

Host Country Revenue

The project's investments to sustain crude oil production levels, coupled with strong prices for Doba Basin Oil, helped add substantially to Chad's overall revenue during the first half of 2010.

- The project has invested \$2 billion in the last three years to maintain the output of crude oil from Chad's Doba Basin oilfields. As a result, the average daily production increased by about 5% to more than 125,000 barrels of crude oil per day as of mid-2010.
- World oil prices in recent years have been higher than expected in the early days of the project. Although prices have been volatile, since 2008 the price per barrel has averaged \$69.37, nearly twice the price when production first started.

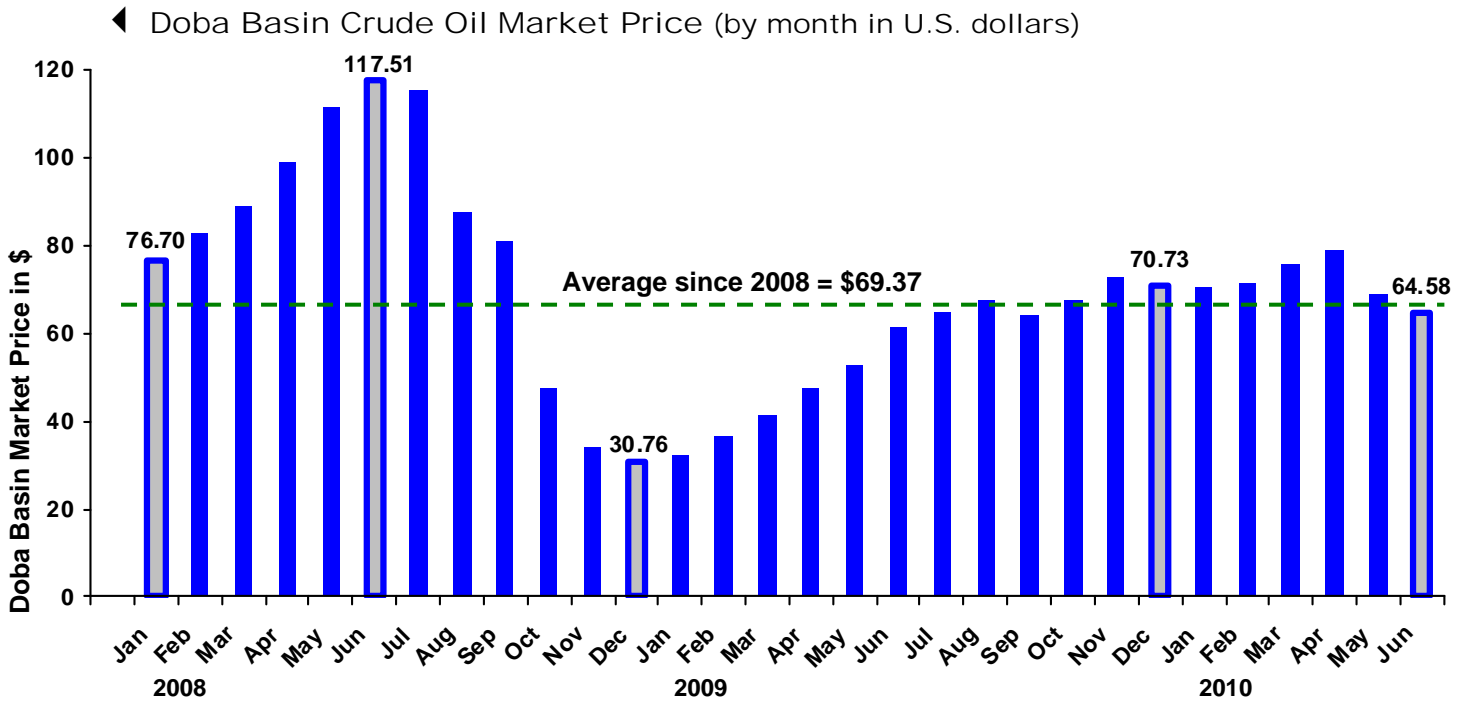
These two factors — strong crude oil production and higher crude oil prices — have worked together to build Chad's total project revenue to over \$5.5 billion. That revenue total far exceeds the amount once projected for the entire 20- to 25-year life of the project.

For more information on the project's investments in production support, see the chapter on *Production & Construction*.

◀ Chad's Oil Revenue Through Mid-2010 (millions of U.S. dollars)

	3rd Qtr 2009	4th Qtr 2009	1st Qtr 2010	2nd Qtr 2010	12 Month Total	Project to Date
Royalties on Crude Oil Sales¹	0	52	102	97	251	1,913
Pipeline Related Income	0	1	1	1	3	58
Corporate Income Tax²	143	216	225	280	864	3,389
Fees, Permits, Duties, Etc.³	7	14	16	14	51	345
Project Total	150	283	344	392	1,169	5,705

1. Cash payment royalties paid by all Consortium members. 2. Corporate income tax amount includes payments made by Consortium members and TOTCO. 3. Project to Date has been restated to exclude amounts previously reported for services provided by government-run entities, such as utilities, hospitals, and telecommunication services.



Roads for the Capital



All over Chad's capital, N'Djaména, street construction projects like this one have been funded by oil project revenue. When the project first got underway, only a few kilometers of streets in N'Djaména were paved and areas of the city would be impassable because of deep mud and pools of rainwater during rainy season. Now, even during rainy season, people have access to many of those areas because of new paved streets.

Oilfield Area Revenue Investment: Hospital, University & Teacher College



For the last year a complex of buildings has been rising on the outskirts of Doba. Financing for the construction comes from the 5% fund, oil revenue reserved by law for the oil producing region. The complex includes a regional hospital that can provide care for 1,000 people a day, a teacher training college and a university campus that plans to enroll 900 students in its first year.

Joel Bemba (bottom right), control engineer for construction: *“People in the region are really excited about the future for these three projects. The projects mean people can go to teacher school and university here in the Logone Orientale. They can attend on a bicycle and do not need to go all the way to Moundou or N’Djaména. For the regional hospital, soon we will have all these services right here in Doba. We know that some are concerned that the oil region will not get the benefit of the oil revenue. But you can see the positive evidence here at these three construction sites and at many other projects over the last three years.*”



Context: How
Chad Earns Its
Revenue

Main Revenue Sources

Chad's oil project revenue includes four main streams of money.

Royalties on Sales of Oil: Chad receives a royalty paid by Consortium members on the gross sales revenue from crude oil after deducting the cost of transporting the oil to market through the export pipeline.

- The royalty on oil from the three original oilfields covered by the 1998 convention is 12.5%. The 1998 convention also includes the Moundouli and Nya satellite fields.
- The royalty on oil from Maikeri and Timbré, oilfields covered by the 2004 convention, is 14.25%.

Corporate Income Tax: In 2006, Consortium members also began paying income tax on net profits from the original three fields.

Ownership Share in Export Pipeline: Chad owns a percentage of both pipeline companies, TOTCO and COTCO, and thus shares in the profits from the fees these two companies charge to deliver Chad's Doba crude oil to market.

Permits, Duties, Taxes: Various other sources also add to Chad's income, including permits, duties, employee taxes, work permits and other fees.

Corporate Income Tax Revenue Stream

The corporate income tax payments that began in 2006 started a major new source of revenue for Chad. This new revenue source commenced several years earlier than expected - a major benefit to the impoverished country. The early start stems mainly from two factors.

- The historically high prices for oil around the world over the last several years increased total revenues to levels higher than estimated during the project's planning phase.
- These higher revenues exceeded operating expenses and depreciation, thus triggering a 60% corporate income tax on the original three fields as provided in the 1988 Convention (and a 50% tax on Maikeri and Timbré).

By law the standard tax rate paid by corporations in Chad is 40%, much less than the 60% currently being paid by the Consortium on oil from the original three oilfields. Thus, the oil project currently has a much higher corporate income tax rate structure than other businesses operating in Chad.

Chad's Future Revenues May Fluctuate Significantly

As noted earlier in this chapter, high worldwide oil prices of the last several years have yielded major benefits for Chad. However, there is no way to forecast with certainty the future volatility of the market or whether future prices will go up or down. In addition to world oil market prices, at least two other factors will have a potential influence on Chad's revenue.

- Calculations of the corporate income tax on the oil sale profits depend on depreciation of capital expenditures for new facilities and improvements over time, as set out in the oil conventions.
- Despite the project's investments in maintaining production, extracting oil from Chad's oilfields has been challenging. Similar to other oilfields around the world, output will eventually decline as the oilfields mature.

For more on the project's investments in maintaining production levels from the oilfields see the chapter on *Production & Construction*. For an illustrated explanation of the technical issues that hinder extraction of Chad's oil and the steps taken by the project to deal with those issues see the section on *Chad's Challenging Geology* in *Project Update Report #24*.

Context: World
Bank Group Role
in Chad

In September, 2008, the Chadian Government paid off its loans from two arms of the World Bank Group, the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). In turn, the IBRD and IDA are no longer involved in the export pipeline project. The IBRD/IDA loans had partially funded Chad's equity position in the two pipeline operating companies.

The World Bank Group remains involved in Chad through its affiliate, the International Finance Corporation (IFC). The IFC facilitated hundreds of millions of dollars in commercial financing for the project and directly loaned tens of millions of dollars to the two pipeline companies.

- The contracts for these loans require ongoing compliance with and monitoring of the project's Environmental Management Plan performance.
- The IFC's environmental staff continues its work, including trips to Chad for ongoing collaboration with project staff on the Land Use Mitigation Action Plan.
- The IFC independent monitoring body, the External Compliance Monitoring Group (ECMG), continues its work.

Chad's Revenue Management Plan remains in place even though the IBRD and IDA are no longer involved in the project.

- A loan by the European Investment Bank to Chad includes the Revenue Management Plan requirements. That loan is still in effect.
- Chadian law implementing the Revenue Management Plan continues in force.

Cameroon's Pipeline Revenue

Cameroon obtains its project revenue primarily through transportation infrastructure — the export pipeline system that picks up Chad's oil from the Mbére river where the Chadian portion of the pipeline ends. The Cameroonian portion of the export pipeline system then transports Chad's oil to the Marine Terminal located offshore from the seaside town of Kribi. Although Cameroon has no ownership share of Chad's oil, it does have an ownership share in the pipeline system. (None of Cameroon's own offshore oil wells contribute oil to the export pipeline.) Thus, Cameroon's revenue comes from several income streams.

Transit Fee: When the project agreements were first negotiated, Cameroon negotiated a fixed rate per barrel transit fee in order to have a secure flow of income rather than being at the mercy of sometimes volatile oil prices. The transit fee belongs 100% to Cameroon and is not shared with the other pipeline partners.

Corporate Income Tax: As for any other corporation in Cameroon, the pipeline company COTCO pays income taxes to the government of Cameroon.

Customs Duties and Other Taxes: Whenever the project brings goods into the country it must pay customs duties in addition to a variety of other taxes and permit fees.

Dividends and Share Premiums: As a part owner of the export system pipeline, Cameroon receives a proportional share of the pipeline company profits.

◀ Cameroon's Oil Revenue Through Mid-2010 (millions of U.S. dollars)

	2003	2004	2005	2006	2007	2008	2009	1st Half 2010	Project to Date
Transit Fees	3.5	25.1	25.9	23.0	21.6	19.0	17.7	9.3	145.1
Income Tax¹	0	2.5	3.9	2.4	2.4	3.3	9.9	0.0	24.4
Customs Duties and Other taxes²	0.0	0.0	0.0	0.0	0.0	2.4	12.6	4.1	19.1
Dividends from Pipeline Ownership	0.0	0.0	1.0	3.6	2.5	2.6	3.3	9.5	22.5
Share Premiums from Pipeline Ownership	0.0	16.3	13.8	10.5	11.4	10.5	4.0	0.0	66.5
Project Total	3.5	43.9	44.6	39.5	37.9	37.8	47.5	22.9	277.6

1. Income tax for 2010 will be paid in 2011. 2. Customs Duties and Other Taxes estimated for 2010.