

Host Country Revenue

Visitors returning to N'Djamena after a year or two away often look around in amazement as they drive around the city. Only a few years ago, the city's roads were mud quagmires during rainy season. Now, the majority of the city's main routes have been paved, improvements funded by the country's revenue from the oil project.

Connecting a
Country

The city paving is only one part of the story because road building has been moving ahead rapidly throughout the country with the hope the paving will lead to major advances for the country's economy and quality of life. The new roads save significant time and cost of transportation, leading to lower prices, larger markets, and a wider variety of available goods and services.



Adoum Younousmi, Chadian Minister of Infrastructure: "Oil revenues are allowing this country to rise up. We are now able to borrow more money to finance infrastructure projects, and we are finally paving roads. Our goal is to pave 6,000 kilometers of roads by 2015, and after just five years, we already have 2185 already done. We expect to complete 3,000km by 2012. Oil revenue is also being implemented all across the country as well – not just in the oilfield area. For example, we have just 100km left on the 800 km road from N'Djamena to Abeche in the north. We are also planning to pave roads to Niger and Sudan so that Chad will have more connections to its neighbors."

Paved Roads: Transforming a City



Road construction in N'Djamena (top, left and right) has been continuous in recent years, funded by Chad's revenue from the project. This map (bottom) shows the paved streets built in the last five years. Now, with the newly paved roads, N'Djamena residents can get around the city for work, business, school and other needs without worrying that their roads will be impassable with mud or flooded by the heavy rains of the wet season.

◀ Chad's Oil Revenue Through the First Half of 2011 (millions of U.S. dollars¹)

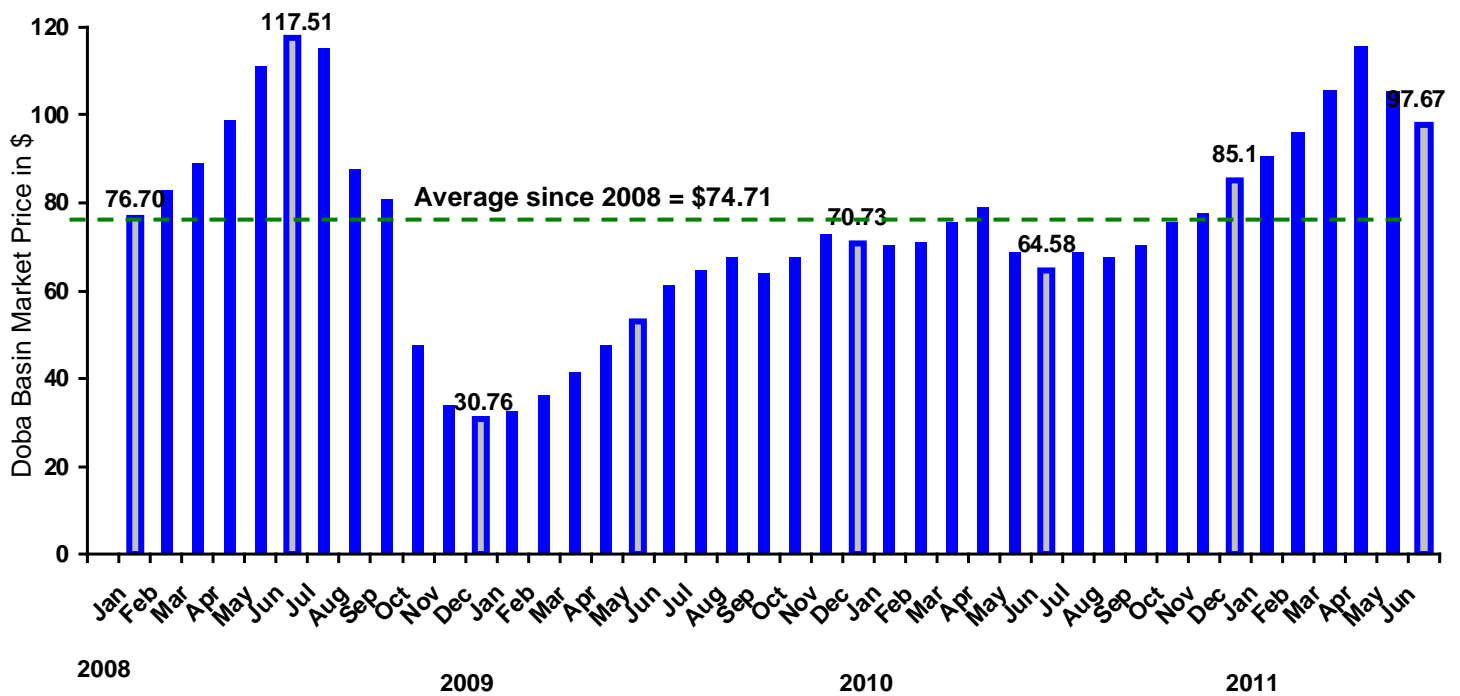
	3rd Qtr 2010	4th Qtr 2010	1st Qtr 2011	2nd Qtr 2011	12 Month Total	Project to Date
Royalties on Crude Oil Sales²	53	83	106	123	365	2,315
Income Related to Pipeline Ownership	5	0	0	0	5	63
Corporate Income Tax³	175	230	377	466	1,248	4,637
Fees, Permits, Duties, Etc.⁴	12	11	17	29	69	414
Project Total	245	324	500	618	1,687	7,429

1. Rounded to nearest whole number. 2. Cash payment royalties paid by all Consortium members. 3. Corporate income tax amount includes payments made by Consortium members and TOTCO. 4. 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.

Years before anyone thought possible, Chad has passed the \$7B revenue mark. The project's investments to sustain crude oil production levels, coupled with historically strong prices for oil around the world have combined to produce for Chad a total of more than \$7.4 billion in revenue since the project began.

◀ Doba Basin Crude Oil Market Price (by month in U.S. dollars)

World oil prices in recent years have been higher than expected in the early days of the project, significantly increasing revenue to Chad. Although prices have been volatile, since 2008 the price per barrel has averaged \$74.71, approximately twice the price when oil exports first started in 2004.



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.

Income Related to Pipeline Ownership: 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 of the five institutions that make up 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 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 Oil Revenue Through the First Half of 2011 (millions of U.S. dollars¹)

	2004	2005	2006	2007	2008	2009	2010	1H2011	Project to Date
Transit Fees	24	27	23	22	20	18	18	6	160
Income Tax	0	2	4	2	2	3	10	9	32
Customs Duties and Other taxes	0	0	0	0	1	10	6	3	20
Income Related to Pipeline Ownership	16	15	14	14	13	7	10	0	89
Project Total	40	44	41	38	36	38	44	18	301

1. Rounded to nearest whole number.

Context:
Cameroon's
Pipeline Revenue

Cameroon obtains its project revenue primarily through transit fees from 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.

Income Related to Pipeline Ownership: As a part owner of the export system pipeline, Cameroon receives a proportional share of the pipeline company profits.