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NotiSur writers

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## PERU: CAMISEA GAS PIPELINE INAUGURATED AFTER 20 YEARS

Twenty years after the Camisea natural-gas fields in the Peruvian department of Cuzco were discovered, President Alejandro Toledo has inaugurated the pipeline that will bring the gas from the interior to Lima and the Pacific coast. The president and his ministers say the revenues generated by the sale and distribution of gas will be an economic windfall for Peru and will revolutionize energy consumption for the country's citizens. But as the Toledo government celebrates the pipeline opening as a historic moment in the economic life of Peru, environmental and indigenous groups say the project will do significant harm to the ecosystems it travels through and to the native peoples who live in them.

Camisea pipeline opens after two decades of conflict

In 1984, multinational oil corporation Royal Dutch/Shell discovered the Camisea gas field, which holds an estimated 13 trillion cubic feet of gas, 1,100 km southeast of Lima. The Royal Dutch/Shell Group abandoned the Camisea project in 1998 when the Peruvian authorities would not offer more control of the sale and marketing of the gas and the company quoted a high cost for electric power generation to the government (see [NotiSur, 1998-07-31](#)).

The US\$1.6 billion Camisea gas project will carry gas from the Peruvian Amazon some 1,100 km across the Andes mountains to Lima and to a new liquefied natural gas (LNG) terminal on the Pacific coast. A consortium of private and state companies is running the project, led by Argentina's Pluspetrol and the Texas-based Hunt Oil. To complete and continue operating the project, US\$2 billion in loans and investment financing will be necessary in the coming years.

From a modern control room in Las Malvinas, Cuzco, on Aug. 5, President Toledo ordered the opening of the valve that would bring the gas into Lima. He and his ministers celebrated the inauguration as a national triumph and a "historic moment" that would divide Peruvian history into the days before Camisea and after Camisea. The project extracts, transports, and distributes gas for domestic and, beginning in 2007, international consumption.

Toledo says Peruvians will have to convert their automobiles to use natural gas and acquire equipment to heat water and stoves with the fuel, and he encouraged citizens to help the process along. About 1,000 Lima homes will begin receiving the Camisea gas immediately, with more joining as they get the proper equipment.

Vice Minister of Industry Antonio Castillo said that about 1,000 businesses will be able to convert their production process to use gas in place of diesel. In the coming business quarter, 100 of the country's principal businesses will begin using natural gas, while 500 from the manufacturing sector will be able to begin the process of energy substitution. Officials expect that in Lima some 18,000 buses will change over to natural gas for fuel, and they hope that the conversion will help alleviate the notorious smog in the city of eight million people.

Human and ecological cost

On the occasion of the inauguration, Joel Merino, a representative of 52 Ashaninka communities from the neighboring region of Ucayali, said the work of the consortium had driven away the fish and animals that allow those communities to live. Merino said the native people expected to be compensated "in some way" in addition to the health, education, and communications works that have already been brought in by the international consortium.

Leaked reports by the Health Ministry said that the Camisea project was killing native peoples, spilling diesel, and leaving waste dumps, as well as causing large-scale deforestation (see [NotiSur, 2004-04-16](#)). Nongovernmental organizations (NGOs) like Oxfam, Amazon Watch, the World Wildlife Fund (WWF), the Nature Conservancy, and several Peruvian environmental and indigenous groups have attempted to use reports like these to block Inter-American Development Bank (IDB) loans to the Camisea gas project.

IDB president Enrique Iglesias, however, announced in Washington this month that the bank would be making a US\$75 million loan to the project.

Environmentalists point out that the World Bank and the US Overseas Private Investment Corporation (OPIC), as well as the Export-Import Bank, have all withheld funds from the project (see [NotiSur, 2003-09-19](#)) and, in some cases, they say the IDB may even have relaxed some of the conditions necessary for project approval to show compliance with its environmental standards. One example they cite is the language used in original conditions that required the government to ensure a "thorough and complete review" of the fractionation plant and marine terminal, "including, as appropriate, civil society input."

Not only has such a review not taken place, say the groups, but neither has a "thorough and complete disclosure of the environmental studies" of the plant and the terminal called for in the text of the staff report. In another case, language that required the government to develop a community monitoring program appears to have been deleted.

"The IDB seems to be trying to pull a fast one," said Nadia Martinez of the Washington-based Institute for Policy Studies (IPS). "It is worrisome that the pressure to lend is so strong that IDB staff would ignore clear violations of their own agreements." In a number of cases, the group found evidence that the authors of the IDB report simply repackaged previous documents without adding any new information that was required under the conditions.

"Camisea fails to comply with the IDB requirements, and therefore financial closure cannot occur at this time," said Aaron Goldzimer of Environmental Defense, who added that the groups stand ready to work with the bank to ensure compliance with all the original conditions.

The project cuts through some of the world's most pristine and remote jungle areas, including the Nahua-Kugapakori Reserve, where several hundred members of indigenous tribes have avoided contact with outsiders and lack immunity to common diseases.

When Shell undertook exploratory operations in the region in the 1980s, almost half the Nahua people living there died from influenza and whooping cough. Anthropologists and ecological groups wrote to the IDB last year asserting that contractors working for the Camisea project were "forcibly contacting groups living in voluntary isolation" putting them at risk of infection. Some have reported sharply rising death rates among some indigenous groups during the past two years.

In addition, larger indigenous communities living just outside the reserve have reported sharp declines in fish in local streams and lakes in the past year resulting from severe soil erosion and landslides caused by the pipeline's construction along steep ridges of the high-altitude Andes. The result, the groups said, is rising malnutrition, particularly among children.

Both the Peruvian government and project officials insist they are taking measures to mitigate or eliminate these problems and have also set aside 7% of the project's revenue for local populations living along the pipeline route. Government officials say 2,600 native workers have been employed through the project. Energy and Mines Minister Jaime Quijandria called the reports of epidemics among native people an unproven "rumor" when government reports were leaked earlier this year.

Mexico, US exportation next step

The first benefit Peruvian officials are predicting from the delivery of Camisea gas is a decrease in gas prices and energy prices in general in Lima, where about half the country's population lives. The second phase of the project is to begin export to the US and Mexican markets.

Peru now imports US\$700 million of hydrocarbons, leaving a trade deficit that Toledo expects to erase with Camisea. LNG exports will substitute for imports of diesel and liquid gas, says the president.

One impediment to the commencement of gas exports to northern countries is competition between two regions—Lima and Ica—which both want to host the liquefaction plant that would reduce the volume of the gas 600 times, making it easier to transport. Toledo has called on party leaders of the opposition Alianza Popular Revolucionaria Americana (APRA) to intervene with the two regional presidents, who are also Aprista party members, saying that the turf war between regional presidents and mayors could set back the arrival of US\$2 billion in investment money. Toledo has also left open the possibility that both regions could share the benefits by establishing a zone of influence together.

President Toledo anticipates economic, political boost

Toledo and his subordinates anticipate that revenues from the Camisea gas project will increase Peru's GDP by one to two percentage points for decades to come. Officials say the arrival of gas will reduce electrical consumption by at least 20%, cut the price of domestic gas in half, and boost the national economic output 2% starting in 2007. The Peruvian government expects to receive US\$200 million in annual royalties from gas exploitation while the department of Cuzco will get US\$100 million. That money will be divided among local, municipal, district, and provincial governments.

Toledo has regained some popularity in recent weeks, according to different polls. His approval rating had bottomed out at a low of around 7% (see [NotiSur, 2004-02-13](#)) as mass dissatisfaction with the lack of job growth and the public perception that Toledo was an indecisive leader led nearly the entire country to reject his leadership. New polls find that his approval has crawled up slightly.

A survey by the Universidad de Lima indicated that public acceptance of Toledo went up from 8.1% to 15.2%, after a long period of hovering at single-digit numbers. The Universidad de Lima surveyed 522 people during the first weekend of August. It sought to

measure the public's perception of the executive after he signed energy agreements with Bolivian President Carlos Mesa and after the Camisea inauguration.

"In Toledo's popularity growth, there is a confluence principally of the kickoff of Camisea, which will decrease energy costs, and Bolivia's decision to send [Bolivian] gas through a Peruvian port, thereby winning against Chile, which was the other competitor [for handling the gas]," said Luis Benavente, director of the public-opinion group from the university.

Other Toledo watchers pointed to the president's decision to open his bank accounts to public scrutiny after corruption allegations emerged against him as another factor in his slight increase of approval.

Another survey by the group Apoyo, Opinion y Mercado conducted in 15 cities found that Toledo's approval had gone up from 8% to 10%, with a disapproval rating of 85%.

There is some potential for a controversy among the Bolivian public regarding Peru's gas sales, since some Peruvian officials have said they would be willing to export Camisea gas to Chile. Bolivia has refused to export any of its massive gas reserves to Chile, a country with which it has no diplomatic relations, and Chile finds its gas imports increasingly vulnerable as neighboring Argentina withholds gas to ease its own energy crisis (see NotiSur, 2004-07-30, 2004-04-30, 2004-01-23). Bolivian officials insist that Peru sell none of their gas to Chile, a traditional enemy of the land-locked Andean nation.

[Sources: Inter Press Service, 07/31/03, 07/29/04; El Comercio (Peru), El Nuevo Herald (Miami), 08/05-06/04; La Republica, 08/06-09/04; BBC, 08/10/04; La Opinion (Los Angeles), 08/16/04; El Diario (Bolivia), 08/05/04, 08/18/04; Spanish news service EFE, 08/04-06/04, 08/14/04, 08/19/04; Notimex, 08/05-07/04, 08/17/04]