5-31-2013

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Elsa ChanduvÃ JaÃ±a

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Peruvian Government Gives In to Pressure From Right

by Elsa Chanduví Jaña
Category/Department: Peru
Published: 2013-05-31

The Peruvian government's interest in acquiring the assets that the Spanish transnational oil company Repsol was selling in Peru, which included La Pampilla refinery, a network of more than 200 service stations, and a gas bottling plant, brought a heated reaction from rightest parties and media as well as business leaders who saw the move as a statist threat to the economy.

On April 22, President Ollanta Humala met in the government palace in Lima with Spaniard Antonio Brufau, Repsol president and CEO. The next day, national newspapers reported the beginning of negotiations for the government to acquire Repsol.

The news unleashed a major controversy between opposition sectors that consider the state a bad entrepreneur and those who see the government initiative as an opportunity to contribute to the country's energy security.

The April 27 approval of the Reglamento for the 2006 Ley de Foralecimiento y Modernización de PetroPerú, a measure that grants the state-run oil company the right to develop all hydrocarbon activities in the country, threw more fuel on the fire.

The enabling regulation says that PetroPerú can be involved in all phases of the industry and sale of oil from exploration to production, including its derivatives, basic and intermediary petrochemicals, and any other form of energy.

Opponents allege Humala's "statist" plans

In statements to the press, Alianza Popular Revolucionaria Americana (APRA) lawmaker Mauricio Mulder called the regulation unconstitutional, saying that it excludes the state-run company "from public control." He said, "It privatizes PetroPerú" with public money, and "now it will be beyond the control of the Contraloría General de la República (CG), Congress, and even the Ministerio Público."

Alfonso García Miró, president of the business chamber Confederación Nacional de Instituciones Empresariales Privadas (CONFIEP), said the government's interest in acquiring Repsol's assets shows "the political decision to interfere in a market where private enterprise works. It is clear to me that this will be the beginning of a transformation of Peru into a domineering, arrogant, authoritarian state, as in Cuba, Bolivia, Venezuela, and Argentina. But we Peruvians will defend ourselves against this great threat."

Many echoed García Miró's statements, saying that the government had begun to turn toward the "Gran Transformación," Humala's initial government plan that envisioned taking back the country's strategic productive sectors and that was changed for a more moderate plan, the Hoja de Ruta (roadmap), that calmed the business sector and led to Humala's 2011 electoral victory.

The Asociación de Grifos y Estaciones de Servicio del Perú (AGESP) warned that the state's possible acquisition of La Pampilla would allow it to implement price controls disguised under state participation in the sector. "This attempt to get in to regulate prices would undoubtedly stop the..."
significant development that the service-station market has had in the last 21 years," said an AGESP communiqué.

Lourdes Flores, leader of rightist Partido Popular Cristiano (PPC), APRA ex-President Alan García (1985-1990, 2006-2011), and Keiko Fujimori, leader of Fuerza Popular (FP), expressed similar sentiments. In the same vein, Hernando de Soto, president of the Instituto Libertad y Democracia (ILD), said that a state purchase of Repsol would change the country's economic policy. De Soto said on Radio Programas del Perú (RPP) that he prefers a state that has little participation in the economy.

**Supporters see value to consumers, industry efficiency**

On the other side, Humberto Campodónico, former president of PetroPerú, told Andina news agency that the purchase of Repsol would encourage vertical integration, since the state-run enterprise would be present along the entire chain of the hydrocarbons market, from production to sales, which would make it more efficient.

Campodónico said this is an opportunity to discuss not only the Repsol issue but also the energy policy that the country should pursue in various sectors. "The possibility exists to generate very important added value in sales and refining, thanks to the vertical integration of PetroPerú," he said. Campodónico added, however, that it was important to know what was being bought, and he suggested that a national or international investment bank do a certified valuation.

La Pampilla is an industrial conglomerate on the northern outskirts of Lima and has a production capacity of more than 102,000 barrels of oil per day. The refinery has long-term liabilities estimated at close to US$700 million. The eventual purchase of La Pampilla would cost more than US$2 billion.

Hydrocarbon specialist Manuel Dammert says the Peruvian state's recovery of La Pampilla will bring better management of fuel prices. Now, when the international price spikes, it automatically reverberates in the local economy and in the pocketbook of all Peruvians. "It would allow better price management in the country to guarantee cheap energy for Peru, because, when international oil prices rise, it has a direct impact on the market," said Dammert.

Mario Huamán, secretary-general of the Confederación General de Trabajadores del Perú (CGT), agreed with Dammert regarding the benefit that Peruvians would receive from a PetroPerú purchase of Repsol.

The controversy continued until the government couple spoke. First, President Humala said on April 28 in a television interview, "If we aren't clear that technically, economically, and commercially it is a good opportunity, then we won't go ahead [with the Repsol acquisition]." Two days later, first lady Nadine Heredia told the press that if "it cannot be shown numerically that [the Repsol purchase] is beneficial for the country, it simply won't happen."

For many, the couple's statements meant that they would take time to do a technical evaluation of whether the purchase was beneficial, which had been confirmed by Economy and Finance Minister Luis Miguel Castilla. However, on May 2, PetroPerú issued a communiqué announcing that, after a technical, economic, and financial evaluation, it was withdrawing from the purchase process.

CONFIEP president Miró said that PetroPerú’s announcement restored calm and confidence to the business sector regarding the correct management of economic policy. "Growing concern and
instability was being generated by a stronger indication of a possible wider state role in business. We believe that this has now dissipated, and it is necessary to look forward," said García Miró in a telephone conversation with El Comercio online.

Cusco Deputy Verónika Mendoza said that the state's about-face on the plan to purchase Repsol's assets proves that the government's energy-policy decisions are subject to business-sector pressure.

"The government has no clear policies to guarantee energy security," Mendoza said in an interview with La Primera. When asked whether she believes that a technical study had really been done, she said, "To date, we have no report on the technical and economic study of La Pampilla refinery. When we solicited the evaluation, the minister of energy and mines did not explain the results of the study."

Was there a technical study to determine whether the purchase was beneficial? If not, why was the purchase announced without a prior study? The government clearly managed its attempt to acquire Repsol very badly, and to continue would have meant a political cost that it did know how to stop before it meant the loss of important allies.

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