and, above all, the management is completely fair in its dealings with the workers. Sooner or later, the system will produce results.

Sincerely,


William H. MacLeish

Received New York 1/14/55.