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introduction / background

introduction

In November 2004, the World Bank Group approved guarantees for one of Africa's largest fossil fuel projects, to be carried out by a consortium led by ChevronTexaco and including Royal Dutch Shell. The proposed pipeline, which would run from Nigeria through Benin and Togo to Ghana is surrounded by controversy. This report aims to debunk the three major myths and reveal the truth behind the West African Gas Pipeline.

background

the west african gas pipeline project

The West African Gas Pipeline (WAGP) is a 681 km onshore and offshore pipeline that will transport natural gas from gas fields in the western Niger Delta of Nigeria to selected consumers in Benin Republic, Togo and Ghana. The pipeline obtained financial guarantees of the World Bank Group and is currently being considered for support by the European Investment Bank.

The project's sponsors claim it will "contribute to the harmonization of regional, institutional, legal and regulatory frameworks in the participating West African countries" in the context of the Bank's West Africa Regional Integration Assistance Strategy. The project is also said to reduce the cost of energy and improve the reliability of energy systems in Ghana, Togo and Benin. Finally, the project is touted to contribute to Nigeria's intent to end all harmful gas flaring by 2008.

The WAGP is the World Bank's first multi-country fossil fuel project after the Extractive Industries Review of 2003, which documented the wide range of problems in oil, gas and mining projects. The review recommended no further World Bank support for extractive industries in countries that are corrupt, do not respect human rights, do not have rule of law in place or where local people oppose the project.

project description

The WAGP will transport Niger Delta gas from the Lagos terminal (Nigeria) to three delivery points - near Cotonou (Benin), Lomé (Togo), and Tema (Ghana). The final terminal of the proposed pipeline system is at the Takoradi Power Stations in Ghana. The WAGP will be linked to Nigeria's existing and outdated Escravos - Lagos Gas Pipeline, built with old technology and without environmental impact studies in the 1980s. Project sponsors have always wanted to define the WAGP project narrowly, claiming it begins at the Escravos terminal. As such, they omit the fact that gas for WAGP will actually be sourced at the beginning of this old pipeline, from upstream areas near Lagos, in the middle of the conflict-ridden Niger Delta.



Source: Energy Information Administration, www.eia.doe.gov/ emeu/cabs/wagp.html



introduction / background

project promoters

The West African Gas Pipeline Company Limited (WAPCo) will build, own, and operate the pipeline. The company was established by the governments of the four countries as a publicprivate partnership and is owned by:

- · Chevron-Texaco West African Gas Pipeline Ltd (42%)
- Nigerian National Petroleum Corporate (25%)
- Shell Overseas Holdings Limited (17%);
- Takoradi Power Company Limited (16%)

Although promoters of WAGP claim that this is a West African project by its origin, meant to address the needs of people from that region, WAPCo is not registered in any West African country. It is registered in Bermuda, and will operate as an offshore company with major fiscal, environmental and social exemptions specifically allowed through the WAGP Treaty and Enabling Legislations.

project cost and financiers

The WAGP is estimated to cost about US\$590 million; and additional compression-related costs are estimated to be about US\$I10 million over 20 years.

In November 2004, the World Bank approved a total of US\$125 million in guarantees supporting the construction of the WAGP. The World Bank's International Development Association (IDA) financed a guarantee covering US\$50 million for 22 years. The World Bank's Multilateral Investment Guarantee Agency (MIGA) provided political risk insurance of US\$75 million for up to 20 years.

More specifically, MIGA will guarantee 90 percent of the West African Gas Pipeline Company's US \$83.4 million equity investment in Ghana from the risk of 'breach of contract'. This is earmarked to guarantee payment obligations by the government of Ghana, which is locked into purchasing a fixed amount of gas over the lifetime of the project. Although small compared to the total cost of the project, private investors see the World Bank's as a necessary condition for their participation in the project. WAPCo, led by Chevron-Texaco, requested the Bank's involvement, indicating that it will not implement the project without appropriate mitigation of what they perceive as political risks linked to natural gas sales to state-owned power companies in Ghana, Benin and Togo.

The project has been supported also by the United States Agency for International Development (USAID) with at least \$1.5 million and the Overseas Private Investment Corporation (OPIC), which provided \$45 million in reinsurance to one of the private banks financing WAGP. In addition, other public financial institutions, including the European Investment Bank, have expressed interest in the project and are undertaking due diligence. The UK Export Credit Guarantee Department and the US Export-Import Bank may also be involved.



wagp will promote regional integration in west africa

the promise

"The proposed West African Gas Pipeline...will contribute to fostering regional economic and political integration that would support economic growth and in particular the development of the West Africa electricity market" (World Bank)1.

Project promoters claim that WAGP will help regional integration in West-Africa. not only is the WAGP consistent with the World Bank's Regional Integration Assistance Strategy and complementary to the West Africa Power Project, but it is also one of the pillar projects in New Partnership for Africa's Development (NEPAD). The regional entity WAPCo sees the project as an "outstanding example of cooperation and partnership between the governments of Togo, Benin, Nigeria and Ghana"2.

the background

The natural gas for the WAGP will be sourced from the Escravos area in the Western Niger Delta. This is an area known for violent conflicts and instability arising from competition for control of land and resources between communities, the Nigerian government, and the oil and gas companies that operate there. WAGP project sponsors say the pipeline will promote regional integration, which has attracted widespread civil society skepticism.

Oil production in commercial quantities in Nigeria dates back to 1956 when Shell operated the first oil well in West Africa at Oloibiri in today's Bayelsa State. Other companies like ExxonMobil, Chevron, Agip and TotalFinaElf soon followed. Nigeria is a member of the Organization of Petroleum Exporting Countries (OPEC) and is the largest African oil supplier to the United States.

The presence and activities of oil companies in the Niger Delta region have resulted in unprecedented suffering for the Delta communities, leading to environmental destruction, extreme social disruption, violence and political instability. People have suffered intolerably from abduction, unbridled community dislocation, serious impoverishment and environmentally destructive oil spills and related health and social implications. Corporations, such as Shell and Chevron, have openly admitted that they have contributed to the violence, corruption and disruptions in the Niger Delta.

At the same time, the people of Ghana, Togo, Benin and Nigeria have longstanding political and socio-economic relationships pre-dating the colonial era. These are nowadays enhanced through local activities, such as regional trade and commerce, family relationships and crossborder farming practices. This regional integration is functioning very well.



wagp will promote regional integration in west africa

the wagp reality

 Use of the existing Lagos-Escravos pipeline may deepen the crisis in Nigeria

WAGP will utilize the existing Lagos-Escravos pipeline for the first section of gas transport. This pipeline, which has been in place for well over 20 years, was built without an Environmental Impact Assessment (EIA). Disturbingly, there is no commitment for such an assessment at present, even though it will have a crucial role in supplying the WAGP. It is not clear whether this pipeline will be rehabilitated and redesigned to suit the purpose of transporting nonassociated gas on to the WAGP.

The use of a crucial unsafe pipeline from Escavros to Badagry in Lagos State is likely to lead to further disruption in the Niger Delta Region and in particular, among the communities near the pipeline route.

 WAGP threatens the relationship between Ghana and Nigeria

The WAGP could not only worsen insecurity and impoverishment in the Niger Delta area itself but also disrupt gas supply to the other countries. Moreover, the use of a resource resulting from such severe conflict and social unrest as is the case in the Niger Delta will threaten, rather than strengthen, the long-standing relationship between people in the four countries of Ghana, Togo, Benin and Nigeria.

In addition, local people from the Niger Delta region have constantly expressed their resentment and disappointment that resources from their communities will be by-passing them to meet the consumption needs of corporations in other West African countries without benefiting them. This is no basis for sound integration between people of the four countries.

 WAGP carries NO responsibility for its indirect impact (and provides NO mechanisms for accountability)

The offshore Consortium (the operating companies) is registered in none of the four African countries. Instead, it is registered in Bermuda, a touristy overseas territory of the United Kingdom! That means that the four countries in West Africa cannot seek legal redress for damage resulting from the project, making the WAGP legally unaccountable to the people.

The Consortium has indeed explicitly stated that it will not be responsible for any indirect impacts of the pipeline. As a result, local people who will suffer from the WAGP's adverse indirect impacts, including human rights violations, will have no specified means of seeking redress. In this respect, the project seems to be unable to provide security to potentially affected people in West-Africa.



the way forward

The regional integration concept can only be realistically promoted by WAGP sponsors if they show real commitment to the aspirations of the ordinary citizens of the sub-region. They should be sensitive to the needs of the citizens of all four countries, particularly in the source region in Nigeria and not just prioritize industry needs in one country over people's needs.

Moreover, if conflicts over resource ownership and control in the Niger Delta are not properly handled, the project may serve as a basis for an increased conflict that could degenerate into regional disintegration in the West African region. True regional integration should be people centered and not profit oriented.

wagp will provide cheap and clean energy for ghana

the promise

The West African Gas Pipeline Project promotes "the use of cheaper and environmentally cleaner gas from Nigeria in lieu of solid and liquid fuels for power generation and other industrial, commercial, and domestic uses" (World Bank's Project Appraisal Document)

In the Environmental Impact Assessment of the pipeline, project promoters further claim that: "The WAGP would provide a lower-cost sustainable fuel (and electricity generation) solution for Benin, Ghana and Togo...Households, including those who are poor, will also benefit from enhanced energy availability".

Among the benefits promised by project sponsors, is that the WAGP will provide "cleaner and cheaper natural gas to replace the more expensive light crude oil currently being used as fuel for the Aboadze Thermal Power Plant"³.

These proposed energy benefits are mainly aimed at Ghana. It has been estimated that in the past 10 years, Ghana has been struggling to meet an increasing demand for reliable and affordable electricity with an increase of 8% for the period 1988 – 2002. WAGP is seen by its promoters as the very solution to unburden Ghana from this energy crisis.

the background

Inadequate access to modern energy sources is a common predicament of rural communities all over Ghana. For domestic cooking and other productive activities. more than 90% of all households in Ghana rely on traditional biomass - fuel wood and charcoal. The burden of collecting these energy sources lies mostly with women and girls. In the capital Accra, 22.7% of households currently use natural gas. In contrast, gas in rural areas accounts for less than 1% of total national consumption (2000 Population and Housing Census, Statistical Service of Ghana)4. In Accra alone, more than 71% of all households use charcoal as their main fuel for cooking.

Energy for lighting purposes is generally obtained from two sources, i.e. kerosene and electricity. 57% of the population depends on the use of kerosene for lighting, of which 82% are rural folk. Its use is associated with extensive indoor air pollution and harmful accidents (mainly from burning and poisoning illness from the use of kerosene lamps). Electricity, on the other hand, supplies the urban areas of the country. Currently, 44% of the households, amounting to 1.6 million people in the country, use electricity for lighting purposes. However, the per capita share of electricity usage for both rural and poorer urban income groups and households is estimated to be low: an indication that the bulk of electricity in the country is consumed by the middle and higher income groups5.



wagp will provide cheap and clean energy for ghana

Currently, the main electricity supplier for Ghana is the Akosombo hydroelectric power dam, owned by the state Volta River Authority (VRA). VRA will be the sole fuel buyer of Ghana's share of the gas transported in the West African Gas Pipeline. This gas will be processed and turned into electricity under a tolling arrangement.



the wagp reality

While the pipeline will do nothing to increase access to energy in Nigeria and little in Benin and Togo, citizens of Ghana fear that WAGP can turn out to be an expensive rather than a cheap solution to the energy problem in Ghana.

 WAGP commits Ghana to high thermal electricity costs

An assessment undertaken by Ghana's Energy Commission concluded that the WAGP project would not be economically viable for the people in Ghana. It stresses that the terms offered to Ghana by the ChevronTexaco-led Consortium allow only a small saving on the current cost of oil for power generation. At capacity, the terms for the cost of gas will provide only a limited advantage compared with the alternative cost of oil⁶. The Energy Commission also warned that 'there is an urgent need for transparency' in relation to the Gas Purchase Agreement, which details the country's payment obligations. These contracts lock Ghana into buying the WAGP's gas at a set price for twenty years, impacting on Ghana's budget and ruling out possible future alternative energy choices. While Ghana's citizens and tax payers will feel these impacts, the project is entirely in the hands of ChevronTexaco.

Project shareholders have consistently ignored the Commission's views, showing a complete lack of commitment to accountability and transparency in the WAGP. They have also refused to publish the details of the projected profit and loss scenarios. The World Bank promised to fully disclose economic and financial feasibility studies through workshops in Ghana, but only presented an executive summary.

One of VRA's largest energy consumers and thus one of the biggest potential end-users of gas from WAGP, the VALCO aluminium smelter near Tema (Ghana), has been off-line since May 2003 due to financial problems, and there is no official information available regarding when it will re-start operation. As VALCO used to buy two thirds of Ghana's produced electricity, the uncertainty about the smelter raises further questions about short-term electricity demand in Ghana and the economic viability of WAGP.



wagp will provide cheap and clean energy for ghana

· Uncertainties on end users

It is unclear what percentage of the gas will go to industrial and commercial versus domestic uses, and who these users are. To date, project sponsors have cited 'industrial power generating entities' as gas beneficiaries but they have refused to provide further details. In 2004, the independent Dutch Commission for Environmental Impact Assessment raised a number of questions on WAGP's relation to energy planning and distribution in Ghana and how citizens will benefit. It is unclear whether the market rates at which WAGP gas would be sold will be affordable for local consumers. and thereby help to address their energy needs. Fears exist that the gas will serve mining operations in western Ghana, near the Takoradi power plant. The region already has sufficient energy supply and the additional capacity seems designed to supply mining companies who carry out socially and environmentally destructive activities that do not benefit Ghanaian citizens. Finally, it is also unclear whether WAGP will translate to a fiscal reduction of electricity cost.

· Long-term costs with no benefit

Under the proposed terms on a take-orpay basis, Ghana is committed to pay the pipeline owners an annual amount in the order of \$88 million for transport services, thereby obligating the country to pay even in the event of supply failure. Thus, on behalf of the Chevron group, Ghana will pay for the amortization of the pipeline without ever gaining ownership title to the investment object. The country does not even have the assurance of not having to pay twice over, when the pipeline enters into the second 20-year period.

· No economic benefit for Nigeria

For Nigeria, the project promoter WAPCo claims "the provision of a market and financial returns for natural gas that may otherwise have been flared, will have a positive impact on the economy". However, in a country where the economic benefits of oil production estimated at over \$20 billion a year - have consistently not reached the impoverished in society, it seems unlikely that any additional income from gas sales will ever benefit them. Community conflicts associated with the Delta area are directly linked to unequal benefit sharing.



wagp will provide cheap and clean energy for ghana

 Project Consortium enjoys numerous tax exemptions

An entirely new fiscal regime will be applied to the WAGP project with numerous tax exemptions from existing tax laws in each of the four states. Such incentives for the companies are well noted in the Project's Inter-governmental Agreements, including reduced rates and duties and a 5-year tax holiday7. Sharing of the taxes is not related to the use of the state parties but to the length of the pipeline in the various countries. This further decreases the economic viability of the project for the participating countries, particularly Ghana which is the major target customer.

the way forward

Project proponents should clearly identify who will be the end users of the gas flowing through the pipeline. A profile of end-users should clarify what percentage of gas piped to Ghana will supply mining operations in western Ghana.

Sponsors should also conduct and disclose an assessment of the accessibility and affordability of WAGPsupplied gas for consumers in Ghana, Togo and Benin. This assessment should make clear whether the market rates at which WAGP gas would be sold will be affordable for local consumers, and thereby help to address their energy needs.



wagp will end gas flaring

the promise

"Communities in Nigeria will benefit directly through reduced local gas flaring" (World Bank's Project Appraisal Document).

WAGP sponsors claim that by "eliminating significant levels of gas flaring in Nigeria", their project would contribute to reducing greenhouse gas emissions, while supporting the "sustainable development objectives" of the governments of Nigeria, Benin, Togo and Ghana. According to the company, about 100 million t CO2 emissions reduction will be recorded with the WAGP in a twenty year period, of which 78 percent will be achieved by reducing gas flaring in Nigeria. As such, the WAGP has been paraded by the World Bank as a project to be considered for the Clean Development Mechanism under the United Nations' Kyoto Protocol on Climate Change.

the background

When oil is brought to the surface from deep down the bowels of the earth, it brings natural gas with it. In places where there is no proper infrastructure, which is the case in Nigeria, this associated gas is released into the atmosphere and burnt. This process is also referred to as 'gas flaring'.

Nigeria has been the world's biggest gas flarer. The practice has contributed more greenhouse gas emissions than all other sources in sub-Saharan Africa combined. Across the Delta, the giant orange flares burn all day and night, pumping clouds of black toxic smoke into the sky. Many of them are close to peoples' homes. The flares contain a toxic cocktail of dioxins and particles. Communities in the Delta have continuously been suffering from the constant heat, noise and light. People show higher rates of respiratory diseases, cancer and premature death, while air pollution and acid rain have damaged crops.

The flames have been referred to as the 'flares of hell', as people in the areas have never had a dark, quiet night.8 In November 2005, the Nigerian Federal High Court has found gas flaring to amount to a "gross violation" of the rights to life and dignity of the Iwerekhan community in Delta State.

Gas flaring costs Nigeria about US\$2.5 billion annually, while about 66% of its population live on less than US\$1 a day. Capturing gas that is currently being flared in Nigeria alone could produce about 50 per cent of the current power consumption of the African continent. While Nigeria has approximately 30 percent of African gas reserves, it flares 75 percent of the gas it produces. This accounts for 19 per cent of the total amount of gas flared globally.

Politicians and the oil companies appear, from time to time, to agree 'flare-out deadlines', which in any event are not met. Initially set for 1984, the Nigerian government has continued to shift the date for ending routine gas flaring and now promises to bring it to zero by the year 2008. The West-African Gas Pipeline sponsors made a similar claim by saying that they will transport "associated gas". This means they will capture the gas that is released with the extraction of oil and instead of flaring it, pump it through the pipeline. As such, the WAGP is touted as a project that will contribute significantly to an end to gas flaring. But the reality exposes the truth behind this myth.



wagp will end gas flaring



the wagp reality

 NO clear plan for gas flare reductions

The sponsors of the WAGP project, including ChevronTexaco, Royal **Dutch Shell and the Nigerian National** Petroleum Corporation (NNPC), do not have a clear programme for gas flare reduction in the Niger Delta.

There has been a legal obligation since 1969 for oil companies in Nigeria to submit "any feasibility study, programme or proposals that [they] may have for the utilization of any natural gas, whether associated with oil or not, which has been discovered in the relevant area".9 But the WAGP corporations have not presented in any clear way a utilization plan for flared associated gas. The indicators outlined to track progress on the developmental objectives of the pipeline do not mention gas flaring.

In addition, in its Project Appraisal Document, the World Bank admits that the WAGP "will only represent a small fraction of gas flaring reduction" compared to the 43 million tonnes of gas that is flared per year. ChevronTexaco, the operating company of the WAGP, has argued repeatedly that it has no responsibility for flare reduction programmes in the Western Niger Delta.

· WAGP will transport new gas

As currently designed, the WAGP will be a blended stream of associated and non-associated gas from Nigeria to Benin, Togo and Ghana. According to them, the initial flow is expected to be about 60% gas associated with oil and 40% non-associated gas, with increase of the latter over time.

Gas fed into the WAGP will originate from the Escravos-Lagos Pipeline System which receives both types of gas: associated gas from ChevronTexaco (once the company constructs the new gas gathering infrastructure) and nonassociated gas from Shell. However, the WAGP consortium has not provided information regarding the specific sources of the gas in the western Niger Delta. It also does not specify how the project's acquisition of the gas will affect current gas flaring in the concerned oil fields. Generally, extraction of crude oil (and its associated gas) are expected to increase during the coming years, which call into question the claim that less associated gas will be used over time.

If the WAGP will indeed source gas from new fields, it may contribute to increasing existing conflicts, instead of reducing the suffering in the Delta.

· WAGP cannot be a Clean Development Mechanism project

The WAGP would not provide any additional reductions in greenhouse gas emissions as is required for a project under the Clean Development Mechanism (CDM). Current flaring in the country generally is taking place without any valid law. If CDM credits were to be granted for the WAGP, benefits would be given for ending activities that the companies should never have engaged in in the first place. If any flaring will be stopped through the WAGP, even if there were a plan for 100% use of gas that is associated with oil, it would only be in line with existing Nigerian law.

Under the Nigerian constitution, Nigerian citizens are guaranteed the rights to life and to dignity. Also, under the African Charter on Human and Peoples' Rights, which has been incorporated into Nigerian law, they have the right to enjoy the best attainable physical and mental health and the right to live in a general satisfactory environment favourable to their development.

On 14th November 2005 the Federal High Court of Nigeria ruled that the flaring of gas in the Iwerekhan community in Delta State was a "gross violation" of their rights to life and dignity guaranteed by the Nigerian constitution. The court also ruled that the legislation under which gas flaring in Nigeria is purportedly allowed was unconstitutional.10 On the basis of the court order, gas flaring in lwherekan has been declared a violation of the constitutional rights of the community. Similarly, other communities living close to flares are also having their constitutional rights violated.

wagp will end gas flaring

Since January 1984, the flaring of associated gas has been generally prohibited. Section 3 of the Associated Gas Reinjection Act, 1979 provided as follows: "(1) Subject to subsection 2 of this section, no company engaged in the production of oil or gas shall after 1st January, 1984 flare gas produced in association with oil without the permission in writing of the Minister."

Under the current Nigerian regulations, flaring can only lawfully continue where the Nigerian Minister is satisfied that utilization or re-injection of associated gas is not appropriate or feasible and he may issue a certificate for the continuation of flaring. However, no such certificates have been disclosed, despite repeated requests by civil society. Alternatively, the Minister may permit the flaring to continue upon a small payment. But this payment is so small that to date it has not offered any effective incentive for the oil giants to stop gas flaring.

The fact that associated gas continues to be flared at world record levels in Nigeria, indicates that the regulations have not been complied with. Even if certificates have been issued, and even if the Minister has had lawful grounds for being so satisfied, and even if he took into account the human rights of communities before issuing such certificates, the regulations have for over 20 years clearly prohibited flaring on the scale that has occurred in the country.



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The acceptance of the WAGP as a CDM project cannot be justified. Gas flaring has been continuing in breach of the Nigerian regulations and is a violation of human rights. It is therefore difficult to see how emissions reductions through the WAGP project could be considered "additional". The WAGP companies would merely comply with the law.

Entering the dubious emissions trading market and requesting "carbon credits" from the CDM seems merely an easy way for the companies to make extra profit from the proposed WAGP.

Moreover, gas is a fossil fuel. Although it is minimally better than crude oil, gas is not a clean source of energy. Burning of gas still releases 75 percent of the CO2 emissions of oil, and its methane emissions are 62 times more powerful than CO2 per kg, after 20 years. The WAGP project will continue our dependency on fossil fuels instead of initiating a shift to sustainable renewable energy sources. Therefore, the WAGP should never be considered for any mechanism that truly seeks to end climate change.

the way forward

The gas flaring problem has been created by oil companies like Chevron and Shell and their Nigerian government partners. They appear to be more concerned with foreign exchange earnings than the safety of the environment or the people living on the fence lines. These sponsors should be held responsible for correcting the problem they have created, as communities have borne too much of the costs already: in diseases, deaths and loss of livelihoods. It is indeed the communities that should be compensated for years of health and environmental problems associated with gas flaring. Ending the dangerous flaring of associated gas should not depend solely on economic profit considerations.

Companies and financiers should commit to supplying the WAGP with 100 percent associated (currently flared) gas until associated gas from existing and future fields is exhausted. Project sponsors must demonstrate clearly, in a manner that local communities can understand, the degree to and the manner in which the WAGP is capturing associated gas from specific flare sites.

end notes

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- ⁹ The Petroleum (Drilling and Production) Regulations 1969, Regulation 42.
- 10 The court order is available here: http://www.climatelaw.org/media/media/gas.flaring.suit.nov2005/ni.shell.nov05.decision.pdf
- 11 http://www.grida.no/climate/ipcc_tar/wg1/248.htm



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