

ACTION WHA-00

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INFO	LOG-00	NP-00	AID-00	CEA-01	CIAE-00	CTME-00	INL-00
	DINT-00	DODE-00	DOEE-00	ITCE-00	DOTE-00	SRPP-00	DS-00
	EAP-00	EB-00	EXME-00	EUR-00	E-00	FAAE-00	UTED-00
	VC-00	FRB-00	H-01	TEDE-00	INR-00	IO-00	ITC-01
	L-00	VCE-00	AC-01	NEA-00	NSAE-00	NSCE-00	NSF-01
	OES-00	OIC-02	OIG-03	OMB-01	OPIC-01	PA-00	PM-00
	PRS-00	ACE-00	P-00	SP-00	SSO-00	STR-00	TEST-00
	USIE-00	EPAE-00	ECA-00	PMB-00	DSCC-00	PRM-00	DRL-01
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 DEPT OF TREASURY WASHDC  
 INFO USDOC WASHDC  
 AMEMBASSY BRASILIA  
 AMEMBASSY SANTIAGO  
 AMEMBASSY BOGOTA  
 AMEMBASSY LA PAZ  
 AMEMBASSY QUITO  
 AMEMBASSY CARACAS  
 AMEMBASSY BRUSSELS  
 AMEMBASSY SEOUL  
 AMEMBASSY BUENOS AIRES  
 AMEMBASSY ALGIERS

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UNCLAS SECTION 01 OF 09 LIMA 002127

TREASURY FOR K. KOZLOFF  
 ALSO FOR OASIA/INL

STATE PLEASE PASS TO USAID - CJOHNSON

BRASILIA FOR HUB - DOWDY  
 SANTIAGO FOR BERNARD LINK

E.O. 12958: N/A  
 TAGS: ENRG, SENV, EINV, ECON, PGOV, PE  
 SUBJECT: USG TEAM EXAMINES ENVIRONMENTAL AND SOCIAL IMPACTS  
 OF HIGH-PROFILE CAMISEA GAS PROJECT IN PERU

REF: A) LIMA 406 B) 02 LIMA 5582 AND PREVIOUS

1. SUMMARY AND INTRODUCTION. A TEAM OF TREASURY AND USAID  
 ENVIRONMENTAL EXPERTS SPENT TWO WEEKS IN PERU ASSESSING  
 ENVIRONMENTAL AND SOCIAL IMPACTS OF PERU'S MAMMOTH, 1.5  
 BILLION DOLLAR CAMISEA NATURAL GAS PROJECT. KEITH KOZLOFF,  
 SENIOR ENVIRONMENTAL ADVISOR AT THE U.S. TREASURY

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DEPARTMENT; LESLIE JOHNSTON, SENIOR ENVIRONMENTAL POLICY ADVISER, ECONOMIC GROWTH, AGRICULTURE AND TRADE BUREAU AT USAID WASHINGTON; AND VICTOR BULLEN, REGIONAL ENVIRONMENTAL ADVISER FOR USAID LA PAZ, REVIEWED THE PROJECT TO PREPARE RECOMMENDATIONS FOR THE USG POSITION ON WHETHER TO SUPPORT IDB FINANCING FOR THE PROJECT.

2. THE CAMISEA PROJECT INVOLVES TWO CONSORTIA, ONE FOR "UPSTREAM" AND ONE FOR "DOWNSTREAM" DEVELOPMENT. THE UPSTREAM PORTION INCLUDES WELLS AND PROCESSING FACILITIES AT THE 1200-SQUARE KILOMETER NATURAL GAS FIELD IN RAINFOREST AREAS OF THE CUZCO REGION, AND A GAS FRACTIONATION PLANT AND SEA LOADING FACILITIES AT PISCO/PARACAS ON THE COAST. THE DOWNSTREAM PORTION OF THE PROJECT INCLUDES DUAL GAS AND LIQUID PIPELINES FROM THE GAS FIELD TO PISCO/PARACAS, A CONTINUATION OF THE PIPELINE UP THE COAST TO LIMA, AND GAS DISTRIBUTION SYSTEM FOR THE LIMA METROPOLITAN AREA.

3. BETWEEN MARCH 27 AND APRIL 11, THE USG TEAM ASSESSED MOST PORTIONS OF THE PROJECT INCLUDING THE NATURAL GAS FIELD AND WELL PLATFORM, THE PIPELINE RIGHT-OF-WAY, AND THE COASTAL AREA WHERE THE FRACTIONATION PLANT AND MARINE TERMINAL ARE TO BE BUILT. THE TEAM MET WITH LOCAL COMMUNITIES AFFECTED BY THE PROJECT, PERUVIAN GOVERNMENT OFFICIALS, NGOS AND CONSORTIUM STAFF TO DEVELOP A BROADER UNDERSTANDING OF THE COMPLEX ISSUES AND TRADEOFFS INVOLVED IN COMPLETING AND OPERATING THE CAMISEA PROJECT. MEETINGS VARIED IN NATURE FROM INFORMATION GATHERING-ONLY TO PROVIDING FEEDBACK TO THE GOP AND CONSORTIA ON KEY ISSUES.

4. KEY ISSUES DISCUSSED DURING THE VISIT INCLUDED: A) SOCIAL IMPACTS ON INDIGENOUS COMMUNITIES; B) POTENTIAL COLONIST MIGRATION INTO PROTECTED AREAS; C) EROSION AND REVEGETATION ALONG THE PIPELINE ROUTE; D) IMPACTS ON BIODIVERSITY IN THE GAS FIELD AREA; E) POTENTIAL IMPACTS OF THE FRACTIONATION PLANT AND MARINE LOADING FACILITY ON PARACAS NATIONAL MARINE RESERVE; F) THE NEED FOR SOCIAL AND ENVIRONMENTAL FUNDS TO REDRESS PROJECT IMPACTS; G) POLICY ISSUES AROUND INTERACTION BETWEEN COMMUNITIES AND CONSORTIA; H) THE NEED FOR GREATER AND BETTER PROJECT MONITORING AND TRANSPARENCY; AND I) APPROPRIATE MANAGEMENT OF DEVELOPMENT BENEFITS. END SUMMARY AD INTRODUCTION.

#### CAMISEA PROJECT OVERVIEW

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5. THE CAMISEA PROJECT IS DIVIDED INTO TWO FINANCIAL AND ORGANIZATIONAL COMPONENTS. THE UPSTREAM COMPONENT INCLUDES DEVELOPMENT OF A 1200-SQUARE KILOMETER BLOCK (BLOCK 88) OF NATURAL GAS FIELDS LOCATED IN PRIMARY TROPICAL FOREST AREAS

OF CUZCO REGION (80 PERCENT OF WHICH OVERLAPS THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE), PLUS A FRACTIONATION PLANT (FOR SEPARATING LIQUIDS ASSOCIATED WITH GAS INTO COMMERCIAL PRODUCTS) AND MARINE TERMINAL WITHIN THE BUFFER ZONE OF PARACAS RESERVE, PERU'S ONLY NATIONAL MARINE PARK. THE DOWNSTREAM COMPONENT INCLUDES THE DEVELOPMENT OF DUAL PIPELINES, ONE FOR NATURAL GAS (714 KM) AND ONE FOR LIQUIDS (540 KM), RUNNING PARALLEL FROM THE CAMISEA FIELD TO THE COASTAL AREA OF PARACAS. THE NATURAL GAS PIPELINE WILL THEN TURN NORTH FOR DOMESTIC DISTRIBUTION IN LIMA AND CALLAO, WHILE THE LIQUIDS PIPELINE WILL CONNECT TO THE FRACTIONATION PLANT AND MARINE TERMINAL.

6. THE UPSTREAM CONSORTIUM IS LED BY PLUSPETROL (ARGENTINA, 36 PERCENT OWNERSHIP), AND INCLUDES HUNT OIL, (U.S., 36 PERCENT), SK, (SOUTH KOREAN, 18 PERCENT) AND TECPETROL (ARGENTINE, 10 PERCENT). THE DOWNSTREAM CONSORTIUM,

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CLUDES HUNT OIL (19 PERCENT), PLUSPETROL (19 PERCENT), SK (9.5 PERCENT), SONATRACH (ALGERIA, 11 PERCENT), TRACTEBEL (BELGIUM, 8 PERCENT), AND GYM (PERUVIAN, 2 PERCENT). TRACTEBEL HAS A CONTRACT FOR DISTRIBUTION OF GAS IN LIMA. UNTIL THE DOMESTIC MARKET FOR NATURAL GAS IS DEVELOPED, THE MAJORITY OF REVENUE WILL COME FROM EXPORT OF LIQUID PRODUCTS (NAFTA, BUTANE AND PROPANE).

7. PLUSPETROL HAS DEVELOPED ONE NATURAL GAS WELL PLATFORM IN BLOCK 88, OUTSIDE OF THE NAHUA-KUGAPAKORI RESERVE, WITH CONSTRUCTION ON A SECOND WELL PLATFORM WITHIN THE RESERVE SCHEDULE TO START IN MAY 2003. TGP HAS COMPLETED OVER 70 PERCENT OF THE PIPELINE. THE GOP GRANTED CONDITIONAL APPROVAL ON APRIL 10, 2003, OF THE ENVIRONMENTAL IMPACT ASSESSMENT FOR CONSTRUCTION OF THE FRACTIONATION PLANT,

WHILE CONDUCTING FURTHER ANALYSIS BEFORE GRANTING CONDITIONAL APPROVAL FOR THE UNDERSEA PIPELINE AND MARINE TERMINAL. COMPLETION OF THE ENTIRE CAMISEA PROJECT IS SCHEDULED FOR AUGUST 2004.

8. TGP IS THE POTENTIAL RECIPIENT OF A \$75 MILLION IDB LOAN FOR PIPELINE CONSTRUCTION, INTENDED TO LEVERAGE \$315 MILLION IN ADDITIONAL PRIVATE SECTOR LENDING. THE UPSTREAM CONSORTIUM SEEKS FINANCING THROUGH EXIM. THE USG TEAM VISITED ALL PORTIONS OF THE PROJECT EXCEPT THE GAS DISTRIBUTION SYSTEM.

KEY CAMISEA PROJECT ISSUES  
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9. THE USG TEAM EXAMINED THE FOLLOWING KEY ISSUES DURING THE VISIT:

A) SOCIAL IMPACTS ON INDIGENOUS COMMUNITIES. ABOUT 80 PERCENT OF THE NATURAL GAS CONCESSION, INCLUDING THREE ADDITIONAL WELL SITES TO BE DEVELOPED, ARE LOCATED WITHIN THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE. BLOCK 88 AND THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE CONTAIN AT LEAST 22 NATIVE COMMUNITIES, BUT IT IS UNCLEAR WHETHER NON-CONTACTED PEOPLES LIVE WITHIN THE AREA. THERE IS LITTLE INDEPENDENT INFORMATION TO DETERMINE THE EXTENT OF LAND AND NATURAL RESOURCE USE BY NON-CONTACTED PEOPLES WITHIN BLOCK 88 AND CONSEQUENTLY THE IMPACT OF THE PROJECT ON THEIR LIVELIHOOD. REPORTED IMPACTS ON THESE GROUPS RANGE FROM DISEASE TRANSMISSION TO MOVEMENT OUT OF THE AREA.

B) COLONIST MIGRATION. TO DATE, NATURAL BARRIERS HAVE IMPEDED MIGRATION OF OUTSIDERS INTO THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE. SOME GROUPS RAISED CONCERNS THAT THE PIPELINE COULD ACT AS A CONDUIT FOR MIGRATION OF COLONISTS FROM OTHER PARTS OF CUZCO DEPARTMENT.

C) EROSION AND REVEGETATION. IN THE TROPICAL PRIMARY AND SECONDARY FORESTS AND SIERRA SEGMENTS OF THE PIPELINE, EROSION HAS OCCURRED, LEADING TO LANDSLIDES, SEDIMENT DEPOSITION IN WATER SOURCES - RESULTING IN POTABLE WATER CONTAMINATION - AND LOSS OF TOPSOIL FOR REVEGETATION.

D) BIODIVERSITY IMPACTS. BLOCK 88 LIES WITHIN THE SOUTHWEST AMAZON ECOREGION AND IS ONE OF WORLD WILDLIFE FUND'S 200 GLOBAL PRIORITY BIODIVERSITY HOTSPOTS. THE PIPELINE TRAVERSES SECTIONS OF THE YUNGAS (MONTANE CLOUD FOREST) AND PUNAS OF THE VILCABAMBA-AMBORO CORRIDOR, CONSIDERED A "TROPICAL ANDES" BIODIVERSITY HOTSPOT BY CONSERVATION INTERNATIONAL. INADEQUATE BIODIVERSITY BASELINE DATA AND MONITORING HAS RAISED QUESTIONS AS TO THE IMPACT OF THE PROJECT ON THESE FOREST SYSTEMS.

E) PARACAS NATIONAL MARINE RESERVE. THE FRACTIONATION PLANT AND MARINE TERMINAL ARE PLANNED TO BE SITED WITHIN THE BUFFER ZONE OF PERU'S ONLY NATIONAL MARINE RESERVE AND A DESIGNATED RAMSAR SITE (WETLAND OF INTERNATIONAL IMPORTANCE,

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PROCESS AND PLUSPETROL'S PURCHASE AND REZONING OF LAND, AS WELL AS A LACK OF BIODIVERSITY BASELINE DATA AND MONITORING AND LEGALITY OF THE RECENTLY ISSUED CONDITIONAL ENVIRONMENTAL IMPACT ASSESSMENT.

F) ENVIRONMENTAL AND SOCIAL FUNDS: THE TEAM DISCUSSED THE NEED TO DEVELOP FUNDS TO OFFSET THE LOSS AND DEGRADATION OF PRIMARY TROPICAL FOREST AND MONTANE CLOUD FOREST RESULTING FROM THE RIGHT-OF-WAY (ROW), MALVINAS SITE, FLOW LINES AND WELL PLATFORMS, AND TO MITIGATE SOCIAL IMPACTS ON NON-CONTACTED PEOPLES WITHIN THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE.

G) INTERACTION BETWEEN COMMUNITIES AND CONSORTIA. THE CONSORTIA INTERACTS WITH COMMUNITIES IN A NUMBER OF WAYS INCLUDING INFORMING THEM OF UPCOMING PROJECT ACTIVITIES, NEGOTIATING COMPENSATION FOR THOSE ACTIVITIES, OFFERING COMPENSATION WHEN ADVERSE IMPACTS OCCUR AND PROVIDING EMPLOYMENT OPPORTUNITIES. SOME INTERACTIONS BETWEEN THE CONSORTIA AND COMMUNITIES HAVE BEEN NON-TRANSPARENT AND COMPROMISED BY UNEQUAL INFORMATION, LEGAL AND TECHNICAL SKILLS.

H) PROJECT MONITORING AND INFORMATION DISCLOSURE. SEVERAL MECHANISMS HAVE BEEN ESTABLISHED FOR PROJECT MONITORING. HOWEVER, THERE ARE PROBLEMS WITH THESE MECHANISMS INCLUDING INCONSISTENCY IN HOW MONITORING REPORTS ARE MADE PUBLIC, LACK OF FIELD STAFF TO RESOLVE DISAGREEMENTS BETWEEN THE CONSORTIA AND LOCAL COMMUNITIES, AND THE LACK OF A CLEAR MECHANISM UNDER WHICH STAKEHOLDERS CAN ACCESS MONITORING REPORTS AND DETERMINE WHETHER IDENTIFIED PROBLEMS HAD BEEN RESOLVED.

I) DEVELOPMENT BENEFITS. THE CUZCO REGIONAL GOVERNMENT WILL RECEIVE 50 PERCENT OF THE ROYALTIES FROM THE CAMISEA PROJECT. (NOTE: IT IS NOT CLEAR, HOWEVER, IF THE REGIONAL GOVERNMENT HAS ADEQUATE REVENUE MANAGEMENT AND PLANNING CAPACITY TO HANDLE THE LARGE INFLOWS OF REVENUES IT WILL RECEIVE. END NOTE). LOCAL OFFICIALS IN THE PARACAS/PISCO AREA ALSO ARE SEEKING A SHARE OF CAMISEA ROYALTIES.

#### INDIGENOUS COMMUNITY MEETINGS

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10. MEETINGS WERE HELD WITH TWO COMMUNITIES THAT HAVE BEEN DIRECTLY IMPACTED BY THE PROJECT. BOTH COMMUNITIES ARE LEGALLY RECOGNIZED MACHIGUENGA SETTLEMENTS AND COMPOSED OF ABOUT 80 FAMILIES. AT THE MEETINGS, THE USG TEAM GATHERED INFORMATION ABOUT LOCAL IMPACTS OF THE PROJECT.

11. THE SEGAKIATO COMMUNITY, LOCATED NEXT TO BLOCK 88 ON THE CAMISEA RIVER, HAS RECEIVED COMPENSATION AND MONTHLY RENT FOR THE USE OF THEIR LANDS FROM PLUSPETROL. IT RECEIVED ASSISTANCE FROM CECONAMA (ONE OF THREE FEDERATIONS OF INDIGENOUS COMMUNITIES) IN NEGOTIATING AGREEMENTS. ALTHOUGH

RELATIONS WITH PLUSPETROL APPEAR GENERALLY POSITIVE, CONCERNS WERE RAISED OVER:

- A) THE SLOW PACE OF COMMUNITY IMPROVEMENT PROJECTS (POTABLE WATER SYSTEM, MORE MEDICINES, AND HOUSING IMPROVEMENTS);
- B) POTENTIAL FUTURE HEALTH IMPACTS OF THE PROJECT AND INCREASED BOAT TRAFFIC; AND
- C) MOVEMENT OF LARGE GAME OUT OF THE AREA AND POSSIBLE PROJECT IMPACTS ON FISH POPULATIONS.

12. THE SHIMAA COMMUNITY, LOCATED ALONG THE DOWNSTREAM COMPONENT, IS AFFECTED BY THE PIPELINE RIGHT-OF-WAY WHICH PASSES THROUGH ITS LAND AND SEPARATES ONE HOUSE FROM THE SETTLEMENT. SHIMAA MEMBERS FEEL THEY ARE TREATED FAIRLY BY TGP; HOWEVER, THEY HAVE SOME CONCERNS (WHICH MAY STEM FROM INADEQUATE COMMUNICATION BY THE CONSORTIA):

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CROPS; AND

- C) LOSS OF KEPASHI PALMS RESULTING FROM INADEQUATE EROSION CONTROL MEASURES DURING THE RAINY SEASON.

THE COMMUNITY IS SEEKING TO RELOCATE THREE FAMILIES WHO WANT TO MOVE AWAY FROM THE ROW AS WELL AS ITS SCHOOL (ALTHOUGH THE SCHOOL IS ALREADY OVER 300 METERS FROM THE ROW). RECENTLY, THE COMMUNITY HAS RECEIVED ASSISTANCE FROM COMARU (A FEDERATION OF INDIGENOUS COMMUNITIES) WHEN NEGOTIATING WITH TGP FOR COMPENSATION FOR ROW EASEMENTS.

LOCAL GOVERNMENT MEETINGS  
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13. THE USG TEAM MET SAN ANDRS MAYOR HERNAN CARVAJAL. SAN ANDRES IS A SMALL MUNICIPALITY LOCATED WITHIN THE PARACAS BUFFER ZONE AND NORTH OF THE FRACTIONATION PLANT SITE. ROUGHLY 90 PERCENT OF THE LOCAL ECONOMY IS RELATED TO FISHING, SO IMPACTS FROM CONSTRUCTION AND OFFSHORE LOADING OF GAS PRODUCTS (SPILLS, ACCIDENTS) WOULD AFFECT THE TOWN. CARVAJAL WAS INITIALLY OPPOSED TO THE PROJECT OVER CONCERN FOR PROTECTING PARACAS BAY, BUT NOW SUPPORTS IT GIVEN HIS EXPECTATIONS OF REVENUES FLOWING FROM THE PROJECT FOR LOCAL SOCIAL AND ENVIRONMENTAL IMPROVEMENTS.

14. PISCO MAYOR, DIEGO MOLINA, HIGHLIGHTED THE NEED TO MANAGE BOTH PARACAS' NATURAL RESOURCES AND THE NATURAL GAS DEVELOPMENT IN AN INTEGRATED AND BALANCED WAY. DUE TO ECOLOGICAL SENSITIVITIES OF THE PARACAS BUFFER ZONE THE

LOCATION OF THE FRACTIONATION PLANT AND OFFSHORE FACILITY ARE CONCERNS. HIS FOCUS IS SUSTAINABLE REGIONAL DEVELOPMENT AND THE NEED TO PROTECT NATURAL RESOURCES TO MAINTAIN FISHING AND DEVELOP TOURISM. MOLINA SAID HE WOULD LIKE ASSURANCES OF NO ADDITIONAL INDUSTRIAL DEVELOPMENT WITHIN THE BUFFER ZONE.

NGO MEETINGS IN LIMA  
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15. THE TEAM BEGAN WITH THE ASOCIACION PRO DERECHOS HUMANOS (ASSOCIATION FOR HUMAN RIGHTS, APRODEH). APRODEH IS CONCERNED WITH THE IMPACTS ON THE NON-CONTACTED PEOPLES OF BLOCK 88 DEVELOPMENT ACTIVITIES WITHIN THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE -- DISRUPTION OF CULTURE AND LIVELIHOODS, THREAT OF CONTAGIOUS DISEASES AND FORCED CONTACT BY EITHER CONSORTIUM OR COLONISTS. INITIALLY OPPOSED TO THE PROJECT, APRODEH RECENTLY PROVIDED IDB WITH SPECIFIC LOAN CONDITIONS IT FAVORS FOR THE LOAN TO PROCEED:

- A) MAINTAINING TERRITORIAL INTEGRITY OF ISOLATED INDIGENOUS COMMUNITIES;
- B) ESTABLISHMENT OF AN INDIGENOUS COMMUNITY MONITORING PROGRAM WITH PARTICIPATION OF LOCAL PEOPLES;
- C) STRENGTHENING OF GOP ENVIRONMENTAL AND INDIGENOUS PEOPLES OVERSIGHT CAPABILITIES; AND
- D) STRENGTHENING PROTECTION OF THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE THROUGH THE CREATION OF A PERMANENT MULTI-ETHNIC RESERVE.

APRODEH WOULD CONSIDER LEGAL ACTION TO HALT THE PROJECT IF IT IS NOT SATISFIED WITH GOP PROGRESS WITH MONITORING AND OVERSIGHT FUNCTIONS.

16. CATHERINE ROSS, AMAZON PROGRAMS COORDINATOR, AND MARTIN SCURRAH, REGIONAL DIRECTOR, BOTH OF OXFAM AMERICA, SAID OXFAM'S PRIMARY INTEREST REGARDING CAMISEA IS TO DEFEND THE RIGHTS AND ENSURE THE LIVELIHOOD OF THE INDIGENOUS PEOPLES AFFECTED BY THE PROJECT. OXFAM'S KEY ISSUES INCLUDE INDEPENDENT MONITORING OF PROJECT IMPACT ON INDIGENOUS GROUPS, UNBIASED INFORMATION COLLECTION AND PUBLIC DISSEMINATION, AN EFFECTIVE PROJECT OMBUDSMAN AND SOCIAL

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PRESIDENT OF THE CENTRO PARA EL DESARROLLO DEL INDIGENA AMAZONICO (CENTER FOR THE DEVELOPMENT OF THE INDIGENOUS AMAZON, CEDIA), SAID CEDIA'S PRIMARY INTEREST IN CAMISEA CONCERNS THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE. CEDIA FEELS THAT PRIOR TO DEVELOPMENT

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OF THE NATURAL GAS FIELDS AND OPENING OF OTHER WELL SITES WITHIN THE RESERVE, ADDITIONAL STUDIES SHOULD DETERMINE HOW W

NON-CONTACTED PEOPLE ARE USING LAND AND FOREST RESOURCES. CEDIA ALSO SEEKS INCREASED HEALTH MONITORING AND STRENGTHENING OF GOP INDIGENOUS RIGHTS ORGANIZATION CONAPA (THE NATIONAL COMMISSION FOR ANDEAN, AMAZONIAN AND AFRO-PERUVIAN PEOPLES).

18. ERIK MENESES, CAMISEA COORDINATOR AT CONSERVATION INTERNATIONAL (CI), TOLD THE TEAM CI'S PRIMARY CONCERNS INCLUDE INADEQUATE BIODIVERSITY AND SOCIAL MONITORING, EROSION ALONG THE PIPELINE, ACCESS ALONG THE ROW FOR COLONISTS, AND THE POTENTIAL USE OF INVASIVE SPECIES FOR REVEGETATION. CI RECOMMENDS THAT A STRONG BIODIVERSITY MONITORING SYSTEM BE IN PLACE BEFORE THE OTHER DRILLING PLATFORMS IN BLOCK 88 ARE DEVELOPED. CI IS CONCERNED ABOUT THE PARACAS RESERVE, BUT IS RESIGNED TO THE FACT THAT THE DECISIONS TO SITE THE FRACTIONATION PLANT AND MARINE TERMINAL HAVE BEEN MADE. CI ALSO FEARS THAT ROYALTIES FROM CAMISEA FOR CUZCO'S REGIONAL GOVERNMENT COULD FUND ROADS FOR EXTRACTIVE INDUSTRIES, WITHOUT CONCERN FOR MITIGATION OF ENVIRONMENTAL IMPACTS.

19. ISABEL CALLE AND ISABEL LAPENA, OF THE SOCIEDAD PERUANA DE DERECHO AMBIENTAL (PERUVIAN ENVIRONMENTAL LAW SOCIETY - SPDA), FOCUSED ON THE POTENTIAL CONFLICT OF INTEREST WITHIN THE COMMUNITY MONITORING PROGRAM AS FINANCING COMES FROM PLUSPETROL, THE LACK OF PUBLIC ACCESS TO MONITORING REPORTS, THE LACK OF FIELD EXPERIENCE WITH INDIGENOUS OR NATURAL RESOURCE ISSUES IN THE PROJECT OMBUDSMAN OFFICE, THE LACK OF INTERNAL COORDINATION AND ORGANIZATION WITHIN TGP AND THE NON-TRANSPARENT SELECTION PROCESS FOR SITING THE PARACAS FRACTIONATION PLANT.

20. EDGAR MARAVI, COUNTRY DIRECTOR, AND JUAN CARLOS RIVEROS, SOUTHEAST AMAZON ECOREGIONAL COORDINATOR, BOTH OF WWF, SAID WWF IS CONCERNED ABOUT BIODIVERSITY LOSS AND POTENTIAL COLONIZATION ALONG THE ROW, AND FAVORS COMPLETE CLOSURE OF THE ROW VERSUS THE PLUGS PROPOSED BY THE COMPANY. WWF

OPPOSES THE PARACAS SITE FOR THE FRACTIONATION PLANT AND OFFSHORE FACILITY, CITING LACK OF TRANSPARENCY IN THE SITE SELECTION PROCESS. ALSO, WWF BELIEVES THE RAMSAR CONVENTION OBLIGATES PERU (AS A SIGNATORY) TO PRECLUDE THE PARACAS BUFFER ZONE AS THE SITE FOR THESE FACILITIES.

21. JORGE UGAZ GOMEZ, DIRECTOR OF PROJECTS AT PRONATURALEZA, A PERUVIAN ENVIRONMENTAL NGO, EXPLAINED HOW PRONATURALEZA RUNS THE COMMUNITY MONITORING PROGRAM IN BLOCK 88, WITH FUNDING PROVIDED BY PLUSPETROL. PRONATURALEZA

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PROVIDES QUARTERLY MONITORING REPORTS TO PLUSPETROL, THE GOP'S INTER-INSTITUTIONAL TECHNICAL COORDINATION GROUP FOR CAMISEA (GTCI), AND A COORDINATING COMMITTEE COMPOSED OF THE THREE INDIGENOUS FEDERATIONS. GTCI PROVIDES ALL REPORTS TO OSINERG, THE GOP ENERGY REGULATORY AGENCY. PRONATURALEZA TRAINS COMMUNITY MONITORS WHO ACCOMPANY TECHNICAL MONITORS TO THE FIELD AND KEEP RECORD OF ALL ACTIVITIES, ACTING AS AN EARLY WARNING SYSTEM. THE GROUP VISITS SITES ON A MONTHLY BASIS AND CONDUCTS WORKING TRAINING MEETINGS WITH COMMUNITY MONITORS.

22. BEATRIZ HUERTAS AND TERESITA ANTAZA LOPEZ OF AIDSESP (INTER-ETHNIC ASSOCIATION FOR THE DEVELOPMENT OF THE PERUVIAN RAINFOREST) RAISED ISSUES RELATING TO INDIGENOUS GROUPS -- HEALTH IMPACTS FROM ACTIVITIES ASSOCIATED WITH THE PROJECT AND DISEASE TRANSMISSION BY COMPANY WORKERS AND

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T ADDITIONAL DATA FROM THE HEALTH MINISTRY. THE GROUP FEELS THAT CONAPA, THE GOP'S NATIONAL COMMISSION FOR ANDEAN, AMAZONIAN AND AFRO-PERUVIAN PEOPLES, SHOULD BE STRENGTHENED BY PROVIDING IT WITH DECISION-MAKING AND IMPLEMENTATION AUTHORITY. AIDSESP CONSIDERS THIS A CRITICAL STEP TO PROVIDE NECESSARY SAFEGUARDS FOR NON-CONTACTED AND INDIGENOUS PEOPLES.

CONAPA GRAPPLES WITH THE PROJECT  
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23. THE TEAM MET ALEJANDRO ROBLES RECAVARREN AND FRANCISCO MOZA CASTILLEJO OF CONAPA, TO REVIEW THE ORGANIZATION'S STATUS AND ITS ROLE WITHIN THE CAMISEA PROJECT. CONAPA'S MAIN OBJECTIVE IS TO PROVIDE ADVICE TO INDIGENOUS PEOPLES AND IS PRESIDED OVER BY PERUVIAN FIRST LADY ELIANE KARP.

CONAPA PLANS TO VISIT BLOCK 88 TO: A) DETERMINE THE STATUS OF CONDITIONS OF NON-CONTACTED PEOPLE WITH RESPECT TO THE PROJECT; AND B) TO ENSURE THAT IMPACT OF THE CAMISEA PROJECT IS MINIMAL. THE TRIP IS EXPECTED TO GENERATE CONCLUSIONS AND RECOMMENDATIONS FOR CONTINUED DEVELOPMENT OF THE GAS FIELDS.

PROJECT OMBUDSMAN LACKS RESOURCES, EXPERIENCE  
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24. CARLOS FOSCA AND CESAR GUZMAN BARRON, OF THE DEFENSORIA DE CAMISEA, UNIVERSIDAD CATOLICA (PROJECT OMBUDSMAN), SAID THE OFFICE WAS CREATED ONLY FOUR MONTHS AGO AND IS NOT YET FUNCTIONING. THE OFFICE HAS NO FIELD PRESENCE, ALTHOUGH REGULAR TRIPS TO THE SITE ARE PLANNED. DEFENSORIA STAFF

n/a

RECOGNIZE THEY LACK EXPERIENCE AND PLAN TO BRING AN OMBUDSMAN FROM GASBOL, BOLIVIA, TO SHARE THE BOLIVIAN EXPERIENCE. A COMMUNICATION STRATEGY AND A DIAGNOSTIC STUDY OF POTENTIAL CONFLICTS WILL BE DEVELOPED TO PREPARE CAMISEA CONFLICT PREVENTION AND RESOLUTION PROCEDURES. THE OFFICE PLANS TO WORK CLOSELY WITH LOCAL ORGANIZATIONS IN CUZCO.

GOP ENVIRONMENT AGENCIES SUPPORT PARACAS SITE  
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25. GUSTAVO SU REZ DE FEITAS, DIRECTOR GENERAL FOR PROTECTED AREAS AT INRENA, (THE NATIONAL NATURAL RESOURCES INSTITUTE), DISCUSSED SEVERAL ISSUES WITH THE TEAM: THE PARACAS SITE FOR THE FRACTIONATION PLANT AND MARINE TERMINAL; CONSERVATION OFFSETS INCLUDING MANAGEMENT OF OTISHI NATIONAL PARK AND COMMUNAL RESERVES AND CREATION OF MANATONI NATIONAL SANCTUARY; MONITORING FOR COLONISTS ALONG THE ROW; AND REFORESTATION. DR. SUAREZ IS SATISFIED THE FRACTIONATION PLANT AND MARINE TERMINAL CAN BE LOCATED WITHIN THE BUFFER ZONE OF THE PARACAS RESERVE WITH MINIMUM RISK IF BEST PRACTICES/TECHNOLOGIES AND PRECAUTIONARY MEASURES ARE USED. INRENA SEEKS TO USE THIS PPORTUNITY TO CLEAN-UP THE FISHMEAL PLANTS THAT CURRENTLY POSE THE GREATEST THREAT TO THE RESERVE. INRENA RECOMMENDS THAT GAS REVENUES SUPPORT A \$26 MILLION FUND FOR THE PARACAS RESERVE OVER THE 30-YEAR LIFE OF THE PROJECT. INRENA WANTS THE CONSORTIUM TO REFOREST THE FULL 12 KM OF ROW CROSSING THE MACHIGUENGA COMMUNAL RESERVE, TO PREVENT COLONIZATION.

26. MARIA LUISA DEL RIO MISPIRETA, NATURAL RESOURCES DIRECTOR AT THE NATIONAL COUNCIL ON THE ENVIRONMENT, (CONSEJO NACIONAL DEL AMBIENTE, CONAM), TOLD THE TEAM CONAM IS COMMITTED TO WORKING ON BIODIVERSITY MONITORING OF THE PROJECT, ALTHOUGH ADEQUATE INDICATORS HAVE NOT BEEN DEVELOPED. SHE EXPLAINED THAT CONAM DOES NOT HAVE A LARGE TECHNICAL STAFF AND SERVES AS A COORDINATING AND CONVENING MECHANISM WHEN ISSUES ARE NOT RESOLVED BETWEEN VARIOUS MINISTRIES. CONAM HAS ONLY MADE ONE HIGH LEVEL VISIT TO THE FIELD.

OSINERG EXPLAINS ITS PROJECT SUPERVISORY FUNCTION  
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ISEA UNIT CHIEF, OF OSINERG (THE GOP ENERGY REGULATORY AGENCY). OSINERG'S ROLE IN ENERGY PROJECTS IS TO ENSURE CORPORATE COMPLIANCE WITH: A) APPLICABLE LAWS; B) SIGNED ENVIRONMENTAL AND SOCIAL STUDIES; AND C) CONTRACTS. THE AGENCY HAS 16 FIELD STAFF

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DEVOTED FULL TIME TO THE CAMISEA PROJECT. THESE TECHNICAL EXPERTS SPEND 20 DAYS MONTHLY IN THE FIELD, WITH SEPARATE ASSIGNED SECTIONS OF THE PROJECT. FIELD STAFF REVIEW COMPANY PROGRESS, COLLECT INFORMATION AND COMPLAINTS FROM COMMUNITIES AND PREPARE MONTHLY PROJECT REPORTS. THESE ARE COMBINED INTO A CONSOLIDATED MONTHLY REPORT, WHICH WILL SHORTLY BE MADE PUBLIC.

28. OSINERG SANCTIONS NON-COMPLIANCE THROUGH A PROCESS THAT INCLUDES FINES. CURRENTLY THERE ARE SIX SANCTION CASES UNDERWAY REGARDING CAMISEA: ONE WHERE A \$1 MILLION FINE HAS BEEN LEVIED (AGAINST TGP, WHICH IS APPEALING THE FINE); ONE CASE WHERE A DECISION/FINE WILL BE ISSUED SHORTLY; AND FOUR CASES UNDER INVESTIGATION. AUTHORIZED FINE LIMITS HAVE BEEN INCREASED FROM ABOUT \$500,000 TO OVER \$10 MILLION, WHICH SHOULD PROVIDE GREATER LEVERAGE TO ENSURE COMPLIANCE WITH PROJECT REQUIREMENTS.

#### MINISTRY OF ENERGY AND MINES DISCUSSION

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29. THE TEAM THEN MET PEDRO REYES, GTCI COORDINATOR, AND JULIO BONELLI, DIRECTOR GENERAL FOR ENVIRONMENTAL AFFAIRS, BOTH AT THE MINISTRY OF ENERGY AND MINES (MEM). GTCI IS THE MULTI-AGENCY GOP GROUP ESTABLISHED TO OVERSEE THE CAMISEA PROJECT. AT THIS MEETING, THE TEAM PROVIDED GOP WITH ITS INITIAL IMPRESSIONS REGARDING ISSUES THAT NEEDED TO BE ADDRESSED FOR THE USG TO FAVORABLY CONSIDER THE IDB LOAN. REYES SAID THAT ON PUBLIC DISCLOSURE, MEM FOLLOWS GOP TRANSPARENCY REQUIREMENTS, AND IS ESTABLISHING A GTCI WEBSITE THAT SHOULD BE OPERATING SHORTLY.

30. ON PROJECT MONITORING, GTCI SUPPORTS OSINERG, AND ALSO VISITS PROJECT SITES MONTHLY. GTCI RECOGNIZES THE LACK OF INDEPENDENT SOCIAL MONITORING, AND IS DEVELOPING A GENERAL PROTOCOL FOR AVOIDING CONTACT WITH THE INDIGENOUS GROUPS. GTCI DEFENDED THE COMMUNITY MONITORING SYSTEM RUN BY PRONATURALEZA.

31. GTCI PROPOSES AN INDEPENDENT CAMISEA FUNDING MECHANISM WITH A BOARD COMPRISED OF COMMUNITY REPRESENTATIVES, CONSORTIA OFFICIALS, NGOS AND THE GOP. GTCI IS STILL DISCUSSING THE STRUCTURE OF THE MECHANISM, WHICH WOULD FUND ENVIRONMENTAL AND SOCIAL PROJECTS SEPARATELY. FUNDING WOULD COME FROM CAMISEA PROJECT ROYALTIES, DIRECT CONSORTIUM PAYMENTS, NGO DONATIONS AND MULTILATERALS. GTCI HOPES TO BE READY TO FUND PROJECTS BY JUNE-JULY 2004, AS PROJECT CONSTRUCTION FINISHES.

32. ON HEALTH ISSUES, MEM IS USING IDB RESOURCES TO

ESTABLISH HEALTH POSTS, STRENGTHEN VACCINATION PROGRAMS AND PROVIDE MORE MEDICINES TO INDIGENOUS GROUPS.

33. THE USG TEAM DISCUSSED THE CAPABILITY OF THE NEW PROJECT OMBUDSMAN TO FUNCTION EFFECTIVELY, PARTICULARLY GIVEN ITS LATE ENTRY INTO THE PROJECT AND LACK OF RELEVANT EXPERIENCE. MEM AND GTCI ARE ALREADY WORKING ON PROJECT-RELATED DISPUTES IN THE REGION, AND TOGETHER WITH THE NATIONAL OMBUDSMAN WILL ADVISE THE OMBUDSMAN OFFICE.

MINISTER TOUTS PROJECT IMPORTANCE  
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34. MINISTER OF ENERGY AND MINES, JAIME QUIJANDRIA AND VICE-MINISTER FOR ENERGY CARLOS GARAYCOCHEA EMPHASIZED THE MACROECONOMIC IMPORTANCE OF CAMISEA FOR PERU, STRESSING THAT THE COUNTRY CANNOT CONTINUE TO IMPORT \$500-700 MILLION/YEAR

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ION, LOWERING ENERGY COSTS, AND COULD EVENTUALLY REDUCE AIR POLLUTION IN LIMA BY REPLACING DIESEL TRANSPORT WITH CLEANER-BURNING GAS VEHICLES. THE MINISTER SAID THAT AFTER 3-5 YEARS THE PROJECT SHOULD HAVE A FUNDAMENTAL IMPACT ON PERU'S ECONOMY. HE REAFFIRMED THAT THE MINISTRY FAVORS STRONG ENVIRONMENTAL MONITORING FOR THE PROJECT, AND SAID HE IS "COMPLETELY OPEN" TO SHARING INFORMATION WITH THE USG ON CAMISEA.

MINISTRY OF HEALTH INVOLVEMENT LIMITED  
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35. THE TEAM MET WITH THE DR. LUIS SUAREZ, OFFICE OF EPIDEMIOLOGY-MINISTRY OF HEALTH (MH). IN THIS MEETING, WHICH INCLUDED SEVEN STAFFERS, THE USG ASKED THE GROUP'S VIEWS ON FOUR ISSUES:

- A) ALLEGATIONS OF SOME NGOS THAT THERE HAS BEEN A SPIKE IN THE CASES OF CHILD MORTALITY IN BLOCK 88 AND ADJACENT AREAS;
- B) HOW TO PROTECT NON-CONTACTED PEOPLE;
- C) PLANS TO MONITOR NATIVE COMMUNITIES' HEALTH CONDITIONS; AND
- D) THE MINISTRY'S ROLE IN REVIEWING THE COMPANY'S OPERATION AND PREVENTATIVE PROTOCOLS.

MINISTRY STAFF SAID IT HAS BEEN DIFFICULT FOR THEM TO ASSESS THE HEALTH SITUATION OF ALL THE COMMUNITIES IN THE AREA BECAUSE OF THE DIFFICULTY OF ESTABLISHING CONTACT WITH THEM. THERE WAS CONFIRMATION, HOWEVER, THAT THE CAUSE OF DEATH OF TWO CHILDREN IN OCT-NOV 2002 WAS THE FLU. THE STAFF SAID

n/a

THAT WHILE THE COMPANY MIGHT BE ENFORCING ITS PROTOCOL FOR ITS PERSONNEL NOT TO CONTACT THE NATIVE COMMUNITIES, OUTSIDERS HAVE COME INTO THE AREA ANYWAY. SOME ARE PEOPLE WHO LIVE IN THE AREA, WHILE OTHERS ARE FROM THE CUZCO HIGHLANDS. BOTH ARE POTENTIAL CARRIERS OF DISEASES AGAINST WHICH NATIVE COMMUNITIES HAVE NO IMMUNITY. MINISTRY STAFF SAID THAT THEIR OFFICE HAD NOT REVIEWED THE COMPANY'S PROTOCOL, BUT MAYBE ANOTHER OFFICE HAD DONE SO.

LOCAL IDB REPRESENTATIVE MEETING  
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36. IN A MEETING WITH VLADIMIR RADOVIC, IDB COUNTRY REPRESENTATIVE FOR PERU, THE TEAM RELATED INITIAL IMPRESSIONS REGARDING MIXED PROGRESS ON IMPLEMENTATION OF THE IDB'S INSTITUTIONAL STRENGTHENING PROJECT. THE TEAM ALSO ASKED RADOVIC ABOUT OPTIONS AVAILABLE TO THE IDB FOR ENSURING COMPLIANCE WITH SOCIAL AND ENVIRONMENTAL SAFEGUARDS BY CAMISEA PROJECT SPONSORS. RADOVIC AGREED THAT IT MAY BE POSSIBLE TO DISBURSE IDB FUNDS IN TRANCHES, TO GUARANTEE PROGRESS ON KEY ISSUES.

MARATHON SESSION WITH THE CONSORTIUM  
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37. THE TEAM HELD A LENGTHY MEETING WITH A LARGE GROUP OF PROJECT SPONSORS (REPRESENTATIVES OF PLUSPETROL, TGP, TECHINT, HUNT) AND CONSORTIUM CONSULTANT ERM. THE USG TEAM DISCUSSED A SET OF PROJECT PERFORMANCE BENCHMARKS WITHIN THE SPONSORS' AUTHORITY RELATED TO ENVIRONMENTAL AND SOCIAL SAFEGUARDS. CONSORTIUM REPRESENTATIVES RESPONDED TO EACH PROPOSED BENCHMARK BY ASSERTING THAT IT HAD ALREADY BEEN MET, IS PLANNED TO BE MET, NEEDS TO BE MODIFIED, OR NEEDS TO BE CLARIFIED. THE MEETING RESULTED IN SEVERAL ITEMS FOR FOLLOW-UP ACTIONS BY THE PROJECT SPONSORS OR USG TEAM. THESE INCLUDE:

- A) ASSESSING CUMULATIVE AND SECONDARY IMPACTS OF THE PROJECT
- B) STRENGTHENING THE TERMS OF REFERENCE FOR IDB'S MONITOR;
- C) IDENTIFYING OPTIONS FOR DESIGN OF ENVIRONMENTAL AND SOCIAL FUNDS;
- D) RESOLVING UNCERTAINTY OVER IMPACTS ON INDIGENOUS GROUPS

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IMPROVING THE USG UNDERSTANDING OF THE PROCESS FOR SELECTING THE PARACAS SITE; AND

- G) IMPROVING THE USG UNDERSTANDING OF MEASURES TO CLOSE THE ROW AND CONTROL EROSION.

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SOME OF THESE ISSUES WERE DISCUSSED IN SUBSEQUENT MEETINGS WITH PROJECT SPONSORS.

OUTBRIEF WITH AMBASSADOR  
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38. AT A MEETING WITH THE AMBASSADOR AND DCM, THE TEAM STATED ITS GENERAL CONCLUSION THAT THE PROJECT IS NOT YET READY TO BE BROUGHT TO THE IDB BOARD FOR CONSIDERATION.

KOZLOFF MENTIONED HOW FUTURE DISCUSSIONS BETWEEN THE USG AND PROJECT SPONSORS, THE GOVERNMENT OF PERU, AND FINANCIAL INSTITUTIONS WILL BE IMPORTANT IN DETERMINING WHETHER OUTSTANDING ENVIRONMENTAL AND SOCIAL ISSUES CAN BE ADEQUATELY ADDRESSED. THE AMBASSADOR RESPONDED THAT THE EMBASSY STANDS READY TO ASSIST IN THIS PROCESS.

COMMENT  
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39. SINCE RETURNING TO WASHINGTON, MEMBERS OF THE USG TEAM HAVE MET WITH IDB STAFF, NGOS, AND REPRESENTATIVES OF THE DOWNSTREAM CONSORTIUM. BASED ON INFORMATION OBTAINED DURING THE SITE VISIT, THE TEAM IS PREPARING A SET OF RECOMMENDATIONS FOR IMPROVING THE PROJECT BEFORE IT IS BROUGHT TO THE IDB BOARD FOR CONSIDERATION. THE RECOMMENDATIONS WILL LIKELY ADDRESS THE FOLLOWING ISSUES:

- A) IMPACTS ON INDIGENOUS PEOPLES IN THE NAHUA-KUGAPAKORI INDIGENOUS RESERVE;
- B) POTENTIAL COLONIST MIGRATION;
- C) MANAGEMENT OF SOCIAL AND ENVIRONMENTAL FUNDS;
- D) MONITORING;
- E) THE OMBUDSMAN'S OFFICE;
- F) DIRECT AND INDIRECT IMPACTS ON THE REGION'S UNIQUE AND GLOBALLY IMPORTANT BIODIVERSITY;
- G) EROSION AND REVEGETATION ALONG THE ROW; AND
- H) SITE SELECTION OF THE FRACTIONATION PLANT AND MARINE FACILITY.

THESE RECOMMENDATIONS WILL BE CIRCULATED FOR DISCUSSION AMONG INTERESTED USG AGENCIES, AS WELL AS TO KEY PROJECT DECISION-MAKERS (PROJECT SPONSORS, THE GOP, AND FINANCIAL INSTITUTIONS). TREASURY WILL TAKE INTO ACCOUNT RESPONSES TO THESE RECOMMENDATIONS, ITS OVERALL DUE DILIGENCE PROCESS, AND INPUT FROM OTHER AGENCIES, IN DEVELOPING A FORMAL POSITION ON IDB FINANCING FOR THE CAMISEA PROJECT.

NOTE: THIS CABLE WAS CO-DRAFTED WITH TREASURY AND USAID.

DAWSON