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	COME-00	CTME-00	INL-01	DINT-00	DODE-00	ITCE-00	SRPP-00
	EAP-00	EB-00	EXME-00	EUR-01	E-00	UTED-00	VC-01
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P 032103Z MAY 00
 FM AMEMBASSY LIMA
 TO SECSTATE WASHDC PRIORITY 4217
 INFO DEPT OF ENERGY WASHDC PRIORITY
 AMEMBASSY BOGOTA
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 AMEMBASSY WELLINGTON
 AMEMBASSY CANBERRA
 AMEMBASSY PORT MORESBY
 AMEMBASSY JAKARTA
 AMEMBASSY BANDAR SERI BEGAWAN
 AMEMBASSY SINGAPORE
 AMEMBASSY KUALA LUMPUR
 AMEMBASSY BANGKOK
 AIT TAIPEI 0116
 AMCONSUL HONG KONG
 AMEMBASSY HANOI
 AMEMBASSY MANILA
 AMEMBASSY BEIJING
 AMEMBASSY SEOUL
 AMEMBASSY TOKYO

UNCLAS SECTION 01 OF 03 LIMA 002652

DEPT PASS DEPT OF ENERGY FOR DOE/JOHN BRODMAN, DOE/PO DAVID
PUMPHREY-GARY WARD

E.O. 12958: N/A
TAGS: ENRG, APECO, EINV, ECIN, PE
SUBJECT: BACKGROUND FOR FOURTH APEC ENERGY MINISTERS MEETING

REF: STATE 71973

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1. SUMMARY: PERUVIAN MINISTER OF ENERGY AND MINES JORGE

UNITED STATES DEPARTMENT OF STATE
REVIEW AUTHORITY: JOHN L MILLS
DATE/CASE ID: 12 MAY 2004 200302345

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CHAMOT WILL ATTEND THE FOURTH APEC ENERGY MINISTERIAL MAY 10-12. ALTHOUGH CHAMOT HAD SOUGHT A MEETING WITH U.S. ENERGY SECRETARY RICHARDSON DURING AN APRIL NATURAL GAS CONFERENCE, HE IS NOT/NOT SEEKING A MEETING WITH SECRETARY RICHARDSON AT THE UPCOMING APEC EVENT. NEVERTHELESS, POST INCLUDES SOME BACKGROUND FOR WASHINGTON'S USE IN THE EVENT OF A RICHARDSON/CHAMOT MEETING. END SUMMARY.

2. PER LIMA 2157, PERUVIAN MINISTER OF ENERGY AND MINES JORGE CHAMOT REQUESTED A MEETING WITH U.S. ENERGY SECRETARY BILL RICHARDSON SOMETIME DURING THE INTERNATIONAL GAS CENTER'S NATURAL GAS TRADE AND REGULATION ROUNDTABLE IN WASHINGTON, D.C., APRIL 19-21, 2000. ACCORDING TO GOP OFFICIALS, CHAMOT WISHED TO RAISE THE FOLLOWING ISSUES WITH SECRETARY RICHARDSON:

A) U.S. COMPANY INTEREST IN BIDDING ON A GOVERNMENT OF PERU CONCESSION TO BUILD/OPERATE A PIPELINE AND DISTRIBUTION NETWORK FROM THE CAMISEA NATURAL GAS FIELD.

B) U.S. GOVERNMENT SUPPORT WITH THE INTERNATIONAL FINANCE CORPORATION. APPARENTLY THE IFC IS BEING VERY TOUGH WITH REGARDS TO ENVIRONMENTAL STANDARDS FOR DEVELOPMENT OF THE CAMISEA PIPELINE. CHAMOT SOUGHT SUPPORT OF SEC. RICHARDSON TO PERSUADE THE IFC TO BE LESS STRINGENT.

C) OIL EXPLORATION IN PERU: MINISTER CHAMOT SOUGHT SUPPORT FROM SECRETARY RICHARDSON IN ATTRACTING U.S. COMPANIES TO EXPLORE FOR OIL IN PERU.

CHAMOT SUBSEQUENTLY WITHDREW HIS REQUEST FOR A MEETING DUE TO CHANGES IN HIS SCHEDULE. AS WE UNDERSTAND IT, NO MEETING TOOK PLACE AT THE APRIL EVENT.

PERU'S MAIN ENERGY ISSUES

2. MR. OSCAR ARRIETA, ADVISER TO MINISTER CHAMOT AND THE GOP'S COORDINATOR FOR THE MINISTERIAL, INFORMED US RECENTLY THAT MINISTER CHAMOT IS NOT/NOT SEEKING A SIDE MEETING WITH SECRETARY RICHARDSON AT THE APEC MINISTERIAL. HOWEVER, PER REFTTEL REQUEST, WE PROVIDE THE FOLLOWING BACKGROUND ON PERU'S MAIN ENERGY ISSUES AND TALKING POINTS:

A) GROWING CRUDE OIL PRODUCTION DEFICIT: SINCE THE 1980S, PERU'S CRUDE OIL PRODUCTION HAS PLUNGED (FROM ABOUT 195,000 BPD TO LESS THAN 100,000 BPD SINCE JANUARY 2000), WHILE CONSUMPTION INCREASED STEADILY (TO ABOVE 150,000 BPD). NET IMPORTS HAVE CONTRIBUTED TO PERU'S RISING MERCHANDISE TRADE DEFICIT YEAR AFTER YEAR. DECLINING PRODUCTION IS DUE BOTH TO AGING PRODUCTION WELLS AND SCANT EXPLORATION IN THE 1970-

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1980'S BECAUSE OF UNFAVORABLE TREATMENT BY THE GOP OF FOREIGN OIL COMPANIES.

B) DWINDLING INTEREST IN NEW OIL EXPLORATION: UNTIL 1999, OVER TWENTY FOREIGN COMPANIES WERE ACTIVELY EXPLORING FOR OIL IN PERU, IN RESPONSE TO THE IMPROVED INVESTMENT CLIMATE AND THE NEW 1993 HYDROCARBONS LAW. HOWEVER, AFTER SOME 60 WELLS DRILLED IN THE LAST FEW YEARS, FROM 1998 TO DATE, ABOUT 19 BLOCKS HAVE BEEN RELEASED BY THE CONCESSIONAIRES SINCE NO COMMERCIAL FINDINGS HAVE BEEN MADE THUS FAR. THE LOCATION AND THE VALUE ADDED TAX (IGV) MAKE EXPLORATION DRILLING IN PERU VERY EXPENSIVE. PERUPETRO, THE GOP'S

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PETROLEUM LICENSING AGENCY, HAS MADE SEVERAL, UNSUCCESSFUL EFFORTS TO SPUR FOREIGN OIL COMPANY INTEREST IN PERUVIAN OIL EXPLORATION.

C) INCREASING FRUSTRATION: U.S. ENERGY COMPANIES WITH INVESTMENTS IN PERU ARE INCREASINGLY FRUSTRATED BY THE PERUVIAN GOVERNMENT'S INTERVENTION IN THE SECTOR AND LACK OF FOLLOW-THROUGH ON COMMITMENTS MADE TO PRIVATIZE STATE ASSETS. THE MORE DIFFICULT PROBLEMS INCLUDE:

-- CAMISEA MANEUVERS: THE GOP AGAIN POSTPONED ON FEBRUARY 28 THE BIDDING FOR THE MIDSTREAM SEGMENT OF CAMISEA FOR LACK OF SUCCESS IN ENGAGING MORE THAN ONE BIDDER. THE PROJECT'S DESIGN, INCREASED COMMERCIAL AND POLITICAL RISK ASSOCIATED WITH THE GOP'S EFFORTS TO MAKE CAMISEA MORE PROFITABLE, AND FUEL PRICING ACTIONS BY THE GOP HAVE MADE IT DIFFICULT FOR THE GOP TO ATTRACT BIDDERS FOR THE CAMISEA MIDSTREAM SEGMENT. AMONG COMPANIES THAT MIGHT STILL BE INTERESTED ARE ENRON AND DUKE, BUT AT LEAST ONE HAS SAID THEY NEED SOVEREIGN GUARANTEES FOR THE PIPELINE. HOWEVER, THIS WEEK OF MAY 1, THE EMBASSY LEARNED THAT APPARENTLY THE GOP HAS SUCCEEDED IN ENGAGING THREE CONSORTIA TO BID FOR THE CAMISEA MIDSTREAM.

-- GOP INTERVENTION IN GASOLINE MARKETS: TEXACO, MOBIL AND OTHER FOREIGN COMPANIES (INCLUDING POWER COMPANIES) INVESTED IN PERU SEVERAL YEARS AGO ON THE GOP'S PROMISE TO PRIVATIZE PETROPERU AND ELECTROPERU WHOLLY AND PROMPTLY. RISING GASOLINE PRICES PROMPTED THE GOP TO SUBSIDIZE SALES THROUGH PETROPERU AND TO LAUNCH AN AGGRESSIVE AD CAMPAIGN THAT (INACCURATELY) BLAMED THE HIGH PRICES ON FOREIGN DISTRIBUTORS. THE GOP'S CAMPAIGN CONTRIBUTED TO DIFFICULT RELATIONS BETWEEN WHOLESALERS AND THEIR AFFILIATED STATIONS, SOME OF WHICH TOOK TEXACO TO ARBITRATION ARGUING THAT TEXACO SOLD THEM GASOLINE AT UNCOMPETITIVE PRICES IN VIOLATION OF THEIR CONTRACTS. INSTEAD OF THE PRIVATIZED MARKET THEY EXPECTED, MANY COMPANIES FIND THEMSELVES COMPETING WITH STATE-SUPPORTED COMPANIES.

-- PROMOTING CAMISEA AT THE EXPENSE OF U.S. HYDROELECTRIC INTERESTS: IN ITS EFFORT TO MAKE CAMISEA ATTRACTIVE, THE GOP PROMOTED AND THE PERUVIAN CONGRESS PASSED DECEMBER 1999 A BILL PRACTICALLY EXTENDING INDEFINITELY A MORATORIUM ON NEW HYDROELECTRIC FACILITIES (BY GIVING THE GOP DISCRETIONARY POWERS ON NEW LICENSES) AND AMENDED THE ELECTRIC TARIFFS REGULATIONS. THIS HURT U.S. COMPANIES SYNERGICS ENERGY

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DEVELOPMENT AND HARZA ENGINEERING, WHICH ARE PART OF A CONSORTIUM AWAITING FINAL APPROVAL OF THEIR AWARD TO DEVELOP AND OPERATE THE USD 100 MILLION 84 MW HUANZA HYDROELECTRIC CONCESSION. (A LETTER FROM SECRETARY RICHARDSON TO PRESIDENT FUJIMORI AND MEETINGS WITH MINISTER CHAMOT HAVE FAILED TO MOVE THE GOP.) THE NEW LAW ALSO CREATED PROBLEMS FOR THE U.S. CONSORTIUM PSEG-SEMPRA, WHICH HAD BOUGHT LIMA POWER DISTRIBUTOR LUZ DEL SUR. THEY HAVE COMPLAINED THAT THE NEW LAW REVERSES PRIOR DE-REGULATION OF PERU'S ELECTRICITY MARKET.

TALKING POINTS

3. IF ISSUES ARE RAISED AND WHILE WE WANT TO BE HELPFUL IN ENCOURAGING INVESTMENT BY U.S. COMPANIES, THE GOP NEEDS TO UNDERSTAND THE IMPORTANCE OF MEETING ITS COMMITMENTS AND ESTABLISHING CLEAR RULES THAT WILL BE IMPORTANT TO ATTRACTING AND MAINTAINING INTERNATIONAL INVESTMENTS:

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-- WE ARE RECEIVING A GROWING NUMBER OF COMPLAINTS FROM U.S. COMPANIES ABOUT YOUR GOVERNMENT'S INTERVENTION IN THE ENERGY SECTOR. COMPANIES THAT MIGHT OTHERWISE BE INTERESTED IN INVESTING IN CAMISEA AND OIL EXPLORATION FEEL THEY CANNOT TRUST THE GOVERNMENT TO FOLLOW THROUGH ON ITS PROMISES, WHICH MAKES IT DIFFICULT FOR US TO PROMOTE INVESTMENT.

-- WITH REGARD TO CAMISEA, WE ARE PLEASED THAT A U.S. COMPANY (HUNT OIL) IS PARTICIPATING IN THE UPSTREAM SEGMENT, BUT OUR EFFORTS TO INTEREST U.S. COMPANIES IN THE PROJECT HAVE BEEN HAMPERED BY THE WAY IT IS STRUCTURED. ALTHOUGH YOUR GOVERNMENT HAS WORKED TO MAKE THE PROJECT ATTRACTIVE, THESE EFFORTS HAVE LED U.S. COMPANIES TO EXPRESS CONCERNS ABOUT WHETHER THE GOP MIGHT CHANGE THE RULES OF THE GAME ONCE AN INVESTMENT IS MADE. WHAT ARE YOUR PLANS TO ADDRESS THOSE CONCERNS?

-- SOME OIL COMPANIES ARE UNHAPPY THAT THE GOP HAS NOT PRIVATIZED ITS REMAINING INTERESTS IN THE INDUSTRY, WHICH THEY FEEL WAS PART OF THE COMMITMENT MADE TO THEM WHEN THEY INVESTED. WHAT ARE YOUR PLANS IN THIS REGARD?

-- I HAVE YET TO RECEIVE A RESPONSE TO A LETTER I WROTE TO PRESIDENT FUJIMORI LAST AUGUST REGARDING THE PENDING APPROVAL OF THE HUANZA HYDROELECTRIC CONCESSION. THE CONSORTIUM THAT WON THE BID HAS COMPLETED ALL THE REQUIREMENTS, AND IS DISAPPOINTED THE GOP HAS NOT GIVEN FINAL APPROVAL. WHAT ARE THE PROSPECTS?

-- I WOULD LIKE TO BE OF HELP WITH U.S. FIRMS. COUNTRIES ARE COMPETING GLOBALLY TO ATTRACT EXPLORATION AND DEVELOPMENT INVESTMENT, AND PERU NEEDS TO BE AS COMPETITIVE AS POSSIBLE. THE PROBLEMS OUR COMPANIES ARE HAVING DO NOT HELP ME MAKE A CASE FOR INVESTING IN PERU.

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MINISTER BIO DATA

4. BORN IN 1946, MR. JORGE CHAMOT IS A PETROLEUM ENGINEER FROM A REPUTED LOCAL UNIVERSITY. HE DID GRADUATE STUDIES IN PETROLEUM PLANNING AT THE MEXICAN PETROLEUM INSTITUTE IN 1969, OBTAINED AN MBA FROM UNIVERSITY OF KANSAS IN 1972 AND STUDIED INTERNATIONAL DEVELOPMENT IN SUSSEX, ENGLAND, IN 1974. CHAMOT WORKED AT THE CRUDE MARKETING DIVISION OF THE NATIONAL OIL COMPANY, PETROPERU, IN 1973-1976; AND IN THE LATIN AMERICAN TRADING DEPARTMENT OF PHILIP BROTHERS (NOW SALOMON INC.), NEW YORK, IN 1977. HE WAS A VICE PRESIDENT-LATIN AMERICA OF COASTAL, HOUSTON, IN 1978-1981; MANAGING DIRECTOR-USA AND LATIN AMERICA, TRANSPETROL LTD., BELGIUM, IN 1992-1997. IN 1998 HE WAS THE GENERAL MANAGER OF OSINERG, ONE OF THE GOP'S ENERGY REGULATORY AGENCIES, AND AN ADVISER TO FORMER MINISTER HOKAMA. IN SEPTEMBER 1998 HE WENT TO THE CAMISEA PROJECT HIGH LEVEL SPECIAL COMMITTEE (CEANC) AS MEM'S REPRESENTATIVE. WHEN CEANC WAS DISSOLVED AND THE PRIVATIZATION COMMITTEE OF CAMISEA (CECAM) CREATED, CHAMOT WAS DESIGNATED ITS PRESIDENT, UNTIL NOVEMBER 1999. IN OCTOBER 1999 NAMED MINISTER OF ENERGY AND MINES, REPLACING DANIEL HOKAMA.
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