

United States Holocaust Memorial Museum
Academy for Genocide Prevention

Monitoring Roundtable: Chad
7 February 2006

Oil and Conflict in Chad

Presentation by Ian Gary
Policy Advisor – Extractive Industries, Oxfam America

Additional background reading: Ian Gary and Nikki Reisch, *Chad's Oil: Miracle or Mirage – Following the Money in Africa's Newest Petro-state*, Catholic Relief Services and Bank Information Center, February 2005
www.crs.org/africanoil.cfm

“We know that profound poverty is an unfortunate reality in much of Africa. Its alleviation requires private investment, collaboration and responsible governmental policies. The Chad-Cameroon Project embodies all these elements. It offers great hope to the people of these two countries and we are proud to be involved now and in the future.”

– Tom R. Walters, Esso (ExxonMobil) ChadKomé
Groundbreaking Ceremony - October 18, 2000

“This is going to be the model for every single project of this type worldwide.”

– Mohamadou Diop, Central Africa Resident
Representative, International Finance Corporation,
World Bank Group

“The development of the crude oil will benefit the entire Chadian nation.”

– Chadian President Idriss Déby

Oil as a Source of Conflict:

“Risks ... to Chad's development prospects include those of political turbulence and deteriorations of the rule of law more broadly... As oil revenues begin to accrue and the stakes rise, power may be contested by violent means. And road blocking, violent crime and theft of public resources may increase.” World Bank Country Assistance Strategy for Chad, 2003

- World Bank (WB) and USG support (including \$200m from Export-Import Bank) for Chad-Cameroon project in 2000 carried with it a great risk that oil development in the country would exacerbate instability and conflict.
- Oil as a new “prize”. Oil is not a “cause” of conflict in Chad but a sub-issue of longer running conflicts in Chad and an additional catalyst and pretext for conflicts. Oil revenues make state capture more attractive. (Note May 2004 coup attempt and rebel groups using mismanagement of oil wealth as a pretext for action or call to arms, in

addition to Deby's move to run for a third term.) More than \$300m in new government revenues since 2003.

- The Chadian oil experiment depends largely on the political will of the government to respect the rule of law where there is little history of doing so, to develop accountable institutions, and to encourage democracy. In an environment where the government faces internal and external threats, such political will appears to be in short supply.
- Oil is exacerbating existing North/South tensions – oil deposits largely in the South with revenues controlled by a small clique of Northerners.
- Distribution of oil-revenue financed government contracts are a key lever for patronage and control. Those on the “outside” of the Deby family-based ruling circle may express grievances / be sympathetic to rebel cause. (Distribution of projects to companies controlled by Deby relatives or political allies, e.g. road construction projects going to Chad's biggest road construction company controlled by Daoussa Deby, Idriss Deby's half brother.)
- Changes in the oil revenue management law ratified by President Deby in early January are driven by short-term security needs.¹ In addition, freeing up oil cash is important for the presidential election campaign in 2006.
- In response, WB has frozen Citibank escrow accounts in London (see account balances in Appendix A) and suspended all loan disbursements or new loan approvals (\$124m). European Investment Bank has halted loans and German government has suspended aid program. \$36 million in Future Generations Fund is available to the government immediately.
- In addition to oil, other natural resource-based conflicts in Chad include conflicts over land (herders vs. farmers – now extending to southern Chad), water and fuel wood.

Milestones in the Future:

- Outcome of World Bank -- Government of Chad “negotiations”. Meetings 30 Jan – 1 Feb were inconclusive and no new dates for talks have been announced. Unlikely that WB will bend on point of removing security spending from oil revenue law. Also unlikely that Deby will make meaningful concessions. Chad could use oil-collateralized loans to retire \$80 million owed to WB.
- Chad has informed ExxonMobil that it should begin paying oil revenues into government controlled accounts at BEAC, the central bank. Unclear how ExxonMobil has or will react, although it likely has little choice but to follow the direction of the government. ExxonMobil could try to stall and hope for a successful outcome to WB/Chad

¹ Changes to the law include abolishing the Future Generations Fund savings account; redefining priority sectors for poverty reduction to include security spending; increasing the allocation of direct revenues by passing the oil revenue oversight committee to 30 percent; and extending the coverage of the revised (and gutted) law to all oil fields in Chad.

negotiations.

- Grievances of local populations in south near Doba fields will likely increase with little or no visible spending of government oil revenues. How will government manage special 5 percent earmark for Doba region?
- Patience of population in the capital will also wear thin as the new oil era continues without improvements in daily life, regular salary payments to civil servants, etc.
- Oil facilities are not under tight security and could be vulnerable to vandalism or attacks in the near future.
- Chad is increasingly reaching out to Asia as signaled by a new oil exploration agreement with Taiwan's state-run Chinese Petroleum Corporation

Opportunities for engagement:

- Deby will continue to seek ways to gain access to immediate cash and increase security spending. (Deby spoke of renegotiating oil contracts with ExxonMobil to increase royalty rate from 12.5 percent.) Deby will seek to divide donor community.
- Engagement with France by U.S., WB and others important to ensure that France (and EU) takes a position that favors legal safeguards for spending oil revenue on poverty reduction.
- Northern donor support (financial and moral) for civil society organizations and independent journalists is crucial as space for free expression and association is narrowing. Civil society organizations are important actors calling for de-escalation and dialogue.

Appendix A

Status of the Escrow Account and Latest Balances in the Individual Sub-Accounts based on latest statements received from CitiBank on January 15, 2006

Transit Account	US\$24,338,014.97
Borrower Account (Investment Account)	US\$54,814.74
IBRD Debt Service Account	US\$498,365.78
IBRD Debt Service Reserve Account	US\$7,008,300.00
EIB Debt Service Account	US\$4,465,524.00
Future Generations Fund	US\$36,268,888.68

Memo items: Total Cumulative Amount Transferred to Chad since petroleum revenues began (November 2003) = US\$371,821,610.88 (including the temporary FGF account in London)

Source: World Bank