Time 10/18/68

GOVERNMENTS v. BUSINESS ABROAD

The growth of government power over the private economy is a reality that businessmen have to cope with in many nations. Last week, in different ways, three disparate governments expressed and expanded their influence. Their actions upset some plans and led to new alignments of power.

Peru: Oilfields Seized

When International Petroleum Co., a subsidiary of Standard Oil (N.J.), agreed to turn over its La Brea y Pariñas oilfields to the Peruvian government two months ago, it appeared to be assuaging one of the deepest grievances of Peru's nationalists. As things turned out, the deal did not go nearly far enough for the country's military leaders, who used it as the prime pretext for overthrowing President Fernando Belaúnde Terry (TIME, Oct. 11). Last week, having peremptorily canceled Belaúnde's agreement with IPC, Peru's new junta took a different approach. Rifle-toting infantrymen seized the disputed oilfields, a nearby refinery and other company property worth about $90 million.

This time there was serious question as to what kind of deal IPC would receive. The government announced that IPC would get some compensation but implied that it would be offered on a take-it-or-leave-it basis.

Promise and Backdown. The La Brea y Pariñas basin has long troubled Peruvian pride. IPC, owner of the fields since 1924, has tried to appease various governments by agreeing to several tax increases. It now is the country's No. 1 taxpayer.

Peruvians continued to be rankled because the *Yanqui* company owned the fields instead of merely operating them under a government concession. In his 1963 presidential campaign, Belaúnde promised to expropriate the fields but backed down after his victory. A year ago, his government began claiming that IPC owed $144 million in back taxes, the total amount of profits that the company earned in Peru during the previous 15 years. Then the two sides struck the August compromise: Peru would take ownership of the fields, but IPC would help operate them under contract. Simultaneously, the government scrubbed its $144 million claim and gave IPC the right to expand its operations elsewhere. That was hardly the sort of get-tough deal favored by the rebellious military men—or by Peruvians in general.

Political Points. By playing on jingoism, the junta also seemed to be playing with the country's present economic well-being. The expropriation threatened to frighten off foreign investors. The U.S. could always cut off economic aid if the Jersey Standard subsidiary does not receive satisfactory compensation. Washington is also in a position to suspend purchases of Peruvian sugar, some $40 million a year.

Jersey Standard routinely labeled the seizure "a clear violation of international law" and asked the State Department to refrain from stepping in actively. One reason for the company's restraint was that Peru accounts for less than 1% of its total crude-oil production. The company also figures that Peru, which has to import oil to meet its needs, can ill afford to tamper with domestic oil sources. For the moment, Peru's militarists were in no mood to yield. But there is at least a chance that the junta, having scored a few political points, may eventually offer IPC a contract to run the oilfields, much as it has been doing for 44 years.

AP