

ACTION EB-00

INFO	LOG-00	NP-00	CIAE-00	COME-00	INL-00	DODE-00	DOEE-00
	DOTE-00	WHA-00	SRPP-00	DS-00	EAP-00	E-00	FAAE-00
	UTED-00	VC-00	TEDE-00	INR-00	L-00	VCE-00	AC-01
	NSAE-00	OES-00	EPAU-00	ACE-00	SSO-00	SS-00	TEST-00
	FMP-00	EPAE-00	ECA-00	DSCC-00	PRM-00	DRL-01	NFAT-00
	SAS-00	/002W					

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O 241234Z JUN 03
 FM AMEMBASSY LIMA
 TO SECSTATE WASHDC IMMEDIATE 1684
 DEPT OF TREASURY WASHDC IMMEDIATE
 NSC WASHDC IMMEDIATE
 INFO AMEMBASSY BOGOTA
 AMEMBASSY BRASILIA
 AMEMBASSY CARACAS
 AMEMBASSY LA PAZ
 AMEMBASSY QUITO

~~DENIED IN FULL~~
~~B5~~

UNCLAS SECTION 01 OF 03 LIMA 003142

~~SENSITIVE~~

DEPARTMENT FOR E, WHA, EB A/S WAYNE, OES A/S TURNER
 TREASURY FOR K. KOZLOFF, OASIA/INL - A. JONES

E.O. 12958: N/A

TAGS: ENRG, SENV, EPET, ECON, EFIN, PREL, PGOV, PE

SUBJECT: CAMISEA PROJECT

[Redacted]

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1. (SBU) SUMMARY. THE CONSORTIA BUILDING PERU'S CAMISEA GAS PROJECT HAVE COMPLETED 65 PERCENT OF THE PROJECT. GOP SUPPORT FOR PROJECT COMPLETION ON TIME IS VERY STRONG. IADB AND EX-IM FUNDING IS IMPORTANT BUT NOT CRITICAL TO THE COMPLETION OF THE PROJECT.

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THE GOP WILL BE RELUCTANT TO SIGNIFICANTLY DELAY THE PROJECT FOR FURTHER ENVIRONMENTAL STUDIES OR TO MOVE PARACAS FACILITIES, BECAUSE OF THE HIGH COSTS.

[Redacted]

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UNITED STATES DEPARTMENT OF STATE
 UNCLASSIFIED REVIEW AUTHORITY: APPEALS REVIEW PANEL
 APPEAL ACTION: ADDITIONAL INFORMATION RELEASED
 REASON(S): B5
 DATE/CASE ID: 05 JAN 2005 200302345

UNITED STATES DEPARTMENT OF STATE
 REVIEW AUTHORITY: NORMAN M BOUTON
 DATE/CASE ID: 27 JAN 2004 200302345

END

SUMMARY.

CONTEXT AND IMPACT OF CAMISEA FOR PERU

2. ~~(SBU)~~ THE CAMISEA NATURAL GAS PROJECT IS BY FAR THE LARGEST PROJECT THE TOLEDO ADMINISTRATION WILL COMPLETE DURING ITS TENURE AND HAS MAJOR ECONOMIC IMPLICATIONS FOR PERU. THE PROJECT WILL ADD ONE PERCENT - NEARLY \$1 BILLION - TO PERU'S GDP ANNUALLY FOR 30 YEARS, AND ACCOUNT FOR \$1.6-2.6 BILLION IN FOREIGN DIRECT INVESTMENT. IT IS PROJECTED TO CUT PERU'S HYDROCARBON TRADE DEFICIT BY 40 PERCENT, RESULTING IN ENERGY SUBSTITUTION SAVINGS OF \$1.9 BILLION ANNUALLY. PROJECT CONSTRUCTION HAS PRODUCED 8000 JOBS, WITH ADDITIONAL THOUSANDS TO BE PRODUCED DIRECTLY OR INDIRECTLY AFTER THE PROJECT BEGINS OPERATIONS.

3. ~~(SBU)~~ GOP REVENUES FROM CAMISEA ARE PROJECTED TO BE \$31 MILLION IN THE FIRST YEAR OF OPERATION (AFTER THE PROJECT IS COMPLETED AROUND AUGUST 2004), RISING TO \$155 MILLION ANNUALLY BY 2010. THESE REVENUES, OF WHICH 50 PERCENT WILL STAY WITH THE CENTRAL GOVERNMENT, WILL POTENTIALLY PROVIDE RESOURCES FOR NUMEROUS ENVIRONMENTAL OFFSETS AND OTHER PROJECTS, AND IMPROVED PARACAS RESERVE MANAGEMENT, MONITORING, AND CLEANUP, AND CAN HELP FUND NEEDED GOP SOCIAL INVESTMENT IN AREAS SUCH AS HEALTH, EDUCATION AND HOUSING. REVENUES IN A PROPOSED PROJECT SOCIAL FUND COULD ALSO GO TO PROTECT AND IMPROVE MONITORING, HEALTH, ETC. OF ISOLATED INDIGENOUS GROUPS IN CAMISEA GAS FIELD AREA.

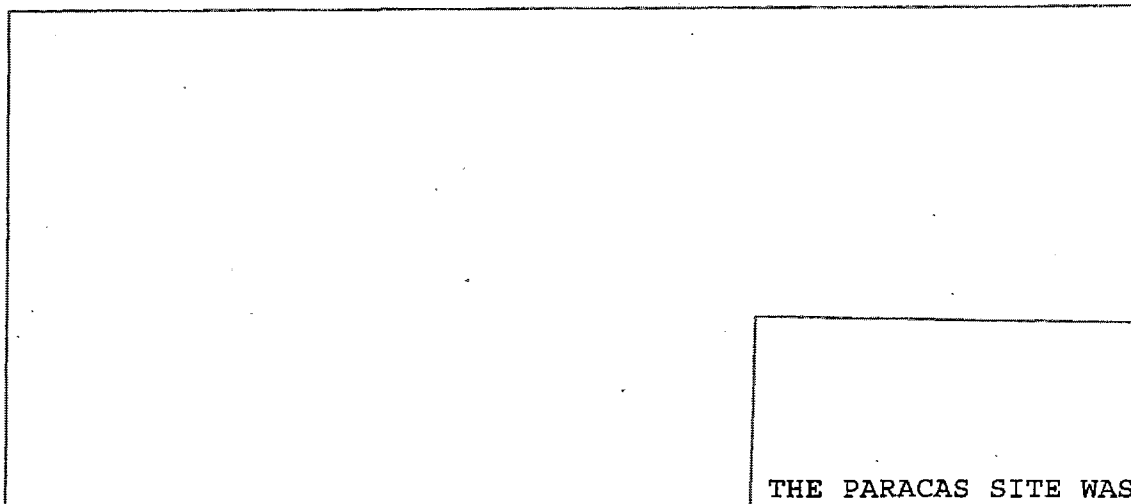
4. (U) THE PROJECT WILL BRING NATURAL GAS TO LIMA, EVENTUALLY ALLOWING REPLACEMENT OF HIGH-POLLUTING INDUSTRIES AND DIESEL TRANSPORT BY GAS-POWERED PLANTS AND VEHICLES; THIS WILL POTENTIALLY HAVE DIRECT, POSITIVE HEALTH IMPACTS ON LIMA'S EIGHT MILLION RESIDENTS.

IMPACT OF PROJECT FOR U.S.

5. ~~(SBU)~~ THE U.S. IS EXPECTED TO BE THE LARGEST CUSTOMER FOR LIQUEFIED NATURAL GAS (LNG) EXPORTED FROM CAMISEA (BEGINNING IN A FEW YEARS). THIS WILL PROVIDE A KEY SOURCE OF NEW, CLEAN ENERGY FOR THE U.S., IN KEEPING WITH PRESIDENT BUSH'S ENERGY DIVERSIFICATION POLICY. THIS IS VITAL GIVEN GROWING SHORTAGES AND RISING PRICES FOR NATURAL GAS IN THE U.S., LIKELY TO BE A LONG-TERM DYNAMIC. CAMISEA GAS SUPPLIES CAN POTENTIALLY REDUCE AIR POLLUTION IN WESTERN U.S. CITIES. FINALLY, U.S. COMPANY HUNT OIL IS CURRENTLY THE LARGEST

SHAREHOLDER (WITH A 36 PERCENT STAKE) IN THE CONSORTIUM OWNING THE UPSTREAM PORTION OF THE CAMISEA PROJECT.

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THE PARACAS SITE WAS CHOSEN, ADMITTEDLY THROUGH A FLAWED PROCESS, AFTER A PLUSPETROL ENGINEERING STUDY OF SEVERAL ALTERNATIVES: PARACAS WAS THE MOST PROTECTED FROM TSUNAMIS, GEOLOGICALLY STABLE, AND HAD THE BEST PHYSICAL PROFILE FOR LOADING FACILITIES. THE HUNT LNG SITE NEAR LIMA APPEARS TO HAVE BEEN CONSIDERED LESS ATTRACTIVE IN TERMS OF GEOGRAPHY AND SAFETY, AND WOULD HAVE REQUIRED PLUSPETROL TO INVEST MORE RESOURCES AND TIME.

8. ~~(SBU)~~ ALSO, WHILE PLUSPETROL HAD A POOR PREVIOUS ENVIRONMENTAL RECORD, THE COMPANY'S MEASURES TO PROTECT PARACAS BAY HAVE IMPROVED DRAMATICALLY IN RECENT MONTHS. INRENA AND THE MINISTRY OF ENERGY AND MINES WILL LIKELY APPROVE PLUSPETROL'S MARINE EIA AND PROPOSED MEASURES. IT IS HIGHLY POSSIBLE THAT WITH OFFSET FUNDING TO CLEANUP, SHUT DOWN OR MOVE FISHMEAL PLANTS, IMPROVED MONITORING OF THE BAY, AND STRENGTHENED GOP MANAGEMENT OF PARACAS RESERVE, BIODIVERSITY PROTECTION IN THE BAY WILL IMPROVE. IF MOVING COASTAL FACILITIES REMAINS A CONDITION FOR IADB FUNDING, THE GOP AND SPONSORS MAY LIKELY DECLINE IFI FUNDING RATHER THAN DO THIS, BECAUSE OF THE EXPENSE AND DELAYS INVOLVED.

9. ~~(SBU)~~ ON SUSPENSION OF BLOCK 88 ACTIVITIES:

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PLUSPETROL HALTED ACTIVITIES IN THE DIRECT CONSTRUCTION AREA WHILE ANTHROPOLOGISTS (CONTRACTED BY THE GOP AND GOP-LINKED INDIGENOUS ADVOCACY GROUP CONAPA) CONDUCTED A QUICK STUDY. THE ANTHROPOLOGISTS WILL COMPLETE THE ENTIRE ETHNIC MAPPING STUDY FOR BLOCK 88 BY AUGUST, BEFORE THE CONSORTIUM EXTENDS CONSTRUCTION BEYOND ITS CURRENT SMALL AREA AROUND THE 2ND WELL SITE (SAN MARTIN III). THESE ANTHROPOLOGISTS APPEAR QUALIFIED AND CREDIBLE TO PERFORM AN APPROPRIATE, DETAILED ETHNIC MAPPING STUDY.

9. (SBU) ON WAIVING AUGUST 2004 PROJECT DEADLINES: THIS WILL LIKELY BECOME MOOT, SINCE ALL CONSTRUCTION WILL LIKELY BE DONE BEFORE THEN, EVEN IF NEW SAFEGUARDS ARE BUILT INTO THE PROJECT. PLUSPETROL FACES FINANCIAL DIFFICULTIES, AND MAY HAVE TO SELL MORE OF ITS REMAINING 26 PERCENT SHARE IN THE UPSTREAM CONSORTIUM TO COMPLETE CONSTRUCTION. (NOTE: PLUSPETROL RECENTLY SOLD 10 PERCENT OF ITS ORIGINAL 36 PERCENT SHARE TO ALGERIAN COMPANY SONATRACH). THE FINANCIAL SITUATION OF DOWNSTREAM CONSORTIUM TGP IS UNCLEAR. THE GOP IS POLITICALLY COMMITTED TO COMPLETING THE PROJECT BY THE DEADLINE, BUT LESS CONCERNED ABOUT THE FINAL PROJECT SHAREHOLDER STRUCTURE. THE GOP WOULD MOST LIKELY NOT/NOT AGREE TO WAIVE DEADLINES FOR MORE THAN A FEW MONTHS, IF AT ALL.

ENVIRONMENTAL IMPACT ASSESSMENT ISSUES

10. (SBU) NUMEROUS QUESTIONS HAVE BEEN RAISED ABOUT THE ENVIRONMENTAL IMPACT ASSESSMENT (EIA) PROCESS FOR THE COASTAL FACILITIES. THE PROCESS BY WHICH A SEPARATE EIA FOR THE FRACTIONATION PLANT WAS PREPARED AND APPROVED BEFORE A THOROUGH EAI WAS COMPLETED FOR THE MARINE PORTION OF THE PROJECT (UNDERSEA PIPELINE AND MARINE LOADING TERMINAL) WAS PROBLEMATIC AND CONTRARY TO STANDARD PROCEDURE FOR PROJECTS OF THIS TYPE. NUMEROUS NGO'S HERE HAVE PROTESTED THIS DIVISION OF EIAs, AND ONE GROUP CLAIMS THIS VIOLATES PERUVIAN LAW.

11. (SBU) ON THE MARINE EIA, PLUSPETROL PREPARED AN INITIAL DRAFT IN 2001-02, AND THE COMPANY RELEASED THE EIA PUBLICLY IN MID-2002. AFTER EXTENSIVE PUBLIC COMMENT VIA TOWN MEETINGS, WORKSHOPS, ETC., PLUSPETROL RELEASED A REVISED VERSION IN NOVEMBER 2002. GOP ENVIRONMENT AGENCY INRENA PRESENTED 65 OBSERVATIONS (REQUESTS FOR CLARIFICATION OR MORE INFORMATION AND/OR OBJECTIONS) IN FEBRUARY 2003. THE OFFICE OF ENVIRONMENTAL AFFAIRS IN THE MINISTRY OF ENERGY AND MINES PRESENTED AN ADDITIONAL 67 OBSERVATIONS. PLUSPETROL THEN RESPONDED TO THESE OBSERVATIONS. NONE OF THE GOP OBSERVATIONS OR PLUSPETROL RESPONSES HAVE BEEN MADE PUBLIC. THE GOP HAS RECENTLY STATED THAT PLUSPETROL HAS RESPONDED SATISFACTORILY TO ALL BUT THREE OBSERVATIONS. INRENA WAS SUPPOSED TO ISSUE A FINAL OPINION ON THE EIA BY JUNE 1, BUT THIS HAS NOT YET OCCURRED.

POLITICAL DYNAMICS AFFECTING PROJECT

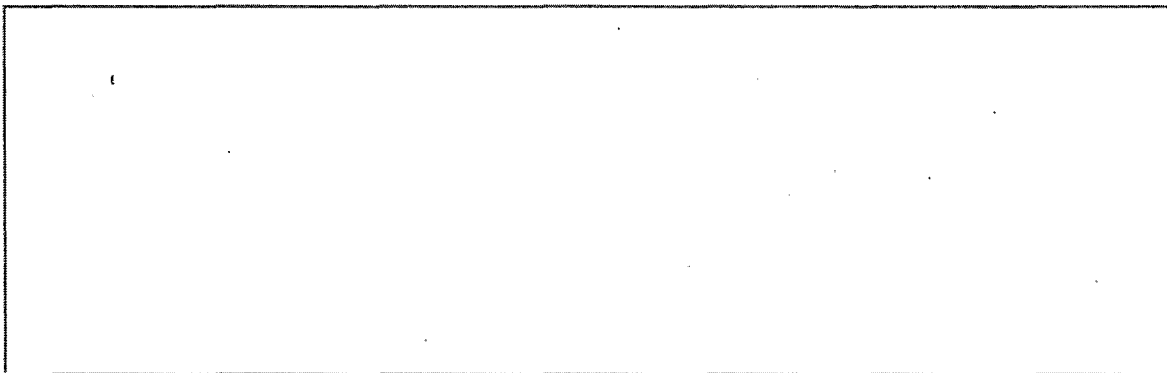
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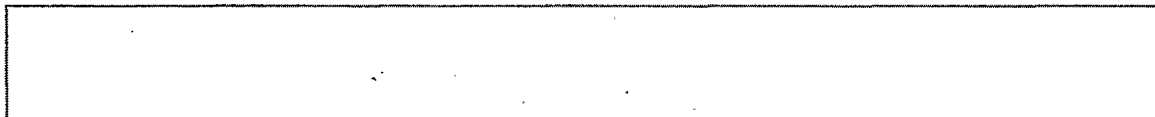
POLITICAL CAPITAL IN HAVING THE PROJECT COMPLETED ON TIME. PRESIDENT TOLEDO IS COUNTING ON SUCCESSFUL COMPLETION OF THE PROJECT ON TIME TO BOOST HIS PUBLIC SUPPORT, SHOW HE CAN FULFILL PROMISES AND ADD REVENUES TO TIGHT GOP COFFERS. WHILE A SHORT DELAY IN COMPLETION MIGHT BE ACCEPTABLE, IT IS LIKELY THAT DELAYS OF SIX MONTHS OR MORE WOULD BE REJECTED BY THE GOP. THE GOP MAY THEREFORE REJECT DELAYS TO ALLOW COMPLETION OF AN EXTENSIVE INDEPENDENT EIA, AND WOULD ALMOST CERTAINLY REJECT MOVING THE COASTAL FACILITIES, SINCE THIS WOULD PROBABLY INVOLVE A DELAY OF OVER ONE YEAR.

13. ~~(SBU)~~ IF IADB/EX-IM FUNDING CONSIDERATION IS DELAYED BY SEVERAL MONTHS OR MORE, IT IS LIKELY THAT PROJECT SPONSORS WILL SEEK ALTERNATIVE FINANCING TO COMPLETE THE PROJECT. IT IS UNCLEAR HOW QUICKLY ADDITIONAL PRIVATE FINANCING CAN BE SECURED, HOWEVER.

COMMENT AND NEXT STEPS



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