

The Chad Cameroon Petroleum Development and Pipeline Project: Risky Business

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Introduction

The US\$3.7 billion Chad Cameroon Pipeline Project represents one of the largest private sector investments in Africa. The project is being funded by both the IFC and the World Bank. According to the IFC, its involvement will fulfil three key rolls: (i) the IFC will catalyse long-term financing that would otherwise be unavailable because of the political risks associated with the project; (ii) the IFC will play a stabilising role in the project ensuring “confidence in the basic commercial and technical soundness of the project;” and (iii) IFC involvement will raise the standard and quality of the environmental assessments and mitigation plans.¹ To the extent that either the IFC or the World Bank Group have expressed a development rationale for this project it is that the project will generate revenue that will allow the governments to invest more in poverty reducing programs, such as health, education and rural development. Many critics of the project, however, question both whether the project will in fact achieve these goals given its structure and the situation on the ground and the mechanistic assumption that revenue generation is necessarily equated with poverty reduction.

In addition to the risks to the companies, the project presents significant risks to local people in both Chad and Cameroon in terms of environmental degradation, adverse health impacts, and human rights abuses. Given the political risks associated with the project and the unwillingness of the sponsors to move forward without IFC backing, the IFC should have considerable leverage in improving both project

design and implementation to ensure that the project has the intended development impact. As this case study will show, however, many problems remain with the project, including ensuring the legal and institutional structure to ensure that revenue generated will go to development, environmental safeguards will be complied with, and human rights respected. The IFC has not, however, used its leverage to ensure that the conditions are in place – in terms of institutional structure, capacity and legal structure – to ensure that this project will benefit the poor in Chad and Cameroon.

The project

The project involves the drilling of 300 oil wells in the Doba basin of southern Chad and the construction of a 1070 km export pipeline to the Atlantic coast of Cameroon. An offshore export terminal facility will be built and connected to the port of Kribi in South Cameroon by a 12 km under-water pipeline. The project is expected to produce 225,000 barrels of oil per day during peak production. Project revenue as a whole will be US\$12 billion. Expected government revenues are \$1.7 billion for Chad and \$505 million for Cameroon over the 28-year operating period. According to the World Bank, the project will “spur further oil exploration and development in Chad and Cameroon.” The project was approved by the World Bank Board of Directors on June 6, 2000. Several conditions were attached to the Board’s approval, including a requirements that management regularly report

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to the Board, offset areas, further elaborate the indigenous peoples plan, and create an International Advisory Group.

Role of the IFC

The project developer is an international consortium consisting of Exxon (40%), Chevron (25%) and Malaysia's state oil company Petronas (35%). The construction of the pipeline relies heavily on debt financing. The International Finance Corporation will provide a \$100 million loan and up to \$300 million in syndicated loans to the oil transportation companies (COTCO and TOTCO) set up by the consortium.² In the view of the oil companies, the Bank Group's support is necessary to mitigate the significant political risks associated with this project. IFC involvement has also been crucial in catalysing \$900 million in financing from commercial lenders and Export Credit Agencies as well as a \$400 million bond issue from international capital markets. In their project documentation, IFC and the World Bank state that commercial lenders "have indicated their unwillingness to proceed (with the oil project) without the Bank Group's involvement." To make a long story short, without IFC's involvement, the Chad Cameroon Pipeline Project would not get off the ground.

Overview of Key Problems

The project involves a number of environmental and social risks that have not been adequately addressed in the EIA submitted by the project sponsor. This has been confirmed by independent bodies such as the Dutch Commission on Environmental Impact Assessment. These impacts include:

- The pipeline will traverse important rivers and fragile rainforests in Cameroon that are home to indigenous Bakola peoples
- The offshore terminal poses a threat to the ecologically diverse coastal region whose inhabitants largely depend on small-scale fishery and tourism. A single oil spill could destroy the regional economy and leave Cameroon with a net loss from this project.

Responsibility for spills and other disasters is not clearly defined and an oil spill response plan has not been provided.

- The project will further limit access to clean water for the population. Water scarcity is already one of the most urgent problems in Chad.
- Oil exploitation and production will cause a significant loss of fertile land for local farmers and cattle ranchers.
- Massive migration into the project area during construction poses a threat to food security and increases the risk of ethnic conflict in the region.
- According to the project documentation, "It is expected that there will be an increase in Sexually Transmitted Diseases/AIDS, mostly in the zones near project facilities

In their own assessment, World Bank and IFC rate the overall risk of the project as "significant" and acknowledge "significant adverse impacts".

Bad Governance and Corruption

The claimed rationale behind World Bank/IFC support for the project is the alleviation of poverty in both Chad and Cameroon through increased state revenues from oil.

However, in the current climate of political instability and rampant corruption in Chad and Cameroon, the project is likely to exacerbate inequity, foster violent conflict and boost corruption. Cameroon has been rated by Transparency International as the most corrupt country in the world for two years in a row. A considerable part of Cameroon's revenues are estimated to be generated by the oil sector, but the oil revenues have to a large extent never been accounted for since they have not been included in the national budget. The word "corruption" does not even appear in the project documentation.

In 1999 in response to demands from the World Bank Group, Chad adopted a "Revenue Management Law". The Human Rights Clinical Program at Harvard Law School examined the law and concluded that it was essentially vague

and thus inadequate to prevent large-scale corruption. The program also found that in Chad the law was seen as a necessary condition of World Bank support, but that the authorities “have little intention of allowing it to affect local practice.” For Cameroon, there is no plan at all for the management of revenues, since, according to the Bank, “the project will only have a marginal impact on its overall revenue position and wealth”. While this may well be the case, it calls into question the economic rationale of this project for Cameroon. The developmental impact is even more questionable since, according the IFC, despite the high expectations raised among the population, the number of jobs created by the this project in Cameroon will be “negligible”.

Oil Development in the Midst of War

Chad is in the midst of ongoing armed conflicts between rebel groups and government forces. The Chad Government is well known for its blatant disregard of human rights. In 1997 and 1998, hundreds of civilians were massacred in the project area by national troops, for the sake of “pacifying” the region. The massacres have never been investigated and, on the contrary, local human rights groups report that the situation worsened again in May 2000, when government officials continued to harass, intimidate, arrest and torture inhabitants in the Doba region. In 1998, prominent project critic and member of parliament Yorongar Ngarlejy le Moiban, was detained, along with two journalists, and sentenced to three years imprisonment.

The risk of armed conflict on the project has not been mentioned or evaluated in the Bank Group’s appraisal of the project.

Inadequate Consultation

In the prevailing climate of violence and intimidation in Chad, adequate consultation of affected groups as prescribed by World Bank guidelines could not take place. Subsequently,

the “consultations” by the project sponsor Exxon were carried out in the presence of armed soldiers. Critics of the project continue to be harassed and threatened by the Chad Government. In early 2000, Chadian authorities suspended the activities of the local organisation EPOZOP and arrested two of its members. A survey by the group had revealed that the compensation paid for lost trees were far below the actual market value.

The Indigenous Peoples Plan produced by the project sponsor also fails to meet IFC requirements. According to the World Bank Group’s Policy On Indigenous Peoples OP 4.20, “*The strategy for addressing the issues pertaining to indigenous peoples must be based on the informed participation of the indigenous peoples themselves*”.³ It also requires the establishment of a mechanism for the legal recognition of indigenous people’s rights. None of these requirements has been met in the indigenous peoples plan for the project.

IFC’s failure to meet development objectives
The beneficiaries of this project will be the multinational oil companies and the two governments. The risk of project failure, however, rests with the affected population of Chad and Cameroon who will be harmed by environmental destruction, loss of livelihoods, ongoing human rights abuses and a deteriorating security situation. To reduce their risk even further, the companies have ensured in the legal agreements that the project is placed beyond the reach of national laws. They also secured the right that “in case of emergency”, they will have “have access to any private or public land, whatever its status or location, without prior authorisation, and with the possible assistance of the public or private emergency services”. The consortium thus has the authority to act as paramilitary power in the event of any resistance to the project. The companies also ensured that a number of national laws in Cameroon do not apply to the pipeline project, including laws on land tenure and forests.

Given the numerous adverse social impacts associated with this project and the lack of

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adequate environmental assessment and mitigation, the involvement of IFC in this venture is highly questionable. In view of the absence of a functioning judicial framework in both Chad and Cameroon, the widespread corruption in the governments and the lack of political will to introduce institutional reforms in both countries, the project is likely to further worsen the living conditions of the poor.

While releasing the multinational oil companies from carrying the political risk in this oil venture, IFC puts the burden of social and ecological risk on the shoulders of the poor population who will be the first to bear its negative consequences.

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¹ IFC, Summary of Project Information (SPI), Chad-Cameroon Petroleum Development and Pipeline Project, 3/3/2000.

² In addition to the IFC loans, IBRD will provide US\$ 92,9 million to the Governments of Chad and Cameroon to secure their equity in the transportation companies.

³ The IFC has not yet adopted its own safeguard policy on Indigenous Peoples, but applies the World Bank's Policy.