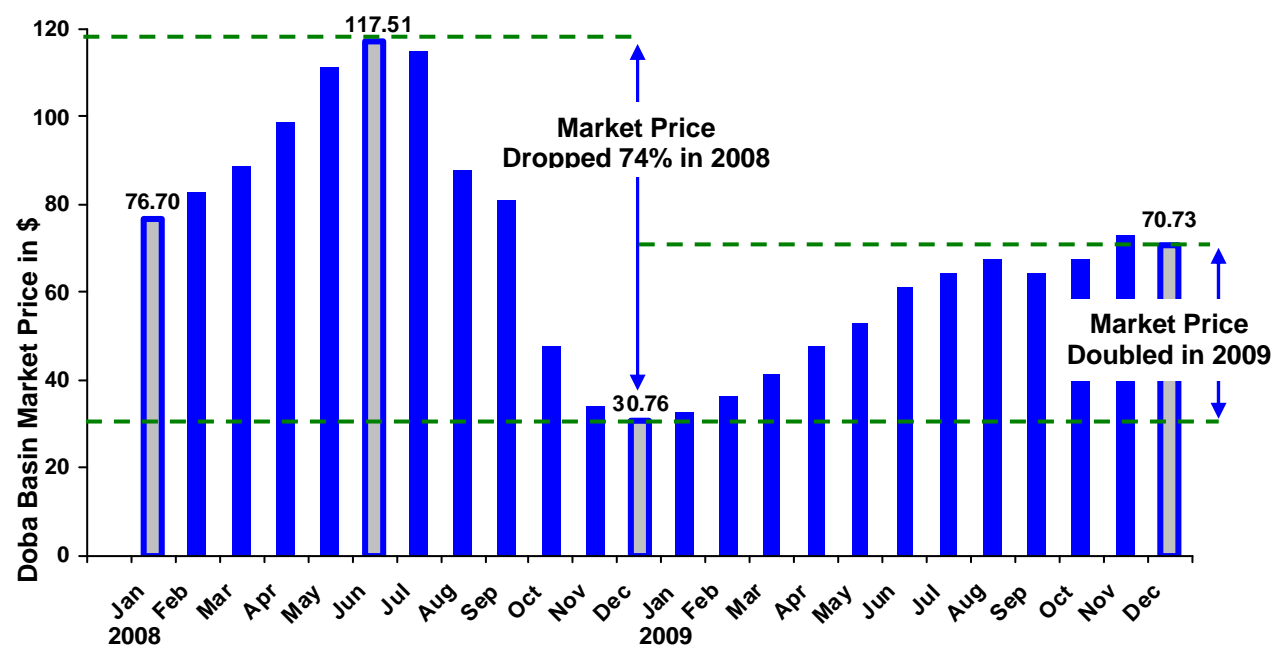


Chad's Oil Revenue

Continued volatility in world oil markets worked in Chad's favor during 2009 as crude oil market prices rose throughout the year, recovering from a significant dip in price at the end of 2008. The year 2008 was notable for registering the highest prices on record for Doba crude oil, while in the same year the market price later dropped by 74%. By contrast, in 2009, the market price more than doubled from its low at the end of 2008.

◀ Volatility of Doba Basin Crude Oil Market Price



Prices Overall Have Been Historically High
 On average, world oil prices in recent years have been much higher than expected when the project was in planning stages. For example, the 2009 ending price of \$70.73 was roughly double the typical market price when production first began five years ago. As a result, Chad's revenue has far exceeded the levels expected when the project was first begun. After only five years of oil production, Chad's total project-related revenue to date is almost \$5 billion, well over twice the amount once projected for the entire 20- to 25-year life of the project.

Chad's Oil Revenue in 2009

As the table below shows, payments to Chad of royalties and income tax during 2009 rebounded from a drop that took place in 2008 because of a drop in oil prices due to ongoing volatility in world oil markets.

◀ Chad's Oil Revenue Through 2009 (millions of U.S. dollars)

	1st Qtr 2009	2nd Qtr 2009	3rd Qtr 2009	4th Qtr 2009	12 Month Total	Project to Date
Royalties on Crude Oil Sales^{1, 4}	107	0	0	52	159	1,714
Pipeline Related Income	0	4	0	1	5	56
Corporate Income Tax^{2, 6}	12	50	143	216	421	2,884
Fees, Permits, Duties, Etc.^{3, 5}	13	5	7	14	39	315
Project Total	132	59	150	283	624	4,969

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. 4. 2008 Royalty on Crude Oil Sales includes MOU pre-payment for dead stock & ballast. 5. 2008 Fees, Permits, Duties, Etc amount includes new payments for Statistical Export Taxes. 6. 2008 Corporate Income Tax payments corrected due to overstatement of \$3 million in previous issue.

Chad's Oil Revenue Investments: Infrastructure for the Law

Chad has a new supreme court building funded by revenue from the oil project.

Keman Mbaigudem, Secretary General of the Supreme Court, standing in front of the new building: *"When the Supreme Court was created in our country in 1999, we had only a small building for many years, not adequate to support our highest court of the land. We moved into our new building in early 2008, and only a month later the building was heavily damaged in the invasion. But oil revenue funds have now renovated our court so it is like new. It is a matter of pride, a symbol of justice, and stability of government."*



Chad's Oil Revenue Investments: Two New Hospitals



This construction site (left and top right) will be one of two new hospitals in N'Djaména funded from Chad's oil revenue. The 250 bed hospital for mothers and children will offer radiology, laboratory and blood bank facilities currently not available to most people in Chad. The 13 billion FCFA project will be co-located with a medical school funded at 2.7 billion FCFA, also from oil revenue. The second hospital construction, funded at a similar level, will be a general medical facility.

Zorobel Nandingar, manager of construction (on the left above, speaking to a representative of the citizen commission that allocates Chad's oil royalty revenue): *"Right now it is very difficult for Chadians to get high level medical care. This major hospital is incredible, and it will alleviate suffering. Many people die in Chad because we do not have capacity for high level care, and in this hospital we will even have three types of scanners, including for breast exams. I am very happy to see projects like this one, growing like plants in this country. People can see for themselves the oil revenue is doing good and this is just one example."*

Chad's Oil Revenue Investments: Ten New High Schools for N'Djaména



This school is one of ten new high schools built in the last year in N'Djaména, doubling the number of high schools in the city. Each high school project was funded by oil revenue at a cost of approximately 690 million FCFA. This school has 20 classrooms plus laboratories for science and computers.



Eric Abakar, senior attending new high school: *"This is new and modern and the classes are good at this new school. When I graduate I hope to go to medical school. It's good to have the oil money pay for the school. The high school, a good education, means the future for all of Chad. Twenty years from now we will have a big positive change for our future: more roads, more construction, a better economy."*



Christophe Toarmbaye, deputy head master: *"With these new schools, if the government continues at this rate, education in Chad will be completely reformed. I am now 39, and when I went to school it was not nearly as good. We now have better teachers and better facilities. These things could not have happened without the oil money."*

Chad's Oil Revenue Investments: A Modern Market for the Oilfield Development Area



This new and modern marketplace in Bébedjia has been funded with oil revenue from the 5% share dedicated to the Oilfield Development Area. Zara Moussa (right foreground above): *“This market is much better, a nice place to sell. We are thankful the oil money has come here, a good use of the money.”*



Betoudji Derhoudou, Mayor of Bébedjia: *“This market is an investment in our town’s economic development, very modern and very large. It means investment for our small town. Even in the rainy season it is good to sell and shop here because it is sheltered. We have everything here, stores and a traditional arcade for people from the country side. It is well organized by district for types of merchandise, and we have a clinic and a police station. This is new for us in Chad, a little like a shopping mall in France.”*



Brahim Hissein, drug store owner in new market: *“This new market, clean and paved and no dust, makes a big difference compared to the old market. My customers really like it, so much that I sell more. People find it pleasant to shop here.”*

Context: How
Chad Earns Its
Revenue

Main Revenue Sources

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

- 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%.
- In 2006, Consortium members also began paying income tax on net profits from the original three fields.
- 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.
- A range of miscellaneous payments adds income from various sources 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 much 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 the original three fields oil in the current market. 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 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 whether prices will continue to be as volatile as they have been for the last two years and whether they will shift 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 also depend on depreciation of capital expenditures for new facilities and improvements over time, as set out in the oil conventions.
- Extracting oil from Chad's oilfields has been technically challenging, and as a result the average daily production output of crude oil has been lower than expected. As the oilfields mature, output will naturally decline.

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 Chad 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 itself loaned tens of millions of dollars to the two pipeline companies.

- The requirements and monitoring of the project's Environmental Management Plan remain in full effect through the contracts for those facilitated and direct loans.
 - The IFC 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. The ECMG conducted two monitoring trip to Chad in 2009 and one to Cameroon.
- Chad's Revenue Management Plan remains in place.
 - A loan by the European Investment Bank to Chad includes the Revenue Management Plan requirements. That loan is still in effect. The EIB is studying the situation and evaluating options for the future.
 - A version of the Revenue Management Plan is a law in Chad, and revenue continues to be earmarked for poverty reduction and capacity building projects.