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Why Camisea Is Feasible Today

*Germán Barrios**

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I. Introduction.

Peru is a country that has adopted several political ideologies over the last thirty years. These ideologies include a communist regime, a central regime, a socialist regime, and finally, a left liberal regime. Peru moved from a democratic government to a military government in the late sixties. The military government expropriated oil and other major industries that passed to the control of the Peruvian government. The military government lasted twelve years, ending in 1980 when power was transferred to a democratic government.

During the decade of the eighties, Peru had two presidents from different political ideologies. Neither of them was able to take the necessary measures for the modernization of Peru. The terrorist groups were not eliminated, and there was a reduction in the presence of the government in the major industrial activities of the country. In 1990, Peru's economy was under an upper inflation, and no measures were taken to combat this problem. With the election of Mr. Alberto Fujimori as president of Peru in 1990, the country passed from a state-controlled and protected economic model to a liberal economic model that made it possible to implement radical changes in the country.

This article will explain the Camisea Project, discussing both its magnitude and its impact on a country the size of Peru. The article will then provide a general overview of the Peruvian government over the past thirty years. The intention is to make it clear why the Camisea Project could not be developed immediately upon its discovery, or in the following years. Ultimately, the article will cover the importance of the Camisea Project for a country like Peru.

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II. The Camisea Project in a Nutshell.

To better understand this part of the paper, it is important to know the history of Camisea, since this project has long been waiting to be developed. Through PETROPERU (the government-owned oil company), the Peruvian government executed two contracts with Shell for Petroleum Operation in July 1981 (Blocks 38 and 42). Between 1983 and 1987, Shell drilled six exploratory wells. It discovered the gas fields of San Martin, Cashiriari, and Mipaya, all located in the Camisea area. In August 1988, during Alan Garcia's government, the development process of the gas fields was canceled because the Peruvian government could not get the necessary funding for its part of the project. At that time, the Peruvian government was in default with its creditors, rebelled against the IMF, and had no possibility of obtaining credit from foreign nations.

The Camisea Project is a gas field located 550 kilometers from Lima, the capital of Peru. It is on the east side of the Andes in the Amazonian rainforest of central Peru in the northern part of Cuzco (Cuzco is a forty-five minute flight from Lima). Currently, Camisea is the most important nonassociated gas field in Latin America. The estimated investment for the development of the Camisea Project is in the range of \$3–\$4 billion.

The development of Camisea consists of the exploitation of gas and condensates from the San Martin and Cashiriari reservoirs (Block 88). Block 88 is located in the Manu National Park, an area recognized by the Unesco and acknowledged worldwide for its unique flora and fauna. The two aforementioned reservoirs have proven gas reserves reaching between 13.7 and 16.7 trillion cubic feet, with a liquid content estimated at 725 million barrels. Likewise, the project covers the transportation and distribution of gas to Lima, which is located on the central coast.

The Peruvian government created a special committee for Camisea, which divided the project into two parts: Exploitation (Upstream) and Transportation and Distribution (Downstream). The special committee called for an international bid for the Upstream and Downstream development of Camisea. Coastal, Chevron, Shell, Exxon, Total, Elf, Tecpetrol, and Talisman are a few of the companies interested in Camisea. All of these companies filed qualification documents for the Upstream development. Likewise, companies such as Hunt, Pluspetrol, Gas Natural, Mobil, Exxon, Shell, Williams, Techint, Promigas, Coastal, and Enron filed the qualification documents for acceptance as bidders for the Downstream development. The government has gone on several "road shows" to Asia, Europe, and America. These "road shows" included one-on-one meetings with companies that requested information or that bought the bidding rules of the Camisea Project. The bidder who offered the highest royalty rate would be declared the winner of the Upstream portion of the project. Likewise, the concession of the Downstream part would be awarded to the bidder who offered the lowest service cost for that portion of the project.

Although critics disagreed with awarding bids close to the time of the Peruvian presidential election in April 2000, the committee awarded the Upstream development to Pluspetrol, Hunt Oil, and SK Corporation (Korean Corporation) on February 16, 2000. Pluspetrol, Hunt Oil, and SK Corporation acted as a consortium in the Camisea bid and offered a 37.24 percent royalty. The companies also filed a \$99 million bond as a guarantee that they would comply with the terms of the License Contract for the exploitation of the hydrocarbons in Block 88. The bid for Camisea's Downstream development is currently in progress.

For the Upstream development, the contractors executed a License Contract for the exploitation of hydrocarbons in Block 88. The License Contract has a term of forty years for the exploitation of gas and establishes a minimum working program that, according to its second draft dated October 18, 1999, looks as follows:

- First phase of eighteen months: Drill one development well.
- Second phase of twenty-two months: Drill three development wells. Construct a separation plant for liquids (Las Malvinas) and fill the pipes with hydrocarbons from Block 88 (the operator of the transportation and distribution of gas will construct the pipelines).

The exportation of gas is allowed for in the project subject to a guarantee of a permanent gas supply to the local market ("City Gate in Lima") for a minimum of twenty years.

With reference to the Downstream development, the operator should execute a "boot" concession contract (build, own, operate, and transfer) for the design, supply of goods and services, construction of the distribution system of natural gas through pipelines in Lima and Callao (Constitutional Province, which is the main port in Peru with an important industrial sector), and the exploitation of the concession's goods. The boot contract has a term of thirty-three years, but can be renewed for additional ten-year periods with a total term of no more than sixty years. In order to guarantee the Downstream development, the operator is going to receive an annuity payment that is determined by the contracted capacities. The operator has to construct two pipelines, one for natural gas and the other for liquids. The pipeline for liquid gas should be able to transport 70,000 barrels per day. The transportation of the gas starts at the separating plant and ends at a fractionation plant for further distribution and exportation. The liquids pipeline will be constructed simultaneously with the natural gas pipeline in order to have the same right of way and other facilities. The natural gas pipeline will start at the separation plant and end at Lima City Gate. From this pipeline at Lima City Gate, the gas will be delivered to the industrial zones (one large industrial zone where the gas will be delivered is Avenida, Argentina). The pipelines for natural gas and liquids should be completed and ready to operate by 2003. The construction of the pipelines will start in the jungle, cross the Andes, and end at the coast of the Pacific Ocean.

The government has executed through Electropetru (a government-owned company) "take or pay" contracts with the initial gas customers to create a market for the Camisea gas. These contracts were executed before Pluspetrol's consortium was awarded the Upstream development. The "take or pay" contracts are for the purchase of 12.8 million cubic feet per day of natural gas, with terms of five-ten years. These contracts executed with Electropetru have as incentives a longer term for the recovery of gas and a 20 percent discount on the base price. There is also a discount for volume and for the "take or pay" percentage. Now that Pluspetrol has been awarded the Upstream development, it is the only one legally authorized to execute the new "take or pay" contracts. Currently, the major gas consumers are the thermoelectric power plants. These plants are likely to execute the "take or pay" contracts with Pluspetrol (negotiated under its terms) without the government in the middle of the privatization process. Some critics of the Camisea Project stated that by executing the "take or pay" contracts before the Upstream development was awarded, the Peruvian government created an artificial market for natural gas, moving the Camisea bid along at any cost.

The Camisea Project must be designed in compliance with environmental laws. This is important because one part of the project is going to be developed in a humid tropical

forest that is located between the Manu National Park and the Apurimac Reserve Zone. Manu is well known in the scientific community and by environmental groups for its diversity of birds and plants. Manu is also well known by the Peruvians because of the multiple educational films recorded in that area. UNESCO designated Manu and the Apurimac Reserve Zone as a Biosphere Reserve.

Most of the electricity in Peru is generated through hydroelectric plants. In order to promote the use of Camisea gas, the Peruvian government suspended authorization for the construction of new hydroelectric power plants until June 2000. It is likely that the government will extend the above term as it has done before. The Executive Power (the Peruvian President and his Ministers) prepared a draft to suspend construction of new hydroelectric power plants that were going to be hooked up in the interconnection electric system for five years. They sent the draft to Congress for approval. The government wanted to eliminate competition from hydroelectric power plants to make Camisea's gas more attractive than the thermoelectric power plants. The hydroelectric power plants are economically more efficient than the thermoelectric plants. Thus, the hydroelectric power plants take precedence over the thermoelectric plants in the Peruvian electricity system. If the aforementioned draft is approved, it will stop already-planned incoming investments to the country for hydroelectric power plants. One such investment was from a group of Norwegians and Americans planning to construct the Cheves Hydroelectric Power Plant; its construction is calculated at \$560 million. This and other hydroelectric projects could be paralyzed, therefore affecting future investments in Peru. The Peruvian government is also planning to promote the development of the Camisea Project by enacting a law for investment in the hydrocarbon-chemical industry. There is already a draft of this law circulating between the Ministry of Energy and Mines and the Ministry of Economy.

Camisea is an ambitious project for a country like Peru. Only major oil companies or companies forming a consortium can afford to participate due to the magnitude of the investment. The Peruvian government moved very fast in awarding the Downstream and Upstream developments because of the Peruvian presidential elections in April of 2000.

III. Peruvian Governments from 1968–2000.

As mentioned earlier, it is important to describe the Peruvian governments over the last thirty years to understand why Camisea developed so slowly. Camisea was discovered in the early eighties during the democratic government of Mr. Fernando Belaunde. Nearly twenty years later, it is in a bidding process. It is important to understand the military government before Camisea was discovered, to understand fully Peru's 180-degree change over the last thirty years. These changes are currently making the development of Camisea possible.

A. MILITARY GOVERNMENT 1968–1980.

When the military government gained power, one of its first measures was to eliminate the groups in power through expropriations in order to apply a communist model of government. The "haciendas" (farms) were expropriated and their assets were paid in bonds. The assets were valued very low (approximately a few dollars per asset). The

government did not pay the bonds at their maturity. Currently, the holders of the bonds are organized in an association and the up-to-date bond's value is around one billion dollars. The land was given to the same haciendas' workers and the government imposed a cooperative model of ownership, as used in Yugoslavia. The cooperative model failed and the haciendas went broke. The haciendas' lands have been sold by the haciendas' workers with the help of the government. Other industries were also expropriated, including the oil industry. The oilfields and oil industry on the north coast of Peru were expropriated to the International Petroleum Corporation (IPC). All of the assets and land were recorded under the name of the government oil company *Petroleos del Peru-Petroperu S.A.* The newspapers and television stations were also expropriated. The presidential announcements that were mandatorily broadcast on all television and radio channels were unforgettable to children growing up in that time.

There were other incredible measures adopted by the military. The possession of foreign currency was banned. For example, public dollar bank accounts were not allowed. People were sending money abroad illegally, using any means possible. Importation of goods was prohibited. Everything was produced in the country and the quality of the goods was poor. Cars were assembled in Peru and the selection was very limited and expensive. Only high military officers had the privilege of importing the type of car they wanted. Hundreds of people were forced to leave the country by the military government, and thousands immigrated to other countries looking for a better quality of life.

In contrast, during the eighties, when the government became a democracy, some of them returned to Peru. Due to the communist ideas of the military regime, the unions gained much power within the companies and the workers received permanent labor stability after working for more than three months in the company. There was a total intervention of the government in all activities. Thus, the government's body grew enormous and it became the major employer of the country. If any person close to the government needed a job, there was no problem in creating a new bureau in a ministry to hire more people.

The terrorist group "Shining Path" was born during the military government, but stayed underground organizing their forces and waiting for a democratic government to emerge. It is easier to organize a revolution during a democratic government because there is more concern for the human rights of terrorists.

After some years it became known that the military was preparing a war against Chile. Peru bought all the military equipment that was on its way to Chile from Russia. Pinochet (a former Chilean president) took power from the communists in Chile, and the military equipment ended up in Peru. At that time, Peru had military superiority and wanted to declare war on Chile and recover the Peruvian territories that were lost during the war in 1879. The idea of declaring war on Chile was not supported by a certain group of generals. This was one of the turning points that led General Francisco Morales Bermudez to take power and change the direction of the country to a democratic system. In 1978, Morales Bermudez called for Parliament elections. The Parliament then enacted the 1979 Constitution.

B. DEMOCRATIC GOVERNMENT 1980–1985.

Mr. Fernando Belaunde Terry was elected president of Peru in 1980. Mr. Belaunde was overthrown twelve years earlier by General Juan Velasco Alvarado. He returned

to office after the twelve years that General Alvarado was in power. Out of all the expropriated companies, Belaunde returned only the radio stations, newspapers, and television stations to their original owners. The importation of goods became available again; therefore, the country imported new equipment and technology. People were permitted to have foreign currency and to keep bank accounts in dollars. The government increased its size by hiring people close to the Belaunde political party. At that time, inflation was high with regular devaluations of the local currency.

The terrorist group Shining Path emerged the same day that Mr. Belaunde was elected president of Peru. Shining Path was not opposed by Belaunde's government, because he did not believe it was a terrorist group. Shining Path was born in Ayacucho, located in the southeastern part of the country, approximately fourteen hours from Lima at that time (currently, with an asphalt road, it takes eight hours from Lima). Ayacucho was the least developed city of Peru in 1980. From Ayacucho the terrorist group began to spread their terror, specifically toward Lima.

In conclusion, Belaunde's government was a very conservative government, and the Peruvian population was disappointed because they expected the haciendas and other expropriated industries to be returned to their original owners.

C. DEMOCRATIC GOVERNMENT 1985–1990.

Mr. Alan Garcia was elected president of Peru in 1985. His government was a total economic disaster. After twelve years of military government and five years of a conservative democratic government, Garcia's government was not an improvement. Mr. Carlos Bolona Behr, President of the Institute of Free Market Economy, gave his opinion about Garcia's government saying, "In a few words, Alan Garcia has been the worst President of Peru and this should not be forgotten."¹

Garcia's government increased in size by hiring people close to his political party (Partido Aprista del Peru). The government was the major employer at that time. There were cases involving state-owned companies that had more than one manager, where the duties were either split or one of them worked for some months of the year while the other one stayed at home receiving his normal salary. Corruption was a real problem, and the state-owned companies generated enormous losses for the country. Inflation was out of control, reaching hyperinflation levels. Prices of goods changed everyday, making it impossible to keep a budget for more than one week. The government applied a variety of economic recipes to control the inflation, but it did not try to reduce government expenditures. The government enacted a special type of exchange rate for the importation of goods. Cheap dollars for importation were only sold to members of Garcia's political party and his direct friends.

The government started granting loans through the state-owned banks without requesting enough collateral for the repayment of the loans granted. Likewise, loans and interest rates were fixed in local currency that turned to nothing in a few months because of the hyperinflation of the country. Garcia continued the spending carnival, burning the reserves of the country. To increase his popularity, Garcia condoned bank loans to

1. Carlos Bolona Behr, *Do Not Return to the 80's, Terrorism, Bankruptcy and Ungovernability*, EL COMERCIO, Jan. 7, 2000, at 3.

the agriculture sector. The loans were only condoned by the agriculture bank, which belonged to the state. Consequently, the government assumed hundreds of millions of dollars in agricultural debt.

Four major mistakes committed by Garcia "opened the eyes" of Peruvians, including those who still believed in him. Garcia stopped paying back the Peruvian debt to foreign creditors and broke contact with international organizations such as the IDB, International Monetary Fund and World Bank. Without contact with the international organizations, Peru could not get an international line of credit. All the investment banks suggested not making investments in Peru. Additionally, those banks recommended staying away from Peru because it did not honor its debts. In a short period of time, there was a shortage of foreign currency in the country for importation, and the importers started to get dollars through counter-trade contracts.

Garcia's government tried to nationalize the banks. It applied the measure to the third largest bank in Peru, which is Banco Wiese. Banco Wiese owners began a controversy with the government by bringing legal suits and creating a lot of publicity in the newspapers when its owners and employees moved with their mattresses into bank headquarters to stop police from seizing the bank. Finally, public pressure against the government was overwhelming, and it gave up the idea of nationalization. The government's change of attitude was too late because damage to its image and the president's reputation was already done.

President Garcia prevented the government from touching the deposits in foreign currency. A lot of people trusted the president and kept their deposits in dollars. In a hyperinflated market, the only way to save money is with a strong currency. Nevertheless, Garcia once again did not keep his word and decided to freeze the dollar deposits. Later the money was exchanged to local currency, losing gains in the exchange rate. When members of the press asked Garcia about his change of mind concerning dollar deposits and other issues, he said, "The worst sin in a political arena is to be naïve." Most of the people preferred to keep their money abroad, away from the reach of the government. Garcia tried to increase his popularity and decided to help the people that leased apartments and houses by extending the term of their contracts. The government enacted a law extending the terms of the contracts and limiting rent increases. The law mandated that if the rent was established in dollars it should be paid in local currency using a fixed exchange rate. This law was a direct intervention by the government to the parties' right to contract. With this action, the government demonstrated that it could intervene in private agreements adopted by parties to a contract.

As with Belaunde, Garcia's government did not fight the terrorist group Shining Path. The government thought that the police could defeat the terrorist group, and thus provided them with military weapons for the fight. This was a big mistake. The police were not prepared to fight against the guerrilla forces, and they began to lose their police stations one by one as the terrorists attacked them. The terrorist movement started in the mountains of Ayacucho, moved to the jungle, and finally to the coast where the major cities are located. The goal of the terrorist group was to surround Lima. The government did not understand that Shining Path was twelve years ahead of them in organization and tactics. As mentioned before, Shining Path was born during the military government but did not appear as a fully organized fighting force until Belaunde's democratic government.

Later, a second terrorist group appeared. This terrorist group was called Movimiento Revolucionario Tupac Amaru (Tupac Amaru). Some of Tupac Amaru's higher leaders

were former members of Garcia's political party, the APRA. Several of Tupac Amaru's members escaped from prison through a tunnel, and the police heard nothing. Some sectors of the press said that the government had authorized the escape considering the old friendship between the leaders of the Tupac Amaru group and the APRA. Meanwhile, Shining Path blew up the light towers and left Lima without electricity for hours. No electricity means a lack of water, and no water means chaos. The Peruvians adapted to life with the terrorist danger and knew when to save water. Others bought power generators for their houses or offices. When there was no electricity, Lima was very noisy due to the thousands of electric generators working all at the same time.

In conclusion, Garcia's government was characterized by corruption, and people were expecting the military to gain power if Alan Garcia tried to stay in power any longer.

D. DEMOCRATIC GOVERNMENT 1990–2000.

Mr. Alberto Fujimori was elected president of Peru in 1990. The Peruvian population was tired of the traditional political parties and voted for a change. They elected a president that had neither future ministers to appoint nor an economic plan to save the country. As a result, Fujimori adopted the economic plan of Mr. Mario Vargas Llosa, who was defeated by Fujimori in the same presidential election. Vargas Llosa had been working on his economic plan two years before the election.

Fujimori's measures for the modernization of Peru were difficult to enforce. These measures were focused on performing the following:

- Reducing the government size, which meant massive dismissal of state workers;
- Attacking hyperinflation;
- Eliminating subsidies and increasing the price of public services (water, electricity, and telephone);
- Increasing the price of gasoline;
- Privatization of government-owned companies;
- Eliminating terrorist groups;
- Closing the state bank that gave loans for industry, agriculture, and mortgage;
- Inserting Peru into the international organizations and paying back the country's debt to foreign creditors;
- Creating trust with the local and foreign investors by granting them equal rights;
- Simplifying the tax regime;
- Collecting taxes and organizing the tax authority;
- Simplifying labor laws; and
- Guaranteeing free possession of foreign currency.

Fujimori's government did not have a majority in the Parliament and therefore could not get the necessary laws approved for the modernization of the country. Fujimori closed the Parliament in April 1992, with the overwhelming support of the Peruvian population. The government then directly enacted the laws necessary to modernize the country. One such law was Law 26221, the law of hydrocarbons. The main points within the new hydrocarbon law are the following:

- Hydrocarbons are the property of the state when they are underground, but once extracted they belong to the producer who has executed a license contract.

- The exploration and/or exploitation contracts are no longer executed with Petroperu. The government created a new independent company called Perupetro S.A., which negotiates and executes the exploration and exploitation contracts with private companies.
- Any local or foreign individual or corporation is allowed to install, operate, and maintain oil refineries and plants to process natural gas and condensates, natural asphalt, greases, lubricants, and petrochemicals. The Petroperu monopoly ended with the advent of these activities.
- The activities and prices related to crude oil and derived products are ruled by market forces (supply and demand).
- Contracts with Perupetro S.A. shall be governed by private law. The Peruvian state guarantees to the parties to the contract that the tax and exchange systems in force at the time the contract is entered into will remain unchanged (stability regime). The Central Bank will participate in the contract to guarantee the availability of foreign currency exchange. Likewise, the Ministry of Economy and Finance will participate in the contract to implement the tax stability guarantee.
- The parties to a contract can keep their accounts in foreign currency.
- The contract disputes can be resolved through international arbitration.

After the government enacted the new hydrocarbon law, it created the legal framework necessary to support changes in the sector by preparing rules in the following areas:

- Environmental protection of hydrocarbon activities;
- Qualification of petroleum companies;
- Royalties and refineries for hydrocarbon processing;
- Safety of hydrocarbon processing;
- Safety of hydrocarbon fuels;
- Commercialization of hydrocarbon fuels;
- Safety in retail stations selling hydrocarbon fuels;
- Distribution of hydrocarbons by pipelines;
- Use of resources obtained from contractors;
- Commercialization of liquid gas;
- Transportation of hydrocarbons by pipelines;
- Tariffs for pipeline transportation;
- Safety of hydrocarbon transportation;
- Safety of gas liquid installations; and
- A list of goods and materials for exploration contracts that are exempt from the import tax.

The following rules were enacted to make Camisea feasible:

- December 12, 1999: Resolution of the Commission for Energy Rates No. 014-99 P/CTE, "Energy Rates Have Been Fixed for Consumers of the Concession of Distribution of Natural Gas by Ducts in Lima and Callao."
- December 11, 1999: Minister Resolution No. 688-99-EM/VME, "Area of Concession of The Distribution of Natural Gas by Ducts Has Been Delimited by Public Bid Carried Out by The Comité Especial Proyecto Camisea."
- June 4, 1999: The Government enacted a special law (No. 27133), "Promotion of The Natural Gas Industry and for the Transport and Distribution of Gas."

- September 15, 1999: Supreme Decree No. 041-99-EM was published, which regulates the transportation of hydrocarbons through pipelines.
- September 1999: Supreme Decree No. 040-99-EM was enacted, which regulates the Law for the Promotion of the Development of the Natural Gas Industry.

Fujimori's government started an aggressive privatization process for the oil and gas industry. The oil and gas industry was owned by *Petroleos del Peru*, *PETROPERU S.A.*, a state-owned company. The privatization started with the bid for retail gasoline stations. Today, the retail gasoline stations are owned by international corporations such as *Texaco*, *Mobil*, *Shell*, *Chevron*, *YPF*, and *Repsol*. A large group of retail gas stations are also owned by Peruvians. These are organized in an association called *PECSA*. The privatization of the retail gasoline stations was positive for their users because the quality of the services improved greatly. *PETROPERU* had a subsidiary called *Trans Oceanica* that owned four tankers. These ships transport hydrocarbons to different coastal terminals owned by *PETROPERU*. *Trans Oceanica* was sold through a bidding process and the winner was *Gleopoint Enterprises Inc.* (a Peruvian and Chilean consortium). The privatization of the oil and gas industry continued with the sale of the *LPG* business (*Sol Gas*). This business was sold to *Lipigas* (a Chilean corporation) and to a group of Peruvian investors. In 1998, *Repsol* bought *Sol Gas*, controlling the *LPG* business in Peru. The next major step in the privatization of *PETROPERU* concerned *La Pampilla Refinery*. *La Pampilla Refinery* is the largest refinery in Peru and is located in *Callao*. By privatizing *La Pampilla Refinery*, the government broke the last resistance existing in the country against privatization of state-owned companies. This privatization was a big issue because of the magnitude of this *PETROPERU* asset. The day of the *La Pampilla Refinery* bid, the board of directors of *PETROPERU* decided to declare it a holiday in order to prevent any kind of disturbance of *PETROPERU* workers. *Repsol* was awarded the *La Pampilla Refinery*. With the *La Pampilla Refinery*, *Repsol* is the major refiner of Peru and also controls the *LPG* business.

After the privatization of *La Pampilla Refinery*, the next step was to privatize the oilfields. *Block 10* is an oilfield located on the northern coast of Peru and *Blocks 8 & 8X* are an oilfield located in the Peruvian jungle. *Block 10* was awarded to *Perez Companc Co.*, and *Blocks 8 & 8X* were awarded to *Pluspetrol*. The winners of the oilfields are Argentinean companies. *PETROPERU* also owned a lubricants plant that controlled 60 percent of the lubricants market in Peru. This oil plant is located in *Lima* and was awarded to *Mobil* through a bid. Other international oil companies export lubricants to Peru and control the remaining 40 percent of the market. These companies include *Shell*, *Mobil*, and *Texaco*. After the *La Pampilla Refinery* and oilfields privatization, the *PETROPERU* privatization process moved to the privatization of wholesale terminals. The privatization of terminals was through an execution of a concession contract mandating that *PETROPERU* maintain the property of the assets, but these assets are going to be exploited by the winner of the privatization for a long period of time. *PETROPERU* had terminals in different regions of Peru located in the central zone (*Callao* and *Cerro de Pasco*) and the northern zone (*Talara*). The last attempt of privatization was the *Talara Refinery*. This refinery is located on the northern coast of Peru in *Talara* and is the second largest refinery in the country. All of the businesses in *Talara*, which employ the majority of the population, revolve around the *Talara Refinery*. The privatization of this *PETROPERU* unit was estimated to have a large social and economic impact on the *Talara* population. The government decided to stop *PETROPERU's* privatization,

afraid that the social impact caused by the privatization of the Talara Refinery would affect Fujimori's image in the 2000 presidential elections. Others are of the opinion that the Talara Refinery was not privatized so that it could still compete with La Pampilla Refinery for a way of keeping the fuel at a reasonable price. With the privatization of the PETROPERU units mentioned above, most of the oil and gas industry is in the hands of the private sector. PETROPERU controls the production and distribution of gasoline in the northern part of Peru and in some parts of Lima (PECSA gas stations purchase gasoline from the Talara Refinery).

The seventies and eighties were a lost period for Peru's economic growth. Bad governments made Peru collapse in every sector. Fujimori's government and the coming government must continue to stimulate Peru's economic growth.

IV. Importance of Camisea for a Country Like Peru.

Camisea for Peru means:

- Private investment of over \$2 billion;
- Direct expenses in the country of an estimate of \$800 million;
- The creation of approximately 4,000 jobs in the construction phase;
- The generation of approximately 2,000 permanent jobs during the life of the project;
- Supplying a new fuel to the country at a good price;
- Improving the budget of the country, becoming a fuel exporter instead of an importer;
- Benefiting the environment by the use of clean fuel;
- The supply of natural gas to power plants increasing the source of energy;
- Reduction of external resources for energy;
- Supplying electricity and fuel at better prices;
- The development of a local market for gas and options to export gas;
- The development of chemical industries;
- Developing the gas distribution business in Lima;
- The choice to connect the pipelines to other pipelines already in use in South America;
- Supporting parts of the country's economy and the development of other areas of the industry;
- Replacing the importation of several products with natural gas and liquids;
- The industries will receive cheaper fuel that could reduce their production costs;
- Promoting the coming of new industries and service companies to the country;
- Launching new poles of development or increasing the existing ones;
- Providing energy to the country for over 100 years;
- Showing other investors that enormous projects can be developed in a country like Peru;
- Giving confidence to foreign investors in search of investment opportunities in Peru;
- Providing new foreign lines of credit for the country; and
- Elevating Peru in the eyes of the world oil and gas industry.

Camisea will benefit Peru's future prosperity. Thus, Fujimori has the intention of concluding the Camisea bidding process before the end of his second presidential term.

V. Conclusion.

Fujimori's government is best suited to develop the Camisea Project. The project waited practically twenty years to be developed. In the past, Peru was not prepared to receive such a big investment (over \$2 billion for the development of Camisea). A country that went through a communist military regime, expropriation, massive corruption, hyperinflation, terrorism, and state intervention was not prepared to implement a project the size of Camisea. It is surprising that two bidders filed their offers for Camisea's Upstream development considering the country's then upcoming presidential election. The uncertainty of a new president is reason enough to keep the possible Camisea bidders from taking action concerning the terms of the bid established by the government. Nevertheless, Camisea's bidders decided that Camisea was profitable enough to disregard the risk of a new president, and thus filed a \$99 million bond as a guarantee for the commitments to be assumed with the Peruvian government for the development of the Upstream part. Camisea looks feasible at this time and should bring prosperity to Peru.