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Inter-American Dialogue's Latin American Energy Advisor

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Q and A: Should Peru's State-Run Energy Companies Play a Bigger Role?

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Peru's state-owned energy companies may play a greater role under the administration of newly-inaugurated President Ollanta Humala, Peruvian Minister of Energy and Mines Carlos Herrera said last month, according to Reuters. Herrera added that the idea would be for state companies, such as Petroperú and Electroperú, to have a greater role in state management and the "general idea is for the capital to be private." Should Peru's state-run companies be expanded or reformed? If so, in what way and how should the private sector be involved? Would Brazil and Colombia be good models to follow?

A: Jaime Quijandría, senior partner at Laub & Quijandría in Lima and former minister of energy and mines of Peru:

"During the military government of the 1960s, Peru had more than 250 state-owned companies covering a vast range of activities from 'strategic' sectors of the economy (oil and gas, power, trade, etc.) to restaurants and even porno cinemas. During Fujimori's administration, with strong support from the World Bank and related agencies, the scope and number were reduced significantly. State monopolies were eliminated and the intention was to eliminate all state-run companies, though political conditions made that impossible. During the next three administrations, the policy has been more or less the same: no privatizations but at the same time no new state companies. The exception was a state airline that filed bankruptcy after less than two years of operation. Today, there are 36 state-run companies that generated a total of \$1 billion in operational profits in 2010. Following a clear pattern of fiscal policy since the 1990s, subsidies to state-run companies have been reduced and are previously included in the budget of the public sector. It is difficult to have a clear understanding of President Humala's announcement about giving a greater role to state-owned companies. We have to take into account that during the presidential campaign at least three different plans were presented with different ideological orientations. From his inaugural speech, we can anticipate that the intention is limited to certain strategic areas of the economy and in all cases is associated with private investment. Petrobras and Ecopetrol have been mentioned as models to follow in the oil and gas industry. The pertinent question to answer is what can be done in five years to initiate and consolidate this change in policy direction? State-run companies lack technical expertise and face important barriers to compete with the private sector. On the other hand, funds required for the overhauling of state companies are limited and will compete with social programs that seem to be the first priority for Humala's administration. All in all, we should not expect dramatic changes in the

short-term. Legal, administrative and political constraints have to be abolished before making changes in the operation of state-run companies. That will require political consensus in a highly divided Congress."

A: Aaron Goldzimer, Sloan fellow at the Stanford Graduate School of Business and Juan Luis Dammert, coordinator of the Program on Citizenship and Social-Environmental Affairs at the Peruvian Society for Environmental Law:

"Peru, unlike its neighbors Colombia, Brazil and Chile, does not have a public company that conducts oil exploration and exploitation. Now, with the appointment of Humberto Campodonico to head Petroperú, the idea is to reverse this situation and restore the state enterprise's 'upstream' operations. Peru has had disastrous experiences with public companies, but this runs counter to some experiences elsewhere in the region. There may be room for some strategic public enterprises—but preferably under a mixed scheme, with private capital and investment. Meanwhile, Minister Herrera Descalzi has said that Electroperú may be able to realize studies of hydropower projects to be developed—that is, to define the projects that serve the country's interests and even to do the Environmental Impact Assessments (EIAs) and get their approval. This may work; but we must be careful about a public company's handling the EIAs for projects to be executed by private companies, as this could weaken the EIA process, making it a mere formality that the state disposes of as both judge and interested party. Two other key issues that confront the new government with respect to energy projects: currently, Peru is the only country in the region where the Ministry of Energy and Mines is also in charge of approving EIAs for projects in the sector. Given the clear conflict of interest, there has been discussion of this responsibility's shifting to the Environment Ministry, where it belongs. Another key issue is the new government's implementation of the Prior Consultation Law, in order to comply with ILO Convention 169, with the hope that this can reduce Peru's epidemic of social conflicts surrounding energy and mining projects."

A: Ricardo Falcón, associate II for Latin America energy at IHS CERA:

"The beginning of President Ollanta Humala's term effectively marks a tilt to the left in Peruvian politics. During his inaugural speech on July 28, he stressed, among other aspects, that the country needs greater state involvement in the economy. This may well translate into higher taxes and royalties for the extractive industries, a renegotiation of the Camisea gas contract and a stronger role of state-owned energy companies. In any case, the current 1993 Constitution establishes certain limits to state participation, which means that deep, government-led changes will have to follow constitutional amendments. However, the fact that President Humala does not enjoy an absolute majority in Congress will make radical changes difficult to materialize. Thus, instead of an expansion or a major overhaul, state-run energy companies will first need to offer institutional certainty while backing up the regulatory framework in their negotiations with private companies. At the same time, the government will have to find a balance between appeasing social claims and providing legal guarantees for the development of new projects in the sector. The question is how the new administration will do that without seriously affecting Peru's energy investment climate. Recent cabinet appointments indicate that, at least for the short term, President Humala will maintain the existing business-friendly operational environment. Looking forward, if social pledges are to be delivered, investment must continue in the energy

sector so as to ensure that fiscal revenues will flow into the government's coffers—the country's economic growth has relied heavily on its booming commodity market, with the energy and mining sectors accounting for more than 70 percent of total Peruvian exports. The potential overhaul of public energy utilities should thus help sustain a market-friendly approach instead of adding further obstacles to private investment, very much in the way Brazil has done."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.