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APPRAISAL REPORT

CAO Appraisal for Audit of IFC

CAO Compliance

C-I-R4-Y11-F137

May 20, 2011

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**Tullow Oil/ Kosmos Energy/Jubilee FPSO  
Ghana**

**Case of IFC's Involvement Linked to the Jubilee Oil Field, Ghana**

***Summary***

In light of the April 2010 Macondo well blow out and oil spill events in the Gulf of Mexico, the CAO Vice President initiated an investigation to assess IFC's procedures and standards when appraising investments in deepwater offshore oil and gas exploration projects.

As of September 2010, IFC was involved in deepwater offshore oil and gas development of the Jubilee Field in the waters offshore of Ghana.

The CAO finds nothing that indicates that IFC did not diligently review and assess the issues related to a potential well blowout and its consequences in line with standards, guidelines, and industry practice that were applicable at that time.

The CAO also finds that in light of an international recognition of inadequate good international business practices, the IFC guidelines do not necessarily provide the adequate level of protection. However, it cannot reasonably be expected that IFC's requirements go beyond international good business practice.

The CAO concludes that this appraisal highlights the need for the IFC to assess the relevance and applicability of the current standards and Environmental, Health, and Safety (EHS) Guidelines when the client is involved in deepwater offshore oil and gas exploration, and to update such standards and guidelines to reflect new developments in good international business practices.

The CAO finds that an audit of IFC's due diligence of the investments related to the Jubilee Field, against the policy provisions applicable at that time, would yield limited information and be of limited value beyond what this appraisal has identified.

Office of the Compliance Advisor/Ombudsman (CAO)  
*for the*  
International Finance Corporation (IFC)  
Multilateral Investment Guarantee Agency (MIGA)  
Members of the World Bank Group



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## About the CAO

*The CAO's mission is to serve as a fair, trusted, and effective independent recourse mechanism and to improve the environmental and social accountability of IFC and MIGA.*

The CAO (Office of the Compliance Advisor/Ombudsman) is an independent post that reports directly to the President of the World Bank Group. The CAO reviews complaints from communities affected by development projects undertaken by the two private sector lending arms of the World Bank Group: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

For more information about the CAO, please visit [www.cao-ombudsman.org](http://www.cao-ombudsman.org)

## 1. Overview of the CAO Compliance Appraisal Process

When the CAO receives a complaint about an IFC or MIGA project, the complaint is first referred to the ombudsman arm of the CAO, CAO Ombudsman, which works to respond quickly and effectively to complaints through facilitated settlements, if appropriate. If CAO Ombudsman concludes that the parties are not willing or able to reach a facilitated solution, the case will be transferred to the compliance arm of the CAO, CAO Compliance, to appraise the concerns raised in the complaint for a compliance audit of IFC or MIGA. Alternatively, a compliance audit can be initiated by request from the President of the World Bank Group, the senior management of IFC or MIGA, or at the discretion of the CAO Vice President.

A CAO compliance appraisal is a preliminary investigation to determine whether the CAO should proceed to a compliance audit of IFC/MIGA. Through CAO compliance appraisals, the CAO ensures that compliance audits of IFC/MIGA are initiated only for those cases that may raise substantial concerns regarding social or environmental outcomes.

A compliance audit is concerned with assessing the application of relevant policy provisions and related guidelines and procedures to determine whether IFC/MIGA are in compliance. The primary focus of compliance auditing is on IFC/MIGA, but the role of the sponsor may also be considered.

A compliance audit appraisal, and any audit that ensues, must remain within the scope of the original complaint or request. It cannot go beyond the confines of the complaint or request to address other issues. In such cases, the complainant or requestor should consider a new complaint or request.

The CAO compliance appraisal will consider how IFC/MIGA assured itself/themselves of compliance with national law, reflecting international legal commitments, along with other audit criteria. The CAO has no authority with respect to judicial processes. The CAO is not an appeals court or a legal enforcement mechanism, nor is the CAO a substitute for international court systems or court systems in host countries.

The appraisal criteria are set forth in CAO's Operational Guidelines. The criteria are framed as a series of questions to test the value of undertaking a compliance audit of IFC or MIGA. The criteria are as follows:

- Is there evidence (or perceived risk) of adverse social and environmental outcomes that indicates that policy provisions (or other audit criteria) may not have been adhered to or properly applied?
- Is there evidence of risk of significant adverse social and environmental outcomes that indicates that policy provisions, whether or not complied with, have failed to provide an adequate level of protection?
- Is there evidence (or perceived risk) of significant adverse social and environmental outcomes where policy provisions, standards, or other audit criteria were not thought to be applicable but perhaps should have been applied?
- Is there evidence that the application of some aspect of a policy, standard, guideline, or procedure resulted in adverse social and environmental outcomes?



- Can the cause of adverse social and environmental outcomes not be readily identified and corrected through the intervention of the project team without a detailed investigation of the underlying causes or circumstances?
- Could a compliance audit yield information or findings that might better inform the application of policies (or other audit criteria) to future projects?

During appraisal, CAO Compliance holds discussions with the IFC/MIGA project team and other relevant parties to understand the validity of the concerns and to explore whether an audit would be warranted.

After a compliance appraisal has been completed, the CAO can choose only one of two options: to close the case, or to initiate a compliance audit of IFC/MIGA.

The CAO will report and disclose the findings and decision of the CAO compliance appraisal in an appraisal report in order to inform the President of the World Bank Group, the Boards of the World Bank Group, senior management of IFC/MIGA, and the public in writing about its decision.

If the CAO decides to initiate a compliance audit as a result of the compliance appraisal, the CAO will draw up a Terms of Reference for the audit in accordance with CAO's Operational Guidelines.

## 2. Background and Concerns that Led to the Appraisal

In light of the unprecedented events of April 2010 in the Gulf of Mexico involving deepwater offshore exploration of oil and gas, in which the Macondo well blew out, resulting in fatalities onboard the platform and a major oil spill, the CAO Vice President (VP) initiated an investigation to assess IFC's procedures and standards when appraising investments in deepwater off shore oil and gas exploration projects.

As of September 2010, IFC was involved in a deepwater offshore oil and gas development located offshore the coast of Ghana. The CAO did not at that time identify any other direct IFC project investments in deepwater offshore oil and gas activities.

The CAO VP therefore requested CAO Compliance to initiate investigative work with the objective of conducting a formal compliance appraisal in order to decide on a possible subsequent audit of IFC's involvement in the three offshore oil and gas activities: Tullow Oil (IFC # 27918), Kosmos Energy (IFC # 27550), and Jubilee FPSO (IFC # 28798).

### *Investment Background*

The Jubilee oil field is located in the West Cape Three Points Block and the Deepwater Tano Contract Area approximately 63 km from the nearest Ghanaian coastline.<sup>1</sup> The field is 75 km south-southeast of the border between Côte d'Ivoire and Ghana and is 132 km southwest of the Ghanaian port city of Takoradi. Water depth ranges from 1,000m to 1,700m within the field. Oil reservoir objectives in the field range in depth from 3,150m to 3,755m.

In 2007, Tullow Oil plc ("Tullow"), Kosmos Energy and their partners discovered the Jubilee oil field offshore of Ghana. The Project supports the first phase of development of the Jubilee field. It involves the drilling of 17 wells (nine production wells, five water injection wells, and three gas injection wells), subsea production installations, the installation of subsea production facilities and the leasing of a floating production, storage, and offloading ("FPSO") vessel for processing, storing, and handling crude oil. Estimated gross production capacity is 120,000 barrels of oil per day initially; production will increase as the field is further developed and more reserves are proven.

The total cost of the project was estimated at approximately \$3.2 billion.

Tullow's share of costs was estimated at \$1.2 billion. IFC proposed to provide a corporate debt facility of up to \$115 million in parallel with a corporate debt facility provided by commercial banks.

Kosmos Energy's share was estimated at approximately \$850 million. IFC proposed to provide a debt facility of up to \$100 million. The company planned to finance the remainder of the funding requirements through commercial banks and equity.

The scope of the Jubilee FPSO Project is to provide and operate the floating production, storage, and offloading ("FPSO") facility for the Phase I development of the Jubilee Field. The FPSO will

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<sup>1</sup> Information for the Investment Background extracted from the "Summary of Proposed Investment" and "Environmental and Social Review Summary" documents for the Projects on the IFC Web site ([www.ifc.org](http://www.ifc.org)).



have a contractual production and processing capacity of 120,000 barrels of oil per day and 160 million metric cubic feet of natural gas per day and a storage capacity of 1.6 million barrels of oil.

The total FPSO project cost was estimated to be approximately \$875 million, to be financed by a limited recourse long-term debt facility and shareholders' equity. The proposed IFC investment involved: (i) an A Loan of around \$50 million for IFC's own account; (ii) a syndicated B Loan in an amount of up to \$519 million for the accounts of B Loan participants; and (iii) equity/quasi-equity investments for IFC's account of up to \$60 million.

All the above investments were assessed under the 2006 IFC Performance Standards. The environmental and social review included Tullow and Kosmos, subsidiaries to Tullow, as well as MODEC Inc., the contractor constructing the FPSO. All three reviews were done under the Category B provisions as defined in IFC's procedures.

### **3. Scope of the Appraisal for a Compliance Audit of IFC**

The CAO appraisal asks the question: has IFC assured itself that it has diligently reviewed and assessed the environmental and social risk, and potential impacts on the environment and workers safety, of an offshore deepwater oil and development, and whether the standards used are fit for this purpose, given the lessons learned from the events related to the Macondo field.

An appraisal of this scope necessitated revisiting the scope of the review, the diligence with which it was carried out, and how IFC assures itself of performance through reviews, monitoring, and follow up of the implementation of Standards and Guidelines, as well as project-specific actions to mitigate risk identified by IFC.

For guidance concerning lessons learned and recommendations emerging from the Macondo well event, the CAO referred mainly to relevant parts of the "Deep Water—The Gulf Oil Disaster and the Future of Offshore Drilling" report to the U.S. President,<sup>2</sup> and "International Recommendations on Well Incident Prevention, Intervention and Response" by the Global Industry Response Group of the International Association of Oil & Gas Producers."<sup>3</sup>

#### *IFC Standards, Guidelines, and Procedures*

The framework of IFC's due diligence is provided by IFC's Performance Standards, in combination with relevant EHS Guidelines.<sup>4</sup> The Environmental and Social Review Procedures require IFC to review the project against the Performance Standards and good international practice standards as set out in the EHS Guidelines. In addition, an assessment typically includes a review of the track

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<sup>2</sup> Report to the President, National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, January 2011.

<sup>3</sup> Based on three reports ("Deepwater Wells," "Capping and Containment," and "Oil Spill Response") by the Global Industry Response Group of the International Association of Oil & Gas Producers, May 16, 2011.

<sup>4</sup> The relevant Performance Standards are: PS1: Social and Environmental Assessment and Management Systems; PS2: Labor and Working Conditions; PS3: Pollution Prevention and Abatement; PS 4: Community Health, Safety and Security; and PS6: Biodiversity Conservation and Sustainable Natural Resource Management. The relevant EHS Guidelines are WBG/IFC Environmental, Health, and Safety Guidelines for Offshore Oil and Gas Development, April 2007.

record, technical capacity, corporate and project-specific management systems of the client/operator, and business and technical risk and associated risk mitigation measures.

The WBG/IFC EHS Guidelines require that consequences of blowouts be addressed in the required Oil Spill Contingency Plan. These should be based on site-specific information and include oil spill trajectory modeling and environmental impact predictions.

### *IFC's Due Diligence and Follow-up*

During its due diligence of the investments related to the Jubilee field in Ghana, IFC identified the following issues as the most relevant to address:

- Establishing an Integrated Environmental, Health, Safety and Social Management System (“EHSS MS”), particularly in managing change in the Project beyond Phase 1
- Occupational health and safety management, including job hazard analyses, and fire and explosion prevention and control
- Emergency response and community safety, including oil spill preparedness and response, and prevention of well blowout
- Sustainable management of production waste and drilling fluids and cuttings during development
- Impacts on the marine biota, with specific attention to endangered species potentially present in the Project area.

In addition, during its due diligence, IFC sought additional information about the following aspects, among other issues:

- What was the prior experience of the operators in developing a productive oil field in deep waters
- Whether the sponsor had undertaken oil spill trajectory modeling to determine the possible impact of oil spills from blowouts, tanker collisions, leaks, and other contingencies, and would such spills be capable of reaching the coastal areas
- In the event of a worst case oil spill, how long would it take emergency (Tier III) equipment to arrive, and what kinds of equipment and oil response personnel were available in Ghana.

IFC also stated that:

- IFC reviewed the Environmental and Social Evaluation Report for Lenders (ESER), which undertook an extensive review of the information on the Project alternatives and baseline conditions. These assessments of the potential environmental impacts, based on specific baseline data, allowed IFC to assess the risks of the Project.
- In parallel, the client undertook a detailed Environmental Baseline Survey (EBS). IFC reviewed the EBS and found that it confirmed the ESER’s assessments.
- To ensure that the borrowers would achieve compliance with the Performance Standards, IFC made it a condition of its investment agreements that the clients remain in compliance with the relevant Action Plan(s).
- In the case of this Project, time-bound Action Plans were developed along with IFC’s Environmental and Social Review Summary (ESRS), and have been publicly disclosed.

The following summarizes some of IFC's key assessments with respect to the Project with relevance to the CAO's appraisal:<sup>5</sup>

- The Jubilee field unit operator has prior experience—specifically, exploration in the deep water near Mauritania (at water depths of 1,700 meters)—and is otherwise leaning on partners and contractors with relevant experience.
- The Project is 63 kilometers offshore and cannot be seen from the land, even at night. This distance puts the Project traditionally out of reach of artisanal fishermen operating from the coast.
- The Project is in 1,000 to 1,700 meters of water, where the ocean floor contains little life and is essentially a layer of mud. There are no critical habitats within the Project area.
- There were two wells at the time of IFC's assessment, and 15 more would be drilled using mobile offshore drilling units (MODU), ships that are anchored or use dynamic positioning, but are not otherwise attached to the sea floor. Oil and gas will be processed and stored on a floating production, storage, and offloading facility (FPSO), which is a converted tanker.
- Commercial fishermen (primarily for tuna) do operate in the area. As result of a 500-meter safety zone that must be maintained around the MODUs and FPSO, there is a reduction of fishing area compared to the total fishing area (0.785 km<sup>2</sup> vs. 235,349 km<sup>2</sup>) of Ghana's EEZ.
- Once the drilling phase is over, only the FPSO will be present. This limited social impact on fishermen is therefore mostly short term.

IFC concluded that all potential environmental impacts associated with *normal operations* were assessed as reversible and localized. Regarding *accidents*, IFC also concluded:

- The only potentially significant impact is associated with an accidental major oil spill. IFC has reviewed the technological measures in place and finds that they will minimize the risk of an oil spill. But should one occur, it is very likely to be small (1,000 barrels or less) and can be addressed almost immediately with equipment and trained personnel based in Ghana. In the unlikely event of a major spill, teams and equipment from a UK-based global leader in spill response can be transported on site within 16 hours. Given the distance from the shore and the long shore currents, this mobilization time will be more than sufficient to address a spill. The client companies have mapped the ecologically sensitive areas along the Ghana coast to ensure special protection in the remote chance of a spill reaching shore. The risk of a spill can be higher during initial production. Thus, a trajectory model simulation will be available well before commencement of operations at the FPSO to better inform the oil spill response plan. A drilling phase oil spill contingency plan is already in place.

In parallel, the impact assessment concluded:

- The consequences from an accidental oil spill (such as a spill of crude oil from a blowout, or a diesel fuel spill), would include—depending on the spill size and conditions—violation of water quality standards; contamination of sediments; death or injury of marine mammals, turtles, and birds; contamination of coastal habitats, and physical effects on soft bottom

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<sup>5</sup> These statements were stated in the IFC report, "Republic of Ghana – Proposed IFC investments in Kosmos & Tullow: Statement to the Board to Address Concerns Raised about the Jubilee Project,"





benthos around well sites in the event of a subsea blowout. The assessment concluded the likelihood for a spill to be rare to remote and the potential impact moderate to severe.

The modeling described in the 2010 Oil Spill Contingency Plan, with references to the Jubilee Field EIS Annex D, maps the potential consequences of a series of scenarios, ranging from small oil spills, defined as less than 500 barrels, to major spills such as ship collisions, FPSO hull damage, blowouts, or cargo tank explosions with release of more than 1,000 barrels. The modeling includes scenarios with release of 100,000 barrels of crude oil from a potential well blowout. The assessment estimates the probability of a major spill event as once in 10,000 years.

In June 2010, in light of the events in the Gulf of Mexico, the client shared with IFC an assessment and action plan the client had prepared that incorporated the findings and recommendation of the report of the U.S. Department of the Interior to the U.S. President regarding the Macondo well blowout.<sup>6</sup>

#### **4. Findings of the CAO Appraisal**

The CAO finds that IFC did diligently review and assess the issues related to a potential well blowout and its consequences in line with standards, guidelines, and industry practice applicable at the time.

The CAO finds that IFC's client did reassess its operations, act, and inform IFC after the Macondo blowout.

The CAO finds that the elaborate Board discussion and criticism from external stake holders at the time of Board approval focused on IFC categorization of the investments, distribution of revenues within Ghana, and use of a single hull FPSO tanker, not the challenges of an underwater blowout.

The U.S. National Commission report, "Deep Water,"<sup>7</sup> concludes that the systemic failures revealed by the Macondo blowout put in doubt the safety culture of the entire industry, and that technology, laws and regulations,<sup>8</sup> and practices for containing, responding to, and cleaning up spills lag behind the real risks associated with deepwater drilling into large, offshore, high pressure reservoirs of oil and gas.

The Global Industry Response Group outlines an approach to improve industry practice by developing better capabilities and practice in well engineering design and operations management, to enhance capping response and study containment solutions, and to improve oil spill response preparedness and capability.<sup>9</sup>

#### *CAO Appraisal Conclusions*

In regard to the appraisal question whether there is evidence of risk of significant adverse social and environmental outcomes that indicates that policy provisions—whether or not complied with—have failed to provide an adequate level of protection, the CAO finds that the IFC Guidelines are

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<sup>6</sup> The letter and report from the Secretary of the Interior to the U.S. President, May 27, 2010.

<sup>7</sup> Report to the President, National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, January 2011.

<sup>8</sup> This statement refers to applicable laws and regulations of the United States.

<sup>9</sup> Global Industry Response Group of the International Association of Oil & Gas Producers, "Deepwater Wells," "Capping and Containment," and "Oil Spill Response," May 16, 2011.



not fit for this purpose, in light of an international recognition of inadequate good international business practices. However, it cannot be expected that IFC's requirements go beyond international good business practice.

In regard to the appraisal question whether a compliance audit could yield information or findings that might better inform the application of policies (or other audit criteria) to future projects, the CAO finds that an audit of IFC's due diligence of the investments related to the Jubilee Field, against the policy provisions applicable at that time would yield limited information and be of limited value beyond what this appraisal has identified.

## **5. The CAO Decision**

The CAO concludes that this appraisal highlights the need for the IFC to assess the relevance and applicability of the current standards and EHS Guidelines when the client is involved in deepwater offshore oil and gas exploration, and to update such standards and Guidelines to reflect new developments in good international business practices.

The CAO concludes that this case does not merit an audit of IFC's due diligence and monitoring of its involvement linked to the Jubilee field offshore Ghana. The CAO will close this case with no further action.