

**MINISTERIO DE ENERGIA Y MINAS**



Lima, June 9th, 2003

Letter N° 885-03-EM/DM

Mr.  
PHILIP MERRIL  
President and Chairman  
Eximbank  
Washington, DC

Dear Mr. Merrill,

This letter concerns the evaluation the US Government is currently undertaking with respect to its possible support to the financing of the Camisea Project, through a loan to be granted by the Inter-american Development Bank to the Consortium in charge of the construction of the natural gas pipeline. As you know, the Camisea Project involves the exploration, exploitation, and transportation, of natural gas from the Camisea deposits to Peruvian and international markets.

Background

In 1981 Peru subscribed with Royal Dutch Shell an oil operation contract to explore blocks Nos. 38 and 42, located in the northern part of Cuzco. As a result, during the period 1983-1987 Shell discovered significant gas reserves in the Camisea region. The agreement for the exploitation of the gas was signed in 1988, but the contract negotiation was concluded without reaching an agreement. After 8 years, in 1996, a new agreement was signed between Shell and Perupetro (the public-owned contract company), but in 1998 the contract was again terminated after Shell announced its decision not to continue with the development of the project, basically on the market economics of the project.

In 1999 the Peruvian Government called for an international public bid in order to award the license to construct and develop the project; and in December 2000, the contracts were awarded to consortiums lead by Pluspetrol in the "upstream" and Tecgas in the "downstream", both companies with main operations in Argentina <sup>(1)</sup>. After a public consultation as required by law, in march 2002 the Government of Peru approved an Environmental and Social Assessment Study.

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<sup>(1)</sup> The third component of the Camisea Project is the distribution of gas in Lima. In 2001 the licence for the distribution of gas was awarded to Tractebel of Belgium.



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After more than twenty years since the discovering of the gas fields, the project has a clear timetable for construction and for the gas to reach Lima in August 2004. Five different governments have been involved with the implementation of the project. Any further delays would jeopardize the viability of the project and its positive impact on the Peruvian economy.

The increasing social demands in Peru (more than half of its population lives under the poverty line) and the null margin to implement expansionary fiscal policies, make the direct private investment the only tool that Peru has to control the pressures for a reversion of the market-oriented reforms implemented. In order to increase the private investment, the Government is seeking bilateral trade agreements with its main commercial partners, including the United States, and is encouraging the development of private projects.

One of the most important private projects in the last decades in Peru is the Camisea project, which will reduce the hydrocarbon trade deficit up to 70 percent and lower the energy costs for Peruvian consumers in US\$ 5.1 billion during the useful life of the project. Additionally, fiscal income to Government will be approximately US\$ 2 billion. Furthermore, the project will transform the Peruvian energy matrix, as it will make gas available to the Lima area and should result in conversion of electric generation plants and industrial electric generation facilities to gas, and make natural gas available to residential consumers.

### Current status

It is our understanding that in order to express support for the Camisea project, staff from the US Department of the Treasury has been working intensively to address its environmental and social implications. The US Treasury involvement has proved to be positive and has helped us identify measures to improve the management and supervision of the project.

I want to assure you that the Government of Peru has been working intensively to address the social and environmental effects of the Camisea project, to ensure that its development will be made on a sustainable manner and that its benefits will be distributed in an equitable way on a national and local level.

Within this framework, the Ministry of Economics and Finance required to the Inter-American Development Bank (IDB) a US\$ 5 million loan to strengthen the institutional capacity of the government agencies involved with the project.



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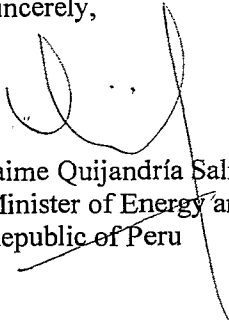
As a result of the loan and the IDB involvement, the Government has already made substantial improvements: a) an Inter-institutional Coordination Committee has been created to improve the coordination of all the agencies involved with the project; b) the monitoring system of the project has been strengthened, c) a considerable number of staff from government agencies has been displaced to the area of the project to carry out supervisory activities, d) the national reserve of Vilcabamba has been clearly established, and we are in the process of strengthening the legal status of the Nahua-Kugapakori Reserve.

I would like to stress the fact that the Peruvian Government has a strong commitment to implement all the necessary activities to mitigate the potential negative effects of the project, not only during the construction period but also during the life of the concession, and to apply the adequate controls to make possible all the economic agents comply with the regulations established in the law.

Finally, I would like to express again to you the importance that this project be completed within the current time framework established in the contracts with the private operators. Otherwise the viability of the project will be in danger. Any setback would also undermine the strengthening process of the Peruvian democracy because of the expectations a project of this importance has within our population.

Sincerely,



  
Jaime Quijandria Salmón  
Minister of Energy and Mines  
Republic of Peru