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Hydrocarbons in the Amazon: Awakening Old Inequalities

Summary

- Private oil companies invested $800 million in Peru in 2009 alone, and another $1 billion is planned for investments in natural gas developments between 2010-2013[1], as Peru is rapidly on its way to becoming Latin America's first exporter of liquefied natural gas (LNG).
- New oil and gas revenues have contributed to Peru's steady economic growth. But growing opposition from indigenous groups to these new hydrocarbons projects is polarizing Peru's already highly unequal society and creating dangerously conflictive situations. Peru provides a dramatic example of a growing trend across Latin America where indigenous groups are challenging governments' economic development programs by raising their voices against extractive industries.

Peru's Hydrocarbons Policies: A Breeding Ground for Conflict

The expansion of the oil and natural gas sectors in Peru is part of a major development plan that also includes new projects in mining and infrastructure, mainly across the Amazon jungle. New hydroelectric plants, highways, bridges, waterways and the paving of roads are in the pipeline. President Alan Garcia argued that the development of new hydrocarbons areas is necessary to sustain Peru's economic growth and to fight poverty. But his plans have been received with unusually strong and sometimes violent resistance from indigenous groups, who fail to enjoy the economic benefits from the newly generated oil and gas revenues. Over the last decade, many social conflicts are connected to proliferation of the new oil and gas developments.

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What Triggers the Conflict?

At the center of the conflict is the government's hydrocarbons development strategy. The federal government in Lima grants licenses to companies, usually without the legally required consultation mechanisms with the local population that will be directly affected by the new developments.[2] Even regional governments are in some cases unaware of the granting of the new oil or gas license.

Once the license is granted, oil companies begin compensation negotiations directly with the communities that will be affected by the project. Freedom of operation in indigenous territories comes in exchange for basic health, education or sanitation services, in a negotiating process that usually causes divisions both inside and between the communities as they compete for a share of the much needed company resources. Such is the case in the Rio Corrientes area in the northern Amazon, where two federations representing local communities are competing for access to $14 million in health funds the oil company agreed to provide during a 10-year period[3]. These divisions leave the communities without one homogenous voice to negotiate with the companies, making the negotiation process more difficult, confusing and sometimes impossible, which in turn builds up frustration among community members.

Furthermore, the lack of transparency of company revenues creates suspicion among locals that they are not being granted their fair share. In regions where oil and gas developments resulted in significant revenues for local governments, they have not necessarily translated into social improvements for the local population, sometimes due to bureaucratic inefficiencies, other times for political reasons. For example, natural gas revenues increased the investment budget of the regional government of Cusco by more than eight times between 2004 and 2007. However, most of the funds remain unused due to a lack of administrative capacity within the regional governments to spend them; the regional projects that did get underway were directed at building infrastructure, rather than for the much needed improvement of health or education services[4].

Another factor contributing to the conflict is the fact that companies operating today in Peru are not generally recognized among those applying the latest corporate social responsibility standards. Most oil operators are junior and largely unknown outside of Latin America, with a few exceptions like Repsol and Petrobras. Smaller, sometimes family-owned companies, which in many cases are not publicly listed, do not always adopt the full force of internationally recognized social (and environmental) standards. This is because they are generally less vulnerable to the potential negative effects that social conflicts could have on their image. Peru's most notorious corruption case that shook the cabinet in 2008 was the alleged illegal granting of oil blocks to a little known Norwegian company created in 2005.

At the heart of the conflict are Peru's historically engrained socioeconomic inequalities. Peru is a good illustration of the theory supported by Frances Stewart on horizontal inequalities in showing how ethnic cleavages can be a breeding ground for conflicts[5], and how external events such as the arrival of hydrocarbons developments can easily ignite them. Ethnic differences limit access to good education, employment or health care, creating a breeding ground for collective action. This situation is further exacerbated by the failure of the state to provide basic services, and in the case of Peru's hydrocarbons developments, the generalized feeling among indigenous communities that the government defends the rights of oil companies more than the rights of its citizens.

A Booming Economy Fails to Address Social Inequality

Peru's economy is projected to grow this year at nearly 5 percent, continuing a steady trend in the past years that was briefly interrupted by the 2009 world recession. Much of Peru's growth has been largely sustained by the production of natural gas since 2004 from the giant Camisea field, located in the Cusco department in the southern Amazon. The field is being developed by a private consortium consisting of the Argentine oil company Pluspetrol, the American company Hunt Oil, and the South Korean SK Corporation. Exports from Camisea to Mexico, scheduled to start later in 2010, will continue to be one of the main engines behind that economic development trend. Hunt Oil leads the Peru-LNG consortium that will be in charge of exports and will make Peru the first Latin American country to export liquefied natural gas (LNG). Peru-LNG comprises the largest foreign direct investment in Peruvian history with $3.8 billion, according to the International Finance Corporation (IFC)[6].

In spite of this impressive economic performance, Peru has yet to shown sustainable improvements in the country's overall social indicators. Peru is a highly unequal country with a Gini coefficient of 52[7], high by world standards although at par with its neighbors. The inequalities have a strong ethnic component and the indigenous population tends to be at the bottom of the scale. While Peru is among the few Latin American countries that reduced overall poverty in the past decade, the poverty rate for nonindigenous households fell more quickly than that for indigenous groups and a remarkable 63 percent of indigenous households continue to be poor, and nearly half are extremely poor[8]. These figures are particularly striking considering that 43 percent of Peru's population is considered to be indigenous by some accounts[9].

Political Ramifications

President Garcia's political opponents have seized upon this social discontent in view of the November 2010 regional and municipal elections, and ahead of the presidential contest scheduled for April 2011. Ollanta Humala, the leader of the Nationalist Party who in 2006 barely lost in a runoff against Garcia (47.47 percent versus 52.62 percent), has raised his voice in defense of the indigenous population affected by hydrocarbons developments. Humala, who is seen as one of the possible presidential candidates in 2011, has been accused by Peruvian political analysts of trying to radicalize the indigenous opposition during bloody confrontations with security forces last year in the northern Amazon city of Bagua[10]. The impoverished condition of the indigenous population and their opposition to hydrocarbons developments fall right into the rhetoric of populist politicians such as Humala, who opinion polls show has managed to maintain the popular support he gained in 2006.

Humala is said to have close relations with Venezuela's President Hugo Chavez, and his party has been linked to the extremist group Shining Path (Sendero Luminoso in Spanish), a brutal Maoist-inspired organization that terrorized Peru for two decades in the 1980s and 1990s, causing 70,000 deaths before it ended in 2000. Remnants of the Shining Path have now made a comeback in far jungle reaches of Peru, where the group is said to be behind the country's growing illicit cocaine trade[11] with close links to the FARC, a neighboring Colombian guerrilla group[12]. While cocaine production in Colombia dropped by 28 percent in 2008, it has simultaneously grown in Peru[13].

Coca plantations, like most of the new oil blocks, are in isolated areas of Peru's Amazon, home to the country's poorest population, and largely indigenous communities. The Shining Path and the FARC also take advantage of this population's economic frailty, often filling the void left by the national government in these remote territories. It is not unusual for indigenous laborers living in the faraway northern Peruvian jungle to cross the Colombian border looking for seasonal work in illegal coca plantations run by the FARC.

Some Positive Signs

Despite the negative scenario described above, some elements exist that contribute to lowering the intensity of the conflict. Probably the most important one has been the active role of the Peruvian ombudsman (defensoria del pueblo in Spanish), an office that is well respected by all actors in the conflict. Another step in the right direction is an ongoing debate in Congress for passage of a consultation law, based on a bill presented by the ombudsman after the Bagua events in 2009.

President Garcia opened up a dialogue with indigenous communities last year to try to find solutions to the conflict. The consultation bill under debate in Congress resulted from that dialogue. While a step in the right direction, concrete steps for resolving the conflict have yet to materialize from these exchanges.

In the meantime, indigenous leaders are trying to expand their alliances within Peru and across borders, with groups in Ecuador and Bolivia, in what appears to be a nascent nationwide movement organized by popular sectors outside of Peru's capital city of Lima.

About This Brief

Patricia I. Vasquez is a Jennings Randolph senior fellow at the U.S. Institute of Peace, where she is researching conflicts related to hydrocarbons developments in Peru, Ecuador, Colombia and Bolivia. This Peace Brief is the result of years of research, including several field trips and interviews on the ground. The author is working on a book and a documentary about this subject.

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Endnotes

1. Ministry of Energy and Mines.

2. Peru is a signatory of the ILO Convention 169 that requires prior consultation with the population that will be affected by the extractive industry development.

3. *Pro y Contra.* "Fepibac de todas maneras quiere intregar directorio." August 31, 2009. Iquitos, Peru. http://www.proycontra.com.pe/2009/08/31/fepibac-de-todas-maneras-quiere-integrar-directorio.pro

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5. C. Caumartin, G. Gray Molina, R. Thorp. *Inequality, Ethnicity and Political Violence in Latin America: The Cases of Bolivia, Guatemana and Peru* in "Horizontal Inequalities and Conflict. Understanding Group Violence in Multiethnic Societies." 2008.

6. http://www.ifc.org/ifcext/plng.nsf/content/Home

7. United Nations Human Development Report (2008); the Gini coefficient measures levels of inequality.

8. C. Trivelli. *Peru* in "Indigenous Peoples, Poverty and Human Development in Latin America." Palgrave Macmillan, 2006.

9. M. H. Layton and H.A. Patrinos. *Estimating the Number of Indigenous Peoples* in "Indigenous Peoples, Poverty and Human Development in Latin America." Palgrave Macmillan, 2006.

10. http://edition.cnn.com/2009/WORLD/americas/06/08/peru.violence/

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13. United Nations Office on Drugs and Crime-Government of Colombia. Colombia Coca Cultivation Survey, (June, 2009).