Oil Fuels Peru's Nationalistic Fervor

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H1

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LIMA—When Simon Bolivar defeated the last Spanish armies in South America and made Peru an independent nation in 1824, he decreed that all abandoned mines were state property that could be sold by the new government to pay its debts.

In so doing, the "Great Liberator" planted the seeds of a controversy that would plague the Peruvian political scene for the next 134 years. Now that controversy has borne a harvest of what could be very bitter fruit for this Andean nation and its 12 million people.

On Oct. 3, the status of one of the mining deposits covered by Bolivar's decree provided the pretext for a coup that toppled the five-year-old government of President Fernando Belaunde Terry and brought Peru under the rule of the armed forces.

Less than a week later, the new military regime carried through the threat implied in the coup. It expropriated the major holdings of the International Petroleum Company — a Standard Oil of New Jersey subsidiary whose gross investment here of $208 million accounts for approximately one-third of all the direct U.S. private investment in Peru.

On the surface, IPC was expropriated because it could not reach agreement with the Peruvian government about whether it or Peru owned the country's second-largest oil field: A 643-square-mile reservation in northwestern Peru known as La Brea y Parinas.

But the real meaning of what has been going on here in recent days involves something that goes much deeper than a legalistic despute over a land title.

By its action in expropriating IPC, Peru stands to lose much more than it gains. The country currently is bogged down in a severe fiscal crisis whose resolution depends in large part on Peru's ability to refinance its foreign debt and to attract substantial new foreign investment into the mining sector of the economy.

Yet, at a time when it desperately needs all the good will it can muster within the international financial community, it has expropriated one of the two largest foreign-owned concerns in the country.

Why, then, did the new military regime headed by Gen. Juan Velasco Alvarado rush headlong into expropriation? The answer seems to be that the control of Peru's destiny finally has passed into the hands of people possessed by an emotional ultranationalism that overrides all other considerations.

The expropriation dispute stems from Bolivar's decree and a resultant legal tangle that made La Brea y Parinas the only oil field in Peru that was owned by a private company rather than operated

See FIELD, H4, Col. 5


FERNANDO BELAUNDE
. . . reaped the results

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FIELD, From H1

under a concession from the Peruvian government.

Over the years, IPC had been one of the two largest corporate taxpayers in Peru. When IPC tried to convert the field to concession status in 1957, the government rejected the move on the ground that it would reduce the company's taxes.

In addition, IPC traditionally had been known among its 4200 employes (all but 40 of whom are Peruvians) as an organization that paid better wages and provided better housing, medical and social services than any other in the country.

But neither of these considerations made any difference to those who regarded the company's special status as a continuing affront to Peruvian sovereignty.

First Oil Well

In 1863, just four years after the first oil well was completed in the United States, the first petroleum deposits in South America were tapped out of the La Brea field. With that began the dispute over who owned it.

In 1889, the field came under control of a British firm, London and Pacific Petroleum. Subsequent Peruvian attempts to decree taxes on the field equal to those on mining claims resulted in an eventual resort to international arbitration by a tribunal of Swiss, Peruvian and British judges.

The arbitration award rendered in 1922 confirmed the British firm's regime over the field, specified a settlement of back tax claims and set tax rates on the La Brea field to run through 1972.

Most neutral legal experts consider this arbitration decision as technically still binding and say that under a resort to international law procedures the Peruvian government would have no case in claiming ownership of La Brea.

SIMON BOLIVAR
. . . planted the seeds

Feelings Rise

At the same time, however, there is evidence that the British government intervened energetically on behalf of London and Pacific at the time. At any rate, nationalist emotions over La Brea began to mount.

This resentment was passed along to IPC, which purchased title to the field in 1924. Although IPC originally was a Canadian-based firm, Jersey Standard acquired an interest in it over the years that now exceeds 90 per cent.

During the presidential campaign of 1963, Belaunde, seeking the support of opposition groups, promised to resolve the status of La Brea y Parinas. After being elected, he vowed to negotiate a settlement within 90 days.

Instead, the 90 days grew into five years of torturous bickering characterized by inflexibility and frequent bad judgment on both sides. Shortly after Belaunde came into office, for example, Peru unilaterally repudiated the 1922 arbitration agreement.

Protests 'Good Faith'

IPC, for its part, continued to insist that it legally was a "holder in good faith" of the La Brea title. In standing firm, the company seemed less interested in retaining the field than in guarding against a surrender that might set a precedent against Jersey Standard's operations in other countries.

Last year, the Peruvian Congress passed legislation saying that the subsoil of the La Brea field was the property of the state and directed that the field be registered in the government's name. In addition, the government put forward the claim that, as the result of back taxes and "illicit" profits dating back to 1924, IPC owed Peru $841 million.

Then, at the end of July, Belaunde suddenly announced that an agreement had been reached. On Aug. 12, the two sides signed a document directing IPC to turn over its title to La Brea and all its surface installations on the field to the government. In return, the company was to receive a "quit claim" releasing it from all tax and illegal profit claims and a marketing agreement allowing it to purchase the major part of the La Brea output for the IPC refinery at Talara.

The president of the government oil monopoly resigned two weeks later, charging that a page was missing from the original contract. The government replied that the "missing page" never existed. But this answer failed to satisfy nationalist critics. And the suspicion grew that something underhanded had taken place.

It was in this climate, aggravated by public unrest over the chaotic fiscal situation gripping Peru for the past year, that elements within the Peruvian Army sympathetic to the nationalists' cry of "sell-out" rose to the fore.

Shift in Army

The result was the predawn coup of Oct. 3 that sent Belaunde into exile and installed an all-military government under Velasco's presidency.

The expropriation order followed. It decreed a takeover of not only La Brea but also the Talara refinery complex, which is separate from the La Brea field and whose ownership by IPC had never been in doubt.

The government has all but publicly announced that it does not intend to pay IPC one cent for its seized property. IPC, in turn, is almost certain to press the U.S. Government to apply the so-called Hickenlooper Amendment to Peru.

This is a portion of the U.S. law governing foreign aid that provides for the cutoff of assistance to any country that expropriates U.S.-owned property without making full and prompt payment for the seized assets.

Observers here expect that once the regime recovers from its euphoria over the IPC nationalization, it will mount a campaign to convince foreign banks and businesses that this was a "special case" and that it really is not hostile to foreign investment.

Most of these observers predict that the Velasco government will find it difficult to get a sympathetic hearing.