

REPORT

SUMMARIZING PERFORMANCE OF

ENVIRONMENTAL AND SOCIAL COMMITMENTS

IN THE CAMISEA PROJECT



Inter-American Development Bank

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TABLE OF CONTENTS

Acronyms

Executive Summary

1. Introduction
2. Camisea Project Overview
 - 2.1 Project Description
 - 2.2 Project Benefits
 - 2.3 Environmental and Social Aspects
 - 2.4 Environmental and Social Management
 - 2.5 Civil Society Participation
 - 2.6 IDB Additionality
3. Camisea Project Status
 - 3.1 Downstream Project
 - 3.2 Upstream Project
 - 3.3 Distribution Project
4. Financial Closure Conditions
 - 4.1 IDB
 - 4.2 Downstream Project
 - 4.3 Upstream Project
 - 4.4 Government of Peru
 - 4.5 Supervision and Monitoring
5. Conclusion

Tables

- 4-1 Summary of Conditions Associated with Financial Closure
- 4-2 Status Summary of Actions associated with the Government of Peru Letter of Commitment

Figures

- 2-1 Camisea Project Location

ACRONYMS

BNDES	The Brazilian Development Bank (<i>Banco Nacional de Desenvolvimento Econômico e Social</i>)
CAF	Corporación Andina de Fomento
CCC	Camisea Consultative Committee
CDSP	Commission for Sustainable Development of Paracas
CEDIA	Centro para el Desarrollo del Indígena Amazónico
COMARU	Consejo Machigenga del Río Urubamba
CONAM	Consejo Nacional del Ambiente
CONAPA	Comisión Nacional de Pueblos Andinos y Amazónicos
CONATA	Consejo Nacional de Tasaciones
CR-1	Cashiriari 1
CR-3	Cashiriari 3
DED	German Social and Technical Cooperation Service
DGAA	Dirección General de Asuntos Ambientales
DGAEE	Officer for Energy-related Environmental Affairs
DGC	Dirección General de Comunicación
DGPM	Dirección General de Programación Multianual del Sector Público
DIGESA	Dirección General de Salud Ambiental
EIA	Environmental Impact Assessment
EMA	Energía y Medio Ambiente SRL
EPC	Engineering Procurements & Construction (“Technit”)
ERM	Environmental Resources Management (Consultants)
ESHS	Environmental, Social and Health and Safety (Committee)
ESIR	Environmental and Social Impact Report
ESMP	Environmental and Social Management Plan
GDP	Gross Domestic Product
GOP	Government of Peru
GTCI	Inter-Institutional Coordination Committee of the Camisea Project
IDB	Inter-American Development Bank
IESM	Independent Environmental and Social Monitoring
ILO	International Labour Organization

INRENA	Instituto Nacional de Recursos Naturales
KP	Knight Piésold
LOC	Letter of Commitment
MBPD	Million barrels per day
MEF	Ministerio de Economía y Finanzas
MEM	Ministry of Energy & Mines
MINAG	Ministerio de Agricultura
MINSA	Ministerio de Salud
MMCFD	Million cubic feet per day
MMSCFD	Million standard cubic feet per day
MPL	Maximum Permissible Limits
OSINERG	Organismo Supervisor de la Inversión en Energía
PAMA	Programa de Adecuación y Manejo Ambiental
PC	Project Completion
PCS	Peruvian Civil Society
PETT	Program for Land Titling
PMAC	Community-monitoring program
PROFONAMPE	Fondo Nacional de Áreas Naturales Protegidas por el Estado
PIP	“Pipe in Pipe”
RAP	Red Ambiental Peruana
ROW	Rights-of-way
RSA	Rapid Social Assessment
SCADA	Supervisory, Control and Data Acquisition System
SI	Smithsonian Institution
SM-1	San Martin 1
SM-3	San Martin 3
TC	Technical Completion
TGP	Transportadora de Gas del Perú
USEPA	U.S. Environmental Protection Agency

EXECUTIVE SUMMARY

The Camisea gas extraction and pipeline project is one of the most significant energy infrastructure projects in Latin America and is expected to make an important contribution to Peru's economic development, creating jobs and significantly increasing the country's standard of living. The Camisea Project consists of three separate projects or components: (1) Upstream Component, which includes the exploration and exploitation of gas deposits in Camisea, processing at Las Malvinas and a Fractionation Plant and Marine Terminal for natural gas liquid located south of Pisco, all under the responsibility of a multinational consortium led by Pluspetrol; (2) Downstream Component, which consists of the transport of natural gas from Las Malvinas to the City Gate in Lurín and natural gas liquids to fractionation plant south of Pisco, under the responsibility of Transportadora de Gas del Peru (TGP); and (3) Distribution Component, which consists of distribution of natural gas to Lima and Callao, under the responsibility of Tractebel. Portions of the Camisea Project are located in areas of extremely rich and diverse environmental and social characteristics that require special attention and could be significantly and negatively impacted if the project is not properly developed.

In September 2003, the Board of Directors of the Inter-American Development Bank (IDB) approved providing up to \$75 million in direct loans to help finance a portion of the Camisea Project's approximately \$1.6 billion development cost; specifically, a loan to TGP to support the transportation component of the Project (Downstream Component). The loan will help finance a portion of the cost of the natural gas and natural gas liquids pipelines. The IDB is not participating in the financing of other two components of the Camisea Project (Upstream and Distribution). The involvement of the IDB in the Camisea Project has been based on a commitment to sustainable development for Peru, including strong environmental and social safeguards. As part of the approval, the IDB established various environmental and social requirements for the Camisea Project that are summarized in the Section 8 of the IDB Environmental and Social Impact Report (ESIR) (<http://www.iadb.org/exr/pic/camisea/rpe0222.htm>) and the Annex to ESIR (<http://www.iadb.org/exr/doc98/pro/camisea/esirupdate.pdf>).

One requirement associated with the IDB approval was for IDB Management to provide a report to the IDB Board of Executive Directors summarizing the performance of TGP, Pluspetrol, and the Government of Peru (GOP) pertaining to their respective environmental and social commitments. The present report summarizes the performance in respect to the proposed signing of the Loan Agreement between the IDB and TGP (financial closure), estimated to occur by the end of July.

As of June 2004, the construction of the Downstream Component of the Camisea Project was essentially complete, with the physical installation of both pipelines finished, commissioning and performance tests well advanced and remaining activities including cleanup, permanent erosion control and revegetation, and punch list items. The formal arrival of gas to Lima is scheduled for early August 2004. In terms of the Upstream Component, the San Martin wells 1 and 3 and the Malvinas Processing Facility have been completed and the Fractionation Plant and Marine Terminal is approximately 94 percent

complete. Total project construction of the main grid in the Distribution Component is approximately 99 percent complete, with some works pending related to connections to the main grid.

Significant efforts have been implemented to mitigate potential negative environmental and social impacts during construction, especially related to erosion control, revegetation, compensation, archeological and dredging operations. Significant local economic benefits have already occurred due to project construction, including, for example approximately US\$63.2 million for salaries and benefits and US\$333 million of local goods and services purchased associated with the Downstream Component.

The IDB believes the necessary protocols have been established to ensure the direct, indirect and cumulative environmental, social and health and safety negative impacts and risks associated with the Camisea Project will be properly mitigated. These have been established in five principal components: Project Design; Environmental, Social, and Health and Safety Plans of the project companies; Actions of the Government of Peru; Supervision and Monitoring; and Contractual Agreements between the IDB and TGP and Pluspetrol. The IDB also believes those conditions established for financial closure (signing) of the IDB loan agreement with TGP have been satisfied.

The IDB has taken a series of proactive steps to improve the environmental and social sustainability of the project and ensure stakeholder participation. Taken as a whole, the Bank's involvement in this type of project is extraordinary. The IDB has taken on a much greater role than just mitigating the impact of the Downstream portion of Camisea that it is financing. It has always considered financing only a small portion of the project (i.e., approximately 8 percent), which relates to the Downstream Component. Nonetheless, since becoming involved with the project, the IDB has identified and requested various improvements in the project, related to both the Downstream and Upstream Components. The IDB also undertook supervising the implementation of the environmental and social protection measures for the project during the Bank's due-diligence, prior to any formal approval or financial closure of the project financing. In addition, the IDB provided resources to the Government of Peru to strengthen its ability to monitor and enforce agreed-upon environmental and cultural safeguards. In conjunction with the project's consortium companies and Government of Peru, the IDB also worked on developing a series of measures to address potential long-term issues and to establish a series of positive programs to improve the environmental, social and economic conditions in the area of the project.

It is clear from numerous entities, including various local and international civil society organizations, that the participation of the IDB has made a significant difference in the environmental and social viability of the Camisea Project. For example, the IDB has leveraged its presence in the Downstream Component by extending its environmental and social standards to the Upstream Component and ensuring that the GOP increased its supervision and monitoring activities and took additional actions to mitigate environmental and social impacts. The IDB has also leveraged its participation to beyond just mitigating negative impacts to developing and implementing better environmental

and social management systems, which will actually improve the environmental and social conditions in the area of the Camisea Project and Peru. The IDB participation has also help establish an enhanced knowledge and capabilities, in terms of similar projects, by all parties involved, including civil society, the private sector companies, the Government of Peru, and the financial community (i.e., IDB, etc.). It is also clear that with the ongoing IDB participation continued leverage can be maintained to ensure adequate environmental and social protection measures are adequately and appropriately implemented.

At this stage of the implementation of the Camisea Project (i.e., construction basically complete and the operational phase is forthcoming) and notwithstanding the various measures and commitments established, the IDB has identified certain issues that require IDB's special attention. These include: ensuring adequate final erosion control and revegetation of the pipeline right-of-way; finalization of the compensation program for both the Downstream and Upstream Components; issues and actions related to transitioning the project from a construction phase to an operation phase, in particular adequate implementation of the operational mitigation and monitoring plans; continuing to work with the GOP in relation to their various commitments related to the Camisea Project; continuing to work with civil society to address concerns and issues, in particular enhancing the supervision system to better satisfy their particular needs; and maintaining the momentum in terms of actions resulting in positive impacts and affects including the Camisea Fund, Paracas Bay and the Urubamba area.

The IDB's support for Camisea represents a special approach toward private sector financing projects of this nature in order to respond adequately to legitimate environmental concerns and challenges, appropriately distribute economic benefits, protect social diversity and help ensure long-term and sustainable development. By taking an integrated and innovative approach to problem-solving, the IDB believes it has been able to leverage its relatively small financial contribution to achieve a greater good for Peru.

1. INTRODUCTION

The Inter-American Development Bank (IDB) approved providing up to \$75 million in direct loans to help finance a portion of the Camisea Project's approximately \$1.6 billion development cost; specifically, a loan to Transportadora de Gas del Perú (TGP) to support the transportation component of the Project (Downstream Component). The loan will help finance a portion of the cost of the natural gas and natural gas liquids pipelines. The IDB is not participating in the financing of the other two components of the Camisea Project; natural gas production and gas liquids processing (Upstream Component) and natural gas distribution in Lima (Distribution Component). The involvement of the IDB in the Camisea Project is based on a commitment to sustainable development for Peru, including strong environmental and social safeguards.

One requirement associated with the IDB approval was for IDB Management to provide a report to the IDB Board of Executive Directors summarizing the performance of TGP, Pluspetrol, and the Government of Peru (GOP) pertaining to their respective environmental and social commitments. These reports are to be provided at various project milestones.

The present report summarizes the performance associated with the planned signing of the Loan Agreement between the IDB and TGP (financial closure), estimated to occur by the end of July 2004, and is organized into the following sections:

- Section 2, provides an overview of the Camisea Project, including project description, project benefits, environmental and social aspects, IDB additionality, and civil society participation;
- Section 3, provides a summary of the status of the Camisea Project related to the Downstream Component, the Upstream Component and Distribution Component;
- Section 4, provides a summary of the compliance by TGP, Pluspetrol and GOP with the conditions established by the IDB for financial closure; and
- Section 5, provides relevant conclusions.

2. CAMISEA PROJECT OVERVIEW

2.1 Project Description

The Camisea gas extraction and pipeline project in Peru is one of the most significant energy infrastructure projects currently under construction in Latin America. The Camisea Project provides 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.

The overall Camisea Project consists of three projects or components (see Figure 2-1): (1) Upstream Component, which includes the exploration and exploitation of gas deposits in Camisea and processing at Las Malvinas, located north of Cuzco, and a gas fractionation plant and marine terminal for natural gas liquid located south of Pisco, all under the responsibility of a multinational consortium led by Pluspetrol; (2) Downstream Component, which consists of the transport of natural gas from Las Malvinas to the City Gate¹ in Lurín and natural gas liquids to fractionation plant south of Pisco, both pipelines under the responsibility of Transportadora de Gas del Peru (TGP); and (3) Distribution Component, which consist of distribution of natural gas to Lima and Callao, under the responsibility of Tractebel. Presented below is a brief summary of each component; for a more complete description refer to the IDB Environmental and Social Impact Report (<http://www.iadb.org/exr/pic/camisea/rpe0222.htm>) and the Camisea Project webpage (www.camisea.com.pe).

The Camisea Project consists of an estimated investment of approximately US\$1,651 million dollars. This corresponds to approximately US\$850 million for the Downstream Component, approximately US\$730 million for the Upstream Component, and approximately \$US71 million for the Distribution Component. In September 2003 the IDB's Board of Executive Directors approved a loan of up to \$75 million to TGP to finance a portion of the Downstream Component. The IDB is not participating in the financing of the Upstream Component or the Distribution Component.

The Camisea Project is located in areas of extremely rich and diverse environmental and social characteristics that warrant special attention since they could be significantly negatively affected if the Camisea Project is not properly developed, constructed and operated. The Consortium Companies, the Government of Peru (GOP), and the IDB have implemented extensive actions to establish the environmental and social sustainability of the Camisea Project.

Downstream Component

The Camisea Natural Gas and Natural Gas Liquids Transportation Project (Downstream Component) consists of a 730 kilometer natural gas pipeline and a parallel 560 kilometer natural gas liquids pipeline. Both pipelines start at Malvinas, Department of Cusco, in

¹ The terminus of the gas pipeline (Downstream Component) and beginning of the Distribution component.

the Urubamba Basin, traversing the Peruvian Amazon Rainforest and the Andes Highlands (with maximum height at 4,800 meters over sea level). The natural gas pipeline ends in the city of Lurin, located 30 km south of Lima. The liquids pipeline ends at the fractionation plant, located south of Pisco next to the Paracas Bay.

The natural gas pipeline consists of 210 km of 32-inch diameter pipe, 310 km of 24-inch diameter pipe and 210 km of 18-inch diameter pipe and traverses some 200 km of rain forest, 300 km of mountain highlands and 230 km of coastal plain. The system includes 4 above grade scrapper facilities, 1 Pressure Control Station, 21 mainline valves and a reception terminal at Lurin. Compression to move the gas from Malvinas to Lurin is supplied by the field operator at Malvinas. The initial design capacity of the natural gas pipeline is 205 MMSCFD (million standard cubic feet per day) to meet the demands of the Lima market with future expansion planned to increase the capacity to a guaranteed minimum of 450 MMSCFD or greater if anticipated future markets develop. Due to the sensitive nature of the rainforest section, TGP invested an additional US\$40 million to increase the pipeline diameter to 32-inch for future increases in capacity without additional pipeline construction in this area.

The natural gas liquids pipeline is comprised of 455 km of 14-inch diameter pipe and 105 km of 10.75-inch diameter pipe and traverses some 200 km of rain forest, 300 km of mountain highlands and 60 km of coastal plain. The system includes 4 Pump Stations, three Pressure Reduction Stations and 19 mainline valves. The stations include 2 pumps and 2 generators each, fuel gas and other associated systems. Engines are all gas driven with gas from the parallel gas line. The pipeline design capacity is 70 MBPD (million barrels per day) with pump stations designed for an initial capacity of 50 MBPD.

Both pipelines are buried along the entire route usually to a depth of approximately 0.6 to 0.9 meters below ground surface, and to deeper depths at special sections to reduce the possible physical risks due to land use activities. The pipelines are steel, covered during manufacturing with a polyethylene coating to provide protection against external corrosion and include a cathodic protection system. There are four pumping stations and two pressure reduction stations for the gas liquids pipeline and one additional pressure reduction station and pressure control station that will service both pipelines. Scrappers are for internal cleaning and inspection of the pipelines. Block valves are used to control the flow through the pipeline.

Project control and communications for the two pipeline systems is supplied via a state-of-art Supervisory, Control and Data Acquisition System (SCADA) and Telecommunication System consisting of a fiber optic cable installed in the pipeline trench complete with a satellite backup. The SCADA system allows for continuous monitoring of volumes, pressures and temperatures and automated control of operating status of pipeline facilities. The Main Control Center and Contingency Control Center are located at Lurin, Lima. The SCADA system includes an automatic shut-off system integrated into the respective natural gas and natural gas liquids pipeline valves that allows for immediate shut-off upon detection of pressure drops, which is an indication of a potential leak.

The present financing plan for the US\$850 million Downstream Component of the Camisea Project consists of US\$ 75 million IDB A-loan, US\$50 million *Corporación Andina de Fomento* (CAF) A- loan, up to US\$60 million in IDB/CAF B-loan, US\$103 million Brazilian National Development Bank (BNDES) loan, and a Peruvian capital market bond issue that could represent an additional US\$200 million.

Upstream Component

The Upstream Component involves the exploration and production of natural gas and natural gas liquids from the reserves of the San Martín and Cashiriari fields, which are located in Block 88 north of Cuzco. The Upstream Component consists of the following elements described below.

- The construction and operation of four well clusters for gas extraction and re-injection at pre-existing well platforms (San Martín 1, San Martín 3, Cashiriari 1 and Cashiriari 3), drilled using directional drilling and water based drilling muds.
- The construction of approximately 58 kilometers of flowlines (buried) between the well pads and the gas processing plant at Las Malvinas to transport the natural gas and natural gas liquids, and which upon completion of construction the flowline right-of-way will be closed.
- The construction and operation of gas separation and condensation facilities at Las Malvinas where the gas will be processed by physical separation and cooling (turbo-cooling), with initial production of approximately 400 MMCFD (million cubic feet per day) and 21 thousand barrels/day of gas liquids with the possibility of future expansions as demands increase.
- The construction and operation of a natural gas liquids fractionation plant and the marine terminal. The fractionation plant will have the capacity to produce propane, butane, diesel, and naphtha products. The marine terminal will be used to transport products from the fractionation plant via four subsea pipelines to a ship loading platform (approximately 3,200 meters offshore). Two of the four pipes will transport propane and butane will be “Pipe in Pipe” (PiP) construction, which is essentially an insulated double-walled 20-inch diameter pipe enclosed within an external 24-inch pipe. Additionally, one 24-inch pipe will transport naphtha, and one 10-inch pipe will be installed for the transport of diesel to the loading terminal. The marine terminal will operate with a ship loading capacity of about 3,000 to 78,500 m³ of refrigerated propane and butane, naphtha and diesel for the national and international markets.

Distribution Component

The Distribution Component consists of the construction and operation of a natural gas distribution system in Lima and Callao. The distribution network begins at the City Gate (the final point of the natural gas pipeline) and ends at the Terminal Station in Callao

(District of Ventanilla). The distribution pipeline network is buried along roadways, public utility corridors and other existing rights-of-way (ROW). The network consists of a 62-km long distribution pipeline and a lateral connection of approximately 25 km. Additionally, compression plants, pressure control stations, pigging facilities and block valves are installed in various parts of Lima and Callao. The terminal station is located in the District of Ventanilla, in Callao, and is equipped with pressure control devices that allow for efficient management during emergencies or during emergency situations due to over-pressure conditions.

2.2 Project Benefits

The development of Camisea is a central component of the Peruvian government's energy strategy, with the potential of producing \$4.1 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 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 Peruvians 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 a portion of the Camisea Project is located, will realize additional benefits, which will foster further economic development in this important tourist and historical area of Peru.

During construction, the Camisea Project has already created significant employment, economic growth and improved road infrastructure (see Section 3 for details). During operation, natural gas will supply the domestic market and also will be a significant source of foreign currency earnings. Peru's balance of payments is expected to improve as a result of liquid exports and imports substitution. Camisea will also generate direct fiscal benefits for the Peruvian government through corporate income tax and royalties. The government will receive royalties equivalent to 37.24 percent of the Upstream Component gross revenues (estimated to be US\$68.2 million in 2005, with an annual average of US\$105.7 million from 2005 through 2015). At a regional level, the principal economic benefits from the Camisea Project will be directed to the Regional Government of the Department of Cusco (where the Camisea field is located), which will receive substantial revenues under a royalty-sharing agreement with the central government.

Forecasts show the marginal cost of producing electricity with Camisea would be on average 30 percent lower than without Camisea over the concession period. Given the lower marginal cost of electricity generation and including the cost of transmission and distribution, the estimated final prices for households should be reduced on average by 10

percent for the first ten years and on average by 6 percent over the concession period. The substitution of more expensive fuels like diesel and residual oil with natural gas is expected to reduce system-wide marginal generation costs, resulting in electric power generation savings of US\$3,340 million over the concession period. Other estimated savings from the substitution of more expensive fuels with gas have been estimated to reach US\$642 million for industrial users, mainly in energy-intensive industries such as cement and steel. The conversion of automobile engines from gasoline fuel to compressed natural gas may add another US\$30 million, and US\$91 million could be further saved by households. Overall, the present value of energy costs savings is estimated at US\$4.1 billion.

The project is also expected to create a multiplier effect across the Peruvian economy. Estimates indicate the development of the Camisea Project will increase output by approximately US\$5.4 billion in net present value terms during the operating phase. Furthermore, the development of Camisea, by reducing the need to import diesel for electricity generation and expanding the supply of hydrocarbon products for export, is expected to reduce the fuel trade deficit by almost US\$500 million on average each year representing approximately US\$3,205 in present value terms, strengthening Peru's balance of payments in the medium and long term.

A key environmental benefit will be the improvement of air quality in industrial centers of Lima and Callao through the reduction of air emissions generated by fuel combustion, such as carbon monoxide (CO), nitrogen oxides (NO_x), sulfur dioxides (SO₂), hydrocarbons (HC), and carbon dioxide (CO₂) gases. The project is estimated to reduce significantly the level of air pollution in Lima and Callao, by making available natural gas (clean low-cost source of energy) as a substitute to present liquid fuel-based combustion sources in a number of industrial facilities and electricity generation plants. This could have direct economic benefits to residential and industrial electricity end-users and improve the competitiveness of Peruvian industry, raising Peru's standard of living. In the medium to long-term, it is envisaged that natural gas will be used to fuel public transportation, thus increasing the positive benefits in the air quality.

2.3 Environmental and Social Aspects

Environmental and Social Conditions

The Camisea Project extends over a large and sensitive area of considerable variety in terms of geography, climate, flora and fauna, as well as of socio-cultural and economic backgrounds. The direct and indirect area of influence of the project includes three main ecosystems: the Lower and Upper Urubamba region of the Peruvian Amazon (rainforest); the low and high valleys of the Andean Mountainous range (highlands); and the rural and urban low-lying desert areas of the coastal segment (coast). There are four noteworthy environmental and social areas within the influence of the Camisea Project: (1) the rainforest of the Lower Urubamba valley in the Urubamba Basin, recognized as an important global biodiversity "hotspots" because of its biological richness, high number

of endemic species and the presence of threatened species; (2) the Lower Urubamba area, in terms of the approximately 22 native indigenous communities settlements in the direct and indirect area of influence of the project and the non-contacted or voluntarily isolated groups that live in the lands reserved by the GOP in benefit of the Nahua Kugapakori peoples; (3) the highlands area (Provinces of Huaytara, Cangallo, Huamanga, and La Mar in the Departments of Huancavelica and Ayacucho, respectively) in terms of the communities that live in extreme poverty, with very poor infrastructure, health services and economic opportunity, and have suffered decades of conflict and violence; and (4) the Paracas National Reserve located on the coast south of Pisco, which is Peru's only marine reserve, listed as a RAMSAR site (1971 Convention on Wetlands of International Importance Especially as Waterfowl Habitat and Reserve) and considered of ecological importance because it contains representative samples of natural formations and biological diversity (mostly fauna) found only in the Subtropical Pacific Deserts and the Warm Temperate Pacific Deserts of Chile and Perú.

Associated with the area of influence of the Camisea Project, there has been a series of environmental and social impacts or problems that pre-existed project construction that had already altered the key environmental and social conditions in the area. In the Lower Urubamba, there had been several previous oil and gas activities (including exploration and drilling) within the area of Block 88 that had affected both environmental (e.g., removal of forest) and social (e.g., contact with indigenous communities) as far back as 1985. In addition, there has been some colonists' migration and illegal logging in the area. Given the extreme remoteness, the area suffers significantly from lack of health and general infrastructure services. The highlands, as mentioned, are an extremely poor area that has suffered from years of lack of economic development, lack of public investment, and presence of terrorist activities (Shinning Path). The Paracas Bay, associated with the Paracas National Reserve, has been significantly contaminated over the past decades by several sources. Past efforts to reduce contamination inputs and restore the quality of the Bay have in general been unsuccessful.

Environmental and Social Impacts and Risks

The most significant potential environmental and social impacts and risks associated with construction of the Camisea Project included: soil erosion and resultant environmental impacts associated with the pipeline and flowline construction; social impacts to indigenous communities in the Lower Urubamba, and in particular those indigenous persons living in isolation within the Nahua-Kugapakori reserve, including health impacts or changes in life style or habits; lack of adequate compensation for construction and land use impacts in the Upstream Component and for ROWs in the Downstream Component; potential environmental impacts due to dredging operations at the Marine Terminal; potential social conflicts between workers and local communities; potential loss of archaeological remains along the pipeline ROW; generation of dust and air emissions from earth moving equipment along the ROW; and impacts due to increased aerial and fluvial transportation of personnel and materials (through the Urubamba River). The IDB's efforts to provide a systematic and integrated environmental and social management agenda are influenced by a deep understanding and appreciation for these conditions.

The most significant potential environmental and social direct impacts and risks associated with the operational phase included: lack of proper revegetation of the pipeline ROW and thus change or impact on the ecosystem, especially in the rainforest area; potential gas releases or liquids spills during operation of pipelines, which could result in indirect impacts to the water resources, to flora and fauna, and to the local communities; and potential contamination and related impacts of the Paracas Bay due to spills associated with the Marine Terminal activities. Potentially significant medium to long-term indirect impacts of project operation include: intensification of oil and gas exploration in the Lower Urubamba and in particular the area reserved by the State in benefit of the Nahua-Kugapakori indigenous groups; increase in access to the Lower or Upper Urubamba area by illegal settlers, loggers and hunters along the pipeline ROW, that could result in a potential loss of biodiversity in the jungle portion and to severe threats to the physical, social and cultural integrity of the indigenous peoples; inappropriately planned industrial development of the area surrounding the Paracas Natural Reserve and Paracas Bay, as a result of the installation of the Fractionation Plant and Marine Terminal; or inappropriately planned development in the Departments of Cusco, Huancavelica and Ayacucho due to the benefits (increased revenues) from the project.

2.4 Environmental and Social Management

The environmental, social, and health and safety management for the Camisea Project encompasses the entire life of the project, from the concept and design stages, through the construction of the facilities, and throughout the operational phase of the project. There are five principal components for the environmental and social management of the Camisea Project (which are briefly summarized below):

- Project Design;
- Environmental, Social, and Health and Safety Plans of the project companies;
- Actions of the Government of Peru;
- Supervision and Monitoring; and
- Contractual agreements between the IDB and TGP and Pluspetrol.

Project Design

The Camisea Project was designed with a specific focus on protecting the area's unique biodiversity and ensuring respect for the indigenous communities living in the area of influence of the project. During the design phase, the consortium companies implemented various techniques to help prevent and mitigate the impact of the project's development. The primary concept adopted during the construction design was the "off-shore in-land" approach, which minimizes access roads and maximizes air and river transportation using river barges and helicopters to reduce potential impacts from ground transportation, land clearing and the creation of access routes to remote areas. This approach will also be implemented for the operation phase by reclaiming and revegetating the pipeline ROW and limiting pipeline inspection to walking and aerial patrols.

In accordance with community and non-governmental organization recommendations, the Downstream project re-routed the right-of-way (RoW) to minimize the impact on the region during construction and reduce the risk of induced migration. For example, the pipeline route was moved from the proposed Machiguenga Megatoni sacred grove (sanctuary) and minimized the presence in the Apurimac Reserve Zone. The Downstream Component of the project has worked to minimize access roads in the rainforest areas. More than 90 percent of the length of the pipeline right-of-way was used as a roadway during construction to transport personnel, materials and machinery and avoid the need for new roads. In the Lower Urubamba area there was no road construction, using only river and aerial transport. In the Upper Urubamba, the project used three existing access roads that were improved by the project, and only a small section of one of these roads was built to reach the Chimparina camp. In the highlands and coastal areas, existing roads have been identified and improved, but no new roads have been constructed. In addition, the installation of large capacity pipeline (over initial demand) in rainforest area will prevent the need for future construction in this sensitive area.

By using existing areas already impacted or affected, the footprint of the Upstream Component in the rainforest was only approximately three square kilometers of the 1,435 km² of Block 88. The seismic area was reduced purposely to limit potential contact with indigenous peoples and operational techniques and equipment used (e.g., type of drilling) were selected to minimize the zone of impact.

Environmental, Social, and Health and Safety Plans

There are numerous specific detailed plans and procedures that have been developed and implemented in order to adequately manage the environmental, social, health and safety risks and impacts of each component of the Camisea Project during construction and operation. These plans provide the specific details describing the: measures to minimize and mitigate impacts; programs to monitor environmental, social and health and safety conditions; time schedule and responsibility for implementing such activities; reporting actions; and training of project staff (see Camisea Project website at www.camisea.com.pe for complete versions of the plans; the IDB ESIR at <http://www.iadb.org/exr/pic/camisea/rpe0222.htm> for a summary of plans; and Section 4.2 and 4.3 for details on plans associated with financial closure). These plans have undergone various reviews and enhancements at different stages of the project, including by civil society, technical experts, GOP personnel and IDB staff in order to ensure their adequacy.

Actions of the Government of Peru

The Government of Peru (GOP), as part of its regulatory and enforcement authority, has required various environmental studies and authorizations, including in particular Environmental Impact Assessments. In addition, the GOP, via primarily OSINERG (*Organismo Supervisor de la Inversión en Energía*), but also through various other

governmental entities, supervises the project for compliance with all GOP regulatory requirements.

The IDB has provided the GOP a US\$5 million loan for the creation of a program to strengthen the GOP's ability to monitor and enforce agreed upon environmental and cultural safeguards related to the Camisea Project. This program is designed to improve the institutional capacity of Peruvian government entities directly involved in the inspection, supervision and monitoring of the Camisea Project as well as to address priority activities that are the Government's responsibility and are intended to mitigate the project's long-term indirect negative environmental and social effects. Section 4.4 provides a summary status of actions associated with this loan.

In addition, the GOP established a Letter of Commitment in which the GOP formalizes its commitment to deal with direct, indirect and cumulative environmental and social impacts and risks associated with the Camisea Project, including assistance to GOP entities receiving project royalties, resources for environmental protected areas near the project, and enhanced civil society participation. Based upon this Letter of Commitment, the GOP working with the IDB has established a plan of action, which defines specific actions and proposed time schedules, to fulfill these commitments (see www.minem.gob.pe/gtcicamisea for details). A summary status of these actions is presented in Section 4.4.

Supervision and Monitoring

Since the IDB formally began its consideration of the Camisea Project in early 2001, the IDB has actively supported and worked to develop and implement effective independent environmental and social supervision and monitoring systems that can serve the needs of project stakeholders. For the Camisea Project, this has been an extremely difficult task given the technical and geographical complexities, the tremendous amount of technical information and data, and the lack of credibility and confidence expressed by Peruvian and international civil society with the project companies and the GOP. Additionally, the IDB has consistently promoted and implemented various actions and systems to promote information disclosure and consultation with local civil society related to the project status and environmental and social performance.

The supervision of the Camisea Project construction, in terms of assessing status and fulfillment of the various environmental, social and health and safety conditions, has been performed by four principal entities: independent environmental consultants paid by the project companies; community monitoring; GOP entities; and independent environmental consultants managed by the IDB (see Section 4.5 for proposed supervision systems for project operation).

- Independent environmental consultants paid by the project companies. TGP hired Knight Piésold (KP), an international environmental consulting company, to perform an independent supervision of the environmental and social aspects of the pipeline construction. KP has had, on average,

approximately 13 monitors constantly in the field. Monthly reports are made available to the public via the Camisea Project website (<http://www.camisea.com.pe/report.asp>) and are sent to governmental authorities. TGP also contracted Ecotec S.A. to monitor the archeological aspects of the project. During all initial clearing and grading operations, Ecotec had the authority to stop construction activities if archeological resources were identified. Ecotec had up to 50 archaeologists in the field and works with 13 archaeologists from the National Institute of Culture to identify potential sites, rescue artifacts, and identify routing changes. Pluspetrol retained the consulting firm *Energia y Medio Ambiente SRL* (EMA) as an independent consultancy company responsible for environmental and social supervision of all field activities during the construction phase. Monthly reports are posted on the Camisea Project web page (<http://www.camisea.com.pe/report.asp>). This approach does represent a form of independent supervision, in that the consultants are external to the project companies and the reports are made available to the public, and has been used in other projects. The approach has suffered from questions of credibility by non-governmental organizations, albeit that the reports have identified various deficiencies and issues.

- A Community Monitoring Program was initiated during the second semester of 2002 for the Upstream Component and the rainforest section of the Downstream Component. The NGO, Pronaturaleza, participated in the preparation of the Program and training of the community monitors. In addition, following recommendations of the IDB and other stakeholders, Pronaturaleza and *Red Ambiental Peruana* (RAP) expanded the Community Monitoring Program to include permanent monitoring of the works performed within the area of the Nahua–Kugapakori reserve. The results of this monitoring are posted on the GTCI Camisea web page (www.minem.gob.pe/gtcicamisea/comunidades_prog_monitoreocomunitario.asp). In early 2004, this program was expanded to cover the Upper Urubamba area, thus encompassing all native communities located in the area of influence of the project.
- GOP Entities. OSINERG (*Organismo Supervisor de la Inversión en Energía*) is the principal GOP entity responsible for the supervision and monitoring of the Camisea Project, including compliance with environmental and social aspects and other hydrocarbon regulations. OSINERG had on average approximately 20 monitors permanently in the field. Monthly reports are placed on the GOP's Ministry of Energy & Mines (MEM) Camisea website (<http://www.osinerg.org.pe/osinerg/camisea/camisea.htm>). The IDB loan to the GOP for institutional strengthening supported OSINERG's increased presence in the field. Other GOP entities that have supervised the environmental and social aspects of the Camisea Project include: GTCI (Technical Group for Institutional Coordination of the Camisea Project), DGAA/MEM (*Dirección General de Asuntos Ambientales, Ministerio de Energía y Minas*), INRENA (*Instituto Nacional de Recursos Naturales*), CONAPA (*Comisión Nacional de Pueblos Andinos y Amazónicos*), DIGESA

(*Dirección General de Salud Ambiental*), CONAM (*Consejo Nacional del Ambiente*), and DGC (*Dirección General de Comunicación*). These entities have been strengthened in their ability to supervise and monitor the Camisea Project by the IDB loan to the GOP.

- IDB Independent Supervision. The IDB has been implementing an Independent Environmental and Social Monitoring (IESM) program since October 2002 to provide the IDB and other stakeholders with reliable independent information with regard to the project's compliance with the environmental and social requirements. This is the first time the IDB has formally monitored a project prior to approval by the IDB Board of Directors. The IESM has been implemented by URS Corporation, one of the world's largest engineering and environmental consulting companies. Supervision results are presented in monthly reports that are made available to the public through the Camisea Project web page (<http://www.camisea.com.pe/reports.asp>).

Two other GOP entities have been involved in supervising the Camisea Project, in particular related to investigating potential claims:

- The Ombudsman for the Camisea Project (*Defensoria de Camisea*), which was created by the GOP in consultation with the IDB in order to prevent conflicts and resolve concerns specifically related to social and environmental aspects (www.minem.gob.pe/gtcicamisea/defensoria.asp); and
- The existing national ombudsman (*Defensoría del Pueblo*), which has been supported by the IDB institutional strengthening loan to the GOP.

In terms of monitoring the environmental and social aspects of the Camisea Project (i.e., collection of samples, measurements, etc.), there are numerous programs that have been implemented by TGP and Pluspetrol during project construction including, among others:

- Water quality monitoring at river crossings (mainly rivers Camisea, Urubamba, and junction between the Urubamba River and the Mipaya y Picha, Cumpiroshiato and Manugali Rivers, in the rainforest sector; Pampas, Palmitos y Yucay, Vinchos, Acocro y Torobamba Rivers in the highlands sector; and Mala, Cañete, Pisco, and Pampa Cabeza de Toro Rivers in the coastal sector);
- Water quality and biological monitoring associated with dredging operations for Marine Terminal at 29 transects, 62 monitoring stations and 160 monitoring points with real-time data and project stoppage criteria (see Section 3.2 and 4.2 for details);
- Water quality monitoring at well sites
- Drinking water quality monitoring at human consumption intake sites;
- Sanitary effluents monitoring at each campsite;
- Monitoring hydrostatic water discharges;
- Noise monitoring;
- Air quality monitoring and emissions estimations based on U.S.

Environmental Protection Agency (USEPA) emission factors for unpaved roads (USEPA AP-42) in particular in the Calca – Kiteni road, in the rainforest sector); and

- Monitoring domestic and hazardous wastes, including contaminated soils (if any).

Independent supervision of social aspects during construction includes assessing of the implementation of each of the social programs and plans developed by both companies as part of the Community Relations Plans, such as community relations training for project personnel; local employment program; communication and consultation program; participation of local communities in monitoring programs; indemnification and compensation program; medical emergency support for local communities in the project's area of influence; and local development plans.

For project operation, TGP and Pluspetrol have developed various environmental and social monitoring plans which have been subject to civil society review and input, including specific criteria to evaluate performance by TGP and Pluspetrol regarding erosion control, access control, biodiversity and re-vegetation that have been reviewed and accepted by an expert working group that included experts identified by Peruvian non-governmental organizations (see Section 4.2 and 4.3 for details on monitoring plans).

Contractual Agreements between the IDB and TGP and Pluspetrol

As part of the loan agreement between the IDB and TGP to be executed for financing a portion of the Downstream Component, the IDB has established the various standard and project-specific environmental and social requirements using well-defined commitments and remedies in an enforceable legal document. The various environmental and social requirements are summarized in the section 8 of the IDB Environmental and Social Impact Report (ESIR) (<http://www.iadb.org/exr/pic/camisea/rpe0222.htm>) and the Annex to ESIR (<http://www.iadb.org/exr/doc98/pro/camisea/esirupdate.pdf>) and include:

- Conditions for financial closure,
- Representations and warranties,
- Conditions for all disbursements (including the first),
- Affirmative covenants,
- Negative covenants,
- Information covenants,
- Conditions for technical completion,
- Conditions for project completion, and
- Financial mechanisms.

Failure to meet these conditions could lead to specific consequences under the loan agreement with TGP. Unmet conditions for disbursement could prevent obtaining the required funding. A breach of representations, warranties or covenants would place the borrower in default. Upon the occurrence and continuation of a default the IDB may terminate the obligation to make disbursements; declare the loan to be due and payable;

or enforce all or any part of the security, which for the Camisea Project includes a first-priority interest in the concession assets.

The IDB will supervise the Camisea Project to ensure compliance with environmental and social requirements, as contained in the project legal documentation (see Section 4.5 for details). The IDB will use an external independent environmental and social consulting firm to assist in supervising the environmental and social aspects of both the Downstream and Upstream Components of the Camisea Project. For the project operational phase, the consulting firm will conduct at least quarterly site visits and reviews during the first two years after the end of construction and annually thereafter for the life of the IDB loan agreement.

In addition to the loan agreement with TGP, the IDB will execute a letter agreement with the consortium of the Upstream Component that would commit the Upstream consortium to comply with the various environmental and social requirements that are summarized in the section 8 of the IDB ESIR and the Annex to ESIR. A failure by the consortium of the Upstream Component to comply with this agreement could result in a default under the IDB and TGP loan agreement.

2.5 Civil Society Participation

The IDB strongly believes that, in relation to the Camisea Project, stakeholder input and a willingness to have constructive dialogue to resolve concerns has been an essential element in enhancing the design and implementation of an environmentally and socially sustainable project. Prior to any formal consideration of the financing of the Downstream Component of the Camisea Project, the IDB developed and implemented an extensive public consultation program that was planned in consultation with indigenous organizations and national and international environmental stakeholders. The program included: 13 public meetings in local and indigenous communities, as well as urban areas in the Camisea area of influence; a public meeting in Washington, DC; and numerous meetings and discussions from early 2001 until mid-2003 with various affected populations, local and international non-governmental organizations, indigenous communities and organizations, and other project stakeholders. This IDB consultation program was in addition to over 400 consultations that took place in the project design phase to ensure proper environmental and social concerns were met (see section 7 of the IDB ESIR for details, <http://www.iadb.org/pic/camisea/rep0222.htm>).

Following suggestions from the IDB, the consortium companies implemented a stakeholder communications program to improve transparency and dialogue with local and international stakeholders. The IDB also requested the creation of a website to ensure ongoing transparency and engagement with stakeholders (www.camisea.com.pe). The IDB has continued supporting civil society participation by involving Peruvian civil society in the review of various environmental performance criteria and environmental plans related to financial closure (see Section 4.2 and 4.3 for details).

2.6 IDB Additionality

The IDB has taken extensive actions to help improve the environmental and social sustainability of the Camisea Project, including:

- An extensive environmental and social due-diligence of all three project components (Downstream, Upstream and Distribution) using various IDB internal and external specialists;
- Requiring improvements in terms of environmental, social and health and safety mitigation and monitoring for all components;
- Requiring expanded analysis of potential impacts and risks as well as increased information disclosure, public consultation and civil society participation, and measures to promote positive impacts/benefits;
- Requiring enhanced supervision during construction including independent full-time monitors, community monitors, GOP monitors and full-time IDB monitors; and
- An IDB loan to the GOP to enhance the GOP institutional capacity to monitor the environmental and social aspects and to address priority activities to mitigate potential indirect effects that are the GOP's responsibility.

Some examples of specific actions the IDB has fostered and have been implemented by the project companies and the GOP in order to improve the environmental and social sustainability of Camisea Project include:

- Significantly increased efforts related to temporary and permanent measures to control erosion and sedimentation along the right-of-way of the pipeline and other work sites of the project in order to minimize risks of environmental degradation;
- Development of, in conjunction with local experts and civil society, plans and performance criteria for erosion control, re-vegetation, access control and biodiversity monitoring program;
- Stoppage of work in Block 88 to allow an additional environmental assessment of potential impacts in this area and incorporation of results in environmental and social management plans;
- Enhanced alternative site analysis for the Fractionation Plant and the engineering designs for the Marine Terminal in Pisco (from a dock facility to a submarine pipe and buoy) and expanded the consultation process associated with the Fractionation Plant and Marine Terminal (more than thirteen additional public consultations were implemented between August 2002 and April 2003, totaling over 50 consultations as part of the approval process for the Fractionation Plant and Export terminal, issued on April 4, 2003);
- Various measures to improve supervision, monitoring and information disclosure;
- Development of specific actions and programs to improve the overall Paracas Bay environmental conditions (e.g. strategic environmental planning for the

bay area to deal with existing sources of pollution and uncontrolled development), leading to the creation of the Commission for the Sustainable Development of the Paracas Bay Area;

- Development of a Camisea fund to assist in local economic, environmental and social development in areas of the project (i.e., return part of project benefits to local communities) financed by a portion of the GOP royalties and with TGP participation;
- Implemented actions to improve the conditions of indigenous peoples, including for the first time in Peru enhanced the legal protection of the indigenous peoples desiring to live in isolation (Nahua-Kugapakori reserve), and development of short and long-term health programs for the Urubamba area;
- Development of a series of initiatives to improve the long-term sustainable environmental management of Urubamba area, including sustainable environmental management systems, concluded the final categorization of the Apurimac Reserve into the Ostishi National Park and Machiguenga and Ashaninka Communal Reserves, and the creation of the Megantoni Sanctuary; and
- Development of improvements in the GOP institutional capacity and regulatory framework for the environmental and social management of future oil and gas development projects in regional area of the Camisea Project.

In broader terms, the key areas of the IDB value-added or “additionality” to the Camisea Project include:

- Creating an effective private-public partnership to ensure all environmental and social mitigation measures are implemented, especially those of joint or unclear responsibility;
- Leveraging the involvement in the project to address more broader, critical existing environmental and social issues in the area of a project, which were pre-existent to and not affected by the project, such as health issues and environmental protected areas;
- Leveraging the project into specific opportunities for positive impacts and benefits, both associated with the Camisea Project and not, including the development of the Camisea Fund (mechanism to return project benefits directly to communities in project area) and systems and actions to improve the environmental conditions of the degraded Paracas Bay;
- Creating an environment and specific mechanisms to facilitate and promote civil society participation, and thus indirectly the democratic processes, especially in light of the environmental and social sensitivity of the project and the reality that projects of this nature, regardless of their potential positive economic benefits, are controversial and full acceptance and consensus by civil society is not really possible; and
- Establishing enhanced knowledge and capabilities in terms of similar projects by all parties involved, including civil society, the private sector companies, the Government of Peru, and the financial community (i.e., IDB, etc.).

The participation of the IDB has made a real difference in the environmental and social viability of the Camisea Project. The ongoing IDB participation will ensure continued leverage is maintained so that the necessary environmental and social protection measures will continue to be implemented.

3. CAMISEA PROJECT STATUS

This section presents a brief summary of the status of project construction associated with the Downstream, Upstream and Distribution Components of the Camisea Project. In addition, the section highlights the status of selected key environmental and social aspects associated with project construction. Additional and more complete information on project status and summary is available on the Camisea Project website (www.camisea.com.pe).

3.1 Downstream Project

Project Construction

The construction of both pipelines began on April 1, 2002. The EPC contractor (Techint) was officially notified of the approval of the Environmental Impact Assessment by the Government of Peru on March 22, 2002.

The construction of the Downstream Component, in terms of the physical installation of both pipelines has been completed. The construction included a total of 12 separate spreads (work fronts) during peak construction, in excess of 2,000 pieces of equipment and in excess of 8,600 workforce during peak construction. Mechanical Completion of both pipelines was achieved on May 22, 2004. This implied the conclusion of the physical construction and testing of the pipeline and facilities required to safely introduce gas and commence start up of the transportation system. It also included successful performance of hydrostatic tests, inspection of gas pipeline welds, cleaning, decanting and draining of water and drying. Main efforts are now oriented to commissioning and start up activities and environmental reclamation. Following completion of commissioning activities, performance tests will be executed to ensure that the project complies with the performance design standards set out in the respective contracts.

As of June 1, 2004, the principal construction activities to be completed are listed below.

- **Cleanup.** Approximately 80 Km of final cleanup remains to be completed primarily in the rainforest and mountain sections. Initial cleanup was performed in most of these areas, especially in the rainforest at the end of the 2003 construction season. Final cleanup was delayed in order to complete the hydrostatic testing and drying of the pipelines, which required an open transit access be maintained along the right of way especially in the rainforest where the only access to the jobsite was along the right of way. Completion of this work is anticipated by end of July 2004.
- **Permanent Erosion Control and Seeding.** Permanent erosion control works are proceeding following final cleanup. Work is proceeding at 12 separate main areas/locations employing approximately 1,800 personnel, comprised almost exclusively of local employment. Completion is scheduled for September /October 2004.
- **Punch List.** Work continues on minor miscellaneous outstanding or corrective works and scheduled to be completed by August 2004.

Right of Way Compensation

Due to the nature of the construction activities, negotiations with native or Andean communities and private landowners were required to compensate them for land use (i.e., limited loss of use during construction and limited restriction on future use directly over the pipelines) and/or damage caused to the lands due to construction within the pipeline right-of-way (ROW). Compensation for the land and effects on crops were calculated using a clear and transparent ecological and economic methodology, using as an initial reference an official minimum value set by CONATA (*Consejo Nacional de Tasaciones*). Given the nature of the construction works and uncertainties regarding the precise extension and type of affects, all temporary lease contracts provide for additional compensation for any and all non-foreseen impacts. Such additional compensation will be made upon termination of the construction activities in the affected area.

Negotiations with communal landowners took place in the communities, in their own language. In all cases, the negotiation process allowed adequate time of two to four months from the initial meeting. This included a minimum period of two weeks, on average, for discussions among the community members and consultation with their advisors. To reach an agreement, a minimum of two-thirds of the indigenous community assembly must be in conformity. The agreement is made in the presence of a public notary. Under the Program, payments can be made either in cash, check or in the form of social infrastructure or development projects to be provided to the community. In all cases the entire negotiation process is fully documented. Participation of CEDIA, COMARU, and other community associations (at the request and choice of each community) and of the national ombudsman (*Defensoria del Pueblo*) have contributed to an adequate and fair negotiation process.

Compensation for the easement of the ROW and associated areas (e.g., campsites, pump stations, etc.) in the rainforest involved approximately 302 contracts with local communities and individual owners, approximately 1,651 contracts in the highlands, and approximately 603 contracts in the coast. No legal actions have been filed in any case. As of June 2004, TGP has signed all of the 2,556 required contracts associated with the pipeline right-of-way for a total amount of over US\$7.5 million, of which approximately US\$5.6 million have already been paid. All of these contracts were successfully negotiated and accepted without requiring any formal judicial procedures to reach an agreement. These include signed contracts with nine native communities and around 50 Andean communities for the compensation of easements and damages to crops. TGP is presently performing the joint final site inspections with community representatives or landowners in order to make a final assessment of unforeseen damages and payments for closure of contracts. As of June 2004, TGP had completed final evaluations of approximately 83 percent of native and Andean community land and has made final payments on approximately 42 percent of the contracts. In the rainforest section, TGP provided assistance to landowners to formulize their land titles (ownership).

Erosion Control and Re-Vegetation

Erosion control has been a primary concern for both consortia in the Camisea Project, and revegetation is one of the principal erosion control measures in the long term. An Erosion Control Management Plan was developed by TGP, including temporary and permanent erosion and sediment control measures such as installation of silt fence and straw bale barriers, slope breakers and runoff diversion channels (temporary and permanent), and drainage control structures (such as siphons, sump pump and channel/river diversion); excavation of retention/detention basins; preservation of vegetative buffer strips (minimum 5 meters width) at crossing areas; slope stabilization; and revegetation.

The plan and measures were significantly enhanced throughout the construction period in order to address the project-specific conditions and issues encountered and IDB recommendations. Erosion control experts were contracted to review the engineering designs, procedures, and execution dates of (permanent and temporary) measures to control erosion and sedimentation along the ROW, flowlines and other work sites of the project in order to minimize risks of environmental degradation. In addition, Global Forestry Consultants was hired by TGP to overview the efficiency and adequacy of the erosion control measures implemented. For final erosion control construction, TGP has hired specialists in rainforest pipeline stability and erosion control to tailor the construction specifications to each site/location. Erosion control systems have been working at below average failure rates (i.e., approximately 3 percent compared to planned of 15 percent).

The revegetation plan includes fertilization, seeding of cover plants and reforestation in all affected areas. These areas total 757 ha in the rainforest (approximately 50 percent of the total areas to be revegetated), 742 ha in the highlands (approximately 49 percent of the total areas to be revegetated) and 12 ha in the coastal sector (approximately 1 percent of the area to be revegetated).

Revegetation for the jungle (rainforest) regions has started and consists of using native species. TGP, in collaboration with local communities, constructed and is operating 12 nurseries producing 2.7 million seedlings of more than 120 species. TGP has provided the native communities with the required training and material (e.g., seeds, pots, shovels) that allowed them to develop the plant nursery. Local laborers have performed planting of seedlings. As of May 2004, more than 1.4 million seedlings have been planted in the pipeline ROW with a higher than expected success rate (i.e., approximately 83 percent compared to 70 percent planned).

As of June 2004, the overall progress for the entire ROW is 100 percent complete for recomposition, 72 percent for erosion control and 62 percent revegetation; consistent with the project schedule. In the rainforest section, erosion control and revegetation are 54 and 65 percent complete, respectively. The Andean sector has reached 80 percent in erosion control and 60 percent for revegetation. The coastal sector program is limited to water crossings and is approximately 75 percent complete.

Currently there are approximately 1,800 workers in 12 work crews fully dedicated to construction of erosion control devices and revegetation of the ROW.

Archeological

During the course of the construction process, in excess of 1,000 archeological sites were found directly on or immediately adjacent to the right of way. Avoiding these sites involved the implementation of numerous route relocations such that only 96 sites required recovery work where relocation of the selected route was not possible. All items recovered are undergoing preliminary investigation and cataloguing (approximately 33 percent completed) and will be submitted to the National Institute of Culture.

Positive Impacts

During the construction period, the principal positive impacts have been the provision of employment and improved national and regional economies. The manpower contracted during the course of the construction reached 8,600 at peak construction, with a total of approximately 14,000 different workers and 35 million man-hours expended. Of this total, in fulfillment of the project's commitment to maximize the use Peruvian workers, approximately 90 percent were locally hired national employees. Within the Peruvians hired, approximately 82 percent were from the five departments being crossed by the pipeline.

Total salaries and benefits paid by the EPC contractor have been approximately US\$ 60 million. Local goods and services purchased by the EPC were approximately US\$ 270 million. The total goods, services and salaries paid by TGP (other than via the EPC) have been approximately US\$69 million, of which approximately US\$3.2 million was for salaries and benefits.

In terms of worker safety, as the project construction developed and the number of independent work sites and manpower levels increased, significant enhancements in the Health and Safety Policy and procedures were implemented in order to reduce the accident rate experienced in the early stages of the work. Although initial statistics were not impressive in the early stages, the implementation of enhancements to the program succeeded in reducing the rate of lost time accidents significantly (i.e., approximately 7 lost time accident index rate in early 2002 to 2.5 to 3.0 in 2003 and 2004).

During project construction, TGP has invested more than US\$15 million in improving approximately 700 km of public roads and 80 bridges making them safer and able to support the project and public traffic. In addition, four new bridges were built along the Calca-Kiteni-Ivachote road and five bridges along the Acocro-Pacobamba-San Antonio road.

TGP has implemented a series of programs to assist local communities including:

- An agreement to support the Cusco Regional Health Department to increase health services in the Lower and Upper Urubamba, which resulted in vaccination program for native community of Aendoshari, increased medical attention to native communities of Aendoshari, Manitinkiari, Masokiato and Shima, the implementation of a medical laboratory in Kiteni;
- Construction of medical posts in the district of Paucar de Sarasara and Pacobamba (Ayacucho), medical evaluation and attention in Villa Quintarina to Saccarajay, and the Peruvian national vaccination plan in the district of La Mar;
- Provision of support for local community communication systems (e.g., radios, etc.); and
- Assistance to local community education, including 12 university scholarships to Machiguengas students and financing the Universidad Nacional San Antonio Abad del Cuzco and the Universidad Nacional de Piura virtual classrooms to provide online and distance learning courses for natural gas industries and natural resources management.

3.2 Upstream Project

Project Construction

The project construction of the San Martin wells 1 and 3 is complete. Both well sites are in process of demobilization. There are still 3 campsites in Block 88 in the process of demobilization (Las Malvinas, San Martin 1, and San Martin 3). Cashiri wells 1 and 3 will not be developed until there is sufficient demand, and presently no date has been proposed. The Malvinas Processing facility construction is complete and is in the commissioning phase.

As of June 1, 2004, the Fractionation Plant construction is significantly advanced, with approximately 94 percent completed. Approximately 94 percent of the Marine Terminal berth is also complete. The offshore dredging for the pipeline for the Marine Terminal is complete and backfilling of the trench is underway.

Land Use Compensation

The principles developed for the compensation negotiation with affected communities were: (i) negotiations carried with the community as a whole and before the Communal Assembly; (ii) each negotiation takes into account the characteristics of the community organization, as well as its location and the specific impacts of the project on the community; (iii) compensations must benefit the entire community; (iv) materials and goods delivered to the community as part of the compensation should not create dependability in the medium to long-term; (v) compensations should be oriented towards

improving education, health, productive activities, and community's organizations; and (vi) the agreements must be adopted in Community Assemblies, with the presence of two-thirds of community members as a minimum, and must be legally notarized.

Pluspetrol has signed agreements with all the applicable native communities with regard to compensation for both the permanent and the temporary use of land/property, use of forest, transit, pipeline right-of-way, and for the direct and indirect impacts caused as a result of construction activities on their territories. Specifically, Pluspetrol has signed agreements with seven native communities (approximately 4,000 persons) and one colonist settlement directly affected by construction for compensation totaling approximately US\$1.02 million of which approximately 60 percent has been paid. Seventeen communities indirectly affected by construction will receive compensation of US\$1 million of which about 70 per cent has been paid. An additional US\$1.7 million has been set aside to compensate indigenous persons living in the Nahua-Kugapakori reserve, pending a decision on the method of payment. The compensation packages for the three directly and five indirectly affected communities by project operation are still to be negotiated.

Marine Terminal Dredging Mitigation and Monitoring Plan

Pluspetrol used internationally developed, sophisticated, current and sediment transport mathematical models to assess and then select the best possible trenching technologies for the installation of the submarine pipelines and to assess potential impacts of a spill during both construction activities and operation of the terminal. Pluspetrol developed a detailed monitoring plan which provided real-time data to confirm the extent and location of the sediment plume during dredging, with specific criteria (for total suspended solids, dissolved oxygen, and pH), which if exceeded, would immediately stop dredging operations. Specifically, the plan involved 29 transects, 64 monitoring stations, over 160 monitoring points and includes biotic parameters (such as birds, fish, marine mammals, benthos, and others), abiotic parameters in water (such as temperature, pH, dissolved oxygen, biochemical oxygen demand, total suspended solids, and others) and abiotic parameter in sediments (such as cadmium, mercury, lead, and total petroleum hydrocarbons, among others). The implementation of the monitoring plan started in September, prior to construction works. The results of the monitoring program are posted on the Camisea Project website (www.camisea.com.pe) under Pisco Project on a daily and monthly basis. Local fishermen are involved in portions of the monitoring plan to help ensure acceptability of the results to local civil society. The monitoring results did not require any stoppage of dredging activities.

Positive Impacts

During the construction period, the principal positive impacts are the provision of employment and improved national and regional economies. In Block 88, Pluspetrol hired more than 2,900 workers (of which 455 from native communities), 160 people were trained in different tasks, and a total of 22 native communities benefited with the local

employment program. For the works in Pisco area, 300 people were trained, and the project has employed 864 local workers (approximately 49 percent of the total involved).

Pluspetrol has provided assistance to the health units in the area of influence of Block 88. As June 2004, Pluspetrol has helped 201 patients, including three births and 25 emergency air transports to Lima and Quillabamba, provided for over 100 prescriptions, and provided for over 830 laboratory exams and 30 X-rays exams. In addition, Pluspetrol has signed training agreements with Peruvian universities including scholarships and other training facilities, for the amount of US\$1.2 million and with Perupetro and CREC on the amount of US\$400 thousand over a 4-year period (during construction). Similar agreements are signed for the operation phase.

3.3 Distribution Project

Construction of the gas distribution network in Lima and Callao started in October 2002. As of the May 2004, Suex Tractebel SA had invested over US\$57 million, representing 81 percent of the US\$71 million investment. Total project construction of the main grid is approximately 99 percent completed as of mid-June 2004, with final works being developed in Lurin (City Gate); Santa Anita (Vía de Evitamiento); Lima Cercado (Línea de Ferrocarril) and Ventanilla (Av. Gambeta). The Mechanical Completion Certificate of the main grid was granted on May 9, 2004. Additional works still under construction include the installation of the service line to Vinsa and the rest of the initial clients to be connected to the main trunk line.

As of the end of May 2004, approximately 1,474,300 man-hours have been involved in the construction. Approximately 70 percent of the goods and services obtained are of Peruvian origin.

4. FINANCIAL CLOSURE CONDITIONS

This section presents a summary of the results, including actions performed, related to the conditions established by the IDB for financial closure of the IDB loan to TGP for the Downstream Component (see IDB ESIR and Annex to ESIR for established requirements). The conditions and results are organized by those associated with the IDB, TGP, Pluspetrol and the Government of Peru.

4.1 IDB

The IDB has taken extensive efforts since the approval of the loan by the IDB Board of Directors in September 2003 to help ensure the necessary conditions would be completed in an adequate and acceptable form for the IDB. In addition, the IDB has continued the supervision of the Camisea Project (both by IDB staff and by the IDB independent supervision consultants). IDB staff conducted missions to Peru every month since September 2003, and during each mission various meetings and discussions were held with different affected populations and numerous local civil society organizations. During these missions, numerous workshops have been held locally to allow civil society to directly participate in many of the plans and documents required for the project, in particular those related to financial closure, such as erosion control plan, access control plan, re-vegetation plan, biodiversity monitoring plan, protocol for working in areas of indigenous peoples, and the Camisea Fund. Numerous draft documents have been circulated for review by civil society and the various documents related to financial closure have been posted on the Camisea Project web-site (many since March 2004). Discussions have been held with various civil society organizations in terms of improving the supervision of the Camisea Project related to the role of civil society organizations, with a workshop planned in July or August 2004 in Lima. Since September 2003, over 20 technical specialists (IDB environmental and social specialists, external independent environmental and social specialists) assisted the IDB in the ensuring acceptability of the various conditions.

The IDB has been establishing the legal documentation, in terms of environmental and social provisions, in the two principal documents: the loan agreement between TGP and IDB and other lenders, and the letter agreement between the Upstream Consortium and the IDB. Included as part of this documentation, are the various requirements established by the IDB in the ESIR and Annex to ESIR as well as other standard and project specific IDB defined requirements. For example, this includes the specific criteria to evaluate the performance of TGP and Pluspetrol regarding erosion control, access control, biodiversity and re-vegetation which have been reviewed and accepted by an expert working group that included three representatives selected by Peruvian NGOs and specific criteria and requirements related to Technical Completion and Project Completion for the Downstream Component. Table 4-1 (Part I) summarizes the results and actions taken on two specific conditions related to: environmental performance criteria for erosion control, access control, bio-diversity monitoring; and re-vegetation and conditions related to technical and project completion.

4.2 Downstream Project

Table 4-1 (Part II) presents the 13 specific conditions established for TGP related to financial closure, including a summary of actions to fulfill the respective condition and the results showing all conditions have been completed. Examples of key conditions include:

- Developed final re-vegetation and access control plans based upon input and review by Peruvian civil society, a group of experts identified by Peruvian NGOs and IDB and their environmental and social consultants;
- Demonstrated adequate mitigation of soil erosion, as confirmed by URS (an IDB independent environmental and social consultant) Knight Piésold and Geotec (TGP independent monitor and soil erosion consultant, respectively);
- Established specific environmental, social and health and safety benchmarks for construction and operation;
- Confirmed the level of financial participation to the Camisea Fund of US\$ 250,000 annually;
- Implemented actions to strengthen the monitoring system of environmental and social aspects of the project;
- Committed to provide, as required, the necessary resources for the community monitoring program;
- Implemented a social communications program project stakeholders;
- Implemented actions to ensure coordination among the consortium companies for adequate social and environmental monitoring;
- Provided evidence of sufficient human and financial resources for the management of environmental, social and health and safety aspects during project construction and operation; and
- Provided adequate insurance to cover all reasonable environmental, social and health and safety risks associated with the Downstream Component.

4.3 Upstream Project

Table 4-1 (Part III) presents the 18 specific conditions established for Pluspetrol related to financial closure and the four conditions established as 60 days prior to operation, including a summary of actions to fulfill the respective condition and the results showing all conditions have been completed. Examples of key conditions include:

- Developed and implemented an expanded environmental and social management plan related to the Fractionation Plant and Marine Terminal based upon a consolidated environmental impact assessment, including an extensive real-time monitoring program associated with the dredging operations;
- Implemented effective erosion and sedimentation control measures along all of the flowlines within Block 88 and links to Las Malvinas, with attention to areas having slope instability and loss of soil, as the effectiveness was verified

by the IDB independent experts and Pluspetrol independent consultants.

- Implemented an effective revegetation program, in which all areas where construction is completed are being effectively re-vegetated and reclaimed with species native to the location, under a precise plan of action and monitoring until these areas are stabilized. The effectiveness of the revegetation was verified by the IDB independent experts and Pluspetrol independent consultants.
- Prepared a final compensation plan for native and indigenous populations directly and indirectly affected by completed and on-going construction at SM-1, SM-3 and Block 88 flowlines. This compensation plan was reviewed and deemed acceptable by the GOP and by the IDB independent consultants.
- Developed actions to strengthen the monitoring (supervision) system for the environmental and social aspects of the Camisea Project, including joint supervision by the IDB external independent consultant of both the Downstream Component and the Upstream Component during the operational phase.

Pluspetrol has implemented a Corporate Social Responsibility Plan under the obligations established by the GOP as part of the Environmental permit for the Fractionation Plant and the Marine Terminal, with a total amount of approximately US\$ 23.7 million, which represents an additional amount of approximately US\$1.2 million beyond the US\$22.5 million which Pluspetrol had already committed as of August 2003. The Corporate Social Responsibility Plan includes the following:

- Financing for the management of the Paracas National Reserve. Pluspetrol has agreed with INRENA to set up an Environmental Fund in the amount of US\$ 7 million to support the implementation of the management plan of the reserve. It is likely that the Fund will be administered by PROFONAMPE.
- Support to industrial waste management and wastewater treatment. Pluspetrol has signed agreements with the three municipalities (Pisco, San Andres and Paracas) to improve waste collection and management and develop a feasibility study for an integrated waste landfill. This support is provided via social investment funds, with total Pluspetrol participation of US\$ 10.9 million.
- Support actions to improve the conditions of the Paracas Bay and the artisan fishery, which includes three signed agreements with artisan fisherman and technical assistance to develop and implement projects;
- Support to develop and implement environmental education programs, which includes a signed agreement with the regional education unit; and
- Availability to support other new activities proposed by the civil society; which includes a social monitoring program of local artisan fisherman by a local non-governmental organization.

4.4 Government of Peru

There are three specific conditions for financial closure related to the Government of Peru actions, which are summarized below.

Environmental, Social and Economic Development Fund for Camisea

The basic documentation of the Camisea Fund was established. The fund will enhance distribution of project benefits to the affected areas by providing financing for economic, environmental and social development projects in the area of influence of the Camisea Project (see Table 4-2, Commitment III for details). The fund design includes participation by the GOP (federal level) of provided commitment of up to 7.5 percent of royalties of Upstream Component and at least US\$250,000 per year by TGP. The fund documentation was developed based on a participatory format, including various discussions and comments received in 2003, a series of meetings and workshops during February 2004, and consultants hired by the IDB institutional strengthening loan with the GOP. The draft law creating the fund has been prepared and is scheduled for submission to the Peruvian Congress for consideration in July 2004. There is ongoing consultation on the fund with affected communities to help define operational aspects.

Letter of Commitment and Action Plan

The GOP issued on March 4, 2004 a Letter of Commitment (LoC) which addresses all items in the IDB ESIR (paragraph 8.18) and Annex to ESIR (paragraph 6). In the LoC, the GOP has formalized its commitment to deal with direct, indirect and cumulative environmental and social impacts and risks associated with the Camisea Project. Associated with the LoC, the GOP established, working in conjunction with the IDB, an action plan with milestones and completion dates with those measures pertaining to the construction phase of the project to be completed prior to the completion date for the project and measures pertaining to the operational phase will have the relevant mechanisms established and functioning at the completion date of the project (for the complete LoC see webpage <http://www.minem.gob.pe/gtcicamisea/compromisos.asp>).

The GOP, working in conjunction with IDB staff and support, has made significant progress related to the commitments established by the GOP as summarized below (see Table 4-2 for summary related to each commitment).

- The development of the Camisea Fund, which will enhance distribution of project benefits to the affected areas by providing financing for economic, environmental and social development projects in the area of influence of the Camisea Project (Commitment III);
- A significant increase in the protection status for the Nahua-Kugapakori indigenous area by the issuance of Supreme Decree in January 2003, which for the first time in Peru, improved and formalized the protection for an area of this type. It specifically includes a prohibition of new concessions for exploitation of natural resources in the reserve, development of a protocol for

working in areas with non-contacted or those not desiring contact indigenous groups, and development of mechanisms to enhance CONAPAs ability to implement its responsibilities under the Supreme Decree and to improve health services in the reserve (Commitment IV);

- Initiatives to improve environmental conditions of the Paracas Bay, including the creation of the multi-stakeholder Commission for the Sustainable Development of the Paracas Bay Area (October 2003) with six technical working groups. The development of an action plan to guide the preparation of the Strategic Plan for the Rehabilitation of the Paracas Bay, and identification of actions/projects that can be implemented to improve the environmental conditions of the Bay including those relating to the fishmeal companies (Commitment VII).
- Various initiatives related to the Lower Urubamba, including initiation of actions to develop an environmental sustainable management system for the area, update GOP environmental and social legislation and guidance related to future oil and gas development in the area (including Lot 56, 57 and 90), and improve health services (Commitments VI, VIII and XII).
- Foster the creation of new environmental protected areas, including Otishi National Park, Ashaninka and Machiguenga Communal Reserves, and Megantoni Sanctuary and the development of their associated management plans (Commitment X).
- Improvements and commitments in supervision of the Camisea Project in particular related to OSINERG and establishment of the Defensoria de Camisea (Commitments XVII and XVIII).
- Identification of mechanisms for the GOP and applicable communities to help monitor and control potential illegal access and migration via the pipeline into the Lower Urubamba area (Commitments XIII and XIV).
- Completion of the GOP review of the existing Pluspetrol and TGP procedures related to compensation and associated dispute resolution. While this was completed after the original proposed date of January 1, 2004 in order to have a more thorough and complete review by various governmental entities and civil society, Pluspetrol refrained from starting the negotiation with the three communities related to compensation for the operation phase of the Upstream Component pending completion of this review and incorporation of applicable recommendations (Commitment XV);

IDB Public Sector Loan 1441/OC-PE

Another condition established by the IDB was for evidence of significant progress in the implementation of the IDB public sector loan 1441/OC-PE with the GOP on Institutional Strengthening, including in particular reasonable actions taken by the GOP on improving the legal protection status of the Nahua Kugapakori reserve. This loan is designed to support GOP activities (entities) related to supervision and monitoring of the Camisea Project, mitigate potential mid- to long-term indirect impacts, and foster sustainable development. The IDB Loan was revised in October 2003 to reallocate resources to

reflect GOP actions required under the LOC, the overall Camisea Project status and needs, and to improve the efficient use of the resources.

As of May 2004, approximately 46 percent of the total Program had been committed and approximately US\$1.3 million executed principally for supervision activities associated with OSINERG. In terms of the IDB loan, approximately US\$1.9 million has been committed (38 percent of total) and approximately US\$ 900 thousand disbursed. This represents a good rate of commitment, being approximately 30 percent of the loan resources in the first five months of 2004. There is still pending approximately US\$3.1 million to commit, including approximately US\$1.3 million (41 percent) for pre-investment studies for the Camisea Fund and another 16 percent for studies and investments to mitigate indirect impacts. Examples of key significant progress that has been achieved with the implementation of the loan include (see June 2004 IDB report on Evaluation of the Program for Institutional Strengthening and Environmental Management Support for the Camisea Gas Project for details http://www.iadb.org/exr/doc98/pro/camisea/0704strengthening_eng.pdf):

- Creation of the Inter-Institutional Coordination Committee (*GTCI-Grupo Técnico de Coordinación Institucional*) to coordinate the activities and entities involved with the Camisea Project;
- Enhancements in various GOP entities responsible for supervision and monitoring the Camisea Project, including in particular OSINERG and the appointment of a specific Camisea Project Ombudsman;
- Support for the Paracas Bay Commission;
- Support for the design and start-up of the Economic, Environmental and Social Development Fund to help promote equitable distribution of the economic benefits raised by Camisea to the areas of influence of the project;
- Development of studies which served as the basis for the improvements in protection status for Otshi National Park, Ashaninka and Machiguenga Communal Reserves and Megantoni Sanctuary;
- Studies which served as the basis for increased protection status for the Nahua-Kugapakori indigenous community with the issuance of Supreme Decree; and
- Development of a Forestry Control Plan, and other measures, to help prevent migration along the pipeline in the Urubamba region and thus avoiding illegal logging, preventing colonization and protecting biodiversity.

In addition, the GOP in conjunction with the IDB, has used resources from IDB financed Program for Land Titling (PETT) program to complement TGP's existing land titling program along the right-of-way and thus substantially reducing the available lands in the area of Upper and Lower Urubamba which in turn reduces the potential of migration into these areas (i.e., limits potential areas for settlement).

4.5 Supervision and Monitoring

As presented in Section 2.4, during the construction of the Camisea Project, the IDB implemented an independent environmental and social supervision system, which provided full-time monitors in the field and reports available to the public. This system was in addition to the independent supervision and monitoring systems of the project companies, the GOP supervision and monitoring programs that were enhanced with IDB support, and the community monitoring programs. The IDB also used an independent senior advisor (Mr. Alexander Watson, former US Ambassador to Peru) and numerous internal and external environmental and social specialists to provide assistance in this area.

As the Camisea Project enters the operation phase, the IDB is fully committed and will require the implementation of various actions to supervise and monitor the environmental and social aspects of the Camisea Project during the life of the IDB loan (approximately 14 years for the Downstream Component). These include specific actions related to the IDB, project companies, GOP, and activities to serve civil society.

The IDB will directly supervise the environmental, social and health and safety aspects of the operational phase of the Camisea Project Downstream and Upstream Components via the actions listed below.

- The IDB will use external independent environmental and social consultants to assist the IDB in supervising the environmental, social, and health and safety aspects. The independent consultants will perform at least quarterly site visits and reviews during the first two years after construction and annually thereafter for the life of the IDB loan agreement. The consultants will be managed by the IDB and report solely to the IDB. Reports from the independent consultants will be made available to the public.
- IDB staff will also perform direct supervision actions (site visits, document review, etc.) with respect to environmental and social safeguards; and will take necessary measures to ensure adequate resources are available to fund such activities. This will include staff in IDB Headquarters and IDB Peru Country Office and relate to both the IDB loan to TGP and the IDB institutional strengthening loan to the GOP.
- The IDB will have the right, as part of its legal agreements with TGP and Pluspetrol, to have an independent environmental, health, and safety audit performed, if warranted. This audit would be performed by an internationally recognized consultant/expert, and if any problems or issues were identified, would require the development and implementation of a corrective action plan.

The IDB is requiring the following actions by TGP and Pluspetrol in relation to environmental and social supervision and monitoring:

- TGP and Pluspetrol will continue to make available to the public environmental and social compliance reports, at a minimum of once per month, until completion of construction and quarterly during operation;
- TGP and Pluspetrol will enhance their existing programs of consultation with Peruvian civil society, including: (1) implementing a routine system to synthesize and report supervision/monitoring results to affected populations in a non-technical format; and (2) having an annual environmental and social audit performed by an objective independent group during the operation phase of the Camisea Project, presently proposed to be performed semi-annually by a group of experts selected by Peruvian NGOs;
- Implementation of the various established and required TGP and Pluspetrol monitoring plans (e.g., revegetation, biodiversity, water quality, etc.);
- Incorporation of three students from local Peruvian universities as members in the routine monitoring field visits performed by the project companies in order to provide enhanced disclosure on the actual status of environmental activities and programs;
- TGP and Pluspetrol will continue to provide, as required, the necessary resources for the Community Monitoring Program; and
- TGP, Pluspetrol and Tractebel will continue to coordinate formally in relation to environmental, social and health and safety aspects.

The GOP will also continue the supervision and monitoring of the Camisea Project. This includes those supervision and monitoring commitments expressed in the GOP Letter of Commitment, including specific commitments by OSINERG related to supervision during project operation, GOP environmental monitoring programs and the making available to the public results of GOP supervision and monitoring activities.

The IDB has continuously expressed its strong commitment and resolve to work with civil society to develop an effective independent monitoring system to serve the needs of Peruvian civil society and in particular those communities and persons directly associated with the Camisea Project. The goal has been to have a system that will effectively provide Peruvian civil society with accurate and reliable information on the environmental and social aspects related to the implementation of the Camisea Project. While systems have been in place and enhancements proposed (as stated above), the IDB understands there may be still some concerns by Peruvian civil society organizations. Thus the IDB will continue to work actively with various Peruvian and international organizations to develop an appropriate system to meet their needs and concerns. For example, the IDB is organizing a workshop on this topic in Lima for July or August 2004 with the participation of Peruvian non-governmental organizations, project companies and GOP.

5. CONCLUSION

The IDB approved providing up to \$75 million in direct loans to help finance a portion of the Camisea Project's approximately \$1.6 billion development cost; specifically, a loan to Transportadora de Gas del Perú (TGP) to support the transportation component of the project (Downstream Component). The loan will help finance a portion of the cost of the natural gas and natural gas liquids pipelines. The IDB is not participating in the financing of other two components of the Camisea Project; natural gas production and gas liquids processing (Upstream Component) and natural gas distribution in Lima (Distribution Component). One requirement associated with the IDB approval was for IDB Management to provide a report to the IDB Board of Executive Directors summarizing the performance of TGP, Pluspetrol, and the Government of Peru (GOP) pertaining to their respective environmental and social commitments. The present report summarizes the performance in respect to the proposed signing of the Loan Agreement between the IDB and TGP (financial closure), estimated to occur by the end of July.

All three components of the Camisea Project have basically completed the construction phase, with some testing and final cleanup still pending. The formal arrival of gas to Lima is scheduled for early August 2004. Significant efforts have been implemented to mitigate potential environmental and social negative impacts during construction. Significant local economic benefits occurred due to project construction, including, for example associated with the Downstream Component, approximately US\$63.2 million for salaries and benefits and US\$333 million of local goods and services purchased.

The IDB believes the necessary protocols have been established to ensure that the direct, indirect and cumulative environmental, social and health and safety negative impacts and risks associated with the Camisea Project will be properly mitigated. This includes those conditions established for financial closure (signing) of the IDB loan agreement with TGP in the documents approved by the IDB Board of Directors in September 2003. The participation of the IDB has made a significant difference in the environmental and social viability of the Camisea Project. It is also clear that with the ongoing IDB participation continued leverage can be maintained to help ensure the necessary environmental and social protection measures are implemented.

The IDB has taken a series of proactive steps to improve the environmental and social sustainability of the Camisea Project and to ensure stakeholder participation. Taken as a whole, the Bank's involvement in the project has been extraordinary. For example, the IDB has taken on a greater role than just mitigating the impact of the Downstream portion of Camisea that it is financing. The IDB, since becoming involved with the project, has identified and requested various improvements in the project, related to both the Downstream and Upstream Components. The IDB also undertook to supervise the environmental and social protection measures for the project during the Bank's due-diligence, prior to the approval of financing. In addition, the IDB provided resources to the Government of Peru (GOP) to strengthen its ability to monitor and enforce agreed-upon environmental and cultural safeguards. In conjunction with the project's consortium companies and Government of Peru, the IDB also worked on developing a

series of measures to address potential long-term issues and to develop a series of positive programs to improve the environmental, social and economic conditions in the area of the project, such as the Camisea Environmental, Social and Economic Development Fund which will provide direct investment of Camisea revenue/royalties in the surrounding and affected communities.

Due to their complexity, large infrastructure projects invariably have environmental and social issues that arise during the construction and operation regardless of the breadth, adequacy and implementation of environmental and social design and mitigation measures. Given this reality, sound environmental and social management for large infrastructure projects includes two aspects. First, a willingness and ability to adequately identify, understand and accept issues where they exist. Second, a willingness to take the necessary actions to properly address and resolve the identified issue. At this stage of the implementation of the Camisea Project (i.e., construction basically complete and the operational phase is forthcoming) and notwithstanding the various measures and commitments established, the IDB has identified certain issues that require IDB's special attention. These include: ensuring adequate final erosion control and revegetation of the pipeline right-of-way; finalization of the compensation program for both the Downstream and Upstream Components; issues and actions related to transitioning the project from a construction phase to an operation phase, in particular adequate implementation of the operational mitigation and monitoring plans; continuing to work with the GOP in relation to their various commitments related to the Camisea Project; continuing to work with civil society to address concerns and issues, in particular enhancing the supervision system to better satisfy their particular needs; and maintaining the momentum in terms of actions resulting in positive impacts and affects including the Camisea Fund, Paracas Bay and the Urubamba area.

The IDB's support for Camisea represents a special approach toward private sector projects of this nature that responds adequately to legitimate environmental concerns and challenges, appropriately distribute economic benefits, protect social diversity and help ensure long-term and sustainable development. By taking an integrated and innovative approach to problem-solving, the IDB believes it has leveraged its relatively small financial contribution (8 percent of total project cost) to achieve a greater good for Peru.

Additional environmental and social information and documentation regarding the Camisea Project can be found at:

Camisea Project Website

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

Ministry of Energy and Mines Website

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

OSINERG Website

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

Camisea Project Ombudsman Website
<http://www.minem.gob.pe/gtcicamisea/defensoria.asp>

Inter-American Development Bank Website
<http://www.iadb.org/exr/pic/camisea/camisea.cfm>

TABLE 4-1

SUMMARY OF FULFILLMENT OF CONDITIONS ASSOCIATED WITH FINANCIAL CLOSURE (FC)

I. IDB

Condition	Actions Taken	Results
(1) Specific criteria to evaluate the performance of TGP and Pluspetrol regarding erosion control, access control, bio-diversity monitoring and re-vegetation, and these criteria shall be reviewed and accepted by an expert working group that will include at least two representatives with technical expertise nominated by local Peruvian NGOs that are acceptable to the IDB and the criteria will be issued within Peru for a public comment period of two weeks.	- The IDB involved the Peruvian experts early in the process to develop the evaluation criteria for erosion control, re-vegetation, access control and biodiversity monitoring. This review process took place before the final plans were approved. - The consultation process with the Peruvian Civil Society (PCS) started early in November 2003; and in early December 2003, a working group of three Peruvian experts was nominated by the PCS to participate in the review and approval of the criteria. - Workshops were held in Lima from December 9 - 11, 2003 to discuss monitoring plans as well as the initial proposed criteria. The workshops were also attended by an international expert hired by IDB. - Between December 2003 and March 2004, various drafts of the criteria and the plans were discussed between the consortium companies, the working group (Peruvian experts) and the IDB. - The working group and the IDB performed a site visit in January 2004, and the criteria were finalized and a second draft of the plans developed. - A workshop was held on March 9-11, 2004 to discuss the revised versions of the criteria and the plans. - The criteria were approved (signed by the working group and representatives of the PCS) and posted on the Camisea website on March 11, 2004. - The approved criteria were incorporated into the final version of the erosion control, access control, bio-diversity monitoring and re-vegetation plans and submitted to IDB. These plans are also posted on the Camisea website.	Specific criteria were accepted by three experts nominated by Peruvian civil society and are included in the final versions of the re-vegetation, erosion control and access control plans, which are posted on the Camisea website at http://www.camisea.com.pe/dialogo0.asp .

(2) Estimated time frames and conditions for both Technical and Project Completion of the Downstream Component with respect to erosion control, access control, biodiversity monitoring, and re-vegetation, and criteria for satisfactory performance on erosion control and re-vegetation	- The time frames, conditions and criteria for both Technical Completion (TC) and Project Completion (PC) were developed and defined in coordination with the development of criteria (Condition 1 above) and the estimated time frames associated with the concession agreement. - Other conditions for TC and PC were established based upon the standard environmental and social provisions for IDB private sector loan agreements.	The environmental performance criteria, which include requirements for technical and project completion, are available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/Timeframes%20and%20Conditions.pdf Additional environmental and social requirements for TC and PC are established in the Loan Agreement.
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II. TRANSPORTADORA DE GAS DEL PERÚ (TGP)

Condition	Actions Taken	Results
(1) A final Re-vegetation Plan to ensure adequate re-vegetation after construction, including the use of appropriate native species and avoiding exotic and invasive species.	- Two separate re-vegetation plans, one by TGP and one by Pluspetrol were developed and reviewed by the IDB as part of the environmental and social due-diligence. - In order to finalize the re-vegetation plans, the IDB and the project companies involved Peruvian civil society (PCS) lead by Conservation International-Peru and sought comments on the re-vegetation plans. - A group of experts, including a Peruvian expert in re-vegetation, was nominated by the PCS to review and approve the criteria to evaluate the re-vegetation, erosion control, access control and biodiversity monitoring processes. - On several occasions, the plan was revised and discussed with the PCS, including a workshop held in Lima on December 11, 2003. - The Peruvian expert and the IDB performed a site visit in January 2004, and a revised plan was prepared, including a preliminary set of performance criteria for re-vegetation and the use of native species, with a particular focus on avoiding the use of exotic or invasive species. - This plan was reviewed and discussed with PCS in a workshop held in Lima from March 9-11, 2004. - The final re-vegetation plan includes the comments received during the review process and the final performance criteria agreed to by the PCS expert group.	The final Re-vegetation Plan, which incorporates the final performance evaluation criteria and the use of appropriate native species and avoiding the use of exotic and invasive species, is available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/1-Plan%20Revegetacion%20V8%20sin%20anexos.pdf The Annexes to the Re-vegetation Plan are available on the Camisea website at http://www.camisea.com.pe/downloads/BID/TGP/1-Anexos_Plan de Revegetacion v8.pdf

Condition	Actions Taken	Results
(2) A final Access Control Plan to prevent the use or access of the pipeline right-of-way, including specific actions to be implemented and the responsible entity, coordination among entities involved, and resources required.	- Based upon discussions among Peruvian civil society (PCS), the IDB and the project companies, a decision was made to combine the TGP Migration Control Plan and the Pluspetrol strategies for access control into one comprehensive Access Control Plan. - A group of experts, including a Peruvian expert in access control, was nominated by the PCS to review and approve the criteria used to evaluate the re-vegetation, erosion control, access control and biodiversity monitoring processes. - On several occasions, the plan was revised and discussed with the PCS, including a workshop held in Lima on December 11, 2003. - This plan was reviewed and discussed with PCS in a workshop held in Lima from March 9-11, 2004. - The final Access Control plan includes the comments received during the review process and the final performance criteria agreed to by the PCS expert group.	The final Access Control Plan, which incorporates the final performance evaluation criteria, is available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/Plan%20de%20Control%20de%20Acceso%20TGP%20-%20Pluspetrol%20-%20v9.pdf

Condition	Actions Taken	Results
(3) Confirmation from the IDB external independent consultant and Knight-Piesold that soil erosion is being adequately mitigated.	- The primary means to mitigate soil erosion associated with the construction of the pipeline is to implement an adequate erosion control plan. This plan for the Downstream Component was originally developed as part of the Environmental Impact Assessment (EIA). - The plan was subsequently revised and significantly enhanced in order to address the specific concerns and requirements established by the IDB and its independent consultants as part of the IDB environmental and social due-diligence. The plan includes both temporary and permanent erosion and sedimentation control measures. - TGP contracted Global Forestry Consultants, an international erosion control expert, to review the engineering designs, procedures and execution dates of permanent and temporary measures to control erosion and sedimentation. In addition, the consultancy also reviewed the efficiency and adequacy of the erosion control measures implemented. - A full-time daily assessment of soil erosion during construction was performed by Knight-Piesold (independent consultant hired by TGP) and URS (independent consultant contracted by the IDB). - The IDB and TGP involved Peruvian civil society (PCS) to help finalize the TGP Erosion Control Plan. - The PCS nominated a group of experts, including a Peruvian expert in erosion control, to review and approve the criteria used to evaluate the re-vegetation, erosion control, access control and biodiversity monitoring processes. - On several occasions, the plan was revised and discussed with the PCS, including a workshop held in Lima on December 11, 2003. - The Peruvian expert and the IDB performed a site visit in January 2004, and a revised plan was prepared, including a preliminary set of performance criteria for erosion control. - This plan was reviewed and discussed with PCS in a workshop held in Lima from March 9-11, 2004. - The final Erosion Control Plan includes the comments received during the review process and the final performance criteria agreed to by the PCS expert group.	The IDB and its external consultants confirmed that soil erosion is being adequately mitigated by the following: (1) review and acceptance by IDB and its independent consultants of the TGP Erosion Control Plan; (2) report issued by URS (IDB independent consultant) based on daily site inspections during project monitoring/supervision and special site visit by erosion control experts in November 2003 and June 2004 (prior to and following the rainy season, to verify that both temporary and permanent erosion control measures were adequate); and (3) reports issued by Geotec and Knight Piesold (independent consultants hired by TGP to monitor the project). The four documents that confirm adequate mitigation of soil erosion are available on the Camisea website as presented below: http://camisea.com.pe/downloads/BID/TGP/Plan%20Control%20de%20Erosion%20v4%20sin%20anexos.pdf (Erosion Control Plan); http://camisea.com.pe/downloads/BID/TGP/Anexos%20Control%20de%20Erosion%20v4.pdf (Annexes to the Erosion Control Plan) http://camisea.com.pe/downloads/BID/TGP/3a%20-%20Reporte%20Geotec.pdf (Geotec Reports, February and May 2004); http://camisea.com.pe/downloads/BID/TGP/3b%20-%20Reporte%20Knight%20Piesold.pdf (Knight Piesold Report); http://camisea.com.pe/downloads/BID/TGP/3c%20-%20Reporte%20URS.pdf (URS Reports, March and June 2004)

Condition	Actions Taken	Results
(6) Implementation of the actions necessary to strengthen the monitoring (supervision) system for the environmental and social aspects of the Camisea Project, based upon consultations with project-affected communities and applicable local civil society organizations, including, for example, improvements in coordination among monitors, making monitoring/supervision reports accessible to communities, and establishing systematic and transparent procedures for addressing noncompliance events and complaints by project-affected people.	- The condition required the consortium companies to implement independent supervision systems and for the associated reports to be made public to project stakeholders, including local communities and non-governmental organizations. These systems are in addition to the independent supervision and monitoring systems of the Government of Peru and the community monitoring programs. - As part of the environmental and social due diligence process, the IDB implemented an independent environmental and social supervision system. The monthly reports are made available to the public. - The staff of the IDB began meeting with representatives of Peruvian civil society (PCS) to define a potential supervision system in early 2002, well before the approval of the project by the Bank's Board of Executive Directors in September 2003. The focus was to enable Peruvian civil society, most importantly representatives of communities directly affected by the project, to obtain credible, timely information on its impacts. As a result, although it has not been ever done before in other projects considered by the IDB prior to Board approval, IDB hired URS Corporation to perform the Bank's own independent supervision of the project throughout construction and report to civil society on a monthly basis. - The IDB project team has continued to work with Peruvian civil society on this issue in the months since then to identify an arrangement that will be appropriate for supervising the project during operation. A key issue has been identifying an organization or individual(s) that PCS considers to be sufficiently credible and local in the sense of appreciating the complex variety of socio-cultural attributes of the communities affected by the population and also professionally capable of gathering and disseminating objective, technical information. - TGP and Pluspetrol have worked to strengthen the environmental and social supervision system, consulting with project-affected communities and the PCS. The enhancements made by TGP to the existing independent supervision during construction include: improvements in coordination among monitors, strategies to make monitoring/supervision reports more accessible to communities in non-technical language, and incorporation of three interns from Peruvian universities into the monitoring team. - Additionally, TGP and Pluspetrol propose to maintain the semi-annual site visits by the independent experts appointed by PCS (last site visit performed in January 2004; next site visit proposed for July 2004). - Since construction is basically complete, the focus on supervision is now on the operational phase. In this regard, TGP and Pluspetrol (working with the IDB and GOP) are implementing a consultation process with the PCS to develop an appropriate system that is reliable to the PCS, including identifying an adequate entity to implement the system and the appropriate means to cover the costs without hindering its independence and an annual audit performed by the independent experts.	The enhanced monitoring system by TGP for the construction phase is available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/7-Sistema%20de%20Monitoreo.pdf Monitoring reports are published on a monthly basis in the Camisea page at www.camisea.com.pe/reports.asp. The most recent report includes coordination among monitors, strategies to make monitoring/supervision reports accessible to communities in non-technical language, and incorporation of four university interns from Peruvian universities into the monitoring team. IDB is organizing a workshop to be held in Lima in July/August 2004 with representatives of the PCS to discuss potential systems for the independent supervision for the operational phase to serve the needs of PCS.

Condition	Actions Taken	Results
(7) Provide, as required, the necessary resources for the community-monitoring program.	- A community-monitoring program (PMAC, in Spanish) has been underway since the beginning of the Project. - In a letter dated March 24, 2004, TGP has committed to allocate the necessary resources to support the community-monitoring program through the end of construction and during the operational phase. - TGP will allocate the necessary resources in its annual budget to support Community Relations and will partner with different native community federations and other organizations to implement portions of the PMAC.	The summary of the PMAC and the TGP letter committing the necessary resources to support monitoring process are available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/8b%20-%20Resumen%20PMAC.pdf and http://camisea.com.pe/downloads/BID/TGP/8a%20-%20Carta%20PMAC%20con%20firm a.pdf respectively.

Condition	Actions Taken	Results
(8) Implement a Social Communication Program that includes ongoing information disclosure and consultation activities related to environmental, social, health and safety aspects of the project.	- As a result of the IDB's involvement in the Camisea Project during the early stages of the environmental and social due-diligence process, TGP and Pluspetrol have substantially enhanced the disclosure of information to and communication with project stakeholders. - Both companies have implemented a number of mechanisms and strategies, locally and nationally, to facilitate ongoing disclosure of information related to environmental, social, health and safety aspects of the project. For example, the creation, upon request from IDB, of a website to ensure ongoing transparency and engagement with stakeholders (www.camisea.com.pe); and regular meetings with representatives of the PCS. - Following suggestions from the IDB, the consortium companies implemented a stakeholder communications program to improve transparency and dialogue with local and international stakeholders. - The companies are discussing with the PCS the creation of the Camisea Consultative Committee (CCC) to formalize the participation of significant stakeholders and experts to review the environmental and social management plans and make recommendations for their improvement. - TGP prepared an enhanced Social Communication Plan based upon comments from PCS and IDB. - As a first step, the companies supported the nomination of four Peruvian experts to review and approve the criteria used to evaluate TGP's performance in the implementation of the erosion control, re-vegetation, biodiversity monitoring and access control plans. - In addition, these experts also participated in the review of such plans.	The enhanced Social Communication Plan and document on the Camisea Consultative Committee are available on the Camisea website at http://www.camisea.com.pe/downloads/BID/TGP/9a-Plan de Comunicacion Camisea.pdf and http://camisea.com.pe/downloads/BID/TGP/9b%20-%20Comite%20Consultivo%20Camisea.pdf, respectively

Condition	Actions Taken	Results
(9) Provide evidence of adequate insurance to cover all reasonable potential environmental, social and health and safety issues during both construction (at a minimum of \$50 million; general and third party liability, workers' compensation) and operation (consistent with industry best practices/standards), including coverage in respect to gas releases or liquid spills during operation.	- The IDB contracted an independent insurance advisor to identify the necessary type and level of insurance related to environmental, health and safety issues associated with the Downstream Component. - The recommended insurance is a requirement in the Loan Agreement between TGP and IDB.	The TGP construction phase insurance programs and the recommended operational phase insurance programs were presented to the IDB, and includes a minimum of \$50 million general and third party liability and workers' compensation during construction and operational insurance consistent with industry best practices/standards including coverage in respect to gas releases or liquid spills. The IDB insurance advisor confirmed the company has obtained this level for project construction.
(10) Receive, in form and substance acceptable to the IDB evidence of adequate resources (e.g. budget and staff) for management of environmental, social and health and safety aspects during project construction and operation.	- TGP prepared a report describing the Company's human, operational and financial resource capacity to manage effectively the environmental, social and health and safety issues during the construction (until August 2004) phase. - The Company also submitted a report estimating its requirements to manage these issues during the operation phase.	The document which provides evidence of adequate resources for the management of environmental, social and health and safety aspects during project construction and operation is available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/Recursos%20Operacionales.pdf with the exception of financial information which is deemed confidential information.
(11) Provide evidence of formal coordination between TGP and Pluspetrol and Tractebel in relation to environmental, social and health and safety aspects.	- An Environmental, Social and Health and Safety Committee (ESHS Committee) was created in March 2003 to ensure coordination of environmental, social, and health and safety issues among TGP, Pluspetrol, Tractebel and other Project sponsors. - The Committee bylaws were approved in January 2004. - TGP and Pluspetrol have prepared a report on the creation of the ESHS Committee, its activities and bylaws, minutes of the January meeting and subsequent monthly meetings have been held	The report is available on the Camisea website at http://camisea.com.pe/downloads/BID/TGP/10%20-%20Comite%20EHS%20Camisea.pdf

Condition	Actions Taken	Results
(12) Report that demonstrates that TGP will continue to make available to the public environmental and social compliance reports at a minimum of once per month, until completion of construction and quarterly during operation.	- During construction TGP has been implementing an environmental and social supervision and monitoring system that includes making available to the public (via the Camisea webpage) the monthly compliance reports during construction, and on a quarterly basis during the operational phase.	The report entitled <i>Sistema de Monitoreo Ambiental y Social del Proyecto Camisea</i> demonstrates that TGP will continue to make available to the public environmental and social compliance reports at a minimum of once per month, until completion of construction and quarterly during operation. The report is available on the Camisea webpage at http://camisea.com.pe/downloads/BID/TGP/7-Sistema%20de%20Monitoreo.pdf.

Condition	Actions Taken	Results
(13) Report that demonstrates that TGP will enhance their existing programs of consultation with Peruvian civil society including implementing a system to routinely synthesize and report supervision/monitoring results to affected population and NGOs and having annual environmental and social audits performed by independent group during operation phase of the Camisea Project and making results of such audit available to the public.	- Since the development of the EIA and during the construction phase, TGP has been implementing a Social Communication Program. - During the preparation of the EIA communication was focused on the local affected people. - Starting June 2002, TGP expanded the communication with the PCS, including quarterly information sessions and a site visit by members of the PCS. - Starting December 2003 TGP replaced the quarterly meetings with working sessions, including a specific working group with representatives of NGOs particularly interested in the Right-of-way (ROW). - In December 2003, the PCS appointed a group of three experts to actively participate in the preparation and review of the erosion control, re-vegetation, access control and biodiversity monitoring plans. - For the operation phase of the Project, based on IDB recommendations, TGP has proposed a series of enhancements to the Social Communication Plan, including: (a) Participation of the Community Monitoring team in the review of the environmental and social monitoring reports and preparation of a summary environmental and social monitoring report that can be easily understood by the local affected people; (b) Disclosure of the summary report to the communities on a monthly basis; (c) Formalization of the Camisea Consultative Committee (CCC), which includes a group of NGOs and representatives of the native and rural communities that have been actively participating in the social communication activities, which will operate on a voluntary basis to protect its independence and reliability; (d) Continuation of the semi-annual site visit of the Project by the three experts appointed by the PCS; and (e) Implementation of an annual audit by the same three experts appointed by the PCS.	The enhanced Social Communication Program is available in the Camisea webpage at http://camisea.com.pe/downloads/BID/TGP/9a%20-%20Plan%20de%20Comunicacion%20Camisea.pdf. See Condition 6 and 8 for additional related details.

III. PLUSPETROL

Condition	Actions Taken	Results
(1) The GOP approval of the Environmental Impact Assessment (EIA) for the Fractionation Plant and Marine Terminal;	- The DGAA (MEM) issued on April 4, 2003 “<i>Resolución Directoral</i>” 173-2003 EM/DGAA partially approving the Environmental Impact Assessment (EIA) for the Fractionation Plant and Marine Terminal. The partial approval authorized the beginning of the construction works for the Fractionation Plant but requested additional information regarding the environmental and social impacts of the marine terminal. - Between April and July 2003, Pluspetrol provided the additional information requested by DGAA and subsequently DGAA issued the final approval of the EIA for the Fractionation Plant and the Marine Terminal on July 11, 2003.	DGAA provided final approval of the EIA for the Fractionation Plant and Marine Terminal by issuing “Resolución Directoral” 284-2003-EM/DGAA, on July 11, 2003. Copies of both permits are at the Camisea webpage at http://camisea.com.pe/downloads/BID/RD-284-2003-EM-DGAA%20con%20Anexos.pdf.

Condition	Actions Taken	Results
(2) In relation to the fractionation plant and marine terminal proposed for Playa Loberia, evidence of Public disclosure of all complementary studies/assessments (i.e., subsequent to EIA) that have been done to fully identify the project environmental and social impacts from all components (e.g., underwater pipeline, ship traffic, etc.)	- The full baseline study and all complementary studies and assessments prepared for the fractionation plant and marine terminal (i.e., associated with addition of the EIA) were consolidated into a new version to their consideration of the EIA for the Fractionation Plant and Marine Terminal entitled "Consolidation of Environmental and Social Impact Assessment Natural Gas Liquids Fractionation Plant Project and Loading Facilities". This document has been disclosed to the public. - From July 2003 to August 2003, Pluspetrol held a number of public meetings to disclose and discuss the additional documentation. - Additional discussions related to Paracas Bay have been held associated with the meetings of the Commission for Sustainable Development of Paracas (CDSP, in Spanish).	The consolidated version of the EIA for the Fractionation Plant and Marine Terminal entitled "Consolidation of E&SIA Natural Gas Liquids Fractionation Plant Project and Loading Facilities" is available at the Camisea webpage at http://www.camisea.com.pe/costa_estudio2.asp The list of all consultations held by Pluspetrol in relation to the EIA and additional studies for the Fractionation Plant and Marine Terminal as of April 2003 is presented as Annex D to the IDB Environmental and Social Impact Report (ESIR) and is posted on the IDB webpage at http://www.iadb.org/extr/doc98/pro/pe02227.pdf See related Condition 3, and http://www.camisea.com.pe/costa_estudios2.asp

Condition	Actions Taken	Results
(3) In relation to the fractionation plant and marine terminal proposed for Playa Loberia description of all necessary mitigation and monitoring measures in order that construction and operational project-related (on land, underwater pipeline, ship traffic, etc.) environmental and social impacts and risks will be adequately mitigated, including specifically the construction phase Environmental and Social Management Plan (ESMP) and Contingency Plan, water quality monitoring program for dredging and pipeline installation, including acceptable criteria and standards, risk assessment including all spill modeling, and principles and framework for operation phase Contingency Plan and Spill Prevention Counter-Control Plan including acceptable criteria and standards (in addition to IDB requirement established here in item (iii) that has to be acceptable to the IDB, as mentioned in section 8.1, the IDB has proposed that the Upstream Component agreement requires all construction-phase plans to be in form and substance acceptable to the applicable lenders prior to first disbursement and compliance with such plans is an environmental and social requirement in the agreement)	- As part of the ELA for the fractionation plant and marine terminal Pluspetrol prepared an environmental management plan, including a dredging monitoring plan, a risk assessment, a contingency plan and spill prevention and countercontrol plan for both the construction and the operational phases. - Pluspetrol enhanced these documents upon reviews and recommendations by IDB staff and an independent group of experts (including a Peruvian expert and an IDB independent consultant), results of public meetings held in Paracas and Pisco, and additional studies carried on by the Company, such as the mathematical models of the several alternatives for construction methods of the subsea pipeline and of the potential spills. - On March 24, 2004 Pluspetrol submitted to IDB the revised Dredging Monitoring Plan and ESMP for construction (including the Risk Assessment and Contingency Plan) and made them available at the Camisea webpage. - Simultaneously, Pluspetrol submitted to IDB a draft Contingency Plan and Spill Prevention and Countercontrol Plan for the operational phase and posted it on the Camisea webpage. - Pluspetrol subsequently enhanced these plans based upon reviews and recommendations by IDB staff and IDB independent consultants. - On June 7, 2004 (60 days prior to operation) Pluspetrol submitted to the IDB the final versions of the ESMP, the Contingency Plan and the Spill Prevention and Countercontrol Plan for the operational phase of the fractionation plant and marine terminal. - The IDB independent consultant and IDB staff reviewed these plans and found them to be adequate.	The final version of the ESMP for construction (including the Risk Assessment and the Contingency Plan, and the mathematical models and dredging monitoring plan) and its annexes are available at the Camisea webpage at http://camisea.com.pe/downloads/BID/ESMP/isco-ENGFinal.pdf and http://www.camisea.com.pe/estados_anexo6.asp respectively. The operation phase ESMP, Contingency Plan and the Spill Prevention and Countercontrol Plan are available at the Camisea webpage www.camisea.com.pe/estados.asp

Condition	Actions Taken	Results
(4) Action plan to develop and implement a strategic regional development and management plan which will address potential induced impacts of fractionation facility, other sources of wastewater effluent or pollution to the Paracas Bay, and adequate funding of the Paracas National Park management plan	- Pluspetrol is actively involved in the CDSP and in all its six working groups, which is the entity formally responsible for developing the strategic regional development and management plan for Paracas Bay. - Pluspetrol has developed a series of actions to comply with its Corporate Social Commitments approved as part of the conditions established in the DGAA approval of the EIA of the Fractionation Plant and Marine Terminal. These actions include specific activities related to improvements in the management of the Paracas Bay, including an agreement with INRENA for the creation of a US\$7 million fund for the environmental management of the Paracas National Reserve, and agreements with the Municipalities of Pisco, Paracas and San Andres to reduce waste and wastewater pollution. - On March 24, 2004, Pluspetrol submitted to IDB a document summarizing all the initiatives and activities undertaken by Pluspetrol under the Company's Corporate Social Commitments and a summary of its activities in the CDSP. - In June 2004, the CDSP submitted to IDB an Action Plan for the Strategic Regional Development and Management Plan for the Paracas area as part of the GOP actions associated with the GOP Letter of Commitment (see Table 4-2 for details)	Pluspetrol's document summarizing all the initiatives and activities undertaken under the Company's Corporate Social Commitments, and the summary of its activities in the CDSP are both available at the Camisea webpage at http://camisea.com.pe/downloads/BID/7_engFinal%20con%20Anexos.pdf and http://www.camisea.com.pe/downloads/BID/20Rev1_ENG.pdf respectively. See Table 4-2 for reference to Action Plan for the Strategic Regional Development and Management Plan for the Paracas Area.
(5) In relation to the Upstream Component, receive in form and substance satisfactory to the IDB, the environmental monitoring plans for the Fractionation Plant and Marine Terminal; such plans shall have been reviewed by an independent expert working group acceptable to the IDB	- The environmental monitoring plans are part of the ESMP for Fractionation Plant and Marine Terminal. - A preliminary ESMP for the construction phase of the Fractionation Plant and Marine Terminal was developed as part of the EIA and reviewed as part of the IDB environmental and social due-diligence. - Subsequently, a detailed ESMP was developed and discussed with IDB staff. - An expert group comprised of a Peruvian expert and the IDB independent consultant reviewed the detailed ESMP and recommended adjustments. - The final version of the ESMP was submitted to the IDB on March 24, 2004.	On March 24, 2004 Pluspetrol submitted to IDB the revised ESMP, which incorporates the recommendations from the expert group. The revised ESMP and its annexes is available in the Camisea webpage at http://camisea.com.pe/downloads/BID/ESMPPisco-ENGFinal.pdf and http://www.camisea.com.pe/estados_anexo6.asp, respectively.

Condition	Actions Taken	Results
(6) In relation to the Upstream Component, receive in form and substance satisfactory to the IDB, documentation confirming Pluspetrol providing an additional contribution, beyond that which Pluspetrol has already committed as of August 2003, toward financing part of the capital cost to reduce the pollution in the bay, such as installation of wastewater treatment for fish meal plants.	- In August 2003, prior to the IDB Board of Directors approval of the loan to TGP, Pluspetrol had committed an investment of US\$22.5 million towards the reduction of pollution in the Paracas Bay area. - As of March 2004, Pluspetrol had committed an investment of approximately US\$23.7 million in relation to projects, activities and initiatives associated with the reduction of pollution and the sustainable development in the Paracas Bay area of influence.	The document summarizing Pluspetrol's direct and indirect contributions in relation to projects, activities and initiatives directly and indirectly associated with the reduction of pollution and the sustainable development in the Paracas Bay area of influence is available in the Camisea webpage at http://camisea.com.pe/downloads/BID/7_engFinal%20con%20Anexos.pdf Such commitments of US\$ 23.7 million is US\$1.2 million more than the original US\$22.5 million committed in August 2003.

Condition	Actions Taken	Results
(7) For on-going or completed construction, Pluspetrol shall prepare a report demonstrating the effectiveness of the erosion and sedimentation control measures along all of the flowlines within Block 88 and links to Las Malvinas, with attention to areas having slope instability and loss of soil. (Prior to financial close)	- An adequate Erosion Control Plan is the primary means to ensure adequacy of soil erosion management. Pluspetrol originally developed the Erosion and Sedimentation Control Plan as part of the EIA. - Pluspetrol subsequently revised and significantly enhanced the Erosion and Sedimentation Control Plan throughout the construction period in order to address the specificities and difficulties encountered in the field as well as concerns and requirements established by the IDB and its independent consultants as part of the IDB environmental and social due-diligence. The plan includes both temporary and permanent erosion and sedimentation control measures. - A full-time daily assessment of soil erosion during construction was performed by EMA (independent consultant hired by Pluspetrol) and URS (independent consultant contracted by the IDB). - As part of the process, the IDB and Pluspetrol involved Peruvian civil society (PCS) to help finalize the Erosion and Sedimentation Control Plan. This included a group of experts, including a Peruvian expert in soil erosion, was nominated by the PCS to review and approve the criteria used to evaluate the re-vegetation, erosion control, access control and biodiversity monitoring processes. - On several occasions, the plan was revised and discussed with the PCS, including a workshop held in Lima on December 11, 2003. - The Peruvian expert and the IDB performed a site visit in January 2004, and a revised plan was prepared, including a preliminary set of performance criteria. - This plan was reviewed and discussed with PCS in a workshop held in Lima from March 8 - 9, 2004. - The final Erosion and Sedimentation Control Plan includes the comments received during the review process and the final performance criteria agreed to by the PCS expert group. - The Pluspetrol final Erosion Control Plan, which incorporates the final performance evaluation criteria, was submitted to IDB on March 24 and immediately posted in the Camisea webpage. - Confirmation of the effectiveness of the implementation of Pluspetrol's Erosion Control Plan was provided by two independent reports – EMA, and URS (IDB Independent Monitors), based on site inspections. A site visit by two URS experts was performed in November 2003 (prior to the rainy season) and June 2004 (following the rainy season), to verify that both temporary and permanent erosion control measures were adequate to stand the season. - In addition, EMA issues weekly reports that confirm the adequacy of erosion control measures.	The report submitted by Pluspetrol confirming the effectiveness of the implementation of Pluspetrol's Erosion Control Plan is available in the Camisea webpage http://camisea.com.pe/downloads/BID/8_engFinal.pdf This report includes the confirmation of the effectiveness of the implementation of Pluspetrol's Erosion Control Plan provided by EMA and URS (November 2003). URS performed an additional inspection in June 2004 and issued a report that is available in the Camisea webpage at www.camisea.com.pe/estados.asp EMA monthly reports are available at the Camisea webpage (www.camisea.com.pe/reports.asp).

Condition	Actions Taken	Results
(8) Pluspetrol shall initiate and fund a monitoring program, satisfactory to the Inter-American Development Bank of waterways (major streams) affected by the sedimentation. A report indicating parameters, biodiversity indices, and aquatic life must be submitted followed by periodic reporting of results. (Prior to financial close and on-going thereafter)	- Water quality monitoring in major streams affected by sedimentation is part of Pluspetrol's ESMP. - Subsequently, Pluspetrol commissioned an additional and enhanced monitoring program associated with the hydrobiology and fishing in the main rivers. The monitoring program was specifically designed to assess potential negative impacts on fishing activities and sedimentation as a result of Pluspetrol's activities. - On March 24, 2004, Pluspetrol submitted an enhanced monitoring program and the results of the two quarterly monitoring campaigns performed in the March-May 2003, and June-August 2003 periods. - Subsequently, in June 2004, Pluspetrol submitted to IDB the results of the first 2004 quarterly monitoring.	Pluspetrol's monitoring program associated with the hydrobiology and fishing in the main rivers is available in the Camisea webpage at http://www.camisea.com.pe/downloads/BI-D/9%20ENGLISH%20FINAL.pdf.pdf The document includes all quarterly monitoring results available until March 2003. The results of the first 2004 quarter monitoring are also posted. The results of the monitoring do not point out to a direct or indirect relation between changes in the fishing activities and the sedimentation caused by the Camisea project.

Condition	Actions Taken	Results
(9) Pluspetrol shall provide evidence, satisfactory to the Inter-American Development Bank that all areas where construction is completed are being effectively re-vegetated and reclaimed with species native to the location and that such recovery will be monitored for an extended period under a precise plan of action until these areas are stabilized. (Prior to financial close)	- At the time of Board approval, Pluspetrol had developed a preliminary revegetation plan. - A final revegetation plan was developed, including specific performance criteria, based upon input from a group of experts nominated by the PCS and IDB (see Condition 1 for TGP for complete summary of actions taken to develop the plan) - On March 24, 2004, Pluspetrol presented a report providing evidence that all areas where construction is completed are being effectively re-vegetated, in particular San Martín 1 and San Martín 3 wells, flowlines and Las Malvinas, including the landfills and its accesses. The report incorporates comments made by the IDB independent consultants, the technical experience of INMAC S.A. consultants, hired by Pluspetrol for the revegetation work on Block 88.	The Pluspetrol report providing evidence that all areas where construction is completed are being effectively re-vegetated is available at the Camisea webpage http://camisea.com.pe/downloads/BID/10_eng%20con%20Anexos.pdf. The report demonstrates that the areas where construction has ended have effectively been revegetated with native species and that the monitoring and maintenance of revegetation will be done in an appropriate way until such areas are completely stable, according to the appropriate work plan. The report also includes a photographic annex with pictures from “before” and “after” up to March 2004. An updated version with information as of June 2004 is also provided at the Camisea webpage. www.camisea.com.pe/estados.asp

Condition	Actions Taken	Results
(10) The Inter-American Development Bank shall receive the final compensation plan for native and indigenous populations directly and indirectly affected by completed and on-going construction at SM-1, SM-3 and Block 88 flowlines.	- The Compensation Plan was part of Pluspetrol's ESMP for construction phase. - The Compensation Plan was enhanced based on additional reviews and studies performed by IDB (ILO consultant and social consultant). - On March 24, 2004, Pluspetrol submitted a revised version of the Compensation Plan, including also the current status of compensation of the native and indigenous communities in the direct and indirect area of influence of the Upstream component of the Camisea project, the work program for future activities, and the study on the economic value of natural and cultural resources used to define the compensation amounts. - In June 2004 Pluspetrol submitted an enhanced version of the ESMP, including comments from IDB independent expert and updated information regarding the status of implementation of the by Compensation Plan.	The final Compensation Plan for Block 88 and its annexes are available on the Camisea webpage http://camisea.com.pe/downloads/BID/FC2311%20Compensation%20Program%20V06.pdf. See Section 3.2 for summary of compensation program.
(11) Pluspetrol shall submit updates to existing Environmental and Social Management Plans, to take into account findings from recent assessments, such as, but not limited to, the ethnic RSA and Health surveys.	- The ESMP was part of the Project EIA. - Various components of the ESMP were further developed into detailed procedures and some were enhanced based upon field experiences. - In May 2003, Pluspetrol suspended works in the Nauh-Kugapakori reserved area for the completion of a Rapid Social Assessment. Recommendation from this assessment were incorporated into the ESMP. - A revised ESMP was reviewed by IDB environmental and social consultants.	The Environmental and Social Management Plan is available at the Camisea webpage www.camisea.com.pe/estados.asp.
(12) Pluspetrol shall submit, in a report format, the results of a topographic survey for the right-of-way extension of the flowlines & access road from SM-1 to SM-3. (Prior to financial close and no later than 60 days prior to construction of CR-1 and CR-3 wells, flowlines and access roads).	- On March 24, 2004, Pluspetrol submitted the topographic survey report.	The report, including topographic maps, is available at the Camisea webpage at http://camisea.com.pe/downloads/BID/13_FINAL%20ENG.pdf

Condition	Actions Taken	Results
(13) Pluspetrol shall provide a detailed report on biodiversity baseline conditions ahead of altering existing ecosystems. (Prior to financial close for SM-1 and SM-3 areas and no later than 60 days prior to construction start at CR-1 and CR-3 areas)	- The detailed baseline study of biodiversity was available as part of the EIA for Block 88 (thus ahead of altering existing ecosystems). The information, however, was dispersed among a number of studies and documents. -Subsequently, Pluspetrol consolidated all the existing studies used as baseline prior to construction in San Martín 1 and San Martín 3. -The baseline information was compiled from studies carried out in the area by the Smithsonian Institution and Environmental Resources Management (ERM) between 1997 and 2001. It also includes studies regarding the use of natural resources by the native communities. - On March 24, 2004, Pluspetrol submitted the consolidated document and made it available in the Camisea webpage.	The consolidated biodiversity baseline (ahead of altering existing ecosystems) for Block 88 is available at the Camisea webpage at http://camisea.com.pe/downloads/BID/14%20FinalENG%20FINAL.pdf
(14) Pluspetrol shall provide the Inter-American Development Bank with regular environmental performance reports (monthly during construction and quarterly during operations) including compliance with emission and effluent levels for all major pollution discharge point sources within the project as set forth in Tables 3-2 and 3-4 of the Inter-American Development Bank's ESIR. (Prior to financial close for completed/on-going construction)	- On March 24, 2004, Pluspetrol submitted to a report that provides evidence of compliance with emission and effluent levels for all major pollution discharge point sources within the project as set forth in Tables 3-2 and 3-4 of the ESIR. The quarterly monitoring reports that are included as annexes present results from October to December 2003. - Subsequently, in June 2004, Pluspetrol submitted the monitoring results from the first quarter 2004.	The effluents monitoring report provided to IDB in March 2004 is available at the Camisea webpage at http://camisea.com.pe/downloads/BID/15Rev04ENGCOMPLETO.pdf The monitoring results of the first quarter 2004 are also posted in the Camisea webpage.

Condition	Actions Taken	Results
(15) Pluspetrol shall submit a report detailing and explaining the array of mechanisms used to monitor its own activities, including those of its contractors, with an explanation of its non-compliance reporting system and methods for remediation when required.	- The environmental and social supervision mechanisms and procedures used by Pluspetrol during construction were reviewed by IDB as part of the environmental and social due-diligence. - Pluspetrol subsequently prepared a document consolidating all mechanisms and procedures in a single report. This report describes the mechanisms used by Pluspetrol and its contractors to supervise and monitor their activities, to identify and report non-compliances with the environmental and social management plan (ESMP) included in the EIA and subsequently detailed, and determine the applicable corrective measures.	The report detailing and explaining the array of mechanisms used to monitor its own activities is available at the Camisea webpage at http://camisea.com.pe/downloads/BID/F8FF_2_BR-FC%2016%20Final%20ENG.pdf The ESMP is supervised through Pluspetrol's and contractors' fieldworkers and by the internal and external audits periodically held. Pluspetrol has prepared a specific procedure regarding management of concerns raised by local communities non-compliances. The procedure establishes the mechanisms for the reception, documentation of and response to possible concerns received from any individual or institution, whether public or private, settled in the area of operations associated to the company as well as the non-compliances observed.

Condition	Actions Taken	Results
(16) With respect to the coastal facility at Loberia Beach, Pluspetrol shall submit a full baseline reconnaissance, further impact assessment, and a revised ESMP, satisfactory to the Inter-American Development Bank, to include the monitoring of biodiversity. Prior to its submission to the Inter-American Development Bank, the ESMP shall be reviewed by an independent expert group acceptable to the Inter-American Development Bank. The ESMP shall address the facility construction and operation that takes into account the results of the baseline reconnaissance. Such report shall cover the Project's direct area of impact and extend to Paracas Bay and the Paracas Reserve and islands. In addition, the report shall demonstrate that Pluspetrol will employ best environmental practices in the construction and installation of the pipeline system linking the fractionation plant and the marine terminal so as to minimize the disruption of sedimentation and other environmental impacts during construction and subsequent maintenance activities. Pluspetrol shall provide evidence that the measures set forth in the ESMP are being fully implemented. (Prior to financial close for the construction portion and 60 days prior to operations for the ESMP)	- The existing baseline information for the fractionation plant and marine terminal was dispersed among several documents. Pluspetrol subsequently consolidated the full baseline and further impact assessment into a single document entitled "Consolidation of Environmental and Social Impact Assessment of the Natural Gas Liquids Fractionation Plant Project and Loading Facilities". See Pluspetrol Condition 2 for additional details. - This consolidated document reviewed by the IDB independent consultant and found to be adequate. - As part of the EIA for the fractionation plant and marine terminal Pluspetrol prepared an environmental management plan, including a dredging monitoring plan, a risk assessment, a contingency plan and spill prevention and countercontrol plan for both the construction and the operational phases. - Pluspetrol enhanced these documents upon reviews and recommendations by IDB staff and an independent group of experts (including a Peruvian expert and an IDB independent consultant), results of public meetings held in Paracas and Pisco, and additional studies carried on by the Company, such as the mathematical models of the several alternatives for construction methods of the subsea pipeline and of the potential spills. See Pluspetrol Condition 3 for additional details. - In June 2004, Pluspetrol submitted the detailed ESMP for the operational phase and was posted on the project's webpage.	Both the final ESMP for construction and the final ESMP for operations are available at the Camisea webpage at http://www.camisea.com.pe/download/s/BID/ESMP%20Pisco_V06.pdf The ESMP for construction includes the monitoring program for the dredging and the mathematical model that was developed to define the best environmental construction method for the sub sea pipelines. It also includes specific construction procedures for the dredging, disposal of dredged materials, refueling of equipment, and other procedures developed to minimize environmental impacts. See related Pluspetrol Conditions 2 and 3.

Condition	Actions Taken	Results
(17) Report providing evidence of adequate resources (e.g., budget and staff) for management of environmental, social, and health and safety aspects during project construction and operations.	- Pluspetrol presented the ESMPs for construction and operation of the activities in Block 88 and the fractionation plant and marine terminal. - The ESMPs contain information regarding the staff involved in the environmental and social management during construction and operations.	The ESMP for construction of the fractionation plant and marine terminal is available at the Camisea webpage at http://camisea.com.pe/downloads/BID/ESMPPisco-ENGFinal.pdf The ESMP for operations of the fractionation plant and marine terminal is available at the Camisea webpage. The ESMP for construction of the activities in Block 88 is available at http://www.camisea.com.pe/download/s/BID/Lote 88_provisional.pdf, and the annexes at http://www.camisea.com.pe/download/s/BID/Annex/%20I/%20-%20IV/%20Schemes.zip The ESMP for operations of the activities in Block 88 is available at the Camisea webpage. www.camisea.com.pe/estados.asp

Condition	Actions Taken	Results
(18) Environmental and Social Management Plan (ESMP) for all activities within and surrounding Block 88, including Las Malvinas. Such plan will take into account baseline data, and include mitigation and monitoring plans in sufficient. In addition, a spill contingency plan satisfactory to IDB. Plans are for Operations. (Condition is for 60 days prior to operation)	- Pluspetrol prepared an Environmental and Social Management Plan (ESMP) as part of the Environmental and Social Impact Assessment (EIA). - Pluspetrol reviewed its initial ESMP and produced a more detailed Environmental and Social Management Plan (ESMP) for all activities within and surrounding Block 88, including Las Malvinas, taking into account baseline data, and including detailed mitigation and monitoring plans and procedures. - Pluspetrol prepared a Contingency and Spill Plan as part of the Environmental and Social Impact Assessment (EIA). - Pluspetrol reviewed the preliminary Contingency and Spill Plan, and produced a more detailed plan that addresses all activities within and surrounding Block 88, including Las Malvinas, takes into account baseline data, and includes detailed mitigation and monitoring plans and procedures	The detailed Environmental and Social Management Plan (ESMP) for all activities within and surrounding Block 88, including Las Malvinas, taking into account baseline data, and including detailed mitigation and monitoring plans and procedures is available on the Camisea webpage. The detailed Contingency Plan and Spill Prevention and Counter Control Plan that addresses all activities within and surrounding Block 88, including Las Malvinas, takes into account baseline data, and includes detailed mitigation and monitoring plans and procedures is available on the Camisea webpage. www.camisea.com.pe/estados.asp
(19) Waste Management Plan for the entire Upstream Project (operations). (Condition is for 60 days prior to operation)	- The Waste Management Plan for the entire Upstream Project was part of Pluspetrol's initial Environmental and Social Management Plan (ESMP). - The Waste Management Plan was subsequently revised and enhanced as part of the revised Environmental and Social Management Plan (ESMP)(see Condition 18).	The revised Waste Management Plan for the entire Upstream Project is available on the Camisea webpage. www.camisea.com.pe/estados.asp

Condition	Actions Taken	Results
(20) With respect to operational phase of the coastal facility at Loberia Beach, an ESMP, satisfactory to IDB, to include the monitoring of biodiversity. The ESMP shall have been reviewed by an independent expert group acceptable to the IDB. The ESMP shall address the facility operation that takes into account the results of the baseline reconnaissance. Such report shall cover the Project's direct area of impact and extend to Paracas Bay and the Paracas Reserve and islands. (Condition is for 60 days prior to operation) (21) Report on a traffic study, satisfactory to IDB, of the impacts on the Paracas Area due to air emissions, traffic flow, potential accidents, and potential release of hazardous substances. (Condition is for 60 days prior to operation) (22) Pluspetrol shall make all reports required within the conditions set forth above simultaneously available to the public, both in print and by posting on the internet, in Spanish and in English, at the time of the submission of such reports to the Inter-American Development Bank.	- Pluspetrol developed a draft ESMP for the operation of the fractionation plant and marine terminal, including a monitoring plan, that incorporates monitoring of biodiversity and extends from the project direct area of influence to Paracas Bay and the Paracas Reserve and islands. - The monitoring plan was reviewed by the IDB independent expert and considered to be adequate. - The draft ESMP was reviewed by an independent expert group including an IDB expert and a Peruvian expert. - Upon their comments, Pluspetrol prepared the final version of the ESMP. - Pluspetrol prepared a preliminary traffic study as part of the EIA for the fractionation plant and marine terminal. - This study was further detailed and a draft was submitted to IDB for review. - Pluspetrol made the above referenced Upstream Related plans and reports prepared to comply with the conditions established by the IDB simultaneously available to the public, both in print at the IDB Country office and by posting on the internet, in Spanish and in English, at the time of the submission of the final reports to the IDB.	The final ESMP for operations of the coastal facility at Loberia Beach (fractionation plant and marine terminal) including monitoring of biodiversity and extending from the project direct area of influence to Paracas Bay and the Paracas Reserve and islands is available on the Camisea webpage. www.camisea.com.pe/estados.asp The traffic study is available in the Camisea webpage. www.camisea.com.pe/estados.asp All information regarding compliance with the IDB requirements is posted on the Camisea webpage at http://www.camisea.com.pe/. Printed copies are available at the IDB Country office in Lima, Peru.

TABLE 4-2

STATUS SUMMARY OF ACTIONS ASSOCIATED WITH THE GOVERNMENT OF PERU LETTER OF COMMITMENT

GOP Commitments	Actions	Status
(I) Perform its obligations under Peruvian law in order to preserve the environmental and social sustainability of the areas of influence of the Camisea Gas Project	All those responsibilities included in the other commitments accepted by the GOP.	See status of commitments below. In addition, see the progress in the implementation of IDB institutional strengthening loan 1441/OC-PE with the GOP, especially associated with the GOP agencies involved in supervision of the Camisea Project.
(II) Fully and effectively complete all components in the IDB public sector loan 1441/OC-PE with the GOP on Institutional Strengthening.	Those established in the institutional strengthening loan 1441/OC-PE	The loan was approved (4 December 2002), the contract has been signed (27 February 2003), and the loan has been declared eligible (19 June 2003). The first disbursement was on July 25, 2003. The objective is to strengthen the institutions that are directly supervising and monitoring the project, foster sustainable development in the area of influence of the project, and to support GOP initiatives to mitigate and/or prevent certain negative impacts from the project over the medium and long term. Approximately 46% of total program cost has been disbursed or committed. The local contribution record is excellent, with US\$1.3 million committed, representing 58% of planned project funding. Those funds are being used primarily to support OSINERG, which since April 2002 has been overseeing compliance with existing environmental and social regulations, as well as the commitments assumed by the companies in the environmental and social impact studies. The counterpart contribution of the GOP is also supporting the operation of the Camisea Ombudsman during 2003 and 2004.
		With respect to the loan itself, 18% has been disbursed and an additional 20% committed. Committed amounts reflect an accelerated pace of execution this year: roughly 30% of the loan was committed in the first five months. Of the balance pending commitment (US\$3.1 million), 11% is programmed for administration and monitoring; 71% for institutional strengthening, including US\$1.3 million (41% of the remainder) for preinvestment and the Camisea Fund; 16% for studies and investments to mitigate indirect impacts; and 2% for financial expenses.

GOP Commitments	Actions	Status
		In examining the timing of loan disbursements, recognizing that the construction stage of the Camisea Project is nearing conclusion, it is important to note that 80% of loan funds earmarked for consulting studies on institutional strengthening (US\$1 million) has been disbursed or committed, as has 54% (US\$599,000) of the funding earmarked for impact studies and mitigation. With respect to pending studies, the preparation of regional sustainable development plans and the land-use plan account for most of the undisbursed funding, since they are intended to mitigate impacts that will occur only over the medium and longer terms. Contracts have been signed with regional governments for preparation of the development plans. For additional details see the June 2004 IDB report on evaluation of the loan..
(III) Participate in the development and implementation of a Camisea Fund, financed by GOP royalties and company participation, to assist in local economic, environmental and social development in areas of the project influence	A. Present design documentation on the Fund, which must include mechanisms for financing, administrative support, financing criteria, and the amounts to be committed by Fund participants.	A. The design documentation for the Fund was completed on 15 March 2004. The Fund's purpose is to ensure that communities and natural resources in the project's zone of influence will benefit during and after the life of the project. The Fund will support projects for social, economic and environmental development in the project's areas of influence. Its priority will be to serve the most vulnerable communities in that zone. The project calls for the GOP to contribute initially with 7.5% of domestic royalties from the production of hydrocarbons associated with the Project. TGP is also committed to providing US\$250,000 a year. The document was prepared with the participation of various entities and in consultation with the civil society since 2003. In February 2004, in meetings held with the GTCL, the companies, IDB, hired consultants and members of civil society, a general agreement was reached on the purpose and scope of the Fund, and on the issues pending GOP decision. As a result, a draft design for the Fund was circulated in advance of the consultation workshop held on 12 March 2004 with representatives of civil society, the GOP, IDB and the companies. The preliminary design document for the Camisea Fund incorporates observations and recommendations from the workshop. The design document is available at http://www.minem.gob.pe/gtcicamisea/compromisos.asp.

GOP Commitments	Actions	Status
	B. Programs for involving civil society	B. In addition to the EIA approval consultations, a participatory workshop was held in October 2003 in Pisco, with more than 150 participants, to foster the disclosure of technical, environmental and social information on the Camisea Project and on the construction of the fractionation plant. In addition, a workshop was held in February 2004 in Pisco to provide information on the Dredging Plan, and another was held on March 23, 2004 on environmental and social monitoring for the fractionation plant. Subsequently, on April 23 2004, there was a practical test of the transfer and removal of fine sediments from the dredging, attended by governmental institutions, IDB monitors, Pluspetrol representatives and representatives of civil society, including artisan fishermen's associations from San Andres, El Chaco-Lagunilla, and Laguna Grande, the artisan boat owners' association, and a representative of the Paracas National Reserve.
(VI) Actively participate and promote a system for ongoing strategic environmental planning for the Lower Urubamba area in order [to] ensure the environmental and social sustainability of the area, especially in relation to any future projects, and such planning to be multi-disciplinary, multi-stakeholders, in coordination with local and regional authorities.	A. Develop a forest management plan for the basin of the Lower Urubamba.	A. INRENA has prepared a Plan to Control Illegal Cutting and Transport of Lumber in the Ucayali and Camisea Zone. The plan includes an analysis and criteria for the proposed forest and wildlife management system in the Camisea project's area of influence. On the basis of that study, INRENA has identified the location of control posts in strategic zones of the Lower Urubamba. The control posts will be built with financing from IDB loan 1441. INRENA has formalized the Plan through executive resolution N°051-2004-INRENA.

GOP Commitments	Actions	Status
	B. Evaluate options for the strategic environmental system of the valley of the Lower Urubamba and prepare the action plan. C. Develop the strategic environmental system for the Lower Urubamba Valley. D. Implement the system and routine reporting.	B. INRENA has contracted up to 10 consultants to assess and identify options and prepare the action plan, identifying stakeholders to be involved in establishing a strategic environmental system, the design options for those systems, a review of existing documentation, and a preliminary diagnostic assessment of the zone. Phase I of the consulting work will end with a preliminary proposal for a strategic environmental system (SAE). An intermediate output will be to present the results of the options evaluation and the action plan for developing the system. The strategic environmental system will have three specific objectives: (1) environmental and social monitoring and supervision of the zone, using a baseline with clear indicators and monitoring procedures; (2) implement environmental and social "early warning" mechanisms for local, regional and national decision-makers; and (3) make specific recommendations on sustainable development of the zone, relating to natural resource management and land use. C. Following action, B INRENA will develop the plan of action, monitoring and communication for implementing the SAE.
(VII) Actively participate and promote a multiple-stakeholder system, in coordination with local and regional authorities and provide the necessary funding for the administration and operation, for ongoing strategic regional development and management of the Paracas Bay , in order to ensure the environmental sustainability of the Paracas Bay and of Paracas National Park, including addressing land use classification (zoning) of areas to prevent any future development that is not fully compatible with protection of Paracas Bay and Paracas National Park, especially addressing the problem of fish meal companies and other sources of wastewater effluent to the Paracas Bay including	A. Create the Commission and determine its executive group.	A. The government created the Commission for the Sustainable Development of Paracas Bay (CDSP) by Supreme Decree 029-EM-2003 (September 2003) to propose mechanisms for improving environmental conditions in the Bay, preventing and mitigating any impacts, and achieving consensus on ways to ensure sustainability of the bay. The CDSP membership includes government agencies, the private sector, and civil society, coordinated by CONAM. As part of the activities of the Commission, six working groups have been established. Since their creation, the CDSP and the working groups have held periodic working meetings in Pisco.

GOP Commitments	Actions	Status
expediting the process of applying PAMA (<i>Programa de Adecuación y Manejo Ambiental</i>) procedures to the fish and meal plants in a manner consistent with Peruvian law, and adequate funding for the Paracas National Park management plan.	B. Develop an Action Plan acceptable to the IDB and the various stakeholders. C. Develop a Preliminary Strategic Environmental Plan for the Paracas Bay. D. Develop a Strategic Environmental Plan for the Paracas Bay.	B. On 8 June 2004 the CDSP presented the Action Plan for Preparation of a Strategic Plan for Sustainable Development, Rehabilitation and Risk Management of the Pisco-Paracas Bay Area. It describes how the rehabilitation and risk management plan will be prepared. It will be based on strategic planning for sustainable development, with a focus on rehabilitation and risk management for the Bay. The Sustainable Development Plan will be prepared based on a Strategic Planning for Sustainable Development process, which includes as core elements the rehabilitation and risk management in the bay. The process includes the adoption of consensus-based decisions, financing, and mechanisms for implementing the plan, and identifying suitable institutional arrangements for integrated management for sustainable development in the area of influence of Paracas Bay. C. The CDSP has completed its diagnostic assessment of the bay and is now preparing a first draft of preliminary plan (estimated for July or August with a complete preliminary plan by September or October 2004). The preliminary plan will include proposed actions on each key theme and financial and institutional mechanisms for implementing it over the medium and long term, including the Rehabilitation and Risk Management Plan for the Bay, and institutional arrangements for an integrated approach to the sustainable development of the area of influence of the bay. This plan is part of promoting the strategic planning system for regional development and environmental management of the Paracas Bay. A number of studies are being conducted in conjunction with the plan: zoning plan for the buffer zone of the Paracas National Reserve; environmental education and citizen participation program; wastewater treatment project; solid waste collection and treatment project; restriction and elimination of disruptive activities in Paracas; establishment of maximum permissible limits for emissions from fishmeal plants; and alternatives for the prevention and treatment of fishmeal plants. D. The final plan will be developed once the preliminary plan has been discussed and approved.

GOP Commitments	Actions	Status
	E. Implement the Strategic Environmental Plan for the Paracas Bay	E. One of the components of the strategic plan will be a proposed institutional mechanism to ensure the execution of the plan and the development of the principal projects.

GOP Commitments	Actions	Status
	F. Develop and implement specific short-term actions.	F. The diagnostic assessment of the buffer zone for the Paracas National Reserve will be presented shortly. On 15 Aug 2004 INRENA will present the Zoning Plan for the Buffer Zone, agreed with the CDSP and the Provincial Municipality of Pisco. The CDSP must ask the municipality to promulgate the plan through a municipal ordinance. Pluspetrol has made various commitments for projects to reduce pollution in Paracas Bay and to promote sustainable development in its area of influence. Those commitments currently total some US\$23.7 million which will be disbursed over 25 years and include: (1) a US\$7 million contract with INRENA for management of the Paracas National Reserve; (2) waste management contracts in the municipalities of Pisco, Paracas and San Andrés (under negotiation) totaling US\$13.1 million; (3) contracts with local fishermen's organizations in Pisco, San Andrés and Paracas, for US\$800,000 each; and (4) contracts with the municipalities of Pisco and Paracas for beach cleanup. Activities concurrent with preparation of the Strategic Environmental Plan include: (1) preparation of local environmental management systems in San Andrés, Paracas and Pisco; (2) preparation and approval of the regional environmental policy and the Ica regional environmental management system; (3) approval by the local environmental research group on air quality (GESTA del aire) of an air cleanup plan for Pisco; and (4) strengthening local fishermen's management capacities. It has been confirmed that the PAMAs for the fishmeal plants have been fulfilled, but their environmental objectives have not been achieved, partly because there are no maximum permissible limits (MPL) that the companies must observe. The GOP is conducting studies to establish environmental quality standards for the fishmeal industry. The CDSP has identified more than 60 works/projects that are being reviewed for impact and short-term implementation. That list will serve as guidance for the strategic plan for sustainable development, rehabilitation and risk management for the Pisco-Paracas Bay area. The composition of the CDSP is being proposed to be expanded, via a Supreme Decree, to add Board of Directors to strengthen its executive capacity and balance the composition of stakeholders in the bay.

GOP Commitments	Actions	Status
(VIII) Implement the necessary policy and legal changes that will require all future hydrocarbon concessions with output flowing through the Camisea pipeline to conform to internationally-recognized environmental and social safeguards and standards, such as those of the International Finance Corporation, regardless of whether they receive official public finance..	A. Review current policies and regulations to identify any gaps and the required adjustments. B. Modifications and proposed guideline documents.	A. In January 2004 the DGAA established a coordination committee including Perupetro, the DGH and OSINERG to analyze this commitment. The DGAA has prepared a legal analysis and a technical analysis for improving environmental and social standards applicable to hydrocarbon activities. B. The DGAA is preparing new environmental protection regulations for the hydrocarbons industry. The proposal, scheduled for early July, will be submitted for public consultation before it is officially approved. Perupetro in coordination with the DGH and the DGAAE has amended clause 13 of the standard contract for exploration and exploitation to be used for lot 56 and subsequent lots. Perupetro has signed contracts for lots 57 and 90 and is negotiating lot 56 with Pluspetrol. Through the referred clause and its regulation, these contracts are being adjusted to comply with internationally recognized social and environmental norms and standards. For these purposes, Perupetro and the contracting companies have signed an agreement, which includes environmental and social aspects for lots 57 and 90.

GOP Commitments	Actions	Status
	C. Strengthen the capacity of the Office for Environmental Affairs (DGAA) of the Ministry of Energy and Mines (MEM)	C. Under IDB loan 1441 a social consultant in hydrocarbons has been contracted to oversee fulfillment of local development plans, payment of compensation, and the work of community relations workers. The consultant provides technical opinions on social aspects of hydrocarbon activities and the Camisea project in particular, and ensures participation by peasant and native communities and the general public. Additionally, two consultants have been hired to implement the Camisea environmental information system, and two consultants to systematize and publish information. In April 2004 the MEM established the General Directorate on Energy-related Environmental Affairs (DGAAE). The DGAAE already has a work plan, with dedicated technical and administrative personnel, for 2004-2006, and is working on new environmental protection regulations for hydrocarbon activities. This restructuring has streamlined the review and evaluation of environmental impact studies for the various activities in the energy sector. It has also formalized and improved the structure and contents of the technical report that the specialists present when evaluating an environmental impact study for an energy project. In terms of human resources, the restructured DGAAE has 24 employees: 20 professionals (an increase of 7) and 4 technical staff.

GOP Commitments	Actions	Status
(IX) Implement technical assistance to those governmental entities that will be receiving (or have access to) money from project royalties, canons, taxes, etc. related to revenue management, transparent and participatory regional planning processes, local government support to protect areas, and the adoption of sustainable development principles into the design and implementation of infrastructure projects	A. Identify existing technical assistance programs (e.g. under other IDB loans).	A. The GOP has submitted the National Plan for Training and Technical Assistance in Public Management for Strengthening Regional and Local Governments of the National Decentralization Council (CND). This plan contains a detailed description of the management problems and needs of regional and local governments. Training and technical assistance needs were identified through surveys and participatory work. In addition, the Ministry of Economy and Finance (MEF) has prepared a training plan in public investment specifically for the Camisea Project's area of influence designed to help the staff of local government entities manage their resources effectively by equipping them with the skills needed to identify public investment projects, and a mastery of the basic concepts of project formulation and evaluation in various economic sectors, in order to promote an adequate use of resources of the government entities. This Plan considers training for Cusco and it is Provinces, which are the ones which will receive royalties from the gas pipeline, which will begin in mid-July through a special program with MEM resources and support by the CAREC hydrocarbon training fund.

GOP Commitments	Actions	Status
	B. Implement technical assistance programs C. Develop a land-use plan or similar strategic plan for the territory, in coordination with CND and regional governments. D. Prepare sustainable development plans for the Camisea project's area of influence	B. Technical assistance has been provided to local governments that will receive royalties from gas exploitation in order to strengthen their capacity to formulate, evaluate and manage public investment projects. These activities relate in general to the National Public Investment System governing public projects in Peru, and specifically to agriculture, sanitation, road infrastructure, and health. The first stage has had a regional focus, while subsequent stages will target local governments directly. This technical assistance has been aimed at the employees of regional governments, regional sectoral directorates, and the general public in each region. All trainees were selected on the basis of their role in preparing or managing public investment projects for their region, including those of local governments. The number of persons in the MEF, MINAG and MINSA who have received training under technical assistance programs in connection with the Camisea project is respectively 982, 183, and 144. Also, the GOP has presented a proposal from the DGPM entitled "Training and Technical Assistance: Camisea Project Action Plan." This is expected to benefit 38 municipalities and provide training for 3,800 officials and technical staff. The DGPM sponsored a basic course in the formulation and evaluation of public investment projects in Cuzco on 25-28 March 2004. C. The MEM has signed 3 technical cooperation agreements with the regional governments of Cuzco, Huancavelica and Ayacucho, and one with the Province of La Convención, in support of their Sustainable Development Plans (action D) These agreements include land-use planning. As part of the scope of the development of the sustainable development plans the MEM has hired a consultant which has prepared an action plan and the terms of reference for regional coordinators to ensure adequate execution of the plans for the Camisea project's area of influence. D. The MEM has signed technical cooperation agreements with the regional governments in support of their sustainable development plans in the Camisea project's area of influence. Those plans will serve to identify projects to be supported through the Camisea Fund. The plans will also contain guidelines for optimizing resource allocation and use, and will be prepared with public participation.

GOP Commitments	Actions	Status
	E. System for environmental review (e.g. by consultants) of the proposed projects.	E. The environmental review system for project proposals is now being developed. This system will take account of available instruments and procedures in the competent institutions.
(X) Provide the necessary and sufficient resources over the life of the Camisea Project for the complete implementation of the management plans for Otishi National Park, Communal Reserves of Ashaninka and Machiguenga, Megantoni Sanctuary (once created), enhanced protected area to be established in the Nahua-Kugapakori Reserve, and the Paracas National Reserve.	A. Identify the resources required for implementing the plan for the Paracas National Reserve and the Otishi National Park B. Establish mechanisms C. Establish the Megantoni Sanctuary D. Develop management plans for the Otishi National Park and the Ashaninka and Machiguenga Communal Reserves. E. Annual budget approved	A. INRENA has prepared the "Financial Plan for Protected Natural Areas in the Zone of Influence of the Camisea Pipeline: Preliminary Version." This plan defines the projected financial needs for managing the protected natural areas: (1) Paracas National Reserve, (2) Otishi National Park, (3) Ashaninka Communal Reserve, (4) Machiguenga Communal Reserve, and (5) Megantoni National Sanctuary. The plan also establishes a number of financing mechanisms, which will incorporate gradually resources from the public budget. B. The proposed mechanisms are: (1) financing the Paracas National Reserve through Pluspetrol funding managed by PROFONAMPE; (2) financing the protected areas of Otishi and the Megantoni Sanctuary under the Camisea Fund; and (3) financing the Nahua-Kugapakori Reserve through the IDB and CAF loans (short term) and the GOP's annual budget (long term). In addition, compensation funds paid by Pluspetrol for the impacts of construction and operations within the reserve could be used for the Nahua-Kugapakori. C. Through RM 0243-2004-AG of 9 March 2004 the "Megantoni" Protected Area was established. INRENA has concluded the documentation for its final classification, and expects to complete this work in July 2004. D. These plans are now being developed, including the corresponding consultation. E. Annual budget approved
(XI) Ensure the routine GOP supervision/monitoring activities and results of the Camisea Project are made available to the public, such as via the GTCI or Camisea Project websites, in accordance with applicable confidential information regulations.	A. Information Disclosure Program	A. Information on the GOP's supervision of the project is available at the following websites: MEM (GTCT) at www.minem.gob.pe/gticcamisea ; OSINERG at http://www.osinerg.gob.pe/ ; DIGESA at http://www.minsa.gob.pe/portalminsa/directorioinstitucional/ ; INRENA at http://www.inrena.gob.pe/ and <i>Defensoria de Camisea</i> (the Camisea Ombudsman's Office) at

GOP Commitments	Actions	Status
		http://www.minem.gob.pe/gtcicamisea/defensoria.asp. OSINERG is revising the executive summary of its reports to improve the information provided to the public. GTCl has prepared an Outreach Plan that includes mechanisms, topics and means of dissemination. As a result of this plan, GTCl will implement measures to intensive disclosure of the progress and results of the Project.
(XII) Improve the provision of GOP services and health monitoring in the Lower Urubamba, including development and implementation of an epidemiological action plan.	A. Implement the vaccination program	A. Under a contract with the GTCl, the Ministry of Health has implemented a vaccination program with funding from IDB loan 1441. The program consisted of three separate vaccination events.
	B. Improve health posts.	B. The program is being revised on the basis of a strategic reassessment of the services provided at health posts for indigenous people living in voluntary isolation. MINSA and CONAPA are preparing a Plan for the Protection and Defense of the Indigenous Communities Living in Isolation, that will incorporate this aspect.
	C. Identify basic health service needs.	C. MINSA has prepared a draft schedule of health service needs in the Nahua-Kugapakori reserve, based on the findings of the Nanti epidemiological study. It is now reassessing its healthcare model in the face of health emergencies and adverse impacts of the clinic/health aid model.
	D. Proposed plan for review and consultation	D. MINSA and CONAPA in coordination and with the support of a consultant, are preparing an action plan with the details of the activities of the Plan for the Protection and Defense of the Indigenous Communities Living in Isolation, which will include the new health model, as well as financing options. A plan for the whole Lower Urubamba is also under preparation.
	E. Final Lower Urubamba Health services and monitoring program.	E. This program will be considered as part of the Plan referred in item B.

GOP Commitments	Actions	Status
(XIII) Implement the institutional and legal mechanisms to actively prevent and remove illegal occupants in the Lower Urubamba due to the Camisea Project, according to Peruvian law, and clarify the legal and enforcement authority.	A. Identify existing legal mechanisms and resources for enforcement of such mechanisms B. Develop plan for use and implementation	A. The GOP has prepared a Strategic Plan to Block Access to the Lower Urubamba (March 2004). That plan includes (1) an assessment of land-use plans and a socioeconomic diagnostic assessment of the upper and Lower Urubamba, and (2) a report on the existing legal framework for protecting natural resources, and legal mechanisms to enforce land-use plans and protect ownership rights over forests and natural resources. The TGP and Pluspetrol access plan also contains the legal framework for protecting ownership. B. The GOP is preparing a program for implementing the plan.
(XIV) Develop the capacity of communities that are asked to exercise migration control along the Camisea pipeline in their territory, consistent with communities' established obligations for migration control.	A. Define community responsibilities B. Develop training program C. Implement the program.	A. The GOP has commissioned a study on legal mechanisms for community control over the occupancy of native community lands. The study will identify indigenous and community land rights under Peruvian law, legal and administrative mechanisms for controlling the lands of those communities and indigenous peoples, the public agencies responsible for their enforcement, and a summary table of legal and administrative mechanisms available to indigenous peoples and communities for protecting their lands. B. The GOP has prepared a training program for native communities in the Urubamba Valley, on legal and administrative mechanisms for protecting their lands. The program will train 143 people from 52 native communities and three indigenous federations with knowledge and skills for protecting their territory. Indirect beneficiaries among the indigenous peoples of the Lower Urubamba will number approximately 7,900. The GOP intends to select a nongovernmental organization to implement the program. It will be implemented in two phases. The first will be a three-month pilot phase that will begin shortly, and will be conducted by the consulting firm that prepared the program. After this pilot phase, the necessary adjustments to the program will be made so that it can be implemented by a nongovernmental organization.

GOP Commitments	Actions	Status
(XV) Review and, as appropriate, recommend modifications of the existing Pluspetrol and TGP procedures related to compensation and associated dispute resolution such that these procedures are transparent and consistent, the GOP review shall include input from the applicable project affected communities, the national and project ombudsmen, and indigenous federations, these procedures shall be made available to the applicable project affected communities, and these modified procedures will serve as a minimum to be applied to any future gas development using the Camisea pipeline.	A. Review of project contractors B. Modification of procedures for public consultation. C. Develop criteria and mechanisms for compensation of inhabitants of Nahua-Kugapakori reserve. D. Implement the method for Cashirari 1 and Cashirari 3	A. A specialized consulting firm reviewed the companies' compensation procedures of the Camisea Project companies. The preliminary document received comments from civil society at a workshop. A final document has been prepared and includes standards and guidelines to incorporate the report recommendations in future projects/actions are being prepared. B. The MEM has presented a proposal for an agreed community compensation procedure. That procedure involves three general principles and four stages of negotiation, which will include participation by the National Ombudsman's Office (<i>Defensoria del Pueblo</i>), and it proposes to adopt an economic evaluation of natural resources (used by the Camisea Project consortia) as the basis for establishing compensation. It is preparing a procedure based on the comments received. Pluspetrol and the DGAAE are applying the criteria in Pluspetrol's negotiation process with the communities for the operational phase of the project. C. The GOP has met with several groups to explore their concerns and the potential options for handling and using the money that Pluspetrol has identified as compensation to inhabitants of the reserve during the construction phase. One option discussed is to create a trust fund for indigenous people currently living in voluntary isolation. D. At this time there is no date set for initiating exploitation of CSI and CS3
(XVI) Continue and intensify civil society consultative mechanisms within the GTCI in order to improve coordination and dialogue between Peruvian civil society and the GOP.	A. Establish finalized proposal.	A. The GOP has prepared an action plan on mechanisms for the relationship with civil society. That plan includes the main precedents for participation relating to the Camisea project, and the major means of participation by civil society: roundtables, dissemination workshops, participatory monitoring, seminars and public hearings, the venues for participation, the type of organizations that should participate, the establishment of an executive committee consisting of representatives of government (3), businesses (3) and civil society (3). The plan identifies priority topics and a program of action for 2004. It presents a participation agenda for 2004 and a summary of participation activities conducted to 30 May 2004. These actions include a coordination mechanism under the responsibility of the DGAAE, which first meeting has been programmed for August 2004.

GOP Commitments	Actions	Status
	B. Implement	
(XVII) Ensure that OSINERG exercises complete and continuous supervision of the Camisea Project during construction, especially within the Nahua-Kugapakori reserve, and subsequently during operation.	A. OSINERG commitments during the construction stage B. Definition of supervision requirements for operation. C. OSINERG commitments during the operating stage	A. OSINERG has defined its commitment for supervising the construction stage, including its activities and work program. A training program with support of the gas industry external consultants is being implemented. The results of its supervision will be made public. B. OSINERG has presented its action plan for monitoring and supervision of the Camisea project for 2004. The plan includes identifying requirements for the operating stage. C. The OSINERG action plan includes all the resources necessary to fulfill the plan, the priority activities, the principal stages of implementing the project, and the work of supervising and monitoring the operations stage. The action plan also contains an estimated budget for 2004.
(XVIII) Strengthen the institutional arrangements for an effective Ombudsman oversight of the project's impacts.	A. Strengthen the National Ombudsman's Office (<i>Defensoria del Pueblo</i>) in relation to Camisea Project.	A. The National Ombudsman's Office, principally through its Program for Indigenous Communities, has participated actively using its own personnel and resources (budgetary and international cooperation funds), dealing with various petitions, complaints and queries from the public, submitted primarily to the decentralized offices in Ayacucho and Cuzco. Currently, the German Social and Technical Cooperation Service (DED) has assigned a consultant to the project for strengthening the capacities of the National Ombudsman's Office to protect and enforce civil rights in a healthy and ecologically balanced environment. Through IDB loan 1441, the National Ombudsman's Office has been provided with equipment and consulting services. The Public Services Office (<i>Adjuntia para los Servicios Públicos</i>) has a commissioner working part-time for the Camisea project. Another commissioner is working part-time on the project, reviewing the companies' compensation system and the role of the National Ombudsman's Office role in that system.

GOP Commitments	Actions	Status
	D. Evaluation of future needs during operations	D. The GOP will continue to support the National Ombudsman's Office and the Camisea Ombudsman for the project's operating phase. However, the scope for 2005 considers a potential reduction in budget since the tasks are focused in consolidating the role of the Ombudsman in the area of influence of the Project. .
(XIX) Provide information to the public on the status and results of actions taken related to this Letter of Commitment	Establish mechanisms	The Letter of Commitment and its actions and schedule are publicly available via the GTCI web page, and will be routinely updated as to status and results.
(XX) Request a loan from the IDB to finance the capital costs for wastewater treatment from the municipalities of Pisco, Paracas, and San Andres.	GOP submits request for loan	This commitment depends on the results of preparation of the strategic plan by the Commission for the Sustainable Development of Paracas Bay (commitment VII). One output from the plan will be to formulate the required projects, and this item will be included as a possible source of financing.
(XXI) Consider requesting additional resources from the IDB if necessary for fulfilling this Letter of Commitment.	Possible projects will be considered by GTCI-MEM	The GOP considers that the prospects of obtaining additional IDB funding for the program (LOC) will become clearer once some of the major activities are further advanced.

