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Chad eyes bigger share of its oil profits

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DAKAR, SENEGAL

Describing Chad's profits from a multibillion-dollar pipeline as "crumbs," President Idriss Deby is trying to grab a larger slice of the petrodollar pie, joining the trend of "resource nationalism" in vogue from Algeria to Venezuela.

Mr. Deby's opening salvo made oil executives and diplomats take note. Just over a week ago, he ordered Chevron and Malaysia's Petronas, who hold 60 percent of the consortium operating the \$3.7 billion pipeline, to leave the country for tax nonpayment - a charge both companies deny.

Deby vowed that Chad's newly created oil company should have a proper stake - 60 percent - in the pipeline. "A revolution has started ... which will bring salvation to ... our country, and future generations," Deby told cheering supporters later.

Since then, the government has toned down its rhetoric, saying simply that the original deal, hammered out almost two decades ago when oil was near \$15 a barrel, should be renegotiated.

Analysts say Deby has pulled tactics straight from the African strongman handbook. "They are trying to force their way in, taking an extreme position and then rolling back," said Ian Gary, an expert at Oxfam America. "Ultimately they want to renegotiate the contract."

Chad currently gets 12.5 percent of the royalties from its production of some 160,000 barrels a day, compared with the 80 percent of oil production that Nigeria enjoys. On paper, there seems little wrong with Chad recouping greater profits. It is desperately poor. But it is also the most corrupt nation in the world, according to graft watchdog Transparency International.

"In a perfect world, where a government has the capacity and the political will to use petrodollars wisely, you would certainly welcome it taking a bigger share. But so far the government has not really used proceeds to reduce poverty and has shown an incapacity to spend wisely," Mr. Gary says.

Earlier this year, Chad was locked in a bitter dispute with the World Bank over how it spent oil profits. About 70 percent was to go to sectors like health and education, but Deby argued that he needed to spend it on security, given a rebellion he faces in the east.

Dieudonne Djonabaye, deputy communications director for the presidency, says the government has set up a committee, to be led by the head of the national assembly, to renegotiate the 1988 oil agreement.

"Chad wants to renegotiate the contract so that its new oil company can enter into the consortium," Mr. Djonabaye said in a phone interview from Ndjamenas last week. "We will begin talks as soon as the parties are ready. The quicker the better."

Chevron and Petronas would be at the table, he said, as long as they paid \$490 million owed in taxes. The companies say they have met all their tax obligations.

Thomas Pearmain, of Global Insight, says this latest action may perturb Western oil firms. "The unsettling behavior of Chad's government is likely to frustrate Western oil companies interested in investing ... which could clear the path for significant investment from [the] Chinese," Mr. Pearmain said in a briefing note.

Chad switched allegiance from Taiwan to China in August. China has oil interests in Sudan, and some diplomats say they want to build a pipeline connecting Chad and Sudan. If that were linked to the existing one through Chad and Cameroon, the Chinese would have a route from the Red Sea to the Gulf of Guinea.

ExxonMobil - the largest of the three stakeholders in Chad's consortium - has said it values "contract sanctity and expects the same" from others. But major players are facing a vicious circle.

"Instability brings higher oil prices, and higher oil prices bring more sources of instability," says Olivier Jakob, director of Petromatrix, an oil-risk assessment group. "Oil prices are high so you're getting governments trying to get a redistribution of the cards. It's part of a worldwide pattern. We have seen it in Bolivia and Venezuela."

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