



## CHAD INC.

**A corrupt family clan, Glencore's billions and Switzerland's responsibility**

Chad suffers from what is known as the resource curse. The clan around President Idriss Déby Itno, who has ruled for twenty-six years, is corrupt. Money earned from oil exports does not filter down to the people of the central African country. And the Swiss commodities corporation Glencore is closely associated with this system by pumping and trading oil and through oil-backed loans. It will take greater transparency in commodity transactions with the government to tackle possible corrupt practices and to allow the population to profit from the wealth generated by oil. As the most important trading hub for commodities in the world, Switzerland has a duty to assume its responsibility here; this will involve applying the transparency regulations of the proposed new company law to trading the same way as to extracting commodities.

«The people in countries where minerals are extracted should know how much money their government earns from this. This knowledge is a powerful weapon. It allows the people to keep the authorities under better control, stifling corruption. As a result, the information can help to tackle a curse that I find very difficult to accept. I mean the resource curse. I mean the 70% of people who are blighted by extreme poverty and who live in rich countries nowadays, or more specifically in countries which are rich in commodities. It is a scandal that this

70% receive nothing in return for the mineral resources of their own country. On the contrary, they often also suffer directly from the consequences of environmental pollution, as well as from human rights violations in their homeland.»

This accusation is not levelled by an activist from a non-governmental organisation; it comes from the Swiss Minister of Justice. While Simonetta Sommaruga may have been referring to Guinea, which she had visited in 2011, in her speech in February 2017, her words could be applied just as easily to Chad, as this study reveals. The central African country has become a model example of the resource curse. First of all, this refers to the area of Badila and Mangara, where the Swiss commodity company Glencore

has been drilling for oil since 2013. Most of the people surveyed by SWISSAID in that region believe that they are worse off now than they were prior to the exploitation of oil. The main criticisms raised are the loss of cultivated land, restricted freedom of movement, dust pollution, as well as insufficient and non-transparent compensation for the material losses that they have sustained.

The resource curse within this microcosm is reflected at national level. A good USD 13 billion have gone into Chad's state coffers since 2003 thanks to drilling for oil; that's 65% of all government revenues during those years. However, this has not triggered any sustainable development; quite the opposite in fact. The country has fallen even further in the Human Development Index and is

The full-length version of the SWISSAID study (in French) can be found at

[www.swissaid.ch/fr/tchad-sa](http://www.swissaid.ch/fr/tchad-sa)





currently third from the bottom; almost 50 per cent of the population lives below the poverty line. In the meantime, the corrupt clan of President Idriss Déby Itno, who has been in power for twenty-six years, has turned the country into a family business. Nepotism, embezzlement and corruption are rife, not least of all in the oil sector.

### **Lack of transparency**

Transparency is the best means of combating this evil. There has been an ever increasing stream of information about the flows of payments in the oil sector in Chad. However, this report demonstrates

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**Almost 50 per cent of people in Chad live below the poverty line**

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that: It is extremely difficult to navigate your way through the jungle of payments; the information is inconsistent and contradictory; and there are major gaps in the system of payment disclosure. First and foremost, this concerns trading in crude oil which comes from a variety of sources under the control of the state oil com-

pany, Société des Hydrocarbures du Tchad (SHT). The sale of this «state oil» generates around two thirds of the country's oil revenues at present.

Despite its pivotal role for Chad, SHT is actually a black box: In violation of the laws of Chad, it does not publish any annual financial statements or any other financial reports; it is not subject to any external auditing; and it often crops up in reports on corruption, embezzlement and dubious transactions. The authorities in Chad seem rather unwilling to reform the oil sector and, more especially, SHT, not least of all due to the relationships and the manner in which its personnel are interwoven with the widely extended family network of the President.

### **Glencore is front and center**

The main business partner, financier and exclusive customer of SHT «state oil» is Glencore, the Swiss commodities corporation. It has loaned over USD 2 billion to the government of Chad or to SHT since 2013. While some of this money has gone directly into the state budget, the lion's share has been used in the purchase of sha-



res in the most important oil block in the country. The loans are paid back in the form of oil deliveries by SHT to Glencore. However, Chad has manoeuvred itself into a debt trap because of the greatly deflated price of oil. Most of the oil revenue is used to service debt while the country is faced with a massive financial crisis.

**Glencore, the Swiss commodities corporation, plays a central role in Chad's oil sector**

Even President Déby is now striking a critical tone: «That was a very bad loan. (...) And I wonder whether insiders took advantage.» The country is still crippled by debt, and Chad has been stripped of «98% of its dividends».<sup>2</sup> It is difficult to judge whether that is correct given the lack of transparency in the agreements, in payment flows and in SHT transactions. The largest question marks about the reliability of all the data published keep arising in connection with the sale of crude oil from SHT to Glencore and the corresponding payments.

**Shared responsibility**

This relates to a major gap within the global transparency initiative EITI. Regarding oil trading it departs from its basic principle and places no obligation upon the buyers of state oil to declare

their payments and to file detailed accounts. That said, Glencore is hardly helping to shed light on the matter, nor is it being transparent about agreements or payment flows. On the contrary, the Zug-based corporation could not be contacted when the 2014 EITI report was prepared, because its subsidiary in Chad was unable – or unwilling – to establish contact with its parent company.

Glencore's conduct here is within the letter of the law, just as it is in granting loans and in the production of oil in the south of Chad. That said, given the significance of oil trading to government revenues, questions arise about the responsibility of the corporation in a state which is characterised by repression, corruption, nepotism and an absence of transparency. One thing is certain, responsibility for reforms rests primarily with the authorities of the country. However, Glencore's dominant position in the oil sector in Chad means that it ought to assert its influence and press to ensure that its business partners abide by the law and disclose more precise figures.

Or better still, it ought to lead by example and do the same thing itself. Meanwhile, the Swiss corporation has done neither and is, therefore, not taking its responsibilities seriously. In an environment like Chad, EITI seems to be incapable of adequately shedding light on the oil trade transactions.

**FURTHER INFO:**

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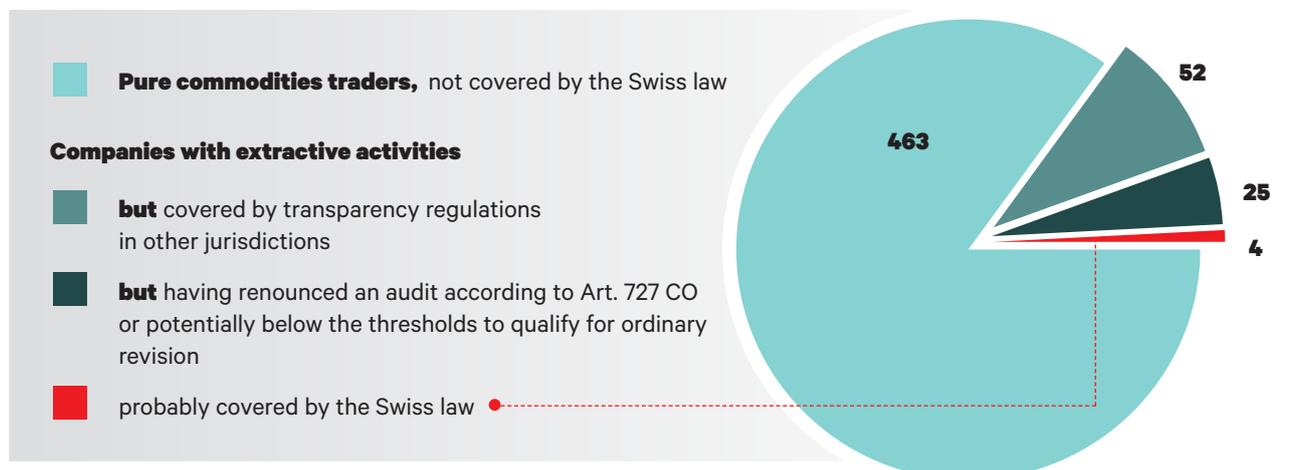
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The political will of the authorities in Chad and of SHT to apply EITI's rules correctly appears lukewarm; there are no sanctions other than exclusion from EITI. And there is no legal basis to force buyers like Glencore to disclose their payments.

**Switzerland must act**

That's precisely why countries where the commodity traders are headquartered must take action. And it is Switzerland that is playing first violin in this business. The transparency legislation in the US, the EU and the UK, which is the second largest trading hub, does still not cover trading in commodities with state-owned companies. However, that could soon be set to change in the pending revisions to those laws since the scale of the transactions, the risks of corruption and the dangerous gap in transparency – comprising some 20% of all payments recorded under UK rules – are becoming ever more apparent. If Switzerland

**WHY THE SWISS TRANSPARENCY PROPOSAL IS INADEQUATE** (Source: Public Eye)<sup>3</sup>



wishes to live up to its responsibility as the biggest trading hub for commodities, it must take action and regulate the sector.

Taking Chad and Glencore's business dealings in that country as an example, this report highlights the dangers, risks and side effects of unregulated trading in commodities. There is a useful remedy as such; making trading as transparent as the extraction of the commodities. However, the Federal Council's draft of the provisions proposed for the revision of the Swiss company law explicitly only seeks to regulate companies involved in the extraction process. This means that while Switzerland may be bridging a legislative loophole at global level, it would be passing a regulation without any significant benefit for the fight against corruption in countries where there is an abundance of mineral resources. According to an analysis by Public Eye, it is likely that the law would only cover four of the almost 550 Swiss companies in the commodities sector (see graph p. 3).

Parliament must correct the bill during the forthcoming debates and seek to include trading in commodities. Otherwise, Simonetta Sommaruga's lengthy words

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**The law would probably only affect four of the almost 550 Swiss companies in the commodities sector**

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of regret about the scandal and about the consequences of the resource curse will seem like the behaviour of a doctor who sits consolingly at a patient's bedside but refuses to prescribe the treatment that could save him. Politicians generally justify this behaviour by saying that they are «protecting the competitiveness of Switzer-

land and its attractiveness as a business location». This will sound like nothing other than sheer cynicism to an impoverished farming family in the oil-producing regions of southern Chad.

<sup>1</sup> | The value of transparency. Speech given by Federal Councillor Simonetta Sommaruga on the 20th anniversary of the Ethos Foundation in Bern, 2 February 2017; <https://www.ejpd.admin.ch/ejpd/de/home/aktuell/reden---interviews/reden/2017/2017-02-02.html>

<sup>2</sup> | Idriss Déby Itno ; L'interview vérité ; Jeune Afrique, no. 2925 ; 29 January 2017, p. 26.

<sup>3</sup> | [www.publiceye.ch/swiss-commodity-sector](http://www.publiceye.ch/swiss-commodity-sector)

## SWISSAID'S MAIN DEMANDS AT A GLANCE:



### The Swiss authorities should:

- apply the same provisions on transparency to the trade in commodities that the company law proposes for the extraction of commodities.



### Glencore should:

- comply with its obligations under the EITI and cooperate fully with the EITI Multi Stakeholder Group in Chad and with the authors of the EITI reports.
- use its influence on SHT to prompt the state oil company to produce comprehensive and transparent financial reports.



### The Chadian authorities should:

- implement a root and branch reform of the oil sector, creating public access at regular intervals to all the relevant information about oil revenues, about the oil trade deals undertaken by SHT, as well as about agreements between the government, SHT and private oil companies.
- make arrangements for an independent external audit of the state oil company SHT.