

Eni's new investment in tar sands and palm oil in the Congo Basin. Huge environmental and social risks with no real improvement in access to energy?



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Summary

The Italian oil company Eni is currently planning a new multi-billion dollar investment in tar sands, palm oil for food and bio-diesel and gas-fuelled electricity in the central African country of Republic of Congo. This would be the first tar sands project in Africa and the agro-fuels project - large scale crop growing to produce liquid fuels - would also be one of the largest. Both projects raise the question of how committed G8 energy companies, such as Eni, and G8 governments such as Italy, this year's G8 host and Eni's major shareholder, are to tackling climate change and improving access to energy, particularly when it comes to investing in ecologically-sensitive areas, and in developing countries with minimal social and environmental protection.

Tar sands and agro-fuels have been heavily criticized by civil society and by scientific bodies for their devastating social and environmental impacts, locally and globally, such as water depletion and pollution, deforestation, habitat destruction and increased greenhouse gas (GHG) emissions. Production of a barrel of tar sands bitumen, for instance, is 3-5 times more intensive in terms of GHG emissions than production of a barrel of conventional oil. Canada is the only place tar sands are currently being developed and nearly all companies investing are from the G8. Many civil society groups are now calling for a moratorium on new investment in Canada, and some groups for all existing and planned tar sands projects to stop.

Republic of Congo is situated in the Congo Basin, the second largest area of tropical forest left in the world, which plays a vital ecological and economic role as a carbon sink and catchment basin. Congo is also one of the world's poorest countries, despite decades of oil development, with a history of corruption and conflict centred on the oil sector. It lacks any proper environmental regulation and enforcement capacity. Given this context of weak governance and sensitive ecology, and the likelihood of irreparable damage to communities and to the environment, how will Eni assess and manage the risks of its investments on an ongoing basis?

Eni is 30% owned by the Italian state. The G8 is currently meeting in Italy, where energy ministers have stated that "coping with the interlinked issues of energy investments, energy access and availability, and the climate change challenge is key to the future of our countries."¹ The G8 and other major energy producers also promised "resolute action" to help the quarter of the world's population that do not have a secure energy supply. This energy poverty is particularly stark in Africa. Barely a quarter of Congo's population have access to electricity, and 70% live under the poverty line.

Local communities have long complained about lack of consultation, and a lack of action by companies and government to address the social and environmental impacts of oil development. Gas flaring at the huge M'Boundi oil field, operated by Eni, is of particular concern. Eni's plans to turn this gas into electricity could be welcome, but Congo's citizens also need guaranteed access to the electricity. Overall, there is minimal public information about Eni's new investment, and no meaningful consultation has taken place with Congolese citizens, in contradiction to the company's own environmental and human rights policies.

Given these concerns, G8 Civil society groups and their African partners believe that Eni should:

- Disclose full information about the impacts of its investments in Congo, including current gas flaring levels at M'Boundi, and the detailed timetable for the tar sands and palm oil development.
- Organise meaningful consultation with affected communities, as per Eni's own environmental and human rights policies. Local communities and indigenous groups must give free, prior, informed consent before any development takes place.
- Stop further development of the tar sands and palm oil investments until their potential risks have been fully assessed, including their impact on greenhouse gas emission levels, and a credible risk management plan adopted.

Front cover images:

1. Tar sands extraction, Alberta, Canada. Source: <http://petropolis-film.com>; Greenpeace Canada ©Greenpeace/Eamon Mac Mahon
2. Kouilou, Congo, April 2009. Subsistence farming; tar sands exploration area.
3. Republic of Congo, Source: <http://www.secours-catholique.org>

Background to ENI's new investments in Republic of Congo

According to the 2008 World Energy Outlook, unless current trends change, non-conventional forms of oil like tar sands will provide an increasing share of world oil output (rising to 11% of the total by 2030)ⁱⁱ. Over half of this increase will be from tar sands in Alberta, Canada, the only place in the world where they are currently commercially exploited, mostly by G8 energy companiesⁱⁱⁱ. However, tar sands production involves huge environmental challenges.^{iv}

Eni is ranked among the world's top ten energy companies in terms of financial performance^v. In May 2008, Eni signed an umbrella agreement with Congo for a US\$3 billion investment during the period 2008-2012. The agreements covered: exploration of tar sands, the production of palm oil for food and bio-diesel, and the construction of a 350/400 MW gas-powered electricity plant^{vi}. This development signalled a new phase of Eni's operations in Congo, where the company has been present since 1968. Until 2007 Eni operated offshore, now it also operates the giant onshore M'Boundi oil field, and is the second largest investor in the sector.

The series of agreements between Eni and the Congolese government have not been disclosed, and in the case of the tar sands field and the palm oil plantation, their exact location remains unclear. Field research in Congo by local and international civil society groups has revealed an almost total lack of public awareness of the project, including by communities potentially affected by the tar sands exploration and electricity plant near M'Boundi, and near the country's oil hub of Pointe-Noire.^{vii}

Republic of Congo: the governance context

Congolese civil society activists have long campaigned to clean up the country's public finances and ensure that its natural resource wealth - oil revenues are officially estimated at over US\$4.4 billion annually - goes to sustainable development and bettering the lives of the 70% of Congolese living in poverty^{viii}. Barely a quarter of Congo's people have access to electricity^{ix}. Congo was ranked in the bottom 10% of countries in Transparency International's 2008 Corruption Perceptions Index.^x

In March 2006, the country was controversially granted access to international debt relief in return for reforming its management of the oil and forestry sectors, and of public finances overall. At the time, the World Bank highlighted "serious concerns about governance and financial transparency" centred on the national oil company, Société Nationale des Pétroles du Congo (SNPC)^{xi}. According to published data, key government officials had been contracting expensive loans with international banks and oil traders using future oil production as collateral, and selling state oil through opaque offshore mechanisms to avoid paying debts, hide new lending from the IMF, and even for personal benefit.^{xii}

Forestry is the second most important source of income for Congo, where forests cover around 65% of the country^{xiii}. According to Greenpeace: "The Congo basin contains the world's second largest tropical forest and is of incalculable importance not only in terms of biodiversity and resources for local people but also as a giant carbon store that is essential for climate protection"^{xiv}. Tropical deforestation accounts for around 15-20% of the world's greenhouse gas emissions^{xv}. According to the independent monitor of Congo's forests, forest resources are "under serious threat by the rapid growth of extractive activities and the industrial exploitation of natural resources – mining included, the deterioration of the quality of life for local populations, and the deterioration of governance"^{xvi}. Congo currently has no functioning environmental regulation.^{xvii}

Current impacts of oil development

Evidence from local human rights organisations Rencontre pour les droits de l'homme and the Justice and Peace Commission of the Catholic Church, Pointe-Noire, and interviews with communities in the M'Boundi and wider Pointe-Noire area, reveals widespread anger about lack of consultation by oil companies, including Eni, over their activities^{xviii}. Local people also raised issues of lack of compensation for land lost to developments and habitat destruction, lack of local employment opportunities, and concerns over water and air pollution. The ongoing health impacts of gas flaring from Eni's M'Boundi oil field were of particular concern. Although this is a historical problem and Eni has only recently become M'Boundi's operator, such evidence directly challenges the company's own human rights guidelines.^{xix}

Eni's announcement that it will use associated gas from M'Boundi – gas produced during oil extraction that is currently flared - to generate electricity is to be welcomed in a country where barely a quarter of the population have access to a secure electricity supply, and where local communities have expressed serious, ongoing concerns about the environmental and health impacts of flaring and venting^{xx}. Eni appears to recognize that current flaring levels in Congo are unacceptable, since it has a target of reducing emissions to zero by 2012.^{xxi}

According to Eni, the new plant will “cover over 80% of the national electrical requirement”. However, it is unclear whether this 80%, in fact, refers only to the needs of local industrial customers or also includes electricity for Congo's citizens, including communities that are currently off-grid. It is also doubtful whether the infrastructure required to ensure a domestic electricity supply for Congolese consumers currently exists.

Tar sands

Eni has a license for tar sands exploitation in the South West of Congo (near Pointe-Noire) covering a total of 1790 km². The company estimates, from preliminary studies on a 100 km² area, that recoverable reserves are between 2,5 billion barrels unrisks and 500 million barrels risks. If commercial production proves viable after the current exploration phase (3 years), then Eni plans to install an ENI Slurry Technology (EST) plant to turn the bitumen into crude oil, powered by associated gas from M'Boundi.^{xxii}

The extraction of tar sands and their upgrading to produce commercial crude oil requires large amounts of energy and water, and can lead to devastating environmental and social impacts, as has been shown by the experience of Alberta, Canada. One analysis categorizes the environmental risks as Ecological Blowout, involving water depletion and pollution, boreal forest destruction and the creation of tailing ponds (huge holding tanks the size of lakes whose water contains highly toxic chemical products)^{xxiii}. Tar sands investment is overwhelmingly by G8 companies, with Norway's Statoil also present and Asian companies also buying stakes^{xxiv}. Civil society groups in Canada and internationally are calling for a moratorium on new projects, at the very least, with some groups calling for all existing or planned projects to be halted, and for divestment by investors.^{xxv}

The potential for tar sands development in Congo to wreak environmental and social havoc is particularly worrying given that the population of the country's second largest city, Pointe-Noire, is located only 70 km away from the site of current testing. According to field research, the license area is covered in large part by primary tropical forest, with the remainder populated by local communities dependent on small-scale agricultural production. Eni states that it will attempt to “minimise the environmental impact and study the appropriate conservation and restoration techniques”^{xxvi}. How Eni intends to do so in a country which is 65% covered by forest, with weak governance, no proper regulatory framework and minimal capacity for environmental protection, remains to be seen. The tar sands project will also have to conform to Eni's own environmental policies^{xxvii}. This would entail avoiding all areas of high biodiversity (primary forest) and all areas of human activity (all cultivated areas). By avoiding these two key areas, Eni would be constrained to working in areas of open savannah (grasslands), which cover an unknown portion of the very large tar sands area. In addition, there are no examples of successful forest reconstruction on tar sands tailings anywhere in the world.

Finally, Eni appears to make the highly dubious argument that the GHG emissions of tar sands production will be in some way offset by the reduction in emissions from gas flaring, as “gas associated with oil production in this area will be used to supply the EST plant and enrich the heavy oil” thus “achieving the goal of reducing atmospheric emissions while profiting from credits under the Kyoto protocol.”^{xxviii}

The experience of Canadian production also shows that, although tar sands may add value in terms of a company's reserves profile, they can also result in huge financial costs to the company and investors. Firstly, the process by which tar or bitumen has to be extracted and upgraded to become ‘usable’ as fuel is significantly more expensive than the extraction of conventional crude oil, which means that oil prices must remain high and/ or costs kept down in order for it to be profitable. Eni claims Congo was selected over Canada precisely because costs could be kept low through its synergies with Eni's conventional oil production from M'Boundi field (free gas supply)^{xxix}. However, is the project still as feasible given the current global financial crisis and current low oil prices?

Recent reports also highlights risks to long-term shareholder value posed by tar sands investments including: the increasing adoption of low carbon fuel standards, labour shortages and the cost of the energy needed to fuel tar sands extraction, the untested nature of the carbon capture and storage (CSS) technology that is an integral element of the investment projections for tar sands extraction and, finally, the cost of environmental clean-up operations, and of potential future litigation by affected communities.^{xxx}

Palm Oil for food and agro-fuels.

Eni's Food plus Biodiesel project is planned to start in 2009 in the Niari region "with approximately 70,000 now unfarmed hectares expected to produce approximately 340,000 tons/year of crude palm oil. This will cover Congo's food requirements and will lead to the production of 250,000 tons/year of bio-diesel." However, there is no information on the exact location of this huge plantation area, and in the Niari region much of the land is already assigned in forestry concessions or is permanent forest. The area also has subsistence farming and an indigenous population.^{xxxi}

In its monoculture plantation form, palm oil production in countries such as Indonesia and Malaysia has been heavily criticized by civil society groups and scientific bodies due to its devastating environmental and social costs^{xxxii}. For example, monoculture plantations replace tropical forests and other ecosystems, leading to serious deforestation together with loss of biodiversity, flooding, the worsening of droughts, soil erosion, pollution of water courses and an increase in pests. They also endanger the conservation of water, soil, flora and fauna. The UN Intergovernmental Panel on Forests has identified government policies replacing forests by industrial tree plantations – such as the oil palm – together with the advance of agricultural frontiers under pressure from monoculture plantations, as the causes of deforestation and forest degradation.^{xxxiii}

In addition, palm oil monocultures have been associated with illegal appropriation of land, land tenure conflicts and violation of human rights, including threats to indigenous populations. According to the UN Permanent Forum on Indigenous Issues, 60 million indigenous people all over the world run the risk of losing their land and means of subsistence due to the expansion of plantations to produce agro-energy.^{xxxiv}

A 2007 call for a moratorium on the development of agro-fuels in Africa was signed by over 200 organisations^{xxxv}. In June 2009, a broad coalition of civil society groups meeting at the UN Framework Convention on Climate Change negotiations in Bonn called for the immediate adoption of "rights-based and equitable policies and institutions to halt deforestation and forest degradation" and called for such policies explicitly to exclude "the establishment and management of monoculture tree plantations".^{xxxvi}

Eni will have to locate the palm oil project according to the constraints of its environmental and human rights policies: no destruction of primary forest, no occupation of existing farmland, no impact on areas of high biodiversity, and no direct or indirect resettlement of people. This means that Eni has to locate the project on grassland or savannah areas, and/or old plantations while the labour requirement means that the plantation areas should be accessible to existing settlements. It is highly doubtful that Eni can achieve this.

In addition, it remains unclear whether the primary aim of the palm oil project is its production as a food or as a fuel crop, and if any bio-diesel produced would be for domestic use or export. Eni staff interviewed in Congo stated that the objective of the project was to produce palm oil for the country and that biofuel would only be produced if there was a surplus of palm oil. However, this contradicts the public statements by Eni that 75% of the estimated annual 340,000 tonnes of palm oil production (250,000 tonnes) is for bio-diesel.

Overall, Eni's current oil activities are a matter of serious concern for local communities and Congolese activists, and their international partners, in particular the company's failure to answer the concerns of communities near M'Boundi about the field's environmental and health impacts. The social and environmental risks posed to Congo's citizens and the potential increase in GHG emissions from the company's planned new investments also need to be addressed. For these reasons, tar sands and palm oil could mean significant financial and reputational risks for Eni. These risks are heightened by the current lack of information about the project's potential impacts and its financial viability, lack of meaningful consultation by Eni with local communities about its plans, and the country's notorious governance deficit.

- i. JOINT STATEMENT BY THE G8 ENERGY MINISTERS, THE EUROPEAN COMMISSIONER AND THE ENERGY MINISTERS OF ALGERIA, AUSTRALIA, BRAZIL, CHINA, EGYPT, INDIA, INDONESIA, KOREA, LIBYA, MEXICO, NIGERIA, RWANDA, SAUDI ARABIA, SOUTH AFRICA, AND TURKEY, 25 May 2009. See http://www.g8energy2009.it/pdf/Session_II_III_EC.pdf
- ii. World Energy Outlook 2008, p. 103.
- iii. Ibid, p. 86.
- iv. See Polaris Institute, 2009. Moratorium Now! 6 Good Reasons why there should be a Moratorium Now on the expansion of the Alberta Tar Sands. See: www.tarsandswatch.org/files/Polaris_Tarsands_Moratorium_Declaration.pdf. See also <http://www.greenpeace.org/canada/en/campaigns/tarsands> & BP and Shell: Rising Costs in Tar Sands Investments, Greenpeace UK, Platform and Oil Change International, September 2008
- v. According to Platts Top 250 Global Energy Company Rankings, 2009. Platts assesses company performance based on “four key metrics: asset worth, revenues, profits, and return on invested capital”. See <http://www.platts.com/top250/about.xml?S=n>
- vi. A fourth component involves US\$8 million investment in health care projects through Congo Assistance, a non-governmental organization headed by President Sassou Nguesso's wife.
- vii. Field interviews with villagers from communities in the M'Boundi area and with human rights NGOs, Congo, March-April 2009. Research commissioned by Heinrich Boell Foundation, Germany's Green Political Foundation, and Italian non-governmental organisation Campaign for the Reform of the World Bank. See also «Exploitation du pétrole au Congo: Les Droits humains des communautés à l'épreuve des profits », La Lettre de la Rencontre pour les Droits de l'homme, No. 6 & 7 December 2008, pp. 10-12.
- viii. International Monetary Fund. See IMF Country Report No. 09/74 Republic of Congo: Article IV Consultation, February 2009, “Table 3a. Republic of Congo: Central Government Operations, 2006-11”.
p. 27. See also IMF Country Report No. 05/39, Republic of Congo: Interim Poverty Reduction Strategy Paper Progress Report, February 2005, p. 7;
- ix. Electricity is accessible by only 27.7 percent of the total population of Congo, and only 5.5% in rural areas. See IMF, 2008. Republic of Congo. Joint Staff Advisory note on the Poverty Reduction Strategy Paper. Washington DC, p. 61.
- x. 158 out of 180 countries. See http://www.transparency.org/policy_research/surveys_indices/cpi/2008.
- xi. IMF, 'Republic of Congo Reaches Decision Point Under the Enhanced HIPC Debt Relief Initiative', Press Release No. 06/46 March 9, 2006, <http://www.imf.org/external/np/sec/pr/2006/pr0646.html>
- xii. These practices appeared to continue after Congo accessed debt relief. In 2007, it was revealed that the President's son, also head of SNPC's marketing branch, was paying for purchases of luxury goods using an offshore account that was fed by transfers referencing sales of state oil. See High Court blocks bid by Congo leader's son to bury evidence of “secret payments”; http://www.globalwitness.org/media_library_detail.php/570/en/high_court_blocks_bid_by_congo_leaders_son_to_bury In 2008, an anti-corruption organisation in France filed a criminal complaint alleging that three African Presidents and their family members, including President Sassou Nguesso of Congo, were in receipt of misappropriated public funds and had used these to purchase millions of euros worth of assets in France. In June 2009, the Dean of France's investigating magistrates found the complaint admissible. See http://www.transparency.org/news_room/latest_news/press_releases_nc/2009/2009_05_06_france_case
- xiii. International Monetary Fund. Country Report No. 05/39, Republic of Congo: Interim Poverty Reduction Strategy Paper Progress Report, February 2005, Introduction.
- xiv. See Conning the Congo, Greenpeace International, 30 July 2008; <http://www.greenpeace.org/international/news/conning-congo-forests300708>
- xv. See Nicholas Stern. A Blueprint for a Safer Planet: How to Manage Climate Change and Create a New Era of Progress and Prosperity, London, 2009, Chapter 2 & UNEP. “18 Million Dollars Approved Under UN-REDD Programme: Funds Will Back Forestry Programmes Combating Climate Change and Boosting Local Livelihoods”, 18 March 2009; <http://www.unep.org/Documents.Multilingual/Default.asp?DocumentID=573&ArticleID=6102&I=en&t=long>
- xvi. See Forests Monitor, Project Background; http://new.forestsmonitor.org/fr/capacity_building_congo/558665. In 2006, Congo's debt relief agreement included a review of the sector to produce recommendations for improving “transparency, competition and sustainable management”, which was subsequently extended “beyond economic reform, specifically taxation and concession auctioning, to cover biodiversity conservation, sustainable management of production forests, the participation of local and indigenous peoples, legal frameworks and safeguards applicable to forests and the green environment, and institutional capacity”. The results of this review, if completed, have not been disclosed.
- xvii. A framework Environmental Law exists in Congo (Loi 003/1991 sur la protection de l'environnement). However, according to interviews with independent experts and official sources in Congo, this law has not been followed by the adoption of any executive regulations, so there is no means of enacting or enforcing it. Interviews, Brazzaville, Republic of Congo, March 2009.

xviii. Field interviews with villagers from communities in the M'Boundi area and human rights NGOs, Congo, March-April 2009 commissioned by Heinrich Boell Foundation and Campaign for the Reform of the World Bank. See also Exploitation du pétrole au Congo: Les Droits humains des communautés à l'épreuve des profits, La Lettre de la RPDH, No. 6 & 7 December 2008, pp. 10-12.

xix. Eni Sustainability Report 2008. See http://www.eni.it/en_IT/home.html

xx. Despite Congo's 1.5 billion barrels of oil reserves, and its energy potential in terms of gas, hydro and solar power, "access by the populations to electricity is 5.6% in rural areas and 44.6% in urban areas, representing a national average of 27.7% (ECOM 2005)." African Development Bank, May 2008. Republic of Congo. Results-based country strategy paper (RBCSP 2008-2012).

xxi. Eni Sustainability Report 2008, p. 48 & p. 58; http://www.eni.it/en_IT/home.html

xxii. Eni SpA Rome, 2008. Eni - Agreement for exploration and exploitation of non-conventional oil in tar sands. 3 April 2008.

xxiii. See Polaris Institute, 2009. Moratorium Now! 6 Good Reasons why there should be a Moratorium Now on the expansion of the Alberta Tar Sands. See: www.tarsandswatch.org/files/Polaris_Tarsands_Moratorium_Declaration.pdf. The other categories of risk involved in tar sands exploitation are described as: Energy Insecurity; Aboriginal Lands; Boom & Bust; Social Damage & Military Links.

xxiv. See <http://www.eia.doe.gov/emeu/cabs/Canada/Oil.html> & "Alberta Oil Sands Industry Quarterly Update", Spring 2009, Alberta Government, http://www.albertacanada.com/documents/AOSID_QuarterlyUpdate.pdf,

xxv. See <http://nonewoilsands.wordpress.com> and <http://www.greenpeace.org/canada/en/campaigns/tarsands>

xxvi. Eni SpA Rome, 2008. Eni - Agreement for exploration and exploitation of non-conventional oil in tar sands. 3 April 2008.

xxvii. Eni S. p. A. (undated) Environmental Impact Assessment (EIA) in E&P Operations. Doc. N° 1.3.4.04. Rome 52pp; Eni Sustainability Report 2008. Rome

xxviii. Eni SpA Rome, 2008. Eni - Agreement for exploration and exploitation of non-conventional oil in tar sands. 3 April 2008.

xxix. "Eni S.p.A. Upstream Seminar & Kashagan Field Trip Exploration & Production Update Conference Call - Final", Fair Disclosure Wire, 18 September 2008.

xxx. BP and Shell: Rising Costs in Tar Sands Investments, Greenpeace UK, Platform and Oil Change International, September 2008 & "The Viability of Non-Conventional Oil Development" Innovest Strategic Value Advisors, Research Note, March 2009, www.innovestgroup.com.

xxxi. Eni - The Food Plus Biodiesel project; <http://www.eni.it/attachments/media/press-release/2008/05/congo-19may-08-eng/ProgettoFoodPlusBiodieselENG.pdf>

xxxii. See <http://www.greenpeace.org.uk/forests/palm-oil>. See also Declarations against the Roundtable on Sustainable Palm Oil (RSPO): In defence of Human Rights, Food Sovereignty, October 2008; http://www.wrm.org.uy/subjects/agrofuels/Declarations_RSPO.html

xxxiii. See for instance "IMPLEMENTATION OF FOREST-RELATED DECISIONS OF THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT AT THE NATIONAL AND INTERNATIONAL LEVELS, INCLUDING AN EXAMINATION OF SECTORAL AND CROSS-SECTORAL LINKAGES, Programme Element 1.2: Underlying causes of deforestation and forest degradation". Report of the Secretary-General, COMMISSION ON SUSTAINABLE DEVELOPMENT, Ad Hoc Intergovernmental Panel on Forests, Second session, 11-22 March 1996; <http://daccessdds.un.org/doc/UNDOC/GEN/N96/029/99/PDF/N9602999.pdf?>

xxxiv. UNPFII chairperson Victoria Tauli-Corpuz stated in May 2007 that if biofuels expansion continues as planned, 60 million indigenous people worldwide are threatened with losing their land and livelihoods. See <http://www.survival-international.org/news/3279> & "UN panel: Biofuel crop expansion displaces indigenous people", Associated Press, 05/15/2007.

xxxv. <http://www.gaiafoundation.org/documents/Africaagrofuelsmoratorium.pdf>. See also <http://www.africanbiodiversity.org/>

xxxvi. "Halt Climate Change - Halt Forest destruction - Halt Plantations"; <http://www.redd-monitor.org/2009/06/10/halt-climate-change-halt-forest-destruction-halt-plantations/>