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Leaky pipes, stingy aid slow Peru gas project

More oversight is needed for the \$1.6 billion internationally financed project, say activists.

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NEAR CAMISEA, PERU

Across the bow of a cargo boat, Alcides Huinchompi points to loading platforms jutting from the banks of the Urumbamba River. "That is what we are fighting against," says the Machiguenga Indian activist from deep inside the Peruvian rainforest.

The remote outpost is part of the Camisea Gas Project, a \$1.6 billion project for piping Peruvian natural gas 340 miles from the jungle floor, crossing 14,000-foot Andean mountains to markets in Peru and - by 2010 - the US.

Supporters say it will be the catalyst for an unprecedented economic boom for impoverished Peru. But environmental concerns have made the flagship project a political football in Washington and Lima.

Camisea is backed by an international consortium of companies, including Texas-based Hunt Oil, and the US taxpayer-funded Inter-American Development Bank (IDB). It's slated to turn Peru into a net energy exporter and save \$4.1 billion in energy costs from 2004 to 2033, according to the IDB. It will also create government royalties - one Peruvian province has already landed more than \$254 million.

But critics want to know why one of the project's pipelines has ruptured five times since December 2004, impacting sensitive ecosystems and remote jungle communities. They also complain that benefits have not trickled down to poor Peruvians and that the IDB, which put in \$75 million in 2003, has not fulfilled its oversight role.

"We are of the view Camisea has not been a success. It could have been better designed," US Treasury Assistant Secretary Clay Lowery told a Senate foreign relations hearing last week. The hearing focused on problems with multilateral banks funding pipelines in developing countries.

Environmentalists say Camisea's first phase must be fully investigated before the IDB supports further projects here. A \$2.8 billion liquefied natural gas project is being planned to ship Camisea gas to foreign markets. Peru LNG - a consortium consisting of US-based Hunt Oil, Korea's SK Corp., Argentina's Pluspetrol, Spain's Repsol-YP, and Algeria's Sonatrach - is asking the bank for \$400 million in funding for that project.

In February, a nonprofit US engineering consultancy E-Tech, that works with activist groups accused the consortium that built the faulty pipe of rushing construction and using second-hand pipes to save money. The consortium, known as TGP, has offered documents it says proves the pipes were new and has promised to spend \$25 million this year to increase safety.

Meanwhile, a Peruvian Congressional investigation last month criticized consortium members and the Peruvian

government for improper oversight of Camisea. Peru's Ministry of Energy is launching a technical audit of the pipe, as is the IDB. Thus far the Peruvian government has levied fines against TGP for well over a million dollars but has collected nothing.

Problems on the ground

In remote jungle communities Camisea's promises are overshadowed by its pains. Gas money has spawned development projects such as clinics and schools for remote jungle communities. But most villagers say development, when it comes, doesn't outweigh damage.

Echoing sentiments of nearly every villager interviewed for this story, Matias Rios, the mayor of the tiny community of Camisea, says companies don't do enough and local government officials pocket the money meant for development "We were promised schools, houses for teachers, running water," he says. "That was two years ago. Where are they?"

Villagers worry most about their subsistence lifestyle. "Before the companies came, people here fished and hunted," says Mr. Huinchompi. "They brought us development but they also brought contamination and scared away fish and animals we need for food." Myriam Caceres, a nurse in a nearby village, says she sees cases of malnutrition due to lack of fish.

Some companies offered compensation and programs to restock fish populations. But Peter Kostishack of Amazon Alliance, a US-based watchdog group, says concerns over fishing could lead the region's peaceful communities to protest, as happened in 2005 when Machiguenga Indians blocked worker access to certain sites.

Leonardo Cardenas Rio, a farmer living near Camisea, expects protests if villagers' complaints aren't met. "We won't destroy things but we will keep them from coming here," he says.

Despite Camisea's controversy, Hunt Oil spokesperson said in an e-mail the company "is very close to signing a mandate letter" with the bank for the project's next phase.

Bernardo Frydman, an IDB official in Washington, said in a telephone interview last week that the Peru LNG export phase is "important for Peruvians and Americans, given the strategic value of gas for the energy matrix in the region." He said the bank hasn't made a commitment but expects to sign a mandate letter which is "a formal engagement for the bank to analyze the project."

He said an IDB-sponsored technical audit of the pipeline, the final stage of which is due at the end of the year, would not be made a condition in order for the bank to analyze the project. "The result would, however, influence our willingness to formally consider the loan," he says.

Many Peruvians support the project

Although poor Peruvians living near the project feel they have missed the benefits, most citizens support Camisea, says Manuel Saavedra, president of CPI, a Lima-based polling firm.

"Many advantages really have not been realized for the average citizen, but most people see this is an important investment for job creation and generating resources," he says.

Peru's recently elected president, Alan Garcia, plans to reevaluate royalty schemes in government contracts with Camisea's consortium members. The contracts were signed when gas prices were low and many Peruvians feel

the government should increase its share of hydrocarbon operations, as governments in Venezuela and Bolivia have done.

"Many in Congress want Garcia to take another look at the contract so that the interests of the people and those of private investors are more balanced," says Fernando Trigos, a Peruvian aide to the congressman who spearheaded last month's congressional inquiry into the project.

Mr. Garcia in June defeated Ollanta Humala, a populist candidate favoring gas nationalization who received overwhelming support from poor Peruvians in the Camisea project area.

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