Tullow Oil plc – Proposed Additional Investment
United States Position
November 10, 2011

The United States supports Ghana's efforts to develop its energy resources in a transparent and sustainable manner, diversify its energy sources, and reduce its reliance on oil and gas imports from neighboring countries. Domestic hydrocarbon production will reduce Ghana's vulnerability to oil price shocks and relax a critical constraint on growth and poverty reduction. Ghana is also one of six fully compliant African countries in the Extractive Industries Transparency Initiative, although legislation on oil and gas regulations is still pending.

The United States supports this additional investment and the benefits it is expected to bring to the people of Ghana. However, the United States has strong concerns about the process chosen by IFC management to bring this additional investment to the initial 2009 Tullow Oil project to the Board. The no-objection procedure should not be used to approve projects with potentially significant environmental risks. These risks were partially – but not fully - addressed in the original project document sent to the Board.

It should be noted that the United States abstained on the original 2009 investment for several reasons, including concerns that the risks of offshore oil development merited classifying it as a "Category A" versus a "Category B." For this additional financing, the categorization remains a B but is receiving "higher risk" treatment. Staff subsequently confirmed that they are applying all the relevant disclosure and transparency requirements of a Category A project. The United States commends the IFC for its more cautious approach to risk management, but the United States would like Management to explain why the formal categorization was not changed to reflect this approach.

On a related note, the No-Objection procedure is to be used for routine, non-controversial matters. This project surpasses that threshold, which is why the United States requested a Board discussion. Moreover, the Board has supported increased use of streamlined procedures and delegated authority at the IFC to allow for more effective risk management and use of staff and Board resources. However, this support is premised on proactive risk management by staff, including coming to the Board for full discussions on high risk projects, regardless of the categorization. The United States urges Management to consider these factors when deciding to bring transactions to the Board on a No-objection basis.

The project is an additional financing for offshore oil drilling in the Gulf of Guinea as well as the leasing of a floating production, storage, and offloading ("FPSO") vessel for processing, storing and handling crude oil. While the United States commends the IFC for ensuring that the client has adequate environmental management systems in place to comply with relevant domestic and international regulations, a key lesson from the April 2010 Macondo blowout in the Gulf of Mexico was that laws, regulations, and even the requisite “safety culture” to deal with oil spills often lag behind the real risks. Our expectation is that when IFC engages in potentially risky projects, it works to raise the bar on risk management. The addendum is helpful in addressing some of these risks, including the specific steps taken by the sponsor to incorporate the lessons learned from Macondo, the required use of double hull tankers, the impact on biodiversity, and the details of the client’s oil spill contingency plan. The United States encourages Management in the future to err on the side of greater disclosure in the project documents themselves and to highlight key findings from the Environmental Impact Assessments and/or Environmental Management Plans.