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The Chad/Cameroon Oil & Pipeline Project: Can its track record hold lessons for the Baku-Tibilisi-Ceyhan Pipeline?

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According to the World Bank, the Chad/Cameroon Oil & Pipeline project has been the most closely scrutinized project in the Bank's history. As a result special efforts have been made to "get this project right" in order to protect the Bank's credibility. With the completion of most of the construction activities scheduled for mid-2003, the project is reaching a critical milestone. Yet, official monitoring reports emphasize how the lack of progress on capacity-building and implementation of social and environmental safeguard measures, is putting the poverty reduction goals of the project at high risk. Several of these critical problems may hold lessons for the Baku-Tibilisi-Ceyhan pipeline project, which the officials making decisions about this project ought to keep in mind.

"The success of the Doba project will be measured by poverty reduction rather than by barrels of oil produced or millions of dollars received by Chad for oil exports"

Project Appraisal Document, April 2000, p. 13

I. Overview

1. Introduction

The Chad/Cameroon Oil & Pipeline project is reaching critical milestones. Most construction activities are scheduled for completion by July 2003 and initial oil sales could take place as early as November 2003. As a result, completion of construction is more than a year ahead of schedule, which

had initially been scheduled for the end of 2004.

The speed of construction work stands in marked contrast to the substantial delays of measures intended to ensure the welfare of local people and protection of the environment, some of which may never see the light of day.

Another marked contrast of the project is the level of "comfort" which the World Bank was able to carve out for itself and other lenders to ensure loan repayment by Chad and Cameroon and the lack of protection for the vulnerable and impoverished populations in the regions affected by the project. The Bank protects its IBRD loans through the establishment of an off-shore escrow account for Chad into which all oil revenues will be paid and from which loans will be repaid before the balance of funds is handed over to the Chadian government. In the case of Cameroon, the Bank is charging the country an extra 10% premium on the loan amount to cushion any potential problems.

Local people on the other hand are bearing the greatest risks. They are suffering serious threats to public health from pollution and disease. In addition, project-induced inflation has further eroded their already meager incomes and, with the doubling of grain prices, there is a risk of famine in the oil-producing region.

The reports of the two official monitoring bodies, the International Advisory Group and the External Compliance Monitoring Group, both of which are working for the World Bank Group, document these problems in some detail. However, steps for bold action to address these problems are lagging far behind and it remains to be seen if they will be dealt with in a manner to protect local people from the downward spiral of impoverishment and environmental degradation.



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The Solomon Islands is one of the few places where local land rights are legally recognised.

Nonetheless commercial logging is having a powerful negative impact on society and the environment. Photo: O Tickell.

The Chad/Cameroon Oil & Pipeline project: Lessons for BTC**2. Brief history**

The World Bank has called the Chad/Cameroon project the most scrutinized project in the institution's history. As a result of joint NGO advocacy efforts, the project underwent some changes such as the re-routing of the pipeline away from two ecologically important sites. In addition, international public attention led to the re-writing of the environmental impact assessment studies, a revenue management law in Chad intended to ensure that the oil revenues be managed in a transparent and equitable fashion, and the establishment of the International Advisory Group (IAG), a group of independent experts whose task is to monitor the implementation of the social and environmental protection measures.

Furthermore, three separate capacity building projects were to take place in tandem with the construction phase of the project to ensure that the governments would be able to monitor the oil consortium and implement their own responsibilities with regards to environmental protection, regional development and revenue management.

The high public profile of the project let the U.S. Executive Director to the World Bank to state that the project "was a defining moment in World Bank history." In other words, the World Bank was putting its credibility on the line. While recognizing potential project risks, the World Bank claimed that the risks had largely been addressed and that – after a delay of project approval by two years as a result of the international campaign - the project could no longer be delayed because it represented the only chance to reduce poverty in Chad.

At the time of project approval in June 2000, World Bank management claimed that the project presented a new model for public-private sector partnership for development. While the litmus test of the project will come when first major oil revenues are received, the experience of the construction phase and the lack of preparation for the "First Oil" phase indicate serious problems ahead, which are calling the entire rationale of the project as a vehicle for poverty reduction into question.

3. Role of World Bank Group in financial structure

The World Bank Group's participation in the project was the pre-condition for the Exxon-led consortium to go ahead with the US\$ 3.7 billion project. The private sector insisted on World Bank Group co-financing for two reasons. It represents political risk insurance in a politically volatile region and it made it possible to raise additional project finance from the European Investment Bank, U.S. and French export-credit-agencies, a host of commercial lenders and

from the sale of bonds.

Although both Chad and Cameroon are IDA-only countries, the World Bank loans for the project are on IBRD terms (i.e. higher interest rates and shorter maturity periods). The loan for Chad is US\$ 39.5 million and for Cameroon US\$ 53.4 million. In order to protect its loans, the World Bank has set-up special arrangements. In the case of Chad, all royalties, taxes and dividends are to be paid into an off-shore escrow account from which the IBRD and EIB loans will be repaid before the balance is handed over to the Chadian government. Should there be a halt to project operations, there will be a moratorium of disbursements to the Chadian government. In the case of Cameroon, the World Bank is charging the country with a premium, which amounts to 10% of the loan amount.

In addition, the IFC provides a US\$100 million loan and is in charge of mobilizing a further US\$300 million in commercial bank lending. World Bank Group participation is playing the key-role in mobilizing an additional US\$400 million in project bonds. The U.S. EXIM Bank and the French COFACE are contributing US\$600 million in export-credit finance. The loans are made on limited recourse project financing terms, which means that the assets of the consortium's parent companies will be shielded should debt repayment problems arise. The European Investment Bank in turn gave three loans totalling EUR 144 million (EUR 20.3 million, from risk capital resources, to Chad; EUR 35.7 million, from risk capital resources, to Cameroon; EUR 88 million, from the Bank's own resources, to the oil consortium.)

The project is expected to generate about US\$1.82 billion in revenues for Chad and US\$550 million for Cameroon over the 28-year operating period of the project.

II. Some critical problems as documented by World Bank commissioned reports

This section is based on official sources of information:

- i The latest report by the International Advisory Group (IAG) about its mission to Chad and Cameroon from October 15 to November 4, 2002;
- ii The World Bank's Inspection Panel Investigation Report of July 23, 2002 which resulted from the Panel's investigation into claims by Chadian citizens that they were harmed as a result of poor implementation of World Bank safeguard policies.
- iii The Project Appraisal Document (PAD) of April 2000.

The Chad/Cameroon Oil & Pipeline project: Lessons for BTC

This is the fundamental document on the basis on which the World Bank's Board of Executive Directors approved the project in June 2000. This document contains the promises of the project to reduce poverty in Chad and promote development in Cameroon, as well as the measures to be undertaken to address possible project risks.

Complete bibliographical information for the official reports is provided at the end of this paper.

1. Public participation

The Project Appraisal Document claims that the private sponsors and governments have undertaken extensive consultation with local NGOs and the public and that these consultations were initiated in 1993 (PAD, p.22-p.32). When the Inspection Panel investigated this matter, it found the situation far from ideal. Its report states that at least prior to 1997, consultations were conducted in the presence of security forces, which the Panel considers to be incompatible with the Bank's policy requirements. Given the situation of intimidation and harassment, the Panel concludes "full and informed consultation is impossible if those consulted perceive that they could be penalized for expressing their opposition to, or honest opinions about, a Bank-financed project" (IP, p. xiv).

While some progress may have been made in recent years on the communications front, the latest IAG report reiterates a finding of its previous reports: The lack of a structured, continual social dialogue of the governments and oil consortium with civil society. The IAG notes that its country visits cannot be the only occasions for such exchanges and calls on the governments to create a permanent structure for meaningful dialogue (IAG, p.12).

2. Environmental Impact Assessment/ environmental management

The Inspection Panel report states that the EIA and Environmental Management Plan have not addressed the potential regional impacts resulting from cumulative actions. According to the Panel, the EIA should have included assessments of the regional, cumulative and sectoral impacts, because the project will impact the lives of all the people living in the region as a whole and because it is likely to lead to other oil development projects in the future (IP, p.13).

The Inspection Panel is surprised by this omission especially in light of the fact that the Bank's involvement in the project was meant to assist the Government of Chad to developing the energy sector in a sustainable manner.

In conclusion, the Inspection Panel notes a failure of Bank management to comply with the World Bank's Operational Directive on Environmental Assessment (p.14).

Senior Management at the World Bank responded to this finding by stating that the regional and cumulative impacts would be addressed in the Regional Development Plan. However, as is pointed out below, work on the Regional Development Plan which was to precede or at least be carried out in conjunction with the project, has barely begun and may not be carried out in the participatory fashion that had been promised in the Project Appraisal Document.

3. Baseline data

The IAG report requests that the baseline studies underpinning the Environmental Impact Studies and the Environmental Management Plan be finally made public before the end of 2002 (IAG, p.9). It is astonishing that this should not have happened before despite previous complaints by the IAG that baseline data were not publicly available.

The availability of baseline data is a pre-requisite to comparing environmental and social conditions after construction completion with those that prevailed before the project.

There appear to be no baseline studies on public health except for studies of the sanitary conditions of the indigenous Bakola people in Cameroon's littoral Atlantic forest.

4. Project monitoring

The Chadian and Cameroonian governments have the primary responsibility for monitoring the implementation of the Environmental Management Plan and the activities of the oil consortium (PAD, p. 30). The capacity-building projects were intended to assist the governments with these tasks.

Yet the latest IAG report found that although the construction period is nearing the end, the necessary capacity does not yet exist and government monitoring has not taken place. An additional problem is presented by the fact that there is no agreement between the oil consortium and the Chadian government authorities, which would permit the government free access to documents and to project sites. The IAG calls on urgent implementation of such an agreement and on assisting the government with the technical training necessary to carry out thorough monitoring (IAG, p. 13).

The Chad/Cameroon Oil & Pipeline project: Lessons for BTC**5. Capacity-building aspects**

The IAG has continuously warned of a two-speed project in which construction components are moving ahead quickly while project components intended to ensure development benefits are seriously delayed. In its latest report, the IAG calls for urgent measures to provide basic training in macro-economic frameworks and the management of public expenditures to ensure that Chad will be able to manage the oil revenues (IAG, p.v). Although oil revenues are expected in the near future, capacity to deal with the inflow of revenues is not yet in place.

In the case of Cameroon, the capacity building project known as CAPECE is also seriously behind schedule. The IAG notes that only two out of sixteen contracts have been signed to date. Tasks such as training plans and surveys of areas at risk still remain to be implemented although the construction phase is almost complete.

Concerning water management and accidental oil spills, it is again the primary tasks of the governments to monitor the Oil Consortium and to ensure that a legal and financial apparatus is set up to provide compensation in case of pollution. Yet, the capacity for this has not been put in place.

The Inspection Panel report warns that the failure to build national capacity threatens to compromise the delivery of poverty reduction in the later stages of construction and early stages of operation of the pipeline (IP, p. 86).

6. Public health

The PAD states that the project should produce “net health benefits” (PAD, p. 75). It also states that there is very little documented evidence of causal links between dust due to construction and respiratory diseases (PAD, p.75)

With construction almost complete, the IAG report notes that cooperation between the Government and the Consortium for monitoring health issues just only just begun with the appointment of five government health inspectors (IAG, p. ii).

Concerning dust, the IAG report notes that dust from construction activities is not just a mere nuisance, but is affecting the security, health and well-being of the population (IAG, p. iv). The spread of malaria, AIDS, other venereal diseases, waterborne diseases and respiratory diseases are all on the rise in the region affected by the project. Yet neither monitoring, nor effective mitigations measures have been effective so far.

7. Regional Development Plan/ Indigenous Peoples’ Plan

The project promised two development plans to ensure that local people would benefit from oil development. The plan for Chad was to cover the entire oil-producing region and the plan for Cameroon was to consist of an Indigenous Peoples’ Development Plan to ensure that the vulnerable minorities in Cameroon’s Atlantic Littoral Forest would see their needs addressed (PAD, p. 13).

Since the construction phase of the project represents the most serious disruption to livelihoods of the affected populations, the intention of these plans was to mitigate any possible negative impacts and to provide local people with opportunities to benefit from project activities.

In the case of Chad, the PAD claimed in the year 2000 that a participatory regional development plan was being developed to help prepare the region for impacts during the construction period (PAD, p. 99). More than two years later, the IAG notes that nine months before oil revenues are scheduled to begin to flow, the regional development plan for Chad has not really started yet (IAG, p. vi). It calls on making good on the promise of a participatory process, i.e. a regional development plan, which originates with and reflects the goals of the population and is fully discussed with them. However, the World Bank now seems to want to leave the drafting of the plan to an external technical advisor who is to do this work between January and April 2003.

In the case of Cameroon, the World Bank’s Operational Policy on Indigenous Peoples requires that an Indigenous Peoples’ Plan (IPP) be undertaken in a participatory manner. The World Bank’s Inspection Panel is currently investigating a claim by Cameroonian citizens that the IPP has not been prepared in compliance with World Bank policy. Investigation by NGOs shows that the IPP was developed without consultation and does not include steps to secure land rights for the indigenous peoples.

Funding for the IPP is to be provided by a \$ 600,000 endowment administered by FEDEC, a Cameroonian foundation set-up to deal both with the Indigenous Peoples Plan and the management of the two national parks set-up in Cameroon. After paying for FEDEC’s operating expenses, it is doubtful how much funding there will be to put in place measures to benefit the Bakola people who are suffering disproportionately from the impacts of the project.

In-migration, spontaneous settlements with appalling sanitary conditions, high inflation rates for basic commodities, pollution, the prostitution of minors and spread of diseases, including sexually-transmitted-diseases, have now become a reality disrupting the affected regions.

The Chad/Cameroon Oil & Pipeline project: Lessons for BTC**8. Biodiversity Off-Set Areas/ National Parks**

In Cameroon, the loss of biodiversity as a result of pipeline construction is to be compensated for by the establishment of two national parks, the Mbam Dejerem National Park and the Campo Ma'an National Park. A government foundation FEDEC was set up with an endowment of \$ 2.9 million for the management of these parks.

At present, two international NGOs, WWF and Wildlife Conservation Society (WCS), have been selected to receive funding from FEDEC for park management activities. As of now, it remains unclear how FEDEC/ WWF/WCS will work with Cameroon's Ministry for the Environment and Forests (MINEF), which is currently in the process of developing a national parks management policy.

The IAG report calls on FEDEC/WWF/WCS to collaborate with MINEF and to comply with existing environmental legislation, especially concerning participatory management of parks (IAG, p.5). The latter is of utmost importance to the indigenous Bakola people who risk losing their traditional rights to the forest and with it their livelihoods.

9. Expansion of oil exploration activities

The PAD states that the project can be expected to spur further oil exploration and development in Chad and Cameroon (PAD, p.13) and adds that the oil consortium and the governments have contractually undertaken to apply the same levels of analysis, protection and consultation to oil from any new field development to be exported through the pipeline (PAD, p. 38).

The IAG has only now received official confirmation that additional oil exploration is taking place both by the Consortium and by another joint venture. It calls on the Chadian government to make this information and the conditions attached to the exploration permits public (IAG, p. v).

10. Revenue management

At the insistence of the World Bank, Chad adopted an Oil Revenue Management Law in 1999 as the means by which Chad promised to transform the oil revenues into sustainable development. A special Committee for the Control and Supervision of Oil Revenue (Oversight Committee) was set up to monitor the allocation of oil revenues to priority sectors. The majority of members of the Oversight Committee is made up of people appointed by the government and a minority represent civil society. Given the Chadian government's hostility to the Oversight Committee, best exemplified by the delays of funding for

its work, and the lack of clarity concerning the Committee's access to project documents, it is unclear if it can fulfill the role for which it was created.

In any case, the Oil Revenue Management Law can be changed by presidential decree after five years from promulgation, or in 2004, when oil revenues will first begin in earnest.

The Inspection Panel report points out that no arrangements have been put in place to deal with fluctuations and large surpluses in the revenue flow. In the view of the Panel this represents a serious macro-economic risks, which may jeopardize poverty reduction goals (IP, p.xx).

11. The Achilles heel of the project

The IAG report rightly points out two evils that constitute the Achilles Heel of good governance in Chad, and therefore of the project. These are impunity and insecurity. It calls for government reforms to carry out legal and juridical reforms and to combat impunity (IAG, p. 29).

However, it is the government that is responsible for major human rights abuses. The general population perceives the activities of state security forces to be largely responsible for the insecurity and impunity that are especially being felt in the oil-producing region.

III. Conclusion

The Project Appraisal Document, which should provide objective information on the basis of which the Bank's Executive Board can make an informed decision, is little more than a marketing advice. It contains questionable statements (e.g. "Chad has successfully put in place democratic political institutions" (PAD, p.121)), plays down the risks and portrays project benefits in a way that at best can be described as willful naiveté.

The IAG is powerless to get its recommendations implemented and is largely limited to making exhortations to the World Bank, the governments and the Oil Consortium to urgently take fundamental measures that are quintessential "if the development potential created by the project is to be realized". The IAG indirectly recognizes its own limitations by calling for detailed reports and action plans to address the multiple environmental and social impacts of the project now that construction activities in Cameroon are nearing the end. The original intention of the establishment of the IAG was that its own reports would mitigate risks, lead to corrective measures and capacity-building actions. This task is now being projected on to some future undertaking.

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Most activities to ensure development benefits and protect the environment were meant to have taken place prior to or in conjunction with construction activities. However, in January 2003, construction is nearing completion and most of these activities continue to be in the earliest stages of preparation if they are advancing at all.

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