

Camisea Project

Overview

The Camisea gas extraction and pipeline project is one of the most significant energy infrastructure projects currently under construction in Latin America. Upon projected completion in August 2004, Camisea is expected to make an important contribution to Peru's economic development, creating jobs and significantly increasing the country's standard of living. Camisea will also allow Peru to become one of the few Latin American countries able to meet its own internal energy needs as well as eventually export natural gas.

Most of the project's \$1.6 billion development cost will be borne by the international consortiums of private sector companies that are currently constructing the project, which consists of natural gas production and gas processing (Upstream Component), pipeline transportation (Downstream Component) and natural gas distribution in Lima and the surrounding metropolitan area (Distribution Component). The Inter-American Development Bank (IDB) has approved up to \$75 million in direct loans to help finance a portion of the Downstream Component of the Camisea Project.

The Upstream Component includes four well pads to extract natural gas from two natural gas reservoirs (located in the Camisea fields in the Ucayali Basin) and an initial processing plant to separate natural gas and natural gas liquids. This component also includes a fractionation plant and marine terminal on the coast for processing and exportation of natural gas liquids. The Downstream Component consists of two pipelines (one for natural gas and one for natural gas liquids) that will transport the gas across the Andes. Both pipelines run in parallel from Camisea field, 431 km. east of Lima, to Pisco. The natural gas pipeline then continues northward along the coast to the capital. The natural gas in Lima will be used to replace liquid hydrocarbon fuels generating electricity for residential and industrial needs.

Development of Camisea is a central component of the Peruvian government's energy strategy, with the potential of producing \$5.2 billion in energy cost savings in present value terms over a thirty year period. In developing a stable, low-cost source of energy, Camisea will provide direct benefits to the Peruvian population and increase the competitiveness of Peruvian industry. Marginal costs of power generation will be reduced by 30 percent on average, and air pollution in Lima will decrease air pollution by virtue of the conversion to the use of natural gas, the cleanest of the fossil fuels.

The project is expected to add eight-tenths of a percent to Peru's gross domestic product (GDP) for each year of the project's life, improving Peru's standard of living, adding to GDP growth and helping to alleviate poverty. Additional economic benefits include an improved trade balance, increased tax revenue, greater national income through the payment of royalties, new employment opportunities and long-term foreign direct investment.

While Camisea's economic impact will be experienced nation-wide, the Department of Cusco, where Camisea is located, will realize additional benefits. The regional government will receive substantial revenues under a royalty-sharing scheme, which will foster further economic development in this important tourist and historic area of Peru.

Role of the Inter-American Development Bank

In September 2003, the IDB's Board of Directors approved Bank financing for a portion of the Downstream Component of the Camisea Project, subject to a series of important environmental and social development and protection conditions enumerated by the Bank relating to the entire Camisea project. The IDB believes these conditions, added to earlier provisions spelled out prior to the September vote, have significantly improved the Camisea project. All of the parties involved in the project have invested substantial financial and technical resources to mitigate potentially negative environmental impacts of the project. At the heart of the project is a commitment to make Camisea a model for environmentally and socially responsible infrastructure development in Latin America, the Caribbean and, by extension and example, elsewhere throughout the world.

The IDB, private sector companies and the Government of Peru will continue to work to ensure all the environmental, social, financial and legal conditions required are met given the concern for protecting Peru's environment and indigenous cultures. Significant progress has been made toward this end. Once completed the Bank will proceed with financial closure. Presently, no specific date has been identified for financial closure.

The IDB's involvement in Camisea – and the strict conditions it has placed on loans to the project – result from vastly increased awareness and concern about the environmental and social impact other large infrastructure projects have had elsewhere in the developing world and the IDB's commitment to doing it “right.”

There is widespread recognition that the Camisea project is located in areas of extremely rich and diverse environmental and social characteristics that require special attention. All parties involved in building and financing Camisea now recognize that the fragile ecosystems and the local indigenous cultures in the Camisea area could be significantly and negatively impacted if the project is not properly developed. Working with local communities, non-governmental organizations, the Government of Peru and the private sector consortium, the Bank has undertaken an extensive consultation program in Peru and Washington, DC. The Bank has conditioned its support for the project on successful implementation of a series of proactive steps designed to improve the environmental and social sustainability of the project and ensure stakeholder participation.

The IDB has taken on a greater role than just mitigating the impact of the portion of Camisea it is financing. The IDB has assumed responsibility for monitoring and supervising environmental and social protection measures for the entire project; the IDB identified and helped implement a series of measures and activities to help lessen potential impacts relating to the Upstream Component in addition to those affecting the Downstream Component.. The IDB has also provided resources to the Government of Peru to strengthen its ability to monitor construction of the project, enforce agreed-upon safeguards throughout the 30-year life of the project as well as look for additional social and environmental investments to support the surrounding and affected communities.

The IDB's involvement with Camisea represents an important and new approach toward the private sector financing of projects of this nature in order to address adequately legitimate environmental concerns, appropriately distribute benefits, protect social diversity and help ensure long-term development. By taking an integrated, comprehensive and proactive approach to problem-solving, the Bank believes the Camisea gas pipeline project will not only contribute significantly to Peru's future economic development but will also meet the environmental and social development concerns that have threatened to undermine international support for the project. Indeed, the IDB believes that once its conditions for Camisea are met, the IDB will have been able to leverage its relatively small financial contribution (8 percent of total project cost) and will have helped achieve a greater good for Peru and the Hemisphere.

Additional information and documentation regarding the Camisea project can be found at:

Camisea Project Website

<http://www.camisea.com.pe>

<http://www.camisea.com.pe/reports.asp>

Ministry of Energy and Mines Website

www.minem.gob.pe/gtcicamisea

http://www.minem.gob.pe/gtcicamisea/gestionambiental_reportesdemonitoreo.asp

OSINERG Website

<http://www.osinerg.org.pe/osinerg/camisea/camisea.htm>

Camisea Project Ombudsman Website

<http://www.camisea.com.pe/defensoria.asp>

<http://www.minem.gob.pe/gtcicamisea/defensoria.asp>

Inter-American Development Bank Website

<http://www.iadb.org/exr/doc98/apr/lcperu.htm>

Last Updated: 25 March 2004