Early Warning System

IFC-32571

Circle Oil

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Quick Facts

Countries	Egypt, Morocco, Tunisia
Specific Location	Tunisia - Grombalia, Ras Marmour, Mahdia; Egypt and Morocco
Financial Institutions	International Finance Corporation (IFC)
Status	Active
Bank Risk Rating	B
Voting Date	2013-06-21
Borrower	CIRCLE OIL PLC
Sectors	Energy
Potential Rights Impacts	Healthy Environment, Labor & Livelihood
Investment Type(s)	Loan
Investment Amount (USD)	$ 50.00 million
Project Cost (USD)	$ 100.00 million

Project Description

This IFC loan would support the ongoing exploration, development and production of Circle Oil's assets in Morocco and Egypt, with part of the proceeds potentially funding further exploration and development in Tunisia.

In Morocco, Circle Oil is the operator of two producing oil fields currently in development (Sebou and Ouland N'zala), and one exploration permit (Lalla Mimouna Nord and Sud). The three Moroccan assets together extend over a roughly contiguous expanse of onshore land, covering about 2500 square kilometers between Kenitra and El Araich. Circle Oil plans to drill new exploration wells to increase reserves and tie into its existing pipeline.

In Egypt, Circle Oil has an interest in a single onshore producing asset, some of which is still in the exploration phase (North West Gemsa). NW Gemsa lies approximately 300km southeast of Cairo in the Gulf of Suez region and is operated by Vegas Oil and Gas. Circle Oil is interested in further developing the Egyptian asset, with at least four new wells scheduled for completion by the end of 2013.

In Tunisia, Circle Oil has interests in several early exploration permits operated by Exxoil Tunisie: the onshore Grombalia permit, located in the Cap Bon region about 45km southeast of Tunis; the offshore Mahdia permit, located between the Gulf of Hammamet and the Italian Pelagie Islands; and the Ras Marmour permit, covering an area both onshore and offshore from Djerba to Ben Gardane. Circle Oil is planning to accelerate exploration for oil and gas in Tunisia.

Early Warning System Project Analysis

RISK CATEGORIZATION:
IFC has classified this project as Category B because, according to IFC, it is in the early stage of limited production and will have limited specific environmental and social impacts, which can be avoided or mitigated by adherence to the applicable IFC Performance Standards.

APPLICABLE SOCIAL AND ENVIRONMENTAL STANDARDS:
PS 1: Social and Environmental Assessment and Management System
PS 2: Labor and Working Conditions
PS 3: Pollution Prevention and Abatement
PS 4: Community Health, Safety and Security

IFC determined that PS 5, Land Acquisition and Involuntary Resettlement, is not triggered at this stage, because Circle Oil uses temporary land leases through willing seller agreements and provides compensation for loss of crops in compliance with local government mandates. IFC also noted that no resettlement or economic displacement is currently envisioned, but that if the need arises in the future, it will be handled according to PS 5.

IFC further determined that PS 6, Biodiversity Conservation and Sustainable Management of Living Natural Resources, is not triggered by current activities given the lack of sensitive ecological systems in the areas of operation; that PS 7, Indigenous People, is not applicable as no indigenous people were identified in the project's area of influence; and that PS 8, Cultural Heritage, is not applicable because there are no known sites of archaeological or cultural significance in the areas of operations.

People Affected By This Project

ENVIRONMENTAL AND HUMAN RIGHTS ASSESSMENT

Labor Rights

IFC reported that Circle Oil promotes equal opportunity and fair working conditions, does not use child labor, respects collective bargaining rights, and is currently undertaking an update of its Human Resources policies and procedures. It also reported that employees are routinely instructed on safety procedures during daily meetings. However, IFC noted that Circle Oil has a limited number of employees (around 25) and relies primarily on service companies and contractors for operations. Circle Oil is responsible for the compliance of these contractors with local regulations and IFC performance standards.

IFC is requiring Circle Oil to upgrade its Environmental Health and Safety Management Manual (EHSMM). IFC noted that Circle Oil's HR policies and procedures must be upgraded to be in compliance with IFC performance standards, including the development of formal grievance mechanisms, and set a deadline on these upgrades of April 2014. Particular areas of concern reported by IFC include general working conditions for employees and contractors' staff, accident prevention and emergency response, and management of the social, environmental, health, and safety performance of the contractors.

Some questions community members and local NGOs should consider asking:

- Are working conditions at the various oil and gas permits safe and healthy?
- Do company and/or contractor policy and procedure dictate that all employees are provided with the protective equipment and training (in a language workers understand) necessary to safely perform the functions of their position, and are workers and managers trained to respond to workplace emergencies?
- Is overtime voluntary, and are workers allowed to leave the premises at the end of a shift?
- If a worker gets injured on the job, what sort of relief can he or she expect from the company and/or contractor?
- Does the company and/or contractor provide reasonable notice of impending changes in operations that will affect employment at the company?
- Will the company be hiring local employees and service providers?

Right to a Healthy Environment

IFC reported a number of environmental concerns that the project needs to address before going forward, including: accident prevention and emergency response to deal with blowouts, spills, and liquidations; management of air emissions, hazardous materials, wastewater, solid and hazardous waste; health, safety, and security of the communities near operations; environmental and social screening mechanisms for future asset acquisition; and adverse impacts on natural flora and fauna within the project's area of influence. IFC noted that corporate policies dealing with these areas are presently not in compliance with IFC performance standards, and gave Circle Oil until April 2014 to correct the deficiencies.

There are many potential environmental problems associated with oil exploration and drilling. Oil spills can occur at every phase of the oil drilling cycle, with devastating effects on the natural environment and carryover effects on the regional food chain. Seismic waves used in exploration have serious impacts on marine life such as whales and dolphins, damaging the sonar they use to orient themselves underwater and sometimes causing mass beachings. The water that wells up with the oil ("produced water") is laced with environmental toxins, which may filter into the local water supply. Both exploration and drilling activities produce emissions and dust which may have adverse effects on local air quality.

IFC will be requiring Circle Oil to develop a more robust waste management procedure with clear mechanisms for tracking waste consignments from the originating location to the final licensed waste treatment and disposal center. Wastes from drilling activities include hazardous chemical material, which must be stored and transported, and produced water, which Circle Oil collects and disposes of in evaporation ponds. IFC noted that there is a small buffer zone between each of Circle Oil's

Investment Description

- International Finance Corporation (IFC)

The total project costs for Circle Oil's exploration and development in 2013 and 2014 are estimated at up to US$100 million. The proposed IFC financing consists of a US$50 million senior loan as part of a reserve based lending (RBL) facility with other commercial lenders, which is expected to cover the full project costs.

A senior loan is one which takes priority over other unsecured or otherwise subordinate debt, such that it should be repaid first in the event of bankruptcy or other restructuring. RBL financing refers to loans which are secured by an existing producing oil field, and is a common financial instrument in the oil and gas industry.

Private Actors Description

Circle Oil is listed on the Alternative Investment Market of the London Stock Exchange (“AIM”) since 2004. Circle Oil has exploration, development and production stage oil and gas assets in Egypt, Morocco, Tunisia and Oman held through subsidiary companies. The company has a diversified shareholder base and the largest stake owned by a single entity is 17.75%; held by Libya Oil Holdings (which was frozen on March 11, 2011 in accordance with EU regulations relating to events in Libya). The next largest shareholder is Kauphting Bank with a 9.34% stake.

Private Actor 1	Private Actor 1 Role	Private Actor 1 Sector	Relation	Private Actor 2	Private Actor 2 Role	Private Actor 2 Sector
-	-	-	-	Circle Oil plc	Client	-
-	-	-	-	Kaupthing Bank	Undisclosed	-
-	-	-	-	Libya Oil Holdings Limited	Undisclosed	-

Contact Information

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CONSULTATION PROCESS:

IFC reports that Circle Oil maintains close communication with its operation partners, contractors, local government agencies, and local communities. It noted that Circle Oil employs a Social and Permit Liason Officer in Morocco to handle communication with local communities and respond to their requests, such as temporary land access, agricultural road renovation, restoration of local water supply systems, and other social investment projects. However, IFC determined that Circle Oil's corporate policies on public consultation and disclosure, including with regard to any grievance mechanisms for affected communities, do not meet IFC performance standards, and gave Circle Oil until April 2014 to upgrade and improve its procedures.

ACCOUNTABILITY MECHANISM OF IFC

The Compliance Advisor Ombudsman (CAO) is the independent complaint mechanism and fact-finding body for people who believe they are likely to be, or have been, adversely affected by an IFC or MIGA- financed project. If you submit a complaint to the CAO, they may assist you in resolving a dispute with the company and/or investigate to assess whether the IFC is following its own policies and procedures for preventing harm to people or the environment. If you want to submit a complaint electronically, you can email the CAO at CAO@worldbankgroup.org. You can learn more about the CAO and how to file a complaint at http://www.cao-ombudsman.org/

Campaign Documents

- Analysis: Wikileaks - Could big business be next?