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Hydrocarbon Exploration in Peru

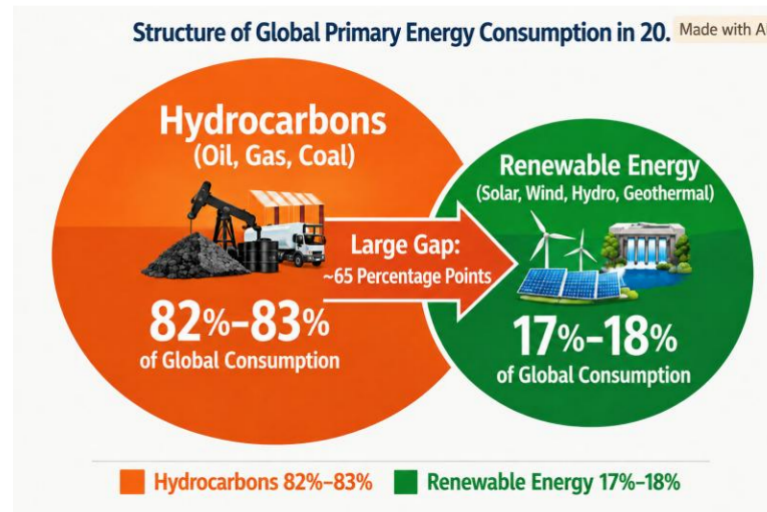
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INTRODUCTION

Hydrocarbons are the primary energy source in Peru, accounting for 70% of the energy consumed across sectors such as mining, fisheries, transportation, agriculture, and manufacturing—industries that rely on them for operations and whose activities have helped improve the country's economic and social landscape.

Technological advancements in recent decades have established hydrocarbons as the most critical energy input; the wide range of transformations and applications associated with them has fostered a diverse array of producers, thereby boosting the national economy.

The Peruvian oil industry is characterized by **natural resource depletion, a lack of investment, social conflict, and institutional weakness.**



When regulations were simpler, there were more exploration contracts and higher investment; investment fell once complex reforms and bureaucracy set in. The aim of making royalties or contracts more flexible is to attract capital, but this must be done with clear clauses ensuring benefits for the State, transparent royalties, technology transfer, and environmental remediation for marginal or high-risk fields. Peru cannot repeat the mistake of awarding blocks with minimal royalties that ultimately leave behind environmental liabilities and yield no fiscal benefit.

Cumbersome procedures and poorly designed reforms have led to a decline in active exploration contracts; constant changes to royalties and administrative requirements created uncertainty and drove away capital. Offshore activity is not actually new—it was already provided for in Law 26221 and its regulations—but what is missing is a solid technical framework for deepwater and ultra-deepwater operations.

Peru should not give away its resources, but it needs a smart royalty scheme: fixed where profitability is clear, and flexible where there is risk or marginal fields. This way, investment is attracted without sacrificing oil revenue or sovereignty.

Institutional reform is essential to reverse fragmentation and boost the Peruvian energy sector. Simplification and specialization are key to sustainable and competitive development.

GOALS

To emerge from the oil crisis in Peru, strategic objectives must be clear and technical, because the problem is structural and cannot be resolved through isolated measures:

Immediate objectives (short-term)

- Securing domestic supply: ensuring imports of crude oil and derivatives while domestic production is insufficient..
- Restructure Petroperú: reduce debt, make the costs of the Talara Refinery transparent, and prevent it from continuing to drain public resources.
- Reactivate stalled blocks: resolve social conflicts in Block 192 and Block 8 to restore Amazonian production.
- Contingency plan for Camisea: ensure redundancy in gas transport and prevent a pipeline rupture from bringing the country to a standstill.

Medium-term objectives

- Encourage exploration and new reserves: improve Perupetro contracts to attract private investment in Talara, Marañón, and Ucayali..
- Diversify the energy mix: promote small-scale hydroelectric, solar, and wind power to reduce reliance on gas..
- Remediating environmental liabilities: more than 3,200 contaminated sites must be addressed to restore public trust.
- Strengthen institutional capacity: grant technical autonomy to PERUPETRO and the Ministry of Energy and Mines.

Long-term objectives

- **National energy security:** creating strategic crude oil and gas reserves for emergencies.
- **Regional integration:** agreements with Colombia and Brazil for energy exchange and crisis support.
- **Orderly transition:** preparing the country for a post-oil scenario, with investment in clean energy and storage.
- **Technical training:** training engineers and geologists in reservoir management and renewable energy.



HISTORY

The oil industry in Peru began in 1863, when the first producing oil well was drilled near Zorritos—located in the Tumbes Department in northeastern Peru, within the Progreso Basin—marking the first oil well drilled in South America. Despite this historic milestone, it is important to note that oil production has not achieved the level of development seen in other Latin American countries, due to the following factors:

1. The lack of interest on the part of governments in the development of the country's oil industry.
2. The largest volume of investment was directed towards mining.
3. A lack of knowledge regarding the country's oil potential.
4. Depletion of reserves and mature wells.
5. Shutdown and suspension of operations at production blocks and oil pipelines.
6. Decline in investment in hydrocarbon exploration and production.
7. Fewer contracts, fewer wells drilled, and less appeal for private capital.
8. PERUPETRO promotes blocks without disclosing environmental liabilities.
9. PERUPETRO awards blocks to companies lacking financial solvency and technical experience.
10. Bureaucratic procedures and social conflicts delay projects.
11. A lack of legal certainty and fiscal stability discourages investment.
12. Domestic production: **40,000–45,000 barrels per day**.
13. Domestic consumption: domestic crude meets only 26% of demand; the rest is imported.
14. **Damaged reservoirs, low pressure in fields, and socio-environmental conflicts with indigenous communities.**



HISTORY

Commercial oil production began in 1890 with the London Pacific Company in the La Brea and Pariñas area of the Talara Basin. In 1905, the Lobitos Oil Company began operations in the Lobitos area and the Lima concessions. Shortly thereafter, in 1924, the International Petroleum Company (IPC) acquired the rights held by London Pacific; subsequently, in 1960, it acquired the rights of the Lobitos Oil Company.

In 1936, the Empresa Petrolera Fiscal was established to develop the oil fields in the Zorritos area. Belco Petroleum began operations at the Mirador field in 1955; subsequently, in 1960, it commenced oil production using offshore platforms on the continental shelf within the Talara Basin.

In 1968, the La Brea y Pariñas and Lobitos Concessions oil fields were nationalized; subsequently, in 1969, Decree-Law 17753 established the integrated company Petróleos del Perú (PETROPERÚ S.A.) by incorporating the Empresa Petrolera Fiscal, thereby creating the state-owned monopoly Petróleos del Perú.

In 1939, oil was discovered at the Ganzo Azul Dome in the Ucayali Basin—marking the first oil discovery in the jungle region—followed by other discoveries such as the Maquia, Agua Caliente, and Pacaya fields in 1959, also in the Ucayali Basin.

It is important to note that the Pirin deposit was discovered in 1875 in the Titicaca Basin, in the Altiplano region.



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HISTORY

Since the nationalization of 1968, more than 30 oil companies—both state-owned and private—have operated in Peru, starting with Petroperú and followed, after the market opening of the 1990s, by foreign companies such as Occidental, Pluspetrol, Repsol, BPZ, Savia Perú, and, more recently, PetroTal.

Nationalization marked a turning point: first a state monopoly, then a wave of private concessions that fragmented the sector.

In the 1970s, PETROPERU S.A. and Occidental Petroleum discovered the Corrientes, Yanayacu, Capirona, Chambira East, Valencia, Nueva Esperanza, and Pavayacu fields in the Marañón Basin, which encouraged oil companies to sign 18 contracts based on the Peruvian Model.

During the 1970s, Occidental Petroleum also discovered the following oil fields: Capahuari Norte and Sur, Tambo, Carmen, San Jacinto Norte, Bartra, Huayuri, Dorisa, etc. A contract was signed with Occidental Petroleum for Block 1A and Block 1B, and both contracts were subsequently renegotiated in 1980 as Block 1AB.

Construction of the 853-kilometer-long North Peruvian Pipeline was completed in 1976; linking San José de Saramuro in the jungle with the Port of Bayóvar on the coast, it enabled the transport of crude oil extracted from the jungle to refineries located on the coast.



HISTORY

In 1984, Shell discovered two giant gas and condensate fields—Cashiriari and San Martín—in the Camisea area of the Ucayali Basin.

In 2008, the Pagoreni field was discovered by the Camisea Consortium (led by Pluspetrol – Block 56, Camisea – Cusco).

In 2008, Repsol discovered the Kinteroni gas field, and in 2012, Repsol discovered the Sagari gas field (Block 57, Sub-Andean Cusco).

The Urubamba (Petrobras, 2009), Picha, Taini, and Paratori (CNPC, 2016) deposits were discovered in Block 58 in Cusco, adjacent to Camisea.

Block 67 was discovered by Barrett Resources in the late 1990s and confirmed by Perenco in 2008; its main fields are Paiche, Dorado, and Piraña..

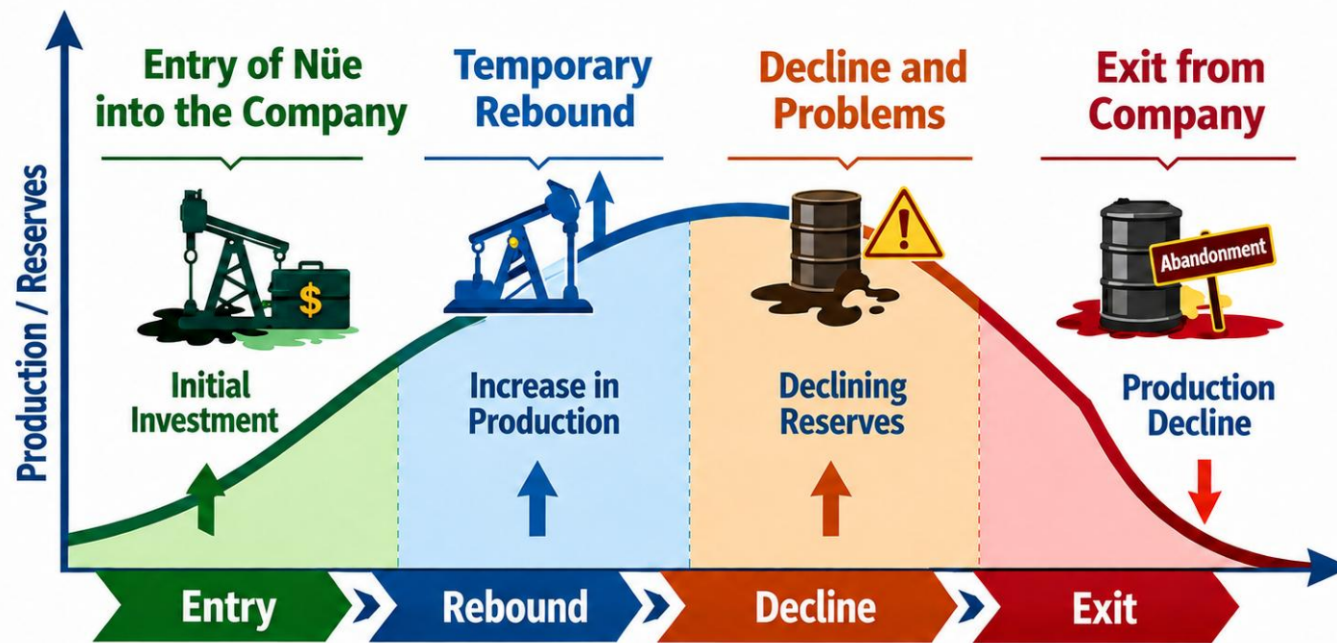
The Bretaña field, located in Block 95 (Marañón Basin, Loreto), was discovered by Gran Tierra Energy in 2009..

CEPSA (Compañía Española de Petróleos S.A.) made oil discoveries in the Ucayali Basin—specifically in Block 131—in 2014, after drilling the “Los Ángeles-1X” exploratory well.”.



TALARA LIFE CYCLE

Made with AI



Repetitive Pattern: Entry → Rebound → Decline → Exit and Fall



OIL CRISIS

An integrated oil industry requires the harmonious development of all its key, complementary activities, underpinned by a sound economy; however, the operations of Petr leos del Per  contracted due to the country's economic crisis—a decline reflected in the drop in oil production and proven reserves.

As of September 2026, oil production in Peru is at low levels—around 35,000–40,000 barrels per day—far below the historic peak of 190,000 barrels in 1982. Proven crude oil reserves stand at just 325 million barrels, reflecting the depletion of mature fields and a lack of new discoveries..

The decline in oil production and reserves in Peru is not an isolated incident, but rather the result of a combination of technical, economic, social, and political factors that have accumulated over decades..

The Peruvian oil crisis cannot be explained solely by the natural depletion of reservoirs, but rather by an institutional pattern of errors and omissions across all levels of government..

Lack of political, legal, and financial stability to guarantee a stable environment for domestic and foreign capital investment in hydrocarbon exploration and exploitation.

The negotiation, approval, and signing of oil contracts with oil companies are far too slow.

OIL CRISIS

Technical Factors

1. Mature Fields and Reservoir Depletion.
2. Secondary recovery without sustained investment.
3. Damaged reservoirs have reduced productivity and accelerated the decline in production.

Economic Factors

1. Drop in exploration investment.
2. High operating costs.
3. Exit of international operators and deteriorated infrastructure.

Social and Political Factors

1. Socio-environmental conflicts.
2. Perupetro promotes blocks with unresolved environmental liabilities.
3. Red tape and legal uncertainty discourage investment.



PETROLEUM LEGISLATION IN PERU

Petroleum legislation in Peru is primarily governed by the Organic Hydrocarbons Law No. 26221 (in effect since 1993, with subsequent amendments), complemented by supreme decrees and regulations issued by the Ministry of Energy and Mines. This regulation establishes the framework for the exploration, exploitation, transportation, refining, and marketing of hydrocarbons, as well as the environmental and tax obligations of the companies.

Peruvian hydrocarbons legislation combines Organic Hydrocarbons Law No. 26221 with a set of sectoral decrees and regulations governing the entire value chain. The current challenge is to modernize this legal framework to attract investment, ensure energy security, and raise environmental standards.

The **1993 law** was designed to attract private investment in a context of economic opening, but it became outdated in the face of current challenges: depleted reserves, the Camisea crisis, and environmental requirements..

Peru shifted from a simple, attractive framework (which generated massive investment) to a complex, volatile one that drove away capital. The proposal for flexible royalties aims to revive investment in marginal fields, but it must ensure that the State loses neither revenue nor environmental control.

Comparison chart between the 1993 Organic Hydrocarbons Law (currently in force) and the 2026 reform under discussion to address the energy crisis:

Aspect	Organic Hydrocarbons Law	2026 Reform
Contractual Framework	License and service contracts with PERUPETRO, terms of up to 30 years	Deadlines and modalities are being made more flexible, including offshore contracts and public-private partnerships.
Private Investment	Tax and foreign exchange guarantees, free disposability of hydrocarbons	Additional incentives for exploration in high-risk areas and temporary tax benefits.
Transport and Marketing	Free competition in pipelines, storage, and refining	Redundancy in critical infrastructure (gas pipelines, LPG) and strategic reserves is required.
Environmental and Social	Obligation for remediation and closure of operations, but with weak oversight.	Stricter protocols for spills, well abandonment, and real-time remote monitoring.
Institutional Framework	PERUPETRO manages contracts; limited supervision	PERUPETRO's technical autonomy is strengthened, and the roles of Osinergmin and OEFA are expanded.
Energy Security	It does not provide for strategic reserves or regional integration.	Mandatory crude oil and LPG reserves are established; energy integration with neighboring countries is promoted.
Energy transition	Not considered in 1993	Diversification into renewables and biofuels is being adopted as a state policy.

THE NEW HYDROCARBONS LAW

The current government has taken a significant step toward resolving the oil crisis and achieving hydrocarbon self-sufficiency through the new Hydrocarbons Law, which aims to boost oil investment in the country..

The Ministerio de Energía y Minas ([Minem](#)) It put the draft of the new Regulations for **Exploration and Exploitation Activities into public consultation** **Hydrocarbons**, an initiative seeking to modernize sector regulations after more than two decades and promote new investments in oil and gas exploration and production.

The proposal will replace Supreme Decree No. 032-2004-EM, in effect since 2004, and incorporates provisions aligned with international standards and the industry's technological advancements.

This regulatory update comes at a time when domestic oil production continues to decline; the new regulations aim to restore Peru's competitiveness vis-à-vis other producing nations. Modernizing the regulatory framework offers an opportunity to make the Peruvian market more attractive, particularly given that the country holds significant prospective resources—both along the coast and in the Amazon—including offshore basins with development potential.

The recovery of the investment will also depend on factors such as legal stability, regulatory predictability, efficiency in obtaining permits, and greater coordination among state entities.

THE NEW HYDROCARBONS LAW

The 2026 reform seeks to modernize the legal framework, attract investment in exploration, ensure energy security, and raise environmental standards, although it faces political and social resistance due to the role of Petroperú and conflicts in the Amazon.

The most critical provisions are those governing **contracts, royalties, transportation, and environmental obligations**. These contain the "legal bottlenecks" that explain why Peru fails to attract investment or ensure energy security. The reform aims to modernize these aspects but faces political and social resistance.

The way out of the crisis lies not in "inventing novelties" like offshore operations, but in restoring the regulatory simplicity and stability that previously fostered confidence. Peru must: simplify contracts and administrative procedures to attract investment; maintain balanced incentives that make exploration viable without giving away resources; and strengthen environmental and social oversight to avoid repeating the cycle of abandonment and liabilities.

The idea behind making royalties and incentives more flexible for marginal fields or contracts is to attract capital; this does not mean giving away resources, but it must be done through clear clauses that benefit the State. Peru cannot repeat the mistake of awarding blocks with minimal royalties that subsequently leave behind environmental liabilities and yield zero fiscal benefit.

Incorporate mandatory strategic reserves of crude oil and LPG; strengthen remote environmental monitoring and well abandonment protocols; grant greater technical autonomy to PERUPETRO; and reinforce the roles of Osinergmin / OEFA.



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THE NEW HYDROCARBONS LAW

Offshore exploration is addressed in Law 26221 specifically in Articles 6 through 9 of Title II within the framework of exploration and exploitation contracts. What is being debated today is not its legal inclusion, but rather the need for modern technical and environmental protocols for deepwater and ultra-deepwater operations (**D.S. N° 054-99-EM**)

PERUPETRO It may enter into license or service contracts for any area of the national territory—encompassing both onshore and offshore areas—explicitly including exploration and exploitation in marine waters.



The main aspects that must be incorporated into the new hydrocarbons regulations are the following:

1. Participation of domestic and foreign companies in all activities of the hydrocarbons industry based on free competition, eliminating the State involvement that has harmed the industry.
2. Simplification of the procedures for negotiating and concluding contracts with oil companies that are approved by the State.
3. Oil exploration activities are high-risk; therefore, companies wishing to participate in the transformation of the oil industry in Peru.
4. Ensure the stability of contractual conditions for domestic and foreign private capital in hydrocarbon exploration and exploitation activities.
5. Encourage the participation of a greater number of domestic and foreign companies to explore prospective areas that have not been evaluated due to a lack of capital and technology.
6. Achieve a greater number of hydrocarbon discoveries in the short, medium, and long term to ensure sufficient reserves for domestic consumption and to export the surplus.
7. Sovereignty over resources is not measured by the rigidity of regulations, but by the State's ability to transform reserves into national wealth. A flexible framework does not simply hand over resources; it activates them. Marginal and mature fields that are currently abandoned represent unproductive assets; making royalty terms more flexible is the tool to restore their value.
8. Environmental and social oversight remains a mandatory requirement, ensuring that the investment does not result in liabilities.
9. Peru must stop viewing investment as a threat and instead understand it as a tool for national development, governed by clear rules and guaranteed benefits for the State and communities.
10. Peru needs to reconsolidate technical competencies within fewer agencies, featuring specialized personnel and integrated processes. Efficiency depends not on the number of institutions, but on their technical capacity and genuine coordination.

Evolution of the Legal Framework and Its Impact on Investment

Period	Regulatory Characteristics	Impact on Investment
1990s – Law 26221 recently enacted	• Simple License and Services Agreements. • Clear and stable royalties • Fast processing with PERUPETRO • Legal certainty (tax and foreign exchange guarantees)	• Contract boom: more than 80 signed • Foreign investment • Active exploration in Talara, Marañón, and Ucayali
2000 – 2010 – Reforms and Adjustments	• Introduction of variable royalty schemes • Increased bureaucracy in contract approval • Stricter environmental regulations, but weak enforcement • Onset of social conflicts in the Amazon.	• Investment begins to fall • Fewer new contracts • Small operators abandon marginal tracts.
2010 – 2020 – Growing Complexity	• Successive reforms to royalties and contracts • Cumbersome and slow procedures • Cancellation of strategic projects (Southern Gas Pipelines) • Petroperú facing financial problems	• Investment plummets • Barely 5 active exploration contracts • Domestic production in freefall
2020 – 2026 – Crisis and Reforms Under Debate	• A relaxation of royalty terms for marginal fields is being proposed. • Tax incentives for exploration • Offshore operations are being presented as a new development • Greater environmental and social pressure	• Investment remains low due to lack of confidence. • Large operators are concentrating on a few lots. • Critical dependence on Camisea

Hydrocarbon Royalty Models

This comparative royalty model shows how different schemes affect investment and the country's oil revenue:

Scheme	Characteristics	Advantages	Disadvantages	Impact on Investment
Fixed (classic)	Stable royalty, fixed percentage of audited production (20%)	Simplicity and predictability for the State	It disincentivizes marginal or high-risk fields, because the burden is the same for all of them.	High initial investment in the 1990s, but abandonment of mature lots.
Variable (in effect in Peru)	Royalty adjusted based on international price and production volume	Flexibility in the face of high or low prices; higher income during boom periods	Complex to calculate; creates uncertainty for operators.	Investment fell because contracts became less attractive and lacked transparency.
Flexible for marginal fields (proposal)	Reduced royalty for low-production or high-risk fields, with a sliding scale if production increases.	Encourages investment in mature and marginal fields, preventing abandonment.	Risk of being perceived as giving away a resource if not properly controlled.	It can attract investment in exploration and secondary recovery, provided the State guarantees minimum returns.

- **Maintaining fixed royalties in high-production fields** → ensures stable revenue for the State.
- **Applying flexible royalties to marginal fields** → incentivizes investment in areas where no one currently wants to enter.
- **Variable royalties:** higher returns, but complex and unattractive for marginal fields.
- **Automatic escalation clauses** → If the marginal agricultural sector becomes profitable, the State receives more.
- **Transparency in calculations and contracts** → avoid the uncertainty that drives away capital.
- **Environmental and social safeguards** → mandatory condition for accessing flexible royalties

Technical-Policy Report: Proposal for Institutional Reform of the Peruvian Energy Sector

The Peruvian energy sector faces institutional fragmentation that affects its efficiency and competitiveness. This report proposes a reform to simplify the structure, improve coordination, and strengthen technical capacity.

1. Diagnosis

- A multiplicity of bodies with overlapping functions.
- Slow and bureaucratic administrative processes.
- Lack of technical specialization in several entities.
- Political and technical lack of coordination that generates uncertainty.

2. Reform Proposal

Institutional Reorganization

- Consolidate functions into a maximum of three key bodies: Ministry of Energy and Mines (MINEM): oversight and energy policy.
- Unified Supervisory Body: merger of OSINERGMIN, OEFA, and SENACE for comprehensive technical supervision.
- Promotion and Development Agency: integration of PERUPETRO and ANA for resource promotion and management.

Administrative Simplification

- Establish a single-window system for procedures and permits.
- Digitization and automation of processes.
- Reduction of project approval timelines to less than 12 months.

Technical Strengthening

- Capacitación continua y reclutamiento de personal especializado.
- Creación de un comité técnico interinstitucional para coordinación.

3. Expected Impacts

- Greater efficiency and reduced turnaround times.
- Increase in private investment.
- Improved supervision and regulatory compliance.
- Recovery of business confidence.

Conclusion

Institutional reform is essential to reverse fragmentation and boost the Peruvian energy sector. Simplification and specialization are key to sustainable and competitive development.



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