

**Skoyles, Nichole**

**From:** Jensen, Diana  
**Sent:** Monday, January 03, 2011 2:31 PM  
**To:** Evans, Alexander  
**Subject:** FW: EMBASSY MONROVIA VIEWS ON OPIC LOAN FOR BUCHANAN RENEWABLES FUEL

RELEASE IN PART B4,B5

REVIEW  
AUTHORITY: Archie  
Bolster, Senior  
Reviewer

**From:** SMART Core [mailto:svcSMARTBTSRctSPrec@state.gov]  
**Sent:** Monday, January 03, 2011 8:39 AM  
**To:** AlperRC@state.gov  
**Cc:** Jensen, Diana; SilskIAL@state.gov; Abuja-SMARTS@state.gov; Paris-smarts@state.gov; Bamako-SMARTS@state.gov; MONROVIA-SMARTS@state.gov; Praia-SMARTS@state.gov; Dakar-smarts@state.gov; Ouagadougou-SMARTS@state.gov; AddisAbaba-SMARTS@state.gov; LISBON-SMARTS@state.gov; Niamey-smarts@state.gov; Banjul-SMARTS@state.gov; Accra-smarts@state.gov; London-SMARTS@state.gov; Conakry-SMARTS@state.gov; USEU-SMARTS@state.gov; usun-smarts@state.gov; Lagos-SMARTS@state.gov; Freetown-SMARTS@state.gov; Abidjan-smarts@state.gov; COTONU-SMARTS@STATE.GOV; Nouakchott-SMARTS@state.gov; Lome-SMARTS@state.gov; Yaounde-smarts@state.gov  
**Subject:** EMBASSY MONROVIA VIEWS ON OPIC LOAN FOR BUCHANAN RENEWABLES FUEL

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**MRN:** 11 MONROVIA 4  
**Date/DTG:** Jan 03, 2011 / 031337Z JAN 11  
**From:** AMEMBASSY MONROVIA  
**Action:** WASHDC, SECSTATE ROUTINE  
**E.O.:** 13526  
**TAGS:** ECON, EINV, EAGR, LI  
**Reference:** A) 10 STATE 125690  
B) 09 MONROVIA 725  
C) 09 MONROVIA 443  
**Pass Line:** DEPARTMENT FOR EEB, AF/EPS, OES  
PLEASE PASS TO OPIC, DIANA JENSEN  
**Subject:** EMBASSY MONROVIA VIEWS ON OPIC LOAN FOR BUCHANAN RENEWABLES FUEL

(SBU) Post considers the information from this cable as highly sensitive and requests that it not be shared directly with Buchanan Renewables Fuel (BRF) or Buchanan Renewables B.V. (BR) and its various divisions and subsidiaries. Further, sources such as [redacted] should be protected to ensure future cooperation with post.

B4

1. (SBU) SUMMARY: While post welcomes OPIC's interest in the rejuvenation of Liberia's rubber industry, we have significant concerns about a proposed USD 90 million loan to Buchanan Renewables Fuel (BRF) to harvest

unproductive rubber trees as a source of renewable energy for export markets. We question BRF's ability to fulfill its ambitious expansion plans and worry that its supply relationships with plantation owners appear less certain than the company represents. Both the uncertainty of land tenure and local populations' reliance upon the downstream charcoal industry could give rise to unforeseen conflicts. Finally, Buchanan Renewables' tense relationship with both the donor community and many senior members of the GOL over separate plans to build a rubber wood-fired power plant may impair the company's ability to navigate the unexpected challenges that an emerging market such as Liberia inevitably presents. For all these reasons, post cannot support this project without the additional information outlined below. END SUMMARY.

2. (U) BRF has requested a USD 90 million OPIC loan to scale up its existing export of rubber wood chips to European energy suppliers for use in biomass-fueled power plants. The loan will be used to retire existing debt, purchase heavy equipment and develop a material handling and ship loading facility at the port of Buchanan. BRF has established agreements with rubber plantations and small-holders, which will supply the company with inventory in exchange for the clearing and replanting of their fields. BRF had pledged to plant at least one to two rubber sapling for each felled tree, and the project promises additional benefits to small-scale rubber growers without the means to replant their farms.

3. (U) In its evaluation of BRF's loan application (ref A), post reviewed an initial project summary, the Environmental and Social Impact Assessment, a Harvesting Best Management Practice Manual, and a document BRF produced exclusively for the Embassy in response to some of our questions.

#### Background on BR's Challenged Presence in Liberia

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4. (U) Buchanan Renewables B.V. (BR) operates three independent subsidiaries in Liberia: Buchanan Renewables Fuel, which produces woodchips from unproductive rubber trees for export to European energy producers; Buchanan Renewables Power (BRP), which plans to construct a 35-megawatt power plant fueled by rubber chips; and Buchanan Renewables Technical Services, which leases heavy equipment for road construction and port operation activities. BR's initial USD 15 million debt from a previous OPIC loan will be paid off with the newly proposed USD 90 million venture. All three sister companies are owned by the same investors and represented by a single country manager. Investors James Steele and John McCall MacBain vocally advocate on behalf of all three operations. As a result, GOL officials tend to regard Buchanan Renewables as a single corporate entity.

5. (SBU) However, the company is best known for BRP's planned biomass power plant. Unfortunately, protracted and often rocky negotiations for an attendant power purchase agreement with the Liberian Electricity Corporation have soured relations among BRP, the GOL and donors. The

Government of Norway, the International Monetary Fund, the World Bank, and UNMIL have separately criticized the deal, calling it a one-sided arrangement in which the majority of risks are assumed by the GOL. These donors have publicly expressed resentment that BRP seemed to assume that donors would subsidize a high effective tariff or the extensive infrastructure investments necessary to accommodate BRP into the LEC system (ref B). While many GOL officials regard the BRP deal as a sub-optimal but immediate solution to the country's energy crisis, others believe BRP pressed the GOL into an agreement with implications it did not properly understand. For her part, President Sirleaf recognizes the power plant as a key pre-election deliverable and fears that a failed deal may deter future investment, but she is also frustrated by ongoing delays, remains skeptical about the high effective tariff and fears the deal may require a GOL budget injection of at least USD 20 million to the LEC. At the same time, Sirleaf is swayed by the idea of BRE's proposal to boost the replanting effort with small-holders by providing two saplings for each felled tree.

6. (SBU) BRP also faces a fractious relationship with the National Port Authority (NPA) that may threaten a plan to secure space at the port of Buchanan that is essential to the company's planned export expansion. The NPA claims BRP failed to pay berthing fees in a timely manner, and retaliated by refusing to allow a ship scheduled to load rubber chips to berth in Buchanan. Later, the NPA declined to recognize an agreement to option additional land at the port of Buchanan. NPA management claimed BRP threatened to pull out of Liberia, adding that its "bullying" attitude made the NPA disinclined to negotiate further.

#### ----- Viable Expansion Plans? -----

7. (SBU) BRP intends to export 2 million Gross Metric Tons (GMT) of wood chips annually by 2017. To date, it has produced 148,858 GMT and exported 79,760 GMT of woodchips. To meet its stated expansion would imply an average annual growth rate in production of 55 percent, and BRP would need to increase its exports by 25-fold over six years to meet its delivery commitments to Vattenfall. Post would ask BRP to corroborate these ambitious targets with additional information: How will BRP ensure that the GOL fulfills its commitment to grant additional space at the port of Buchanan for their expansion? Given current production volumes, is planned capital expenditure for equipment (USD 25.7 million) and facilities expansion (USD 22.8 million) sufficient to realize this very significant ramp-up in operations?

#### ----- Questionable Access to Supply of Rubber Wood -----

8. (SBU) The success of BRP's expansion will hinge on its ability to acquire an adequate inventory of unproductive rubber trees. According to a satellite imagery study conducted by BRP and Vattenfall, there are 259,000 hectares (ha) of rubber trees in Liberia. The study concludes

that this inventory translates into a sustainable rotational harvest of 8,100 hectares, or 3-4 million GMT of biomass annually, well above what is required to meet BRF's commitment to Vattenfall to deliver 2 million GMT of biomass. The Bureau of Oceans, Environment and Science (OES) has evaluated the data provided to post and requested further background on the study's methodology. OES states that satellite imagery typically does not provide a full picture of inventory, and has requested proof of on-the-ground verification of these statistics in order to ensure that this level of tree removal is in fact sustainable.

9. (SBU) Beyond the total national inventory of unproductive trees, questions remain about BRF's ability to secure contracts with local plantations for the 6,100 hectares it would require to fulfill its export commitments to Vattenfall. BRF states in project documents that it has a long-term supply contract with [redacted] Liberia's largest rubber plantation.

B4

10. (SBU) Further, BRF's access to small holders' plantations, which it states will supply roughly 50% of its total need, is subject to significant risk and uncertainties. BRF officials stated that they were working actively with the Rubber Planters' Association of Liberia (RPAL), the umbrella organization for all Liberian plantations, to ensure sustainable financing that would help bring small holders into the rejuvenation scheme. However, the Secretary General of RPAL insisted to Econoff that the association had not been contacted by BRF since 2007. Given RPAL's limited capacity and diffuse membership, it is likely this discrepancy is simply a miscommunication, but one that signals the difficulties of securing reliable supply contracts with small holders.

11. (SBU) Post asked BRF to furnish supply contracts with planters, but did not receive these documents. We encourage BRF and OPIC to provide long-term contracts that reassure us that it has access to reliable and sustainable sources of unproductive trees.

12. (SBU) Finally, Liberia's precarious system of land ownership may also threaten BRF's feedstock supply. Land tenure challenges nearly crippled other OPIC funded projects such as Ecohomes that struggled to prove ownership of land despite GOL assurances of clear title. It is not unreasonable to assume that once land is cleared and replanted, making it

a valuable resource, competing customary and legal titled deeds will surface. Post encourages BRF to fully detail their mechanisms for dispute resolution and plans to verify original ownership.

Social Impact

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13. (SBU) BRF has vowed to replant at least one to two rubber trees for each unproductive tree it fells, a commitment that will ensure adequate carbon capture and environmental sustainability. However, in documents post reviewed, BRF claims it has harvested 177,757 trees and replanted 99,848 trees (a replanting rate of only 56 percent). If indeed these figures are accurate, post worries that BRF will fall far short of its one-to-one replanting commitment once it significantly scales up its operations.

14. (SBU) Charcoal produced from unproductive rubber trees has been an historically important source of income for women and other vulnerable groups. Despite BRF mitigation plans that suggest felled rubber tree roots would be made available to these groups, post and OES still have concerns on the viability and practicality of the plan. For example, digging up roots is a labor and time intensive endeavor and may create an additional hardship for these groups. If BRF plans to dig up the roots, will the roots be centrally located for the groups to access and will the location be accessible for a sustained period of time as many small-holders may not allow groups access to their land after or during the felling? In order to evaluate the plan's impact on downstream industry, post needs additional information on how, when and where feedstock for charcoal will be available.

15. (SBU) Also, significant questions remain on BRF's ability to organize sustainable financing suitable to bring small-holders into the scheme at scale. Discussions with USAID on a Global Alliance Partnership are still far from finalized as USAID still has concerns on BRF's business model and implied interest costs that may be detrimental to small-holders. Post needs more information on how BRF will include small-holders in its plan, a necessity if ambitious replanting and felling targets are to be met.

Comment

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16. (SBU) COMMENT: In Liberia's challenging investment climate, the reality is that OPIC deals continue to require significant intervention from the embassy in order to succeed. Post's persistence advocacy on behalf of Ecohomes and the Liberian Enterprise and Development Finance Corp. (LEDFC) has resuscitated these once-floundering OPIC investments. We anticipate that BR's complicated relationship with the GOL and other donors means that an expansion of BRF's export business will require further embassy support in addition to BR's current advocacy and intervention requests of post. However, to advocate in good faith, we need to ensure that a project aligns with the Mission Strategic and

Resource Plan and our development and security agenda in Liberia. To date, BR's presence in Liberia has contended with donor efforts to bring affordable power to the greater Monrovia area and required involvement at the highest levels including Ambassadorial advocacy with the President.



B5

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**Info:** ROUTINE; Silski, Andrew L ROUTINE; ECOWAS COLLECTIVE ROUTINE

B6

**Attachments:** metadata.dat

**Action Post:**

**Dissemination Rule:** Released Copy

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