

USAID Camisea Trip Report
May 28 – June 9, 2004

A team of USAID and State Department staff spent two weeks in Peru conducting a follow-up assessment of Peru's Camisea Natural Gas Project. Prior to the site visit, inter-agency discussions took place involving Treasury, State and USAID concerning the purpose and scope of the visit. The team consisted of Leslie Johnston, Senior Environmental Policy Adviser, Economic Growth, Agriculture and Trade Bureau at USAID Washington; Victor Bullen, Regional Environmental Adviser for USAID La Paz, and Linda Allen, AAAS Fellow, State/WHA/EPST. Johnston and Bullen participated in the first inter-agency site visit with Treasury last March/April 2003. This trip report does not reflect a consensus position between USAID and State.

The USG team assessed substantial portions of the project including Las Malvinas, well platforms, flowline, pipeline right-of-way, and the fractionation plant and marine terminal. The team met with Peruvian government officials (GTICI – Grupo Tecnico de Coordinacion Interinstitucional del Proyecto Camisea, OSINERG – Organismo Supervisor de la Inversion en Energia, CONAM – Consejo Nacional del Ambiente, INRENA – Instituto Nacional de Recursos Naturales, MINSA - Ministerio de Salud), the Camisea Ombudsman, project sponsors (TGP, PlusPetrol), USAID contractor (IRG), URS (IDB's independent consultant firm), industrial fishmeal plant owners, artesian fishers, NGOs/Peruvian Civil Society (PCS), including two of the experts chosen by PCS to work with the IDB to develop performance criteria (condition Update – 5(a)). Follow-up visits were also conducted with the same two communities the USG del met with last year. These interviews were conducted with the same headman for each community and with community members present.

It is acknowledged that much progress has been made in addressing the impacts of the Camisea project, but more work remains to be done. The following highlights concerns raised by stakeholders or directly observed by the USG during the site visit. Comments included herein that are based on meetings with various stakeholders do not reflect the views of the USG and in some cases have not been substantiated by the USG. Observations and comments are not necessarily related to conditions for loan closure.

FIELD VISIT

I. Right of Way (ROW)

Due to time constraints, the team was only able to overfly from approximately kp 350 to kp 0 of the ROW. Due to cloud coverage, certain sections of the ROW (i.e. Toccate area) were not visible. For other sections, the overflight was higher than normal due to safety precautions resulting from filling the lines with nitrogen and then gas. The team was able to walk/drive two short sections of the ROW – around Kepashiato (kp ~125) and the section entering the Machiguenga Reserve (~59-60). Mechanical completion of the pipelines, which comprised the conclusion of the physical construction and testing of the pipelines, was on May 22nd.

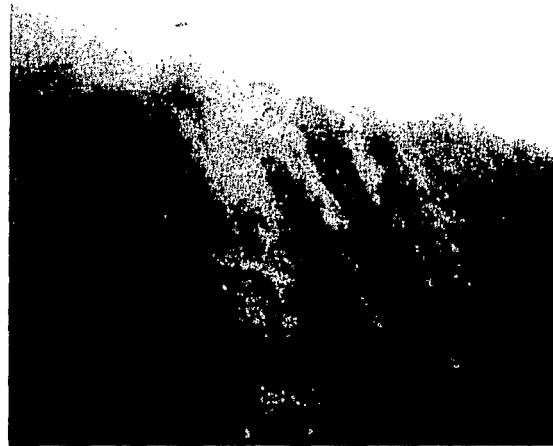
Sierra section (kp 350 - Apurimac River crossing ~kp 170):

- **Erosion Control.** A large section of the ROW has permanent erosion control measures. Geotech mats were observed in some steep ROW sections. Portions of the ROW that continue to be problematic are the steep side slopes where limited to no erosion controls were visible and several ROW river/stream crossings. In the vicinity of the Apurimac River crossing there were stretches without erosion control measures in place. However, permanent erosion control work in this area was to start in 2 weeks. Sections of the ROW from the Apurimac River crossing showed serious erosion along the side slopes. This also includes at least one 6 m wide ridge where there are no erosion control measures along the side slopes. This area is subject to natural slides so will be more difficult to control erosion.

The stretch of ROW in the area of Rio Alfarpampa is reportedly permanently affected by land slides. TGP was requested to provide URS elaboration for this area but only provided information specific to kp 182. It was also reported that in another area, slides had bent the pipes (which presumably required their replacement – although not indicated in notes). Currently work is ongoing in that section to divert water to prevent future slides. In the area of Acocro, due to a geological fault, 4 km of pipe had to be realigned. Discussions indicate that that are still problems in this area.



Section of ROW which highlights the use of erosion control barriers, geotech mats and erosion on the side slope.



Steep side slope off ROW where no erosion control measures are in place.

Revegetation. Revegetation efforts directly on the ROW are a mixture of crops (i.e. barley - which has been harvested by local farmers) or rice straw. There are some sections which are still bare ground. Bofedales (highland wetlands) were said to be revegetated with clover. No observations of revegetation on the side slopes were made. There was separation of topsoil from subsoil during the construction period.



Revegetated ROW



ROW with limited revegetation

- **Environment issues and progress.** There is an agreement for TGP to pay for additional Park rangers to protect vicunas from poachers. TGP also financed the establishment of an 8 km fence for the safe capture of vicunas. This has resulted in a 50% increase in the vicuna population from 20% due to greater protection and safer capture conditions.

Bofedales (wetlands) crossings were identified as sensitive areas and worked differently than rest of ROW. Geomembrane was used on either side of trench. However, it is not known whether the hydrology of the bofedales have been impacted.

- **Social issues and progress.** Sixty-six communities are affected by the project. According to TGP, the main complaint received was related to being able to work on the pipeline. TGP was able to satisfy 60-80% of the communities complaints. TGP used 90% local labor in 72% of communities where the pipeline crossed. They used a three month rotational system for working on the pipeline for laborers from each community. With respect to social problems occurring as a result of a boom-bust cycle, TGP believes these communities are accustomed to this type of noncontinuous work. TGP has not received any complaints from communities where agreements have been finalized and completed.

Selva section (Comerciato River crossing - Las Malvinas)

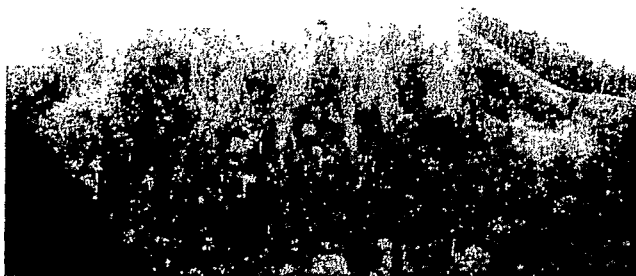
- **Erosion Control.** Erosion control has taken place in parts, but not all of the observed ROW. The Comerciato River crossing still requires extensive erosion controls in some areas. Similar to the sierra, the majority of the steep side slopes do not have erosion control measures. Geotech mats have been placed on some steep slopes but only down to approximately 50 m from the top of slope. In the Alto Shima area, erosion control is in place. Around Kp 87, is a narrow 4 m wide ridge with exposed rock - permanent erosion control on this section should be finished by October 2004. From Mantalo (~ kp 70) almost to the Machiguenga Reserve (Kp 59-60) there are no permanent erosion control measures. However, erosion control work is being carried out (via physical barriers and planting vetiver) in the section of the ROW entering into the Machiguenga Reserve. Along this section of ROW, temporary erosion measures have clearly failed and there is serious side slope erosion where no erosion controls are place.



Comerciato river crossing



Section of ROW with revegetation and side slope with geotech mats



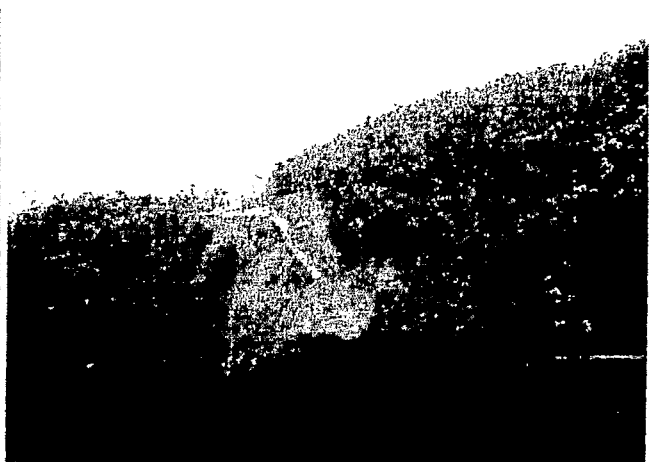
ROW with side slope erosion with some use of geotech mats



ROW with side slope erosion and absence of erosion control measures on slopes.



ROW entering Machiguenga Reserve



ROW with temporary erosion control and no erosion control measures on side slope

- Revegetation.** Parts of the ROW are revegetated while other parts appear to be exposed dirt/rock. Contrary to the revegetation plan, TGP stated that they would not be revegetating the steep side slopes or some of the cut side slopes. At kp 125, there is about a one km stretch of kudzu which, based on its aggressive nature (climbing small shrubs/plants) and larger leaves, appears to be *Pueraria lobata* (species determination needs to be confirmed). Although this species was not planted by the sponsor, the actions of developing the ROW have made conditions conducive to its growth on and along the ROW. We observed kudzu vines starting to cover larger plants within the ROW. TGP said they were not going to plant any trees since they would be over taken by kudzu. TGP also stated that they would not be removing it from this revegetated area since it was "green". Kudzu is an exotic, invasive species.



Kudzu invading ROW at ~kp 125.

Six out of the 13 nurseries spread out along the ROW will remain active for the next 5 years, the period of time for TGP's revegetation program. Approximately 800,000 trees have been planted. On steep areas of the ROW, vetiver (exotic species) has been planted as erosion control. There is an 85% survival rate of seeds/seedlings planted along the ROW. TGP stated they did not plant species which were predominant in the area or proportional in distribution. The types of plants used were based on seed availability around the nursery as TGP tried to make things as simple as possible for the communities. Unlike the sierra, URS stated that there was no separation of topsoil from subsoil.

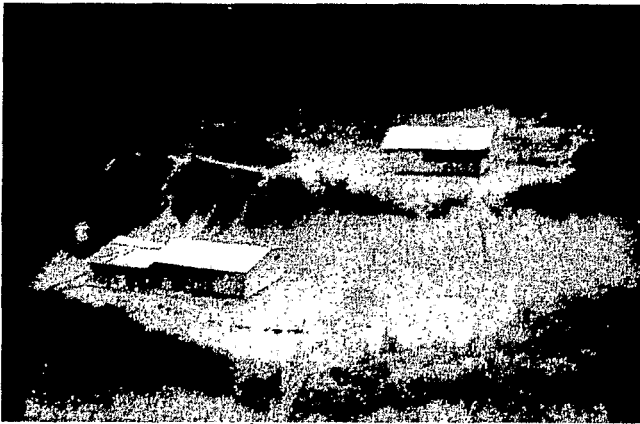


ROW with revegetation



ROW with permanent erosion control

- **Biodiversity** Although TGP routinely says they are doing biodiversity monitoring, the scope of this monitoring is not clear. In addition, it is not apparent how the data is being collected, managed and analyzed with subsequent input into management decisions and mitigation activities. In discussions with TGP, there continues to be a lack of appreciation to the biodiversity importance of the montane cloud forests.
- **Shimaa community** (Upper Urubamba). Since last year's meeting, the issue of relocating the three families that were separated from the rest of the community by the ROW has been resolved. All three families now have new homes constructed within the past year (see below). However, similar issues which were discussed last year were raised again. For example, there continues to be contamination of Rio Shimaa, Rio Cumpirusiato and smaller streams with landslides resulting in dirty water for some families along the ROW. They are seeing an increase in colds within the community, although reasons for the increase are unknown. They do not believe process issues with TGP have gotten better or worse, although it is still slow. Similar to last year, there still seems to be a lack of communication between the community and TGP. The community has received final compensation and appear to be satisfied, however there is confusion with respect to payment for the use of a small section of their land. They are not impressed by the quality of erosion control and revegetation. Some of the plants are dieing and they are not sure if TGP will come back to replant. They also preferred to have had kepushi palm and spanish cedar planted. They do want to develop a long term relationship with TGP since they do not feel the GoP is responsive. As with last year, their priority issue continues to be building the bridge to connect the remainder of their community on the other side of the Shimaa river.



II. LAS MALVINAS

- **Erosion Control.** Overflight along the flowlines did not show any serious problems with erosion control.
- **Revegetation.** The flowline from well sites SM1 to SM3 has been closed and revegetated. The flowline from SM1 to Las Malvinas was not closed yet (it was to be closed within the next few weeks). Kudzu (*Pueraria phaseoloides*) was used at a number of landfill sites, around the airport landing strip and at San Martin 1 (unclear if it is used at SM3). At SM1, we observed two small cecropia trees that have kudzu crawling up them, the one at the right of the picture appears smothered completely. During March 2003 USG visit, PP told USAID/Treasury that the kudzu at SM1 was going to be removed, however, it was still present. URS has observed that the kudzu around the airport is beginning to invade the selva. They reported that this observation was also made by OSINERG.



SMI site with kudzu crawling up small cecropia trees

- **Environmental issues and progress.** OSINERG stated that although there were no major environmental problems, three problems were raised:
 - The EIA was originally approved requiring the reinjection of production water into another well site, which is considered international best practice. PP recently submitted a modification to the EIA for permission to treat and dispose of the production/condensate water into the Rio Urubamba. The amount of water to be discharged is 500 barrels/day. The reason for this request is that the location and design for the disposal well sites are still under study. Once a location and design is finalized it will take at least 4-6 months to develop the reinjection site. Ministry of Energy and Mines decided in early June to approve the change.
 - Although no critical examples were cited, there are delays in carrying out mitigation measures. The example given concerned the closure of the flowline from SMI to Malvinas. They were concerned that closure had not begun and were not sure when it would occur even though the nurseries are in place. When we asked PP about this they said it was to begin within 2 weeks. Thus, there seems to be some lack of communication between OSINERG and PP.
 - There continues to be lack of compliance with biodiversity monitoring which OSINERG views as a point of noncompliance with the EIA. The whole process has been stuck in planning stage and nothing has been done. PP confirmed that no biodiversity monitoring was taking place. PP stated that a draft was presented to NGOs/PCS in December 2003 and they were still waiting for comments from them. (During the Lima NGO meeting, they stated that comments had already been provided earlier in the year.) Both PP and TGP are in process of developing TOR for bidding from selected institutions to begin the work during the fourth quarter of 2004.

OSINERG also raised the possibility that PP will be fined in their next report regarding the shoe-flies. Shoe-flies can be described as short access roads that loop around segments of the ROW.

- **River issues and progress.** There is a river traffic monitoring program with 20 monitoring stations in selected communities along the Rio Urubamba. All four indigenous groups are involved with this program.

<u>Confederation/Representative Organization</u>	<u>Indigenous Group</u>	<u>Location</u>
Comaru	Machiguenga	Block 88
FECUNAMA	Machiguenga	Neuvo Mundo
FECOYANI	Yeni	Sephua
Organization of Indigenous Regional Alaia	Ashenka	transit along Rio Urubamba

PP's most recent fishing report does not show evidence of significant impact of PP activities on fisheries. However, to accommodate river traffic, fishing times have been changed. PP plans to continue this monitoring program for one more year. With respect to additional construction activities for the development of CS1 and CS3 - PP did not know whether they would continue the monitoring program through that construction period. TGP will add three new monitoring sites so the entire basin will be covered.

- **Social issues and progress.** OSNERG makes monthly monitoring trips into the NKR to determine any instances of contact with isolated peoples (IP) - i.e. IP around platforms or PP employees/contractors leaving platforms seeking out IP. During the rainy season, they go into NKR with a boat and interpreter. During the dry season, they talk with monitors in each community to see if they are aware of any disturbances. To-date they have not seen any problems. OSNERG has assumed CONAPA's role since CONAPA does not have the capacity.
- OSINERG stated that PP reacts rapidly on social issues and are carrying out their obligations to communities.
- **Segakiato community** (Lower Urubamba). The community is satisfied with PP and most problems seem to be resolved. However, one key area of concern was emergency health care and evacuation to Las Malvinas for treatment. There is a difference of opinion between PP and the community as to what constitutes an emergency. OSINERG stated that they were trying to resolve this issue by coming up with guidelines. The community has a vaccination program and a trained health promoter. The on-site health service is good as long as there are medical supplies available. Health status is the same as before PP activities. They have an environmental monitoring program and send monthly reports to PP. There are no grave environmental problems. Since the completion of construction last year's problem with boat traffic is not longer an issue. The situation with wildlife scarcity is also beginning to improve. The construction of the Community Center (below) is in progress and should be completed by August 2004. Other community priorities include a water system and electrification. Studies have been initiated for both of these projects.



Community house under construction at Segakiato

.I. PARACAS BAY

- **Paracas Bay Commission (PBC)** CONAM stated they were not consulted with the establishment of the PBC and are not pleased that the PBC was placed under their responsibility. They were equally displeased with the fact that USAID funds targeted for other CONAM activities had to be reoriented towards the PBC. CONAM also stated that part of the "plan of the plan" is to identify what entity or authority is required for implementing the "plan" and they would pull out at that point in time.

CONAM initially did not take any steps to promote PBC as a participatory body resulting in the disenfranchisement of many of the stakeholders. However, there has been recent forward momentum with developing a common vision for the PBC. A one-day strategic planning workshop meeting was held in late-May which resulted in a participatory and collaborative atmosphere. If follow-up workshops are as productive and positive as this one, the PBC will be well on its way to achieving its vision. All participants interviewed spoke very highly of this workshop.

However, there are still a number of pitfalls for this process to be completely successful given all the stakeholders' preconceived beliefs, agendas, etc., and thus the process should not be forced in order for the PBC to have complete ownership of its role and function. The view of several stakeholders is that PBC is a Lima-based initiative and lacks transparency with respect to funds.

Infighting between MEM and CONAM as to transfer/spending of funds has impeded implementation of the PBC. As of June 8, 2004, there was no administrative support (i.e. office, equipment) for the PBC regional coordinator residing in Paracas. USAID authorized purchase of vehicle for the PBC that as of June 8, 2004 was still in Lima.

USAID/Peru has contracted with IRG to provide support to the PBC. IRG has been a pivotal player in this process and it is clear that without their involvement PBC activities would not have achieved the progress to date. IRG has been instrumental in organizing a series of technical studies and keeping the momentum moving. It is important for USAID to continue supporting PBC through IRG to help establish a fully functioning PBC.

There is still the outstanding issue of what happens to the intent and activities of the PBC when its mandate to function ends in September 2004. The September 2004 language is not specifically in the decree but is embedded into the compromiso which includes the key milestones:

- Draft TOR for Plan (Oct 30, 2003)
- Consultation with stakeholders (Nov 30, 2003)
- Baseline diagnostic studies (March 30, 2004)
- PBC prepares the plan (September 2004)
- Plan implementation (10 years)

- **PlusPetrol's Activities**

There still remain concerns with the lack of baseline data and of analyses for project impacts, i.e increased tanker/boat traffic on benthic community. Because of these issues there is concern that the reduced monitoring frequency during operation phase will not be adequate.

There still remain concerns as to the quality of PP monitoring system, lack of control points within the Bay, lack of indicator species to identify ecosystem integrity and the lack of analysis of the data to analyze trends. Data are not integrated over a timeline so difficult to determine impacts unless they are severe. At the PBC meeting, the need for independent monitoring was raised because participants could not trust either PP or GoP.

Given the presence of heavy metals in the Bay, there is concern of the potential accumulation in marine organisms. This issue apparently has not been investigated either before and after dredging activities. OSINERG has three pending actions against PP for noncompliance: 1) environmental monitoring (not following standard procedures, biodiversity not using the right expertise), 2) dredging at night and 3) lack of authorizations/permissions.

PP has not joined the UK Oil Spill Response Group as discussed last year prior to EXIM Board vote. They are currently talking with a Florida-based oil spill response organization.

- **Recent Fish Die-off**

There is not a unified government position as to the cause of this event. There are strong feelings from various stakeholders that the GoP response was inadequate and there is not a unified approach to determine actual cause and implementation of additional monitoring within the Bay to assess long-term implications.

There is need for an early warning system/mechanism to be put in place to prevent/mitigate this type of incident in the future but it does not appear that any steps are being made to accomplish this.

- **Biodiversity**

There continues to be concerns over the deficiency of biodiversity baseline data and the ability to identify impacts due to either construction or operation of facilities. Problems cited with respect to monitoring included the absence of a proper monitoring grid for the bay to be able to detect changes, the absence of control points inside the bay, methodological concerns such as the collection of benthic samples and frequency of monitoring during the operations phase.

To fully understand the impacts on the Bay there needs to be a systematic integration of all sampling/monitoring activities.

IV. COMMUNITY RELATIONS

- **TGP's Local Development Program (LDP).** (Note: LDP is part of Access Control Plan.) OSINERG and URS raised the issue of the LDP being poorly implemented. To date, only 3 projects out of about 50 have been completed and all three were in the Sierra region. There appears to be disagreement between OSINERG and TGP over the timeframe envisioned for the LDP. The lack of implementation of tangible projects under the LDP is undermining TGP's credibility, and harming TGP relations with communities along the ROW. TGP has done other projects in communities not under the LDP, but these have been ad-hoc in nature and each community is treated differently. There appears to be a general lack of coordination and transparency in TGP for these projects.
- **(In)Voluntary Resettlement.** OSINERG and URS raised the issue of two communities (Collpa, Huayllahura) near PS#3 on the ROW where families are located in very close proximity to ROW. In one area, more families are moving in due to increased access to the road and perceived job employment opportunities. TGP committed to resettlement of only the original four (4) families but has not actually moved the families nor appear to have dealt with the larger issue of new families moving in. In the other community, the ROW divides the community in half and efforts have only been made to move the few homes closest to the ROW back some few meters. There is no effort to relocate the community so that it will not be divided by the ROW; this appears to be a similar situation to Shima community where the 3 to 4 houses that were separated from the rest of the community by the ROW and were relocated.
- **Community monitoring.** Pronaturaleza's community monitoring program stopped in November 2003 and was recently resumed in April 2004. The resumption of the monitoring is designated as the "second phase". For Block 88, additional environmental components were added, such as flowlines, production wells, Las Malvinas solid waste and water treatment. This activity has evolved from merely reporting back information to the communities to discussions of the results and implications for the communities. The community of Segkiato appeared to be well trained and actively participating in the monitoring program. There is about 30% turnover in community monitors per year.
- **Compensation.** TGP and PP are finalizing compensation agreements with all project-affected parties. Shima and Segkiato appeared to be satisfied with levels of compensation, although there was some confusion in

Shimaa on compensation for land used for a pump station. OSINERG/URS are concerned about the lack of standards for establishing compensation levels for dealing with spillovers and the variation in compensation between the different communities, especially in the selva. OSINERG has requested information on the compensation from TGP but have not received it.

V. HEALTH

PP and TGP have an agreement with the MINSA in Cuzco to provide transport services to evacuate individuals with serious health problems (area from the Pongo to Malvinas). There appears to be some misunderstanding about the types of illnesses that warrant evacuation. As far as OSINERG can tell, there have been no health/epidemiological outbreaks in the area. However, they acknowledged that without adequate baseline data it is difficult to tell. Nutrition is a problem in the Nanti communities (Marankiato and Montetoni) but not with the isolated peoples.

NGOs/PCS are aware of the health study that was conducted by MINSA which identified health risks. There is concern within the community that this report has not been made available to the public despite assurances that it would.

The GoP health-related IDB condition is being supported with 100k from the Private Sector Institutional Strengthening Loan. This is not seen as sufficient resources to fulfill the obligation given the scope of required activities. Common health problems include intestinal problems/parasites, Hepatitis B, and yellow fever. The GoP is seeing an increase in influenza in the area. MINSA has completed a vaccination program. There is not an integrated effort between the various health services (PP, TGP, GoP) which is further impeded with absence of information sharing.

At the 5th Session of the National Commission Health of Indigenous Communities, MINSA was informed that Nanti communities did not want to have medical infrastructure within their communities. The Nanti believe that the health workers coming into the area are spreading disease. GoP is developing a national strategy for the Amazon/Sierra to be able to more effectively reach these communities. They estimate that their new plan will reach one million people.

There is concern with potential health problems in Paracas ranging from ingestion of fish contaminated by heavy metals into the food chain and the net exploitation of the ecosystem and subsequent nutritional impacts.

VI. ACCESS CONTROL

TGP has identified four areas of migration risk which was determined by access and land availability. Areas identified at risk were due to either a junction of an existing road/river or junction of ROW/river. PMAC (community monitoring program) has added access control as a new component of its monitoring activities. TGP is not planning on using vegetative plugs as a measure of access control since they feel that the erosion control barriers will not enable vehicles to pass. They do not think people will enter via foot or with pack animals. They believe that there are no migration problems in the Lower Urubamba since the area has been titled since the 1980's (note: this contradicts TGP Access Control Plan which mentions migration into the Lower Urubamba (Sepahua) resulting from previous Shell activities.)

TGP provided 250K to INRENA (either in 2002 or 2003) to construct guard posts. Similar to discussions last year, there are still no guard control posts in place. INRENA held an initial bidding process for the construction of the guard posts, but only one unsatisfactory bid was received. Their current plans are for INRENA to construct the posts themselves. INRENA has conducted an analysis for the placement of the guard posts. (note: Guards are already in place and the posts are to be completed by October 2004 (IDB, 9 July).)

INRENA has completed an analysis on the legal mechanisms to control access. It appears at present, GoP does not

have the tools to deal with illegal migrants - only if settlers invade communities with registered titled lands. GoP is increasing the presence of institutions to protect peoples rights - such as the Defensoria del Pueblo.

There is a lack of PCS participation with INRENA's work on access control.

OSINERG has not seen any incursions into the Lower Urubamba. However, a recent report (Nov 9-20, 2003) by an IDB consultant mentioned "invasion of areas adjacent to the ROW by farmers at the Urubamba river crossing (kp 12), with active clearing, burning and planting of rice, yucca (manioc) and plantain."

VII. CAMISEA OMBUDSMAN

Since USG visit in March 2003, the Ombudsman's office has made substantial progress. They have three regional offices - Quilabamba, Ayacucho and Pisco. They see PP and TGP as having very different strategies dealing with communities. PP has a very strong and active approach where as TGP activities and involvement are more diffuse. Typical problems that they have dealt with are construction dust and agriculture problems. Some cases where there is poor communication between the parties, lack of clear baselines or voids in the EIA make it difficult to reach an agreement. The office has worked on 140-150 cases. Approximately 75% are from La Convencion, some from Ayacucho and a small number from Pisco region. There have been no claims in Huancavelica which could be due to poor information access by peasant communities and lower population density resulting in fewer people impacted. The Ombudsman mandate ends in August 2005.

VIII. CAMISEA FUND

GTCI is the responsible entity for designing the Camisea Fund (CF). There have been two rounds of consultations with PCS. During the recent site visit, the USG del was informed that GTCI was working in parallel with Congress to establish the law which will enable the creation of the CF. The CF needs to be an independent institution and subject to public scrutiny. Some member of Congress believe that the GoP contribution of 7.5% of royalties is not enough and would like to see it increased. However, GoP would like to see only 1/3 or less of public funds going into the CF. This could mean either increased participation by other entities or a reduction in GoP contribution since at this point in time the level of GoP contribution is not legally mandated. GoP is looking at opening the window between September and December 2004. A key problem is the constitution of the Board of Directors to make sure the purpose of the Fund is achieved and that the 15-20 (?) provinces, NGOs and CS are properly represented. GTCI is exploring the idea of setting up an Advisory Council of Experts to meet on a monthly basis. The key is to be able to work in the poorest areas and select projects so communities feel engaged in the process.

IX. HYDROCARBON POLICY - BLOCKS 56/57/90

The GoP has required inclusion of language that refers to international environmental/social principles in the legal contract for Block 56 and an additional covenant for blocks 57 and 90 which had a previously signed contract. The language states that the contractor will utilize appropriate techniques such as the "Energy and Biodiversity Initiative" and guidelines such as "The Equator Principles" neither of which are international standards.

PeruPetro sees as a fundamental task the revision of the Environmental Protection in Hydrocarbon Activities Norm (Law) which the DGAA is the responsible entity. There are 3 IDB consultants working on this and GTCI feels satisfied with the work.

Block 56 development is an important component to Hunt's proposed LNG facility. Current status activities:

- Negotiations with GoP with respect to royalties is complete
- DGAA, PetroPeru and Defensoria de Pueblo developed a report on activities prior to PP entry into the Block. (IDB has a copy of this report)
- TOR for EIA was discussed with NGOs in Lima
- GoP introduced PP to the communities who they are now in discussions with and getting baseline data

PP conducted the first biodiversity baseline study during March 2004 (wet season) and will conduct the dry season baseline in July 2004. PP stated they would send TOR EIA to USAID for comments but it has never been received. Conservation International discussed the fact that although they had provided comments they did not see an improvement in the TOR.

There is an outstanding issue related to the expansion of the pipeline within the Andean region. The Dept of Cuzco is going to have a natural gas line which can either be a new pipeline directly from Las Malvinas or from the take-off point at Kepashiato. Because of transport fees, the new pipeline from Las Malvinas is desirable.

X. CONSTRUCTION CAMP CLOSURES.

During camp closures, TGP is transferring sites back to communities without returning them to their original condition. Although this is being done at the request of the communities, some of improvements or structures that are left on site may not be sustainably managed and may end up as environmental liabilities. OSINERG/URS believes that this is not in line with either the EIA or Social Plan that says to restore and revegetate camps unless the infrastructure meets the requirements for sustainability and the community has the capacity to maintain it.