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Petrogate Scandal Rattles Government of Peruvian President Alan Garcia

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It was the seven days that shook the political scene in Peru, beginning with the uncovering of evidence of influence peddling in the awarding of oil-exploration concessions for five blocks to the consortium that includes state-owned oil company Petroperu and the Norwegian Discover Petroleum International (DPI). The seven days ended with a Cabinet shakeup in the Alianza Popular Revolucionaria Americana (APRA) government of President Alan Garcia.

Although the waters seem to have calmed for the time being, the political crisis, the worst since Garcia took office, has not yet been resolved. On Oct. 5, journalist Fernando Rospigliosi, a former interior minister during the administration of ex-President Alejandro Toledo (2001-2006), appeared on a TV program with four audiotapes allegedly containing recorded phone conversations between Romulo Leon Alegria, former APRA deputy and former fishing minister in the first Garcia administration (1985-1990), and Alberto Quimper, a lawyer and now fired member of the Petroperu board of directors.

The two were heard making an illicit agreement to see that on Sept. 10 DPI would be awarded the concessions for five of the seven blocks that had been put up for bid. DPI's partnership with Perupetro meant that if oil were found, DPI would give Petroperu 25% of the production.

The "petrotapes," recorded between February and September of this year, revealed the kickback scheme to favor DPI. One tape implicated then prime minister Jorge del Castillo of having met with Dominican businessman and lobbyist Fortunato Canaan, whose job was to promote the interests of the Norwegian business.

DPI has denied paying kickbacks to get favorable treatment from Perupetro, but it has admitted having worked with Quimper and Leon Alegria. In an Oct. 7 communique, the Norwegian company indicated that since May it had paid Leon Alegria US$63,750 for his "assistance in connection with preparation of meetings and procedures in connection with the license application process."

The business also admits paying US$10,000 a month, between May and October, to the law offices of Ernesto Arias-Schreiber for legal assistance with the auction. "Two weeks ago, DPI started the process of replacing Romulo Leon as site representative and changing its legal representation, by request from Petroperu," said the communique.
From what can be heard on the tapes, more than a few public officials have received kickbacks or money to "grease the wheels" to favor DPI, as Leon Alegria said on one of the tapes.

Various high-ranking government officials, such as then minister of energy and mines Juan Valdivia, are mentioned on the recordings. On Oct. 7, the full Congress appointed a multiparty committee to investigate the irregularities in the process of awarding concessions for the five blocks to the Petroperu-DPI consortium as well as all the auctions by Petroperu and Perupetro from 2006 to 2008, that is, from the time the Aprista government took office to the present.

The committee is chaired by Deputy Daniel Abugattas of the Partido Nacionalista Peruano (PNP). The PNP is headed by retired Lt. Col. Ollanta Humala, Garcia's opponent in the most recent elections that brought him to the presidency. On Oct. 9, the entire Cabinet resigned, and President Garcia accepted the resignations the next day. On Oct. 12, a week after the first tapes were made public, Garcia confirmed the appointment of Yehude Simon, who has roots in the radical left, as new prime minister, and two days later the new Cabinet was sworn in.

The change: real or cosmetic?
The new president of the Cabinet is recognized as a successful regional leader for the job he has done since 2002 as governor of his home department of Lambayeque, on the northern coast of the country. Accused of supporting terrorism in 1992 during the administration of President Alberto Fujimori (1990-2000), Simon was sentenced to 20 years in prison and pardoned eight years later by transition President Valentin Paniagua (2000-2001). After his pardon, he made an ideological turn toward the center and is head of the Partido Humanista Peruano (PHP). "I think now is the time for centrist and instituionalist options," Simon said weeks before being named prime minister as he announced his intention to run for president in 2011.

To renew his government with a successful and honest politician like Simon would certainly be a boost for Garcia, who has a 71% disapproval rating, according to a poll taken Oct. 10-11 in metropolitan Lima by the Instituto de Opinion Publica (IOP) of the Pontificia Universidad Catolica de Peru (PUCP).

The same percentage of Limenos, according to the poll, believes that high APRA officials in the government were involved with the petrotapes. Upon swearing in the new Cabinet headed by Simon on Oct. 14, Garcia asked them to defend the country from the dramatic international crisis that threatens it, to actively fight corruption, and to fight for poverty reduction and misery eradication.

"Corruption will not be defeated overnight, but we can commit ourselves to the effort," said Simon in an interview with the daily La Republica. As one way to fight corruption, Simon proposed that the next comptroller general be chosen through a national public competition open to all citizens.

For many, the new Cabinet is not much different from the last. Garcia replaced the ministers of interior, health, agriculture, production, energy and mines, and women. The other 10 remain, including Economy Minister Luis Valdivieso, who was formerly with the International Monetary Fund (IMF). The new prime minister has indicated his decision to dialogue with all political and
social sectors, a task he began almost immediately. He met with opposition leaders Humala and Lourdes Flores of the rightest Partico Popular Cristiano (PPC) and head of the Unidad Nacional (UN) coalition. He asked the two for a 90-day truce. Neither opposition leader expressed total support for the new Cabinet.

Flores said that once she knew in detail the policies that the new prime minister and his Cabinet would implement, she would take a position. Humala asked for the resignation of the economy minister, saying he was "responsible for the economic policies that have caused most of the social conflicts."

The Defensoria del Pueblo has listed 177 social conflicts as of Sept. 30, 71% of them still active. The social conflicts named by the Defensoria include the recent protests by indigenous communities against the nearly 100 legislative decrees promulgated by the Peruvian executive between March and June of this year. The decrees were signed using the extraordinary powers granted by Congress to adapt the national laws to the free-trade agreement (FTA) with the US, which is to go into effect Jan. 1, 2009.

The legislation required by that agreement includes relaxing regulations regarding campesino lands and modifying environmental protection to allow the influx of large capital. In a meeting with the Confederacion de Instituciones Empresariales Privadas (CONFIEP), Simon indicated that the central focus of his agenda would be fighting poverty and corruption.

Jaime Caceres, CONFIEP president, said he agreed with the prime minister that the country needs to keep growing a growth rate of 6.5% is expected for this year, quite high but down from 8.2% in 2007 and it needs to continue public and private investment.

In his meeting with representatives of 15 trade unions and Mario Huaman, secretary-general of the Confederacion General de Trabajadores (CGT) of Peru, Simon assured them that he will devote his time as prime minister to promoting participatory democracy so that the various sectors of the country can participate in national decisions.

Simon said that he would meet with the trade unions again at the end of October to examine the possibility of their suspending the demonstrations and marches planned for the third week in November during the summit of the Asia-Pacific Economic Cooperation (APEC) forum in Peru, and to find a solution to the labor demands.

In a press conference, Simon said, "When highways are blocked, the ones who are hurt are the poor, not the government," and he said those who carry out such actions would be held accountable under the law.

For Huaman, the Cabinet changes are not enough, since leaving in place the ministers of the economy and foreign trade still leaves Peruvians under the shadow of IMF representatives. Simon said, "It is very difficult to change the economic model," and he indicated that the present situation complicates the ability to increase salaries and pensions.
For many political analysts, having a Cabinet headed by a politician who is not a member of APRA is not enough to speak of a change. "A change of style is not enough, what is needed is a fundamental change in the economic model," said sociologist Carlos Franco in an interview in the daily La Primera. Analyst Alberto Adrianzen told La Republica, "The right's economic control will make it difficult [for Simon] to implement measures that favor the popular classes." Who is behind the tapes?

For Abugattas, the Cabinet change does not solve the political crisis unleashed by petrogate. "Until it is clarified how deep the roots of corruption are that have been uncovered through these audiotapes, the country is going to be immersed in a political crisis," he said on Oct. 13 in an interview with La Republica. Rospigliosi, who was accompanied by former anti-corruption prosecutor Jose Ugaz in bringing to light this corruption case, said that the envelope containing the recordings came to him anonymously.

Since then, transcripts of other audiotapes, now totaling 13, have been appearing in the print media. On Oct. 23, it was revealed that, on the hard drives of Leon Alegria's computers, which his secretary handed over to the district attorney, 600 emails were found referring to the process for forming the DPI-Petroperu consortium and for obtaining the concessions for five oil blocks.

In statements by Quimper and others tied to this case, it slipped out that the cassettes had been turned over by the Houston-based Petro-Tech, which lost to DIP in the auction of one oil block, and from whom Perupetro has demanded the payment of back taxes. On Oct. 21, anti-corruption prosecutor Oscar Zevallos filed criminal charges with the judiciary against the fugitive Leon Alegria, Quimper (detained Oct. 8 and under house arrest since Oct. 22), Arias Schreiber, and Canaan, accusing them of influence peddling, criminal conspiracy, and corruption.

Another 10 public employees were charged in the petrotapes case, among them the former president of Petroperu Cesar Gutierrez, the president of Perupetro Daniel Saba, and DPI president Jostein Kjaerstad. "The government is negotiating with Leon Alegria regarding what he is going to say and what he is not going to say. Whether they expel him from the country or whether he stays here and turns himself in. This is what is being negotiated," said Rospigliosi in an interview in La Primera, explaining why the major player implicated in this corruption case, Romulo Leon Alegria, has still not been detained.

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