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LADB Staff

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Peru Funds Camisea Natural Gas Project

by LADB Staff

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Environmentalists were encouraged in late August, when the US Export-Import Bank voted against funding the controversial Camisea natural-gas project in Peru. Less than two weeks later, other lenders, principally the Inter-American Development Bank (IDB), came on board to help fund the giant project involving two Texas-based energy companies with close ties to the Bush administration (see NotiSur, 2003-08-01).

Hunt Oil Co., whose chairman, Ray Hunt, was a top fund raiser for President George W. Bush in 2000, has a major stake in the project with partners Pluspetrol of Argentina, South Korea's SK Corp., and Argentina's Techint Group. Halliburton's Kellogg Brown & Root unit is a top candidate to build a US\$1 billion liquefied-natural-gas plant on the Peruvian coast so Peru can export gas to the US.

The companies were hoping to obtain nearly US\$1 billion in public financing, including US\$214 million in loan insurance from the Ex-Im Bank and US\$75 million in loans from the IDB, which would then coordinate another US\$240 million in loans from a group of banks. The Peruvian government considers the project crucial to gaining energy independence and paying down the country's debt. It wants to start piping natural gas to Lima and the Pacific coast by mid-2004.

Environmentalists and human rights groups have lobbied banking officials in Washington to deny funding, saying the project would have a negative impact on indigenous people living in isolated areas in the Nahua-Kugapakori Reserve. They also say it could destroy one of the world's most biologically diverse rain forests and the Paracas National Marine Reserve, the only marine sanctuary in Peru for endangered species. The offshore liquefied-natural-gas export terminal would be built within the reserve's buffer zone.

The Peruvian government says that moving the plant would add several years to the project and mean losing the opportunity to sell natural gas to the US. The US sent a delegation to Peru in August to examine some of the more controversial elements of Camisea. Several members of Congress, including Sens. Patrick Leahy (D-VT), Paul Sarbanes (D-MD), and Christopher Dodd (D-CT), wrote to US Treasury Secretary John Snow recommending that neither the IDB nor Ex-Im Bank approve financing because it would cause "irreparable harm to one of the world's most pristine and biologically diverse ecological areas."

"Camisea is a key test for the international financial institutions and the US government," said Leahy. "The issue is whether these institutions...which are funded with US taxpayer dollars, will protect a pristine area of global environmental importance and unique Indian cultures whose survival is threatened."

On Sept. 4, 14 public figures released a letter they sent to Bush, urging him to withhold funds from the project. The signatories included Susan Sarandon, Chevy Chase, Ruben Blades, and Sting. They

expressed concern that much of the Camisea gas is destined for electricity markets in California, saying, "We feel sure that if the consumers in California knew about the high social and ecological costs of natural gas from the Peruvian Amazon, they would be highly opposed to it."

In a letter to Peruvian President Alejandro Toledo, Bianca Jagger warned that Camisea would have a "catastrophic impact" on indigenous populations and rain forests.

Toledo insists that the Camisea project "respects the environment, ancestral cultures, and our people," and he said he would not let "extremists" paralyze Peru's development. The media reported that Toledo telephoned senior Bush administration officials, including National Security Adviser Condoleezza Rice, outlining the importance of the pipeline to Peru. Toledo also reportedly told Rice that indigenous groups would not be endangered by the project.

Ex-Im Bank turns down request

The Ex-Im staff was concerned about approving Camisea without adequate environmental safeguards. A report by environmental consultant URS, commissioned by the Ex-Im Bank, concluded that the project had significant environmental problems that had not been addressed.

Citing potential damage to Peru's rain forests and indigenous people, on Aug. 28, Ex-Im, a federal agency that helps finance the sale of US exports, rejected the US\$213.6 million in loan guarantees. The vote was a setback for Ex-Im chairman Philip Merrill, whose swearing-in ceremony was held at Vice President Dick Cheney's Washington residence.

The Ex-Im Bank chairman, a political appointee, sets the bank's agenda and rarely faces defeat on high-profile votes. Merrill voted for the loan guarantees. Ex-Im directors April Foley and J. Joseph Grandmaison voted against them. "This decision is situation-specific and does not reflect the bank's overall interest in financing US exports for energy projects throughout the world," Merrill said in a statement. The decision was praised by environmental organizations.

"This was an important test, and the Export-Import Bank made a difficult, historic, and valiant decision," said Aaron Goldzimer of Environmental Defense. "Ex-Im board members displayed courage and environmental leadership in the face of considerable pressure," Jon Sohn of Friends of the Earth said after the vote. "What happened today was unprecedented, that the Ex-Im board turned down a project on environmental grounds."

The following day, Peruvian Ambassador to Washington Roberto Danino dismissed any suggestion that the Camisea project might be delayed because of the negative Ex-Im vote. Danino said the Peruvian government maintained its commitment to bring natural gas to Lima by next year.

"The credit is easily replaceable because it is an export promotion credit," said Peru's Economy Minister Jaime Quijandria. He said it was not working capital but would have enabled the project to import US equipment. "Instead of bringing US equipment, [Camisea will] bring German and Italian equipment to make up what is missing from the financing."

On Sept. 8, the Peruvian government said the Corporacion Andina de Fomento (CAF) approved long-term loans worth US\$75 million for Camisea.

US abstains on IDB vote, letting it pass

The good news for environmentalists was soon followed by bad. In a major defeat, the IDB voted Sept. 10 to approve US\$135 million in financing for the Camisea project. The US abstained on the vote, which was approved by the 45 other members on the IDB's executive board.

In August, the US representative to the IDB, Jose A. Fourquet, had asked the bank to delay the vote for one month because of environmental concerns. In its statement announcing approval of the financing, the IDB extolled the project as a major breakthrough for Peru's development that will save the country US\$4.1 billion in energy costs between 2004 and 2033. It said Camisea will also provide Peru with "an improved trade balance, more competitive industry, higher tax collections, greater national income from royalties, employment opportunities, and the strengthening of the government's institutional capacity to monitor and enforce environmental regulations and undertake social investments."

The US Agency for International Development (USAID), which was included in the inter-agency process evaluating the natural-gas project, had recommended the US not support Camisea because it violated the Pelosi amendment. Sponsored by House Minority Leader Nancy Pelosi (D-CA), the amendment requires that adequate environmental assessments be undertaken 120 days before a vote at the IDB. "With respect to the EIAs [environmental impact analysis] USAID's responsibility under the Pelosi amendment requires us to recommend that the secretary of treasury instruct the US executive director [at the IDB] to not vote in favor of the proposed Camisea natural gas project," the memo said. Treasury concluded that the Pelosi amendment was not violated in the legal sense. "[But] the spirit of the Pelosi amendment is something we are concerned about," an official said.

The decision to abstain, rather than vote No, was to reassure the Peruvian government that the US understood the importance of the Camisea project to Peru. Bank officials were also swayed by Toledo's proposal to create a commission to oversee the protection and cleanup of the coastal waters off Paracas where a plant to separate gas liquids is being built and where fishmeal plants have been fouling the waters. The energy companies developing Camisea will spend US\$23.8 million on the bay-protection plan, the Peruvian government said.

Environmental groups, however, said the steps were half-hearted. They said the IDB caved in to pressure and failed to uphold environmental standards before issuing a large multilateral loan.

"This shows the Bush administration failed to demonstrate moral courage and send a clear signal by voting No on this project," said Nadia Diaz of the Washington-based Institute for Policy Studies (IPS). Diaz said a No vote by Washington, whose shares on the board represent 30% of the vote, could have persuaded other countries to change their positions.

"Camisea violates international environmental standards and US law," said Sohn. "The companies [involved in the project] will still get US taxpayer funds and IDB management and executive

directors shall be held accountable." Peruvian officials were ecstatic at the result of the vote. The project's completion "signifies an increase of 1% of GDP per year for the life of the project," said Danino. "It means clean energy; it means we will become self- sufficient in energy, and we will have cheaper electricity rates for Peruvian consumers," he said, stressing that natural gas is far less polluting than the oil and diesel fuel on which much of the country's economy and transport system currently depend.

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