

June 2, 2007

Mr. Stephen Zimmermann, Chief
Office of Institutional Integrity
Inter-American Development Bank
1300 New York Avenue NW, Stop W1212
Washington, DC 20577

Subject: E-Tech Response to May 16, 2007 Office of Institutional Integrity (OII) Letter Summarizing Results of Investigation into Possible Fraud or Corruption – Camisea Pipeline Project

Dear Stephen:

Thank you for your letter of May 16, 2007 that summarizes the results of the OII investigation into allegations of possible fraud or corruption in the context of the Camisea Pipeline Project, financed by Inter-American Development Bank (IDB) Loan 1472/OC-PE. The three areas investigated by OII were: 1) whether the pipes used on the project were new, 2) whether unqualified or uncertified personnel conducted welding and hydrostatic tests of the pipe, and 3) whether TGP made route alterations without authorization, hiding the change from local authorities and the Bank. In all three cases, the OII found that the evidence available was not sufficient to indicate that any fraudulent misrepresentations were made. The OII has also determined that there is insufficient evidence to warrant any further investigation into the allegations. All of this is stated in the May 16th response letter to E-Tech. However, it was the understanding of E-Tech that the OII letter would provide significantly more specificity regarding how limited the investigation actually was. This is necessary to assure that the OII investigation results are not used inappropriately by project advocates to claim a “clean bill of health” for the Camisea Pipeline Project.

E-Tech believes that OII acted in good faith in conducting the investigation. It appears that among several substantive allegations, OII preferentially focused on the three allegations it determined could in theory be most readily verified by reviewing the project documentation record. The May 16th letter notes that the OII investigation included extensive fieldwork by outside experts who examined a large array of documentation. E-Tech has gone on record many times in the past fifteen months, since the first E-Tech report was issued on February 27, 2006, stating that all paperwork associated with the project is almost certainly “in order.” E-Tech has also stated that any investigation or audit that is limited to a review of documents is unlikely to reveal any significant irregularities.

It would be very helpful for OII to describe: 1) what it defines as fraud, 2) why these three allegations were selected and not other substantial allegations, such as the lack of prior geotechnical studies before choosing the “mountaintop” route or the lack of properly qualified

radiographic (weld x-ray) interpreters, and 3) the depth of the investigation into each allegation addressed. Without knowing the answers to these questions there is no frame of reference to understand the limits or significance of the OII's conclusions. E-Tech presents its position on the conclusions reached by OII in the three areas investigated in the following paragraphs.

Use of New or Left-Over Pipe and Pipe Anomalies or Corrosion

E-Tech stated in its February 27, 2006 report that a significant percentage of tubes left-over from other projects were used in the Camisea pipelines. This explanation for the poor physical condition of some of the pipe, that the pipe must have been left-over from other projects, was demonstrated almost immediately by TGP to be an incorrect explanation. It was unproductive for E-Tech to state as fact, based on the demonstrable physical evidence of corrosion, what was undocumented opinion. However, the substantive technical issue remains real today--accelerated corrosion on the interior walls of the pipelines. The IDB contractor Exponent qualitatively confirmed the presence of accelerated corrosion in a portion of the liquids pipeline in the May 2007 document "*Pipeline Integrity Analysis of the Camisea Transportation System*," stating (p. 14):

"Results of the MFL inspection tool and evaluation of metal loss per ASME 31G has shown that currently no severe external and internal corrosion damage exists along the NGL pipeline. However, it is Exponent's opinion that some sections of the NGL pipeline more than others may be subject to a potential long term corrosion risk that will need to be addressed in the long term planning stages of TgP's pipeline integrity program."

The intelligent pig internal inspection was conducted in the summer of 2006 according to TGP, approximately two years after the pipelines began operation. The liquids pipeline clearly showed sections of accelerated corrosion after only two years of operation. For this reason Exponent noted in its report to IDB that action must be taken to deal with this corrosion problem.

E-Tech provided, in its supplemental report issued on August 21, 2006, photographs of the poor pipe storage practices used by Techint. E-Tech also provided in that report a detailed summary of the ultrasound pipe wall thickness testing procedure used to corroborate that some of the pipe was suffering from accelerated internal corrosion at the time of installation. The issue of concern to E-Tech, accelerated corrosion in portions of the pipeline, has been qualitatively acknowledged by IDB's contractor.

The OII chose to focus on whether all pipes had been manufactured specifically for the project. E-Tech does not contest the OII conclusion that the pipe was specifically manufactured for the pipe. However, E-Tech contests the OII statement that "*the evidence available was not sufficient to indicate fraudulent misrepresentations with respect to . . . any anomalies or corrosion in the pipes.*" TGP wrote a 101-page (English language version) response to E-Tech's first report. The TGP response was received by E-Tech on March 11, 2006 and is on the E-Tech website at: http://www.etechninternational.org/03-11-06_TGP_answer_to_E-Tech_Report.pdf. TGP states on p. 11 of this response to E-Tech that:

“Tenaris supplied the pipes with the required bevels according to the project technical specifications and they were protected with metal protection devices to prevent damages during transportation or hauling.”

This statement by TGP implies that the pipes were completely protected from corrosion prior to installation. This statement is not supported by field evidence. Below are three photographs of the pipe prior to installation. In the left and right photos the pipes have no end protection of any kind. In the middle photo the end protector is dislodged, and was obviously not designed to protect the pipe from water intrusion when the pipe is partially submerged.

Transport and Storage of Camisea Pipes Prior to Installation

Pipes in transit without end protectors	Pipe in water with end cap open	Pipes stored in right-of-way without end protectors
 A photograph showing several large, dark-colored pipes lying on a dirt surface. The pipes are arranged in a row, and their ends are open and unprotected.	 A close-up photograph of a pipe submerged in water. The end of the pipe is open, and a blue, textured cap is visible, which appears to be dislodged or partially submerged.	 A photograph showing a long line of pipes laid out on the ground in a right-of-way area. The pipes are surrounded by vegetation and trees, and their ends are open and unprotected.

It is important that OII clarify that: 1) its investigation was limited to verifying that the pipe used on the project was manufactured for the project, and 2) that it is not certifying that as a result of its investigation it has affirmatively determined that there were no anomalies or corrosion in the pipes at the time of installation.

Welder Certifications and Authorization of Route Variations

E-Tech has alleged that TGP/Techint authorities were not at the location of welding certification tests and that they simply signed the required certification documents after the fact to ensure the documentation record was in order. OII has determined that the paperwork is essentially in order for the welding certification tests. E-Tech does not contest that the official paperwork is in order, nor has E-Tech ever anticipated that the official paperwork would not be in order. If OII’s investigative experts confirmed that Techint’s director of quality assurance, Mr. Daniel Fernandez, was physically present for each welder certification test, that is important information that should be in OII’s letter summarizing the results of the investigation.

E-Tech alleges that Mr. Fernandez was not present for some of the welding tests and yet certified the approval of the certification tests as a witness. If OII’s investigative experts simply confirmed that each welder’s certification test was properly signed by all the appropriate people and that those signatures are legitimate, that was presumed to be the case by E-Tech from the outset. E-Tech’s allegation is that the certificates were signed by all the appropriate people but

some or all of those people were not physically present at the actual certification tests to corroborate that the welder actually knew what he was doing before he was approved to weld on the pipelines.

Authorization of Route Variations

E-Tech alleged that the Peruvian authorities in some cases did not give prior approval before TGP moved forward with a route variation. This is implied in the one sentence in the February 27, 2006 E-Tech report that addresses this issue (p. 16):

“A number of the route changes were properly authorized but in other cases, although the paperwork was completed by TGP/Techint, Peruvian authorities did not officially authorize the route changes.”

This is a relatively minor allegation in the sense that it is highly unlikely that Peruvian authorities would have insisted that TGP follow a different route than the one proposed by TGP. The point of the allegation is that Peruvian authorities were at times not in the field when TGP determined that route variations were necessary, and for that reason could not give prior approval, or at least could not give prior approval based on an onsite appraisal of the potential impacts of the proposed variation. This allegation would also be very difficult to prove, as the appropriate route variation authorization documents could have been signed at any point in time between the variation being proposed by TGP and the time that OII investigators asked for copies of the variation authorizations three to four years later.

E-Tech provides concrete evidence of a completely improvised route variation at km. 455 to km. 459 in E-Tech's August 21, 2006 supplemental report (p. 20-21). Attachment 5 to that report documents numerous violations of technical specifications that occurred when this route variation was carried-out. This route variation may have complete authorization paperwork in the TGP project file at this time. What matters is whether it was officially approved by Peruvian authorities before action was taken by TGP.

Conclusion

The liquids pipeline continues to rupture. The finding by OII of insufficient evidence of fraud in the three areas investigated does not change that fact. E-Tech strongly contests the OII decision to discontinue the investigation into welder certifications and route variation authorizations based on a finding of “insufficient evidence of fraud.” In these two cases, E-Tech asserts a more accurate description of the results of the OII investigation would be “inconclusive evidence of fraud.”

There is no question that collecting sufficient evidence to exhaustively investigate these allegations would require a difficult “human intelligence gathering” effort. E-Tech has relied to a significant degree on human intelligence gathering, meaning the welding and civil engineering contractors that actually worked on the project and independent pipeline integrity experts that

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have reviewed the project, in preparing its reports. It is E-Tech's position that if multiple inspectors who were physically present when a welder was being certified or when a route variation was initiated will testify that the appropriate authorities were not present at the time, that testimony should take precedence over a document in the project file that indicates otherwise. Halting an inconclusive investigation that was not exhaustive, for any number of reasons, is understandable. However, the OII letter implies that the investigation was exhaustive and no evidence of fraud was found. E-Tech strongly disagrees with this wording.

E-Tech recognizes the need for the OII and will cooperate with the OII in every way possible to assure the long-term integrity of the Camisea pipelines. Please feel free to call me at (619) 295-2072 or e-mail at bpowers@powersengineering.com if you have any questions about this reply letter.

Best regards,

A handwritten signature in black ink that reads "Bill Powers, P.E." The signature is written in a cursive, slightly slanted style.

Bill Powers, P.E.

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