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## Investigation of Ruptures in Camisea Pipeline Lead

by LADB Staff

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The Peruvian government has begun an investigation into the construction and maintenance of the Camisea gas pipeline after five ruptures occurred in the first year and a half of its operation, with the fifth leak causing an explosion injuring three people and burning the surrounding area. A number of presidential candidates made the pipeline failures a prominent theme in their campaigns, blaming the current government for the problems.

Political opposition to the government of President Alejandro Toledo accused his top official, Prime Minister Pedro Pablo Kuczynski, of allowing his previous work for the Texas-based company that helped build the line to interfere with his oversight duties. Critics also complained that the government had promised an investigation after the line failed four times, but waited for months until after the fifth rupture to conduct a vigorous probe.

### *Fifth rupture injures three, burns two hectares*

The latest break in the Camisea duct occurred March 5 near the Urubamba River, in the department of Cuzco, some 500 km east of Lima. A leak in the line led to an explosion and fire that reached a group of local inhabitants who were about 130 meters away from the duct. A mother and her two children, ages 11 and seven, were wounded and the surrounding land caught fire and burned two hectares after the blast. The blaze in the Echarati district in the province of La Convencion reduced the home and fields of a native family there to ashes.

The vice mayor of Echarati, Adolfo Vilca, told the Associated Press in a telephone interview, "The panorama is very uncertain. Our residents and the authorities are very worried. We continue to believe that TGP [Transportadora de Gas del Peru] does not have the necessary logistics to control these types of events."

The pipeline was inaugurated in August 2004 to bring natural gas from the Camisea gas fields in the Amazonian interior to the capital in Lima and to the Pacific coast for export (see NotiSur, 2004-08-27). The TGP consortium has been building or operating the pipeline since 2000 when the companies Techint and Pluspetrol (from Argentina), Sonatrach (Algeria's state-run energy company), Hunt Oil (US), SK Corporation (South Korea), Suez (France), and Grana y Montero (Peru) formed TGP. The consortium has a 30-year contract to administer and transport Camisea gas deposits, which include an estimated 8.7 trillion cubic feet of natural gas and 411 million barrels of associated liquids like propane, butane, and condensates.

Financed largely by the Inter-American Development Bank (IDB), the line was touted as being able to satisfy the country's internal demand for natural gas and produce supply for international export. The US\$1.6 billion project carries gas 1,100 km across the Andes mountains to Lima and a new liquefied natural gas (LNG) terminal on Peru's Pacific coast, south of Pisco. The project has

two parts: the natural gas pipeline, which runs 714 km to the city gate at Lurin south of Lima, and a liquids and diesel pipeline, which runs 540 km from the Las Malvinas field, where both lines start, across the Andes to the Pisco area.

In the first 15 months of the gas line's operation, it experienced four spills, leading to calls from the congressional environmental committee for the Ministry of Energy and Mines to answer questions about TGP's handling of line safety and integrity. In the four spills prior to the March 5 explosion there were no injuries, although rivers were contaminated. Shortly after the explosion, members of the administration expressed suspicions of possible sabotage.

Some government critics questioned that explanation, given that officials like Kuczynski presented little evidence of sabotage, and a recent investigation, detailed below, alleged that the line had multiple weak points and defects that made ruptures extremely likely. Presidential candidates accuse minister of favoring Hunt Oil After the explosion, Congress called Kuczynski and Energy and Mines Minister Glodomiro Sanchez to answer questions about the accident. Opposition groups said they wanted to officially interrogate the ministers regarding the repeated line failures.

The government announced an international audit to review the integrity of the tubes that transport gas from the jungle to the coast. The government said the contract for the audit would be given within six weeks and the report would be ready by the end of the year. Ollanta Humala of the nationalist Union por el Peru (UPP), who received the most votes in the first round of the April 9 presidential election (see NotiSur, 2006-04-21), criticized Kuczynski and the contracts that gas companies have with the state. After the explosion in early March, Humala said it was another reason that "the contracts be revised with businesses that do not pay taxes and do not pay royalties." He described the pipeline as "Swiss cheese."

Presidential candidates Valentin Paniagua of the Frente de Centro (FC) and Socialist Deputy Javier Diez Canseco, who came in fifth and ninth respectively in the presidential election, also attacked Kuczynski in the press and in the legislative halls. Kuczynski said he was prepared to face questioning in Congress, where Diez Canseco and others accused him of having multiple conflicts of interest. Kuczynski denied having used his post to favor certain companies when he served earlier as minister of economy and then as Cabinet chief, his current post (see NotiSur, 2005-08-26). He admitted having been director of the company Tanaris, a subsidiary of Grupo Techint, but he denied that he had influenced the concession of a US\$75 million loan from the IDB for the Camisea project while he served as an IDB official.

Peruvian press reports showed that from 2002 to 2004, when the IDB was in the process of doing due diligence on Camisea, Kuczynski worked for the private-sector department of the IDB and was a consultant to the Texas-based Hunt Oil, one of the TGP consortium members. An IDB spokesperson told Inter Press Service that Kuczynski was only a consultant and had no authority whatsoever for the Camisea project.

Lima daily newspaper La Republica said that Kuczynski's links to Hunt Oil did not appear in his curriculum vitae, but it quoted the prime minister as saying in March 2004, "I have been a friend of Ray Hunt [the business's owner] for 25 years, and I convinced him to come to Peru without being his

employee. I am not his partner. In the last year, I have been a very specific consultant on the issue" of Camisea.

At that time, he had been economy minister for two weeks and had returned to government after a two-year absence when he worked for Camisea-linked businesses, according to La Republica writer Milagros Salazar. Former energy and mines minister Carlos Herrera Descalzi has come out against Kuczynski, who is often referred to in the press by his initials, PPK. Herrera alleged that Hunt Oil attempted to convince the Peruvian government that there was adequate gas for both the internal market and exports, without the need to invest in more exploration work, by adding the proven reserves with the probable reserves. This meant that the figure for proven reserves was inflated by up to 32%, said Herrera. Herrera also said that he was in a meeting where PPK renegotiated the terms of the deal with TGP that made gas exportation a higher priority than distributing it to the internal market, a key selling point that politicians used to convince Peruvians that the Camisea deal would benefit them.

Kuczynski's advisor Cecilia Blume, however, told La Republica that there were no links between the prime minister and the companies that allegedly benefited. Report: construction used corroded pipes, unqualified labor Shortly before the March 5 blast, on Feb. 27, the US consulting firm E-Tech International filed a report showing that the pipeline was defective and that builders used low-quality products for its construction, indicating that failures were likely to be repeated.

IDB officials questioned the accuracy of the E-Tech report. Bill Powers, editor of the investigation into the Camisea pipeline by E-Tech, a California-based nonprofit technical-research group, said their report was carried out because the IDB had been stalling investigations for two years. Powers said that the IDB's own erosion-control consultant, the Canadian firm URS, advised the bank in the spring of 2003 that the builder's lack of attention to erosion control would likely lead to pipeline ruptures.

Powers, whose report charged that the quality of materials and construction procedures used in the pipeline were substandard, said that there is no indication the bank made any effort to force TGP to comply with the terms of the loan. "An independent post-mortem at this point would almost certainly show IDB passivity in the face of clearly identified [by the IDB's consultant] short-cuts occurring in the field played a role in the problems the project is now facing," he said. Powers also said he had doubts about the bank's planned audit because of its record on the pipeline. "I would expect the IDB to attempt to control the 'independent' environment audit to avoid losing a great deal of face in light of readily available evidence that the bank's own consultants were shouting alarms while construction was in progress," he said (see NotiSur, 2004-04-16). In response to the March leak, the IDB said it was undertaking a series of new actions to help address the situation and confirm the bank's "commitment to the project's environmental and social sustainability."

The E-Tech report says that, in TGP's rush to meet the deadline set by the Peruvian government and avoid US\$90 million in fines, the consortium "violated standard pipeline construction practices." The author of the report, engineer Carlos Salazar, worked for the Argentine firm Techint in 2003 and 2004 and is a former Camisea pipeline inspector. Salazar said that Techint used pipes left over from projects in Brazil and Ecuador, which were corroded from being stored outside and suffered

further damage when they were transported to Peru to build a large part of the pipeline. The report says that the first four leaks were a result of the poor condition of the pipes and of welding done by unskilled workers. Salazar said the pipeline is likely to leak at six points, several of which are located in pristine tropical rain forest.

In a statement issued Feb. 28, TGP rejected the findings of the report, which it said had inflamed public opinion in an irresponsible and unfounded manner. The consortium maintained that the pipes used to build the pipeline were all new and in perfect condition and that the workers hired were highly qualified. It also said that the independent laboratories that investigated the pipeline ruptures reached the conclusion that the quality of the pipes and the welding had nothing to do with the leaks. However, the statement provided no explanation as to why the ruptures occurred.

An IDB official said the bank has not yet seen strong evidence in the study to merit an immediate review of the project, as requested by environmental groups. "I think we have no information after five years of involvement with the project that supports those allegations," said Robert Montgomery, head of the Environmental and Social Unit in the IDB Private Sector Department. "If you look at the statements that are in there, they are very strong statements that need to be supported by fact and not opinion and not hearsay and so forth."

Montgomery said the findings, especially that 40% of the pipe was actually leftover from previous projects, were so serious that the consortium building the pipeline would request a retraction from the authors of the report if no further evidence is given. "That is a pretty serious allegation," Montgomery said. "The project is only a year and a half in operation. Nothing like this has been raised in the past. There's been no statement of that. The IDB and its independent engineers and consultants have never heard of that or have no knowledge to support that."

Juan Miguel Cayo, vice minister of energy and mines, said on March 10 that, "if it is demonstrated that there has been negligence during the construction and that used tubes were installed and that we have been lied to, that immediately is a cause for the dissolution of the contract." The Peruvian Organismo Supervisor de la Inversion en Energia (Osinerg) said on March 8 that it had identified 72 critical points where the line passed through geologically difficult terrain in the jungles and mountains.

Osinerg president Alfredo Dammert told Congress that the weak sections coincided with the claims made by E-Tech, where unstable grounds threatened to lead to new ruptures. "We have asked the [TGP] consortium to work in this zone of fragility," said Dammert, referring to the area of Tocate, where a "geologically unstable zone" exists. "They are on that [area], but we have not received a convincing response," Dammert told a joint session of the congressional commissions on the environment and energy and mines. "Did this mean there were 72 potential ruptures?" asked reporters. "That is always a possibility," said Dammert. "We cannot say that there will be no more ruptures in these zones. But, furthermore, the business in question should have information regarding other critical points."

According to an Osinerg report, TGP has not fulfilled recommendations on nine critical points of 39 previously detected, some of which have been declared points of high and very high risk.

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