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KEY INDICATORS 02-80 October 6-13, 2002

Summary:

- Palace reorganization continues
- New image faces first scandal
- Toledo moves up slightly in two polls, down in another
- Congressional comedy of errors
- New evidence in corruption cases
- Tax collection higher than predicted in September
- Alleged Shining Path attack on Camisea pipeline reported

The Executive:

Palace team revamped. President Alejandro Toledo made additional changes to his inner circle, naming a new press coordinator and chief of staff. The changes are part of an on-going process to improve the President's image and hone the administration's message.

Rodolfo Pereira, a TV journalist, is the new press coordinator. Pereira worked for CNN before joining the press team at the Peruvian Embassy in Washington last year. He replaces Guillermo (Willy) Gonzalez in the Palace. Gonzalez, for his part, replaces Fernando de la Flor as chief of staff.

In addition to these changes, the President continues evaluating his "Kitchen Cabinet," looking for ways to improve coordination between the Palace, the Cabinet and the Congress. Most of the original Palace counselors have moved to new posts either in government agencies or embassies, and there will likely be additional changes soon.

(Comment: The changes are two-pronged, aimed at helping the President redefine his image and plugging the many leaks within the Palace. According to sources, one of the next counselors to leave will be -----, who is blamed by some of his colleagues for leaking information to the press. Rumor has it that he is embroiled in a nasty battle with former ----- Minister ----- to remain close to the President.)

Aside from new personnel, the President is also trying out a new approach towards public appearances. During the inauguration of a government program early in the week in Lima, Toledo told the assembled guests, "I am not going to make any promises." *(Comment: The Palace is trying to get the President to stick to the script during public presentations and avoid making promises he cannot keep).*

The President used October 1, celebrated as journalism day in Peru, to kick off a new relationship with the press. He awarded medals to several journalists for their

contributions to the country and declared January 26 as a national day of recognition for martyred journalists. Several dailies editorialized that the President appeared to be on the right track.

The Palace makeover also extends to First Lady Eliane Karp, who has been at the center of a number of controversies in the past few weeks (See WKI #s 73 and 77). Karp inaugurated a number of public daycare centers, known as *wawa wasis*, in Lima last week as part of the process of recasting her image. As First Lady, Karp heads the government's Children's Foundation, but has not played an active role in the organization. The Palace is working hard to show off Karp as a "traditional" First Lady who is concerned about social issues.

The new image team hit its first scandal right away, having to address mid-week reports of mismanagement of funds. The emergency food program, PRONAA, came under fire for spending 10,000 Nuevos Soles (\$2,800) on dancing girls to entertain staff at its Father's Day celebration in June. PRONAA Director Modesto Julca resigned immediately, but first spread the guilt. He said Rep. Wilmer Rengifo (Peru Posible-Lambayeque) contracted the showgirls. Also being questioned is Fernando Sheput, brother of Presidential Counselor Juan Sheput, who is the agency's head of operations.

The Palace also had to explain why the daughter of Supreme Court Judge Jose Silva, who ruled in favor of the President in a paternity suit, was recently hired to work for a state agency. Maria Silva was hired to work for PetroPeru six months ago. Since then her father ruled that Toledo did not have to take a DNA test to clear up a paternity suit. *(Comment: One high-placed politician simply shook his head over the latest scandals, wondering out loud what the President's many advisors and counselors actually do in the Palace. "Every minor scandal grows out of proportion and touches the President due to mismanagement and in-fighting among his own advisors. This is what happens when you try to govern with your friends.")*

In its most recent poll in Lima/Callao, the CPI polling found a slight improvement in the President's popularity. Toledo's approval rating improved nearly two points to 18.7 percent. The survey also found that a majority of the capital's residents have a favorable impression of the administration's social programs. More than 60 percent of voters believe the government is on the right track with its two housing programs, *Techo Propio* (My Own Roof) and *Mi Vivienda* (My Own Home). President Toledo also gained two points in a survey by the IMA firm, also in Lima/Callao. According to the company, his approval rating increased to 22.6 percent at the end of September.

In a poll by Analistas y Consultores, the firm's second poll in September, Toledo's support fell from 20 to 17.6 percent. The principal reason for the lack of support, according to 64.2 percent of those polled, is Toledo's lack of credibility because of broken promises. Of those polled in Lima/Callao, 80.8 percent disagreed with the administration's economic policies.

During a trip to Ayacucho, the President admitted that the polls were getting him down. "It is hard to get up in the morning and see you only have 18-percent support," he told journalists. He added, however, that he was not governing based on the polls.

The government had a relatively easy time deflecting another attack by APRA, the main opposition party in Congress. **APRA motioned to officially call Finance Minister Javier Silva Ruete to Congress** for a possible censure vote. APRA wanted the Minister to explain recent price increases and the government's fiscal policy. No other party voted to support the motion and all were unanimous in dismissing the move as an attempt by APRA to deflect attention away from the legal proceedings facing Augustin Mantilla, the party's former secretary general who is in jail for his links to the corruption during former President Alberto Fujimori's government. Mantilla was documented accepting a bribe in one of the many videos filmed by former National Security Advisor Vladimiro Montesinos.

Silva Ruete voluntarily appeared in Congress at the end of the week, easily addressing the questions posed by the APRA. Former President Alan Garcia, APRA's leader, said Silva Ruete is an adept politician and satisfied his party's demands for explanations about the economy.

Silva Ruete was also in New York last week to address financiers, but his meetings did not receive much attention, attracting mainly junior level analysts. This was noticeably different from recent Wall Street presentations by former Finance Minister Pedro Pablo Kuczynski, who drew large crowds in New York.

The Legislature:

Side show. Debate on constitutional reform and regional governments took a backseat to grandstanding on the part of legislators.

Discussion of the new Constitution was overshadowed by an argument over abortion, even though no member of Congress is proposing legalization of the process. Rep. Rafael Rey (Unidad Nacional-Lima) used the coalition's floor time during the constitutional debate to show a video on how abortions are performed. The graphic images brought forth protests from a number of legislators, including his Unidad Nacional's Rep. Jose Barba (Lima).

The abortion debate stems from the work defining Art. 2 of the Constitution, which says that all people have the right to life. Rey wants a specific reference to "right to life from conception" inserted. Congress failed to approve clauses on abortion and the death penalty within Art. 2. Under the law, an abortion can be carried out when the life of the mother is in serious danger.

Congress also hosted a hearing on the late July fire at the Utopia discotheque in Lima, in which 30 people perished. The congressional commission, run by Rep. Jorge Mufarech (Peru Posible-Lima) and Rep. Luis Gonzales-Posada (APRA-Ica), brought in families of the victims, as well as Utopia's owners, setting up an unfortunate confrontation. Mufarech eventually asked owner Percy North to leave the hearing.

Rounding out the week was a verbal confrontation between Mufarech and Rey over new regulations involving telecommunications. When the two men could not agree on a change from charging from the minute to charging by the second, Mufarech accused

Rey of being “planted” in Congress by former National Security Advisor Vladimiro Montesinos.

Mufarech, for his part, is once more involved in a battle with the press over his past business practices. Mufarech is suing the daily *El Comercio* for \$15 million for revisiting accusations that he did not pay taxes on luxury items imported from Chile.

Several representatives, including members of the leadership, expressed their frustration over the week’s events, using words like “show” and “circus” to describe the legislature. “A number of members prefer a circus to serious debate,” said Rep. Natale Amprimo (Somos Peru-Lima).

The Judiciary:

New evidence. The justice system was abuzz last week with news that new video and audio tapes from a widespread corruption network were beginning to surface. The Attorney General’s office received two audiotapes and more are expected in the coming weeks. The tapes were provided by former Col. Roberto Huaman, right-hand man of Montesinos’ during the heyday of the National Intelligence Service. Huaman is currently in prison awaiting trial. He claims that thousands of videos and audiotapes are missing. The Attorney General’s office said it would not release details from the tapes until they are fully transcribed.

The flurry over new tapes coincided with movement on a number of high-profile cases also linked to the Montesinos corruption network. Anti-corruption judges moved forward on cases against Dionisio Romero (Peru’s wealthiest businessman), top-level managers of Telefonica (the dominant telecommunications company), and former ministers in Fujimori’s Cabinet. Lawyers for Romero and Jose Ramon Vela, Telefonica’s general manager, asked for the cases to be closed.

Montesinos had another day in court last week, during the trial of APRA’s Augustin Mantilla, but once more refused to cooperate. He said that he would not take part in any hearings, because his rights to due process were being violated. Montesinos has been an inmate at a special prison on the Callao Navy Base since June 2001.

The courts appear to have decided on a location for Montesinos’ trial, deciding to hold it in the locale of the Anti-Corruption Court, located in San Isidro. The oral arguments in his case are tentatively set for Oct. 23. The decision to hold the hearings in the Anti-Corruption Court, however, is not set in stone, because of the costs of moving Montesinos to the hearings and the limited space of the courtroom. A number of legal experts, including Special Prosecutor Luis Vargas Valdivia, say the Anti-Corruption Court does not meet the security needs for Montesinos’ trial.

Armed Forces and National Police:

Presidential veto. President Toledo vetoed a law that called for the Armed Forces and National Police to reincorporate officers unjustly fired between 1990 and 2000. The Palace argued that the law, passed by Congress in early September, would create havoc

in the military and police promotion systems, as well as violate the Constitution. If accepted, the law would have reinstated nearly 3,000 officers.

The Economy:

Better tax performance. The tax agency, SUNAT, beat its own prediction for September, with overall receipts increasing by more than 12 percent. SUNAT Director Beatriz Merino had originally predicted a 10-percent increase. Tax collection increased by 12.3 percent, led by a 21.5-percent jump in sales tax receipts, 18.7 percent from excise taxes and 15.9 percent from income taxes. Tax receipts were also up in August, giving the SUNAT the first back-to-back positive months since late 2001.

Inflation in September was 0.48 percent, one of the highest rates this year. The Nuevo Sol lost 1.37 percent of its value compared to the U.S. dollar during the month. The Central Bank pumped \$126.8 million into the economy to keep the exchange rate from deteriorating further.

Foreign reserves fell slightly in September, because of the Central Bank's decision to inject U.S. dollars into the economy. Reserves ended the month down \$29 million. However, the monthly drop was offset right away in October, with reserves increasing by \$85 million in the first week of the new month. Foreign reserves ended the first week of October at \$9.94 billion.

Although official statistics from August are still unavailable, **Finance Minister Javier Silva Ruete says the economy probably expanded by 3.8 percent that month.** A number of local and international analysts agree, with several of them upping by several decimal points their predictions for gross domestic product growth for the year.

The Social Security Commission in Congress approved a bill that would allow private pension funds to increase from 10 to 20 percent the amount of capital they can invest abroad.

Domestic and Social Issues:

Divisions continue. Pablo Casuso, vice president of the Loreto Patriotic Front, resigned his post last week, citing differences with the Front's leaders. Casuso charged Front President Orlando Escudero with using the organization to further his personal political ambitions.

Divisions in the self-defense fronts in Cajamarca, known as *rondas*, continue. The different *ronda* groups are at odds over the presence of the National Coordination Committee of Communities Affected by Mining (CONACAMI) in Cajamarca. They also have divergent opinions on Minera Yanacocha and how communities can collaborate with the company.

Divisions in the different defense fronts around the country are expected to grow as the Nov. 17 municipal and regional elections approach. Defense Front leaders are running for office in many localities. In Cajamarca, for example, several leaders of the

environmental movement are running against -- and viciously attacking -- each other for mayor.

The government is preparing for an **Oct. 10 strike announced by the National Committee of Farming Unions**. The strike is being called to demand better prices for agricultural products and more government programs to help farmers.

Coca-growing farmers in the northern Upper Huallaga Valley are threatening to call a strike if the government does not stick to agreements reached earlier in the year. Specifically, the farmers want the government to refrain from any eradication programs until alternative development programs are in place. Coca is the raw material used to make cocaine.

Crime:

Break in trafficking ring. National Police officers got a break in their work investigating drug trafficking rings with the suicide of a local drug dealer. The police say Alberto Perez-Caneto, who killed himself at his Miraflores apartment, was in charge of "burriers" smuggling cocaine through Jorge Chavez International Airport. Several people have been arrested on evidence uncovered in Perez-Caneto's apartment. The police have arrested more than 25 burriers in the past few weeks.

Local authorities are growing increasingly concerned about an increase in the price of coca, the raw material used to make cocaine. According to Drug Czar Nils Ericsson, the price of a kilo of coca has quadrupled recently, hitting \$4 a kilo. Ericsson and others are also concerned about interdiction efforts, especially air interdiction, which remains stalled. The head of the Navy, Adm. Ricardo Arbocco, warned that Peru's coast was becoming a sea of drugs and that the Navy did not have the manpower or equipment to patrol all the ports.

A Peruvian was arrested at the airport in Santiago, Chile with five kilos of heroin. The arrest once more raised concern that Peru was becoming a major point on the poppy-opium-heroin market.

According to a recent survey on citizen security by the Apoyo firm, 57 percent of Lima/Callao residents responded that a family member or friend has been the victim of a street crime in the past 12 months. Another 51 percent said they had family or friends whose house had been robbed.

The government is preparing to present new laws being generated by the National Citizen Security Commission, headed by Vice President Raul Diez Canseco. The commission is planning to present **10 bills to Congress in the coming weeks**. President Toledo set up the commission in early September.

The police raided a giant open-air auto parts market in downtown Lima, confiscating hundreds of motors and other pieces of stolen vehicles. They also arrested four people accused of running a car theft ring. An average of 10 vehicles a day are stolen in Lima.

General Security Situation:

Gunning for Camisea? The daily *El Comercio* reported that members of the Shining Path attacked a campsite of a company building part of the pipeline that will carry Camisea gas to the coast. The attack took place on September 27 in Tambillo, 30 kilometers west of the city of Ayacucho. Several tractors belonging to Techint SAC were damaged in the attack.

Anti-terror police officers, however, are not convinced the Shining Path carried out the attack. The rebels allegedly said they were from the Shining Path and shouted slogans supporting Abimael Guzman, the party's founder, and Oscar Ramirez, known as "Feliciano." Using the phrase Shining Path and shouting vivas for Guzman and Ramirez would, some claim, be unlikely for true Shining Path members. The party never refers to itself as "Shining Path," but as the Communist Party of Peru, and Guzman and Ramirez are enemies, leading different factions of the party.

The Anti-Terrorism Court took the first step in the retrial of accused Shining Path member Maritza Garrido Lecca, who was arrested in 1992 with Guzman. The Supreme Court recently ordered that Garrido Lecca receive a new trial, because she was at first tried by a military court. The prosecutor on the case filed a motion on October 4, accusing Garrido Lecca of leadership in a terrorist organization. Her trial is expected to take place in the next 12 to 18 months.

Residents in Satipo, in the jungle region of the Junin department, are demanding the resignation of the Peace Commissioner in their zone. The Peace Commissioner, Luis Sanchez, was appointed several months ago by President Toledo. The commissioner post was designed to bring together different state agencies and the armed forces in a coordinated effort to fight subversion and drug trafficking. Residents, however, say that Sanchez is inefficient and that the Shining Path is taking advantage of problems in the office to expand their presence in the region. There are three commissioners operating in different areas, including Ayacucho and the Upper Huallaga Valley.