

## August 27, 2016

### Executive Summary

After winning a vote of confidence from Congress ratifying his Cabinet, President Pedro Pablo Kuczynski will seek decree powers to fast-track legislation. Whether or not the opposition-controlled Congress approves decree powers will directly affect the president's effectiveness during his first 100 days in office.

An unguarded comment from the new finance minister, who implied the previous government may have placed "moles" in the finance ministry, and subsequent backlash illustrate the political inexperience of the new Cabinet.

Congress has passed a bill to change Peru's bankruptcy regulation, extending the terms of liquidation, in an effort to save the La Oroya smelter in Junin. The move bought one more year, and up to two, for the government to create the economic conditions to attract an operator willing to purchase the historic smelter and La Cobreza copper mine.

Former President Ollanta Humala's sister was the target of a home invasion in which Spanish-speaking assailants ransacked her home in search of documents, presumably incriminating evidence against the former president and first lady for money laundering.

The interior minister presented to Congress the findings from an investigation into the national police force which confirms the existence of a "death squad" which committed extrajudicial killings.

The state oil firm has alleged that two recent spills were caused by vandalism to the Northern Peruvian Pipeline in the jungle states of Loreto and Amazonas.

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### Kuczynski government gears up to request decree powers

Next week Cabinet chief Fernando Zavala will ask Congress to grant the government decree powers to pass legislation in matters related to the economy, [crime](#), corruption and expanding coverage of running water.

President [Pedro Pablo Kuczynski](#)'s popularity has spiked since winning the election on June 5. While granting the president decree powers after assuming office is standard, nothing is guaranteed given this Congress is controlled by the Popular Force party of his runoff opponent, [Keiko Fujimori](#). Whether or not Kuczynski can implement fast change will depend on the opposition party's political calculus.

Kuczynski's approval has risen to 61% according to a recent Ipsos survey. This level of support is usually normal but considered a feat in this case given Kuczynski was never the first choice among Peruvians. Kuczynski won just 21% of the vote in the first round of voting and never polled higher than that throughout the election season. He ultimately defeated Fujimori by just half a percentage point.

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[Opposition makes government kneel in confidence vote](#)

But Kuczynski's unorthodox behavior, which includes dancing at parades and exercising in front of the Government Palace, along with his policies seem to have won over Peruvians who did not vote for him. A majority of the public supports granting the government the decree powers across the board (85% for corruption, 86% for economy, 92% for running water and 93% for crime).

Popular Force could suffer a backlash if it were to deny the government the power to legislate in its first 100 days. The same Ipsos survey showed that 72% of Fujimori voters want Congress to grant the government decree powers while only 23% want them to prioritize their own platform.

The most contentious issue will be Kuczynski's plan to reduce the national sales tax, which the president has called to bring progressively from 18% to 15% over three years. Fujimori attacked the policy during the campaign, and Popular Force has portrayed the idea as benefitting big business at the expense of everyday Peruvians.

Popular Force congressman Miguel Angel Torres has penned op-eds for various newspapers arguing against the tax cut, arguing instead for his own plan to allow small and medium-sized companies to defer tax payments for receipts already billed but not collected for three months.

Finance minister Alfredo Thorne has said that reducing the sales tax would be part of the economic legislative package, but Zavala has not confirmed whether or not the government will decree the tax cut or send it to Congress. Popular Force controls 73 of [Congress's 130 seats](#).

Of the remaining parties, Kuczynski's Peruvians for Change party holds 18 seats which will vote in favor, APRA congressman Jorge del Castillo has said his party will vote in favor and Popular Action spokesman Yonhy Lescano said his party will vote for decree powers for at least crime and corruption.

Neither the left-wing Broad Front party nor the centrist Alliance for Progress party has stated their positions at the time of publish. Broad Front is almost certain to vote against decree powers in matters of economy.

### **Finance minister's spat illustrates Cabinet weakness**

Finance minister Alfredo Thorne said in an interview that former first lady [Nadine Heredia](#) had placed "agents" inside the Ministry of Economy and Finance. Popular Force politicians immediately created a congressional committee to investigate Heredia for usurpation of power.

Former finance minister Alonso Segura, a winner of The Banker magazine's 2016 award for Finance Minister of the Year, emerged to challenge Thorne to oust the alleged moles. "Retract or give names," Segura told El Comercio. Segura has since met with Kuczynski privately in what the media framed as the president's throwing Thorne under the bus.

The incident may highlight the lack of political experience in Kuczynski's Cabinet. The president touted his technocrat-heavy Cabinet as a "luxury" government, while some observers cautioned that it lacked the political savvy needed to implement reforms.

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[Kuczynski's Cabinet ministers](#)

Alfredo Thorne is a respected economist with experience on Wall Street and at the World Bank. But navigating the cutthroat environment of national politics is new terrain for him. The verdict is still out on this Cabinet's ability to deal with a hostile Congress.

### **Congress gives another year to save La Oroya smelter**

Congress has approved a bill which would allow the bankrupt Doe Run Peru to continue operating while legally in liquidation proceedings. No [mining](#) companies have shown any interest in the company's assets in Junin which include the operational La Cobreza copper mine, the shuttered La Oroya smelter and over \$500 in liabilities.

An attempt to auction off the smelter received no bids last year, which the company handling the auction said was due to emissions standards which make operations economically unviable. Mineworkers in La Oroya held violent protests last year to demand the government relax the law in order to save 1,400 jobs, which account for 4% of the town's population.

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[Peru changes bankruptcy law in bid to save historic smelter](#)

Humala's government helped end the violent protests last year by brokering a deal which effectively prolonged the issue until now so the new government could decide how to proceed. This week's change to the bankruptcy law effectively achieves the same end in buying more time for the company to find a way to keep the smelter open.

Finding a company willing to take on La Oroya would likely mean not only relaxing environmental standards but also forgiving at least \$163 million in debts the company owes the state. A mix of tax breaks and other government incentives could also be employed to effectively offset the fines.

The center-left Popular Action was the only party which did not back the bill. But even their legislators abstained instead of voting against it. The unanimous vote illustrates the lack of political will to allow the smelter to be sold off piecemeal as in a normal liquidation process.

The situation suggests Congress and Kuczynski's government will at least ease emissions standards to save the smelter. It is unclear if that will be enough to find a new operator.

### **Former President Humala's sister targeted in Switzerland**

Two armed burglars invaded the home of President [Ollanta Humala](#)'s sister, Ivoska Seiffert, in Switzerland. The men tied Seiffert and her daughter up as they ransacked the house in search of documents. The women managed to escape, prompting the men to flee. They stole nothing. According to Seiffert, they spoke Spanish with Peruvian accents.

Seiffert came under scrutiny last year when an investigative news program revealed emails between her and her sister-in-law, former first lady Nadine Heredia, which allude to the latter using Seiffert's Swiss bank accounts.

The aim of the burglars in Switzerland was likely an attempt to obtain incriminating evidence against Humala and Heredia for money laundering. It is not clear whether the motive was extortion or political.

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[Ex-President's Sister Target Of Home Invasion In Switzerland](#)

Given last week's marathon sessions over Congress's confidence vote hinged on Cabinet chief Fernando Zavala and other officials publicly denouncing Humala's government and vowing to prosecute corruption, there are clearly power brokers who are committed to seeing Humala and Heredia charged with money laundering and maybe even sent to prison.

### Interior minister presents 'death squad' findings to Congress

Interior minister Carlos Basombrio testified before Congress on his department's investigation into the alleged death squad within the Peruvian National Police on Friday.

Basombrio confirmed that there was a conspiracy among police to entrap and then murder criminals to earn promotions and win recognition, and the conspiracy was made up of nine officers including one general and one commander. The group's first case involved charging a Trujillo businessman \$5,000 in exchange for thwarting his kidnapping.

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[Peru police planned extrajudicial killings to earn promotions: report](#)

The revelation of its first test for the government after Kuczynski campaigned on rooting out corruption, especially in the police, as a way to reduce crime in Peru.

### State oil firm alleges vandalism in latest spills

Petroperu closed the Northern Peruvian Pipeline in February following two highly publicized spills in Amazonas and Loreto states. Three more have followed, resulting in the spilling of stagnant oil left inside the pipeline.

Petroperu issued statements this month saying that at least two of these last three spills were caused by vandals who broke holes in the pipeline with tools. The state oil firm reported each breach as crimes with local police.

Both alleged cases of vandalism occurred during the month of August. The first spill occurred in the Condorcanqui province of Amazonas with the second coming in the Loreto province of Loreto state.

While the state firm has not declared who might be responsible, the most likely assumption is that environmental activists may be sabotaging the pipeline to discourage oil drilling in the Amazon jungle.