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Subject: Petroperu to Stay in State Hands; Private Investment Welcome

Petroperu to Stay in State Hands; Private Investment Welcome

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Reflecting widespread social opposition to the privatization of public companies, Peru's Congress voted Tuesday against the sale of the country's state oil company Petroperu, although lawmakers provided formulas for private participation in exploration and development.

Peru's Congressional Permanent Committee voted 15-2 for the exclusion of Petroperu from the privatization model of the 1990s that allows for the sale of state companies. The resolution now has to be approved by President Alejandro Toledo in the next two weeks.

Private oil firms interested in entering Peru's oil market will be able to do so through joint ventures, management contracts, or in association with the state firm, said Petroperu spokesman Hector Guitierrez. The vote came after congressional leaders gathered 74,000 signatures from citizens in opposition to the sale of Petroperu. Peru's privatization process came to virtual halt after last year's violent popular opposition in the southern city of Arequipa against the sale of two electric companies.

Toledo has been trying to attract private investment to stop the country's oil production decline. In an attempt to come up with innovative efforts short of privatization, the government recently adopted a new royalty calculation scheme designed to encourage private investment in smaller fields and speed negotiations over field development plans.

Petroperu owns the 60,000 barrel-per-day northern Talara refinery, and three smaller ones. It also operates a 660-mile pipeline from the Amazon jungle to the Pacific coast.

Gutierrez said Petroperu plans to raise \$250 million in private funds to upgrade the Talara refinery to 90,000 b/d.

Peru is going out of its way to reassure investors in the giant Camisea natural gas project that last week's kidnapping of 71 of the development's workers was an isolated event, and that the government has beefed up security in the area to guarantee the safety of the personnel.

"These are small groups of drug traffickers, with no structure at all, that we knew were in the area since the previous government of Alberto Fujimori. According to our preliminary investigations, the groups might be linked to [guerrilla organization] Shining Path," Peru Vice President Raul Diez Canseco said in Washington, DC, on Thursday. The workers of Argentine construction conglomerate Techint were released unharmed after 30 hours in captivity.

Besides Techint, the consortium in charge of building the \$4.5 billion Camisea project includes Argentine Pluspetrol, South Korea's SK, US Hunt Oil, Belgium's Tractebel, Algeria's state-owned Sonatrach, and Peru's Hidrocarburos Andinos.

Diez Canseco was in Washington to meet Trade Representative Robert Zoellick and seek financial support for the last \$250 million tranche of Camisea. The vice president also had meetings with representatives from the Inter American Development Bank and the **Export-Import Bank**, whose support is contingent on an environmental impact assessment now being conducted.

The project has stirred controversy among indigenous and environmental interests, who argue it will damage Peru's jungle and native tribes.

Techint asked the government of Peru on Wednesday for increased security in the area where the 334-mile pipeline that will transport natural gas liquids to the coastal city of Pisco is being built.

Diaz Canseco said that special elite armed squadrons have been placed in the area and emphasized that his government is adamant on preventing any event that might jeopardize badly needed investment in Peru. "They have encountered a government that will not give in one bit to drug traffickers nor to subversion," he said.

The kidnapping is one in a series of events that could jeopardize President Toledo's goal of opening up his country to private oil investment. Attempts at privatizing electricity companies last year had to be postponed due to violent social opposition.

When news came out that the Techint workers had been released safely, international credit rating agency Fitch warned that political turmoil in Peru could lead to "pressure by opposition parties and interest groups to influence the choice of cabinet appointees in the annual July review."

Patricia I. Vasquez, Washington