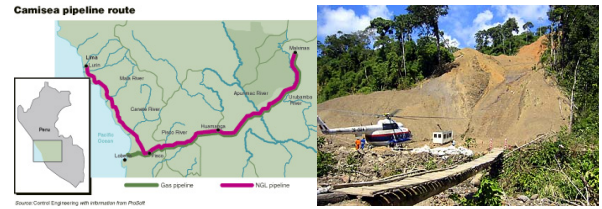


## Dodgy Deal: Camisea pipeline project Peru



### update

This dodgy deal is no longer being updated

### banktrack contact

## Description

Peru's Camisea gas project was designed to exploit an enormous gas field in the Amazonian region. It consists of 3 components:

- exploration and extraction at four drilling platforms in the Urubamba Valley (the "Upstream Project"),
- two pipelines to transport the gas from the Urubamba Valley to the coast of Peru (the "Downstream Project"), and
- two processing and distribution systems on the coast near Lima (the "Distribution Project").

The project is divided into two stages. The first stage of the original concessions (Camisea I) has already been completed and gas extraction for "Block 88" and the first pipeline across the Andes are operating.

Now the second stage of the project (Camisea II) is about to start, fiercely opposed by local and international civil society groups and affected indigenous peoples. Camisea II includes the construction of a second pipeline and a new port along the coast with a liquid gas fractionation plant, due to start production in October 2008.

## what must happen

Private financiers already involved should demand that Camisea II not proceed in its current form, unless both the plant and port are relocated to a less fragile area of the coast where they would pose less risk to the reserve's internationally recognized biodiversity, as well as to the local fishing and tourism industries. Public input and stringent environmental impact analysis should be integral parts of the relocation decision.

Financial institutions should be aware of all rights violations and technical-legal shortcomings in both previous and existing business activities under Camisea I. Camisea II should proceed only on the condition that local grievances are taken into account, and the problems associated with Camisea I have been resolved to the satisfaction of affected communities. Public consultation should also be ensured.

## Environment

Peru's Camisea Gas Project is arguably one of the most damaging projects in the Amazon Basin. The project includes two pipelines of 700 km to the Peruvian coast, from an ecologically fragile area of the Amazon, over the Andes to the Pacific Coast. The gas field of Camisea I (Block 88 and 56) and pipeline are located in one of the world's most ecologically and socially fragile areas. A region of great biodiversity.

Since the beginning of Camisea I's operation in mid-2004, the pipeline ruptured five times within 18 months, with at least three major spills. According to an independent report by a non-profit engineering consultancy E-Tech International, released February 2006, the pipeline built by Techint was constructed by unqualified and untrained welders using corroded piping and was rushed to avoid onerous late completion fees that would have totalled \$90 million.

Camisea II's proposed port and liquid gas fractionation plant site is in Playa Melchorita that is of particular concern because it is located in the buffer zone of the Paracas National Reserve where an accident or spill would have untold consequences.

Some of the environmental consequences of the project so far have been:

- Fish stock declines, due to severe soil erosion and landslides resulting from the pipeline's construction along steep ridges. Reportedly, this is resulting in a rise of malnutrition, particularly among children.
- Deforestation / landscape disturbance, opening up corridors for the pipeline alters draining patterns, affects movement of species, interrupts seed dispersal and natural forest regeneration, destroys habitat and negatively impacts the landscape.
- Pollution, solid waste management has been one of the primary issues surrounding Camisea.

## Human rights

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Camisea is home to Machiguenga, Yine, Nanti, Nahua and possibly Kirineri indigenous people. Apart from environmental issues, the project also has been criticized by NGOs because of the negative impacts on the indigenous peoples living in voluntary isolations in the Nahua-Kugapakori Reserve, such as involuntary resettlement, the destruction of food and water supplies of local communities, and the exposure to illnesses for which the indigenous population has no immunological defenses.

### Disease and death of indigenous people

Early explorations in the 1980s resulted in almost one-half of the Nahua people dying from influenza and whooping cough, to which they were not immune. Camisea contractors are still in relatively close contact with indigenous people, sustaining an inordinately high mortality rate within vulnerable local populations.

### Human rights violations

Affected indigenous people were not considered in the decision-making of the construction of the project. Furthermore, indigenous communities were intimidated into allowing gas drilling on their lands. The cumulative impacts on vulnerable communities have been ignored and inadequately compensated.

Specific concerns exist for the compliance with:

- **Convention 169 of the ILO:** This convention states that when projects affect indigenous land or their interests in general, the government must ensure: "... studies are carried out, in co-operation with the peoples concerned, to assess the social, spiritual, cultural and environmental impact on them of planned development activities. The results of these studies shall be considered as fundamental criteria for the implementation of these activities" (article 7.3)
- **United Nations Declaration on the Rights of Indigenous Peoples Article 23:** "Indigenous peoples have the right to determine and develop priorities and strategies for exercising their right to development. In particular, indigenous peoples have the right to be actively involved in developing and determining health, housing and other economic and social programmes affecting them and, as far as possible, to administer such programmes through their own institutions."

## What must happen

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Financial institutions should be aware of all rights violations and technical-legal shortcomings in both previous and existing business activities under Camisea I. Camisea II should proceed only on the condition that local grievances are taken into account, and the problems associated with Camisea I have been resolved to the satisfaction of affected communities. Public consultation should also be ensured.

## applicable policies

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✔ **Equator Principles** should apply to this project.

Camisea I has had tremendous social impacts on indigenous communities and detriment to the environment. Despite of these impacts the project has still received finance of private financiers. Therefore, it can be concluded that the Equator Principles have been breached.

## Updates

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### Oct 21, 2008

In mid-October 2008, the six-member Consorcio Camisea began production of natural gas at Pagoreni field on Block 56 in the Cuzco region. This is the second phase of the Camisea project (aka Camisea II) as it is adjacent to Block 88, which went into production in mid-2004 (*Oil&Gas Journal*).

In June 2008, the consortium of Hunt Oil, Repsol, SK Energy and Marubeni signed \$2.25 billion in loans to finance its \$3.8 billion Peru LNG project (aka Camisea II).

On August 7, 2007, the InterAmerican Commission on Human Rights (IACHR) adopted Precautionary Measure 102-07 requiring the Peruvian government to provide information about its efforts to protect the rights of indigenous peoples in voluntary isolation and initial contact that inhabit the Nahua, Kugapakori, and Nanti Territorial Reserve, affected by the Camisea Project.

The IACHR called on Peru to provide information about the activities occurring in Block 88 and their possible impact on the life, personal integrity, health, environment, and culture of the communities within the Territorial Reserve. It also asked the Peruvian government to describe the actions taken to comply with the recommendations.

## financial institutions involved

### banks

#### Banco de Credito de Peru

- Issuing of bonds: Arranger for issuing of corporate bonds for Pluspetrol Camisea (October 2006)
- Structuring agent of \$270 million in local financing: (20 August 2004)

#### Bank of Tokyo Mitsubishi UFJ -

- Project finance: (27 June 2008)

#### BBVA -

- Loan to Tecpetrol del Peru in October 2006
- Project finance: (27 June 2008)

#### Crédit Agricole -

- project finance: (27 June 2008)

#### ING Group -

- Project finance: (27 June 2008)

#### Mizuho -

- Project finance: (27 June 2008)

#### Société Générale -

- Advising: financial adviser to the Peru LNG project
- Project finance: (27 June 2008)

#### Sumitomo Mitsui Banking Corporation -

- Project finance: (27 June 2008)

### national development banks

#### BNDES

The Brazilian Development Bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social)

### development banks (national and IFI's)

#### Corporación Andina de Fomento (CAF)

### export credit agencies

#### Exim Bank of Korea

- \$300 million loan: (27 June 2008)  
*source:* Project Finance Magazine, 27 June 2008

#### Export-Import Bank of the United States (Ex-Im Bank)

- \$459 million guarantee facility approval: (27 June 2008)  
*source:* Project Finance Magazine, 27 June 2008

#### Servici Assicurativi del Commercio Estero (SACE)

- \$300 million loan: (27 June 2008)  
*source:* Project Finance Magazine, 27 June 2008

### multilateral development banks

#### Interamerican Development Bank (IDB)

- Project finance: \$ 400 million A loan (2008)

#### International Finance Corporation (IFC)

- Project finance: \$300 million A loan (2008)  
*source:* Project Finance Magazine, 27 June 2008

The consortium of Hunt Oil, Repsol, SK Energy and Marubeni has signed \$2.25 billion in loans to finance its \$3.8 billion Peru LNG project. The financing includes a loan agreement with the Inter-American Development Bank (IADB) for \$800 million split into two tranches, a \$400 million A loan provided directly from the IADB, and a second \$400 million B loan arranged by a syndicate of banks (Société Générale, BBVA, Calyon, Sumitomo, ING, Mizuho, and Bank of Tokyo Mitsubishi).

The International Finance Corporation (IFC) has signed a \$300 million A loan, US Ex-Im has a \$459 million guarantee facility approval, under which commercial banks will fund, and Kexim and SACE are also providing loans of roughly \$300 million. The consortium hope to close a bond issue in the Peruvian capital markets in the fourth quarter of 2008 to round out the financing requirement (*source: Project Finance Magazine, 27 June 2008*).

## applicable policies

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## companies

Graña y Montero

Hunt Oil

Marubeni

Pluspetrol

Repsol

SK Corporation

Sonatrach

Suez - Tractebel SA

Tecgas

Tecpetrol

Transportadora De Gas Del Peru (TGP)