

EXECUTIVE
VICE PRESIDENTINTER-AMERICAN DEVELOPMENT BANK
WASHINGTON, D. C. 20577CABLE ADDRESS
INTAMBANC

Washington, April 25, 2003

Mr. Philip Merrill
Chairman and President
Export Import Bank of the United States
811 Vermont Avenue, N.W.
Washington, DC 20571

Dear Phil:

Following on our previous conversation, I wanted to share with you with more detailed information about the IDB's analysis of the environmental and social aspects of the Camisea project. As you are aware, we are considering participating in the financing of the gas and liquids transportation ("downstream") component of the overall Project that also includes the gas field development ("upstream") component, and a gas distribution component. The Camisea Project will represent an important transformation in the energy matrix in Peru, as it will make gas available to industrial and residential customers. Nevertheless, as you know, the Project is located in areas of extremely rich and diverse environmental and social characteristics that warrant very special attention and could be significantly negatively impacted if the Project is not properly developed, constructed and operated.

Presently the IDB environmental and financial due-diligence of the Project is well advanced. We shall determine the Project acceptability or feasibility in terms of environmental, social, health and safety and labor aspects based upon an Environmental and social due-diligence. We shall then decide if we can finance the Project based upon a review by our Loan Committee, Environmental and Social Impact Committee, and ultimately by our Board of Executive Directors. The environmental and social due-diligence includes a detailed evaluation of the proposed project environmental, social, and health and safety assessments, plans and procedures to ensure that all project-related impacts and risks are adequately mitigated and controlled. As necessary, the due-diligence identifies the necessary project-specific recommendations (e.g., mitigation measures and/or monitoring programs) to mitigate properly, control or monitor project environmental, social, or health and safety impacts, risks or liabilities and enhance the environmental and social sustainability of the Project. In the case that the Project is approved, we would develop and incorporate into our legal documentation Project-specific environmental, social, health and safety and labor terms, and conditions. We would also design and implement a plan to supervise (monitor) the environmental, social, and health and safety aspects of the Project during execution.

Given the history, sensitivity, and complexity of the environmental and social aspects associated with the Camisea Project, we have developed and are implementing a specific detailed approach to the Environmental and Social Due-Diligence. Examples of some specific actions that have been implemented by the IDB in order to improve the environmental and social sustainability of Camisea Project are listed below.

- While the IDB is only considering financing for the downstream portion of the Project, our environmental and social due-diligence is evaluating all three components of the Project.

- Our environmental and social technical teams have already made several visits to the Camisea Project area of influence in order to perform site reconnaissance, obtain additional information, establish contacts with Project stakeholders (e.g., indigenous communities, directly affected property owners, NGO's, governmental authorities, etc.) and become familiar with the environmental, social, and health and safety aspects of the Camisea Project. The first site visit was conducted in April 2002. A detailed reconnaissance site visit was performed by the IDB team of experts, URS consultants (1), and CAF experts (2), from May 9 to 17, 2002. Subsequent site visits occurred in June, July, August (13 IDB Public Consultation Meetings), September, October, December of 2002; and January 2003.
- The IDB developed and implemented a public consultation program, in consultation with indigenous organizations and national and international environmentalists. This program was implemented in addition to those public consultation activities already conducted by the Project Companies and the Government of Peru (GOP). The program has included numerous meetings and discussions with non-governmental organizations, both local and international, indigenous organizations and other Project stakeholders. In August 2002, the IDB held 13 public meetings, 7 in native and rural communities in the rainforest and highlands, and 6 in urban areas, mostly concentrated along the coast of Peru and between Lima and Cusco. In addition, on October 24, 2002 the IDB held a similar meeting here in Washington DC. The objective of these meetings was to provide an opportunity to inform stakeholders about Project activities and for the IDB to receive input and opinions regarding the environmental, social, and health and safety aspects of the Camisea Project.
- We have implemented an independent environmental and social monitoring system of the Camisea Project during the due-diligence process, in comparison to all other projects in which IDB monitoring commences after project approval and financial closure, and has required that the results from the TGP and Pluspetrol independent environmental and social monitoring be made available to project stakeholders, including local populations and non-governmental organizations.

The environmental and social due-diligence is supported by short-term consultants, an outside independent environmental and social consultant company (URS Inc.), and a senior international consultant (former Chairman of Nature Conservancy International, Alexander Watson).

As part of our environmental and social due-diligence, the IDB has been actively working with the Camisea project companies to develop and implement a series of measures and initiatives specifically to address identified concerns and issues and to improve the environmental and social viability and sustainability of the Camisea Project. These environmental and social measures, initiatives and improvements have already benefited the Camisea Project. Other examples of the additionality of our Bank's involvement in the Project are listed below.

- Transportadora de Gas de Peru (TGP, downstream component project company) has developed more specific and detailed environmental, social, health and safety management plans/procedures, than contained in the downstream EIA.
- There has been improved coordination between TGP, Pluspetrol (upstream component project company), and Tractebel (distribution component project company) with relation to the environmental management of the three components of the Project, particularly in reference to procedures used in negotiating rights-of-way, and procedures used to control and monitor environmental, social, and health and safety issues.

1) URS Inc. is a specialized consulting firm retained by the IDB.

2) Corporacion Andina de Fomento (CAF), a regional financial institution that is also considering financing the downstream component of the project, together with the IDE.

- Pluspetrol further reduced the area for seismic activities in Block 88 specifically to reduce the probability of accidental contact with isolated indigenous groups living in the area.
- Pluspetrol and TGP are implementing monitoring systems to improve and ensure compliance with the environmental and social management plans.
- Pluspetrol and TGP have contracted consulting firms to conduct independent monitoring and audits of the environmental and social management plans.
- TGP has implemented land-titling programs for the indigenous communities in the project's area of direct influence.
- TGP has contracted an international erosion control expert to review the engineering designs, procedures, and execution dates of (permanent and temporary) measures to control erosion and sedimentation along the right-of-way of the pipeline and other work sites of the Project in order to minimize risks of environmental degradation.
- TGP has made changes to the Project's right-of-way in order to avoid impacts on archeological resources discovered during project implementation.
- TGP has revised its fluvial and terrestrial transport policies and procedures, particularly between Kiteni and Kepashiato, in order to improve workers safety and the safety of local inhabitants.

TGP and Pluspetrol have made improvements in disseminating and making project information accessible to the public, which includes the implementation of a web site with information on all three components of the project. (www.camisea.com.pe).

The IDB understands that it is necessary for the Environmental and social due-diligence to address all three components of the Camisea Project (exploration, transportation, and distribution) in order to ensure that the indirect and direct impacts, and long and short-term effects of the Camisea Project are properly addressed. This approach has led to the identification of some potential medium to long-term negative effects as a result of the Project's implementation that may require GOP attention. Accordingly, the IDB has signed a loan with the Government of Peru in order to implement institutional strengthening and environmental and social management support for the Project.

The objective of this program is to develop the institutional capacity of GOP entities directly involved in the inspection, supervision, and monitoring of the environmental and social impacts of the Project; to collaborate in setting up a regional environmental and social development fund for the Camisea Gas Project's area of influence; and to address priority activities that are the GOP's responsibility and are intended to mitigate the Project's indirect negative environmental and social effects (such as uncontrolled colonization and consequences to the indigenous peoples, impacts on biodiversity, illegal logging, land titling, among others).

We have been gratified by the spirit of collaboration the Government of Peru has displayed in these undertakings. The Government is in the process of implementing the activities supported by the program outlined above and can report progress such as:

- The Private Energy Investment Oversight Agency (OSINERG) and the Natural Resource Institute (INRENA), have substantially enhanced their institutional and regulatory capacity to supervise and monitor the execution of the Camisea Gas Project.
- The GOP has created the Inter-institutional Coordination Committee that has started the process of coordinating activities and entities involved with the Project.

- The GOP has designated the Universidad Católica de Perú as Ombudsman for the Camisea Project to address claims or concerns of the affected population.
- The GOP has taken initial actions to mitigate and prevent certain medium and long-term impacts, such as: (a) controlling access to the Lower Urubamba Zone; (b) finalizing the legal protection of the Reserved Zone of the Apurimac in the Vilcabamba National Park and implementing land titling of the Community Reserves of the Pavlik Nikitine and Ashaninka; (c) establishing the Machiguenga Sanctuary in the area of the Pongo de Manique; (d) enhancing the legal protection of the Kugapakori and Nahua Reserved Area, including defining compensation models for land use by indigenous communities and the roles of the state and the communities respectively; (e) proposing an operational regulatory framework to govern the exploitation of natural resources (i.e., hydrocarbon, forest resources) in the Camisea area, which takes into consideration the protection of the biodiversity resources and the rights of indigenous people in the Lower Urubamba zone; and (f) preparing and implementing a participatory sustainable development plan in the area of influence of the Project.
- An economic, environmental, and social development fund is proposed to be established using royalties from the Camisea Project along with contributions from the Project companies. The fund will help promote equitable distribution of economic benefits raised by the Project to people in the area of influence of the Project.

During the IDB's due-diligence, we have coordinated closely with U.S. Export Import Bank, in particular related to environmental, social and health and safety aspects. This has included routine communications/briefings between staff, sharing of documentation and information, and coordination on the use of URS Inc. by both institutions for the environmental and social due-diligence. We appreciate very much the spirit of teamwork that your colleagues have demonstrated during these consultations. In addition, we have also provided information concerning our involvement in the Project and are in close contact with the US Treasury, which is also doing an assessment of the environmental and social aspects of the Project, as well as of the impact of the project on the Peruvian economy and on its energy matrix.

Given the sensitivity of the Project, continued coordination with Ex-Im Bank is important to us, and I would propose that you and I keep in touch regarding issues that may arise and the activities and progress of our respective institutions. Several of our Executive Directors and I plan to visit the Project in mid-May. If it is convenient with you, perhaps we could spend a few minutes together prior to the trip to compare notes; and then I shall visit with you afterwards to brief you on our impressions.

Sincerely,



Dennis E. Flannery
Executive Vice President

cc: Mr. Enrique Iglesias