# São Tomé e Príncipe: The difficult transition from aid-dependent cocoa producer to petrol state

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## Introduction

The hitherto largely unknown twin-island republic of São Tomé e Príncipe (STP) is the last country in the Gulf of Guinea that has begun the exploration of its potential offshore oil wealth. So far the country has not yet produced a single drop of oil and probably will not do so until 2007. STP is the second smallest country in Africa, with a total area of 1,001 sq. km and an estimated population of 150,000 (2002), of which 6,000 live on Príncipe. Its economy is the smallest in Africa, with GDP estimated at $60 million and per capita income at $338 (2003).[1] Between 1990 and 2002 annual GDP per capita growth was –0.4%.[2] By 2003 total external debt stood at $282.5 million corresponding to a debt-to-GDP ratio of 492%.[3] STP's human history began in the late 15th century when the Portuguese colonised the uninhabited archipelago by establishing the first plantation economy in the tropics, based on sugar cane and African slave labour. The encounter between the Catholic Portuguese culture and various African cultures resulted in the development of a distinctive Creole culture and society without ethnic, linguistic or religious cleavages. By independence in 1975 the former Portuguese colony became constitutionally a socialist one-party state ruled by the *Movimento de Libertação de São Tomé e Príncipe* (MLSTP). From 1985 onwards the regime gradually shifted away from the socialist model and in 1991 introduced a multiparty democracy. Since then elections have been held regularly and peacefully, despite two failed military coups in 1995 and 2003 respectively. The ambiguous provisions of the semi-presidential Constitution with regard to the roles of the different state organs have been a fertile ground for conflicts about areas of responsibilities and resource competition between the president and the government that have provoked various government changes. The consequent political instability has negatively affected the social-economic development of a country, which has already been marked by poor institutional capacities and corruption by office holders.

The plantation system dominated the local economy until the 1990s when as part of an agricultural reform almost all large estates were dismantled and the lands distributed to former plantation workers. Cocoa, first introduced in 1820 has been by far the most important export product since the end of the 19th century. However, since World War I cocoa production has steadily decreased and dropped drastically after independence in 1975. In the 1990s a cocoa rehabilitation project designed by the World Bank and

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1 IMF Country Report No. 04/108, April 2004, p. 7.
2 UNDP 2004, p. 186.
3 IMF Country Report No. 04/107, April 2004, p.35.

financed with donor funds of $40 million failed completely. In 2003 cocoa export was a meagre 3,500 metric tons, accounting for export income of some $5.5 million (86% of total exports)[4], whereas total imports were valued at $27.5 million, $9.7 million of which was foodstuffs.[5] As cocoa output became insufficient to sustain the economy, the country became completely dependent on foreign aid. Consequently, the livelihoods of the local political elite also depend largely on external sources of income. Foreign donors granted Official Development Assistance of $26 million ($166 per capita) to STP in 2002.[6] In the same year foreign donors financed 91% of the public investment programme of $16 million.[7] Agriculture, fishing and tourism have been identified as potential growth sectors of the weak economy, however, so far the results have been disappointing. Since the late 1990s great hopes have been vested in STP's supposed offshore deposits of hydrocarbons that have become exploitable thanks to recent achievements in deep-sea drilling techniques. Nobody in STP had any experience in the oil sector when the country concluded its first oil deal in 1997. Nevertheless, several contracts with other companies and bilateral maritime boundary agreements with neighbouring countries have evolved. Most of the oil agreements became highly controversial, were contested both locally and abroad and finally renegotiated. Neighbouring Nigeria for the first has become an important regional partner since the signing of a treaty on a Joint Development Zone in 2001. STP's geo-strategic position in the oil-rich Gulf of Guinea has also attracted US interest in establishing a military base in the archipelago. While corruption is a prominent feature in the state apparatus, the country's political leaders have repeatedly promised transparency and accountability in the oil sector. They have accepted the assistance of foreign experts to design the country's oil revenue law. This law demanded by the IMF provided for transparent and sound management of oil revenue, an equal distribution of oil wealth within the country and the establishment of a fund for future generations. For the time being, nodody knows if this law will be respected and applied to help STP avoid the mistakes committed by other African oil producing countries where oil has become a curse. This article highlights the major developments of STP's short oil history.

## The first oil agreement: endless troubles with ERHC

The first speculations about possible onshore oil deposits in STP appeared in the late colonial period.[8] In 1973, the British company Ball and Collins drilled two test wells in São Tomé, but gave up the search for oil due to the volcanic rock formation that hindered drilling and the political turmoil during the decolonisation process in 1974-75 respectively. Prior to 1980, Ball and Collins had submitted a draft exploration agreement to President Manuel Pinto da Costa (1975-1990). However, the search for hydrocarbons continued only in the late 1980s when the Island Oil Exploration Company, registered in the Bahamas, drilled two test wells onshore at Morro Peixe in the north of São Tomé island. Operations ceased due to technical problems in drilling through the hard basalt layers of rock. Island Oil Exploration Company was owned by the German-born South African businessman Christian Hellinger, who had arrived in

[4] ibidem, p.3.
[5] ibidem, p. 31.
[6] UNDP 2004, p. 200.
[7] IMF Country Report No. 04/107, April 2004, p. 23.
[8] Brognon 1967.

São Tomé in 1986 from Angola where he had large business interests in diamond mining and air transport. He maintained good relations with the leaders of the ruling MLSTP and became the most important foreign investor in the archipelago, with investments in air transport, tourism and construction. At that time Hellinger became locally known as *Rei* (king) of São Tomé.

In 1996 Hellinger drew the attention of the newly created small Lousiana-based oil company Environmental Remediation Holding Corporation (ERHC) to São Tomé. At the time ERHC was engaged in waste disposal and cleanup for the oil industry. The company's president was Lousiana-based Sam L. Bass, while Noreen Wilson from Florida was vice-president. Her cousin James Griffin was secretary and treasurer and Jim Callender, was chief operating officer. Callender, a former Unocal executive with oil experience in the Gulf of Mexico used to wear cowboy boots, hat and jeans when he came to São Tomé. In 1997 ERHC purchased gas stations, leases for oil fields, and oil wells located in Texas and Utah respectively, predominantly in exchange for shares of the company's common stock. In addition, ERHC signed a service agreement with Chevron that included plug and abandonment work for some 400 oil and gas wells in Lousiana. In April 1997, ERHC acquired Bass American Petroleum Company (BAPCO) whose expertise involved purchasing marginally producing wells and increasing their production eightfold by using a lateral drilling process called 'BAPCO Tool'. ERHC started operations in October 1996 and generated its first revenues by June 1997. The company had expected significant incomes from its American wells, however, the then low oil price of $12 per barrel undercut their potential benefits.

When ERHC started negotiations with the government of Raúl Bragança Neto (1996-1998) he had no information about the small American company, and did not investigate in its solvency. Nobody in STP had any know-how or experience in the oil sector, let alone oil dealings. Bragança was a customs officer who had become defense minister of the one-party regime in the late 1980s. In 1991 he was appointed chief-inspector of customs and, at the same time, became engaged in import business activities. 'Conflict of interest' had been an largely unknown term in the archipelago. In November 1996 President Trovoada (1991-2001) had appointed Bragança, who was also deputy secretary-general of the MLSTP/PSD[9] as prime minister. His government became the seventh since the first democratic election in 1991. His predecessor had been dismissed for maladministration by a motion of no confidence presented by his own party, the MLSTP/PSD, after only nine months in office. At the time of Bragança's negotiations with ERHC probably nobody in the government was aware of the future implications of the agreement.

Nevertheless, in May 1997 the government signed an agreement with ERHC and the South African firm Procura Financial Consultants (PFC) for the exploration and exploitation of petroleum, gas and mineral reserves in STP.[10] The treaty provided for an initial payment of $5 million to the government, was valid for 25 years and was renewable for ten-year periods. Another $5 million would finance a feasibility study and a local office and staff. Under the agreement ERHC/PFC were committed to raise an additional $100 million for the development of the oil sector within 210 days. The two companies had to finance the evaluation of the country's oil and gas reserves, and a

[9] The designation Social Democratic Party (PSD) had been added to the party name in 1990.
[10] The agreement was signed by Raul Bragança Neto, Noreen Wilson, vice-president of ERHC, and Barend Hofmeyr, director of PFC.

joint-venture oil company was to be established with the government, from which both parties would each receive 40% of the revenue, and 20% would be set aside to repay debts and pay overhead costs. In addition, ERHC/PFC would negotiate exclusively on behalf of the STP government for oil exploration rights with other oil companies and would earn a 5% royalty interest in government concessions. During all operations in STP ERHC/PFC would be exempted from any duties, taxes or revenue.

When Prime Minister Bragança visited the United States in November 1997 at the invitation of ERHC, the company gave him a cheque for $2 million, instead of the promised payment of $5 million. This failure raised doubts that ERHC would be able to make available the $20 million needed to start drilling and exploration activities in STP. In fact, at that time ERHC's liquidity position was already considered precarious. ERHC had acquired Hellinger's seismic data for $2 million in the form of company shares. The analysis of the data indicated that STP's oil potential existed only offshore in territorial waters of great depth. For this reason, while Bragança was in the United States, ERHC helped him to file a maritime boundary claim on behalf of STP's government with the UN Law of the Sea Commission in New York. The goal was the recognition of a 200-mile Exclusive Economic Zone (EEZ) for STP. For that purpose ERHC had retained the services of Scott Edwards, a cartographer for the American company GeoSystems Global Corporation. The submission of the map of the country's territorial waters was aimed at avoiding possible conflicts on oil resources with Nigeria, Gabon and Equatorial Guinea once the offshore oil exploration scheduled by ERHC began. The difficulties that STP's diplomatic mission at the United Nations in New York had in filing the boundary claim reflected the country's lack of human resources. Still, in March 1998 STP's National Assembly approved the law on the EEZ that delineated the country's maritime boundaries for the first time since independence in 1975. The law fixed the EEZ at 200 sea miles (64,550 sq. miles) and determined its external line by 38 geographic coordinates. STP was the last country in the Gulf of Guinea region to assert its territorial rights to the EEZ. In May 1998, STP's Foreign Minister Homéro Salvaterra submitted the country's law on the EEZ for approval to the UN Law of the Sea Commission and the Gulf of Guinea Commission.

In April 1998, ERHC had claimed that significant quantities of offshore oil had been discovered in the EEZ. The company's president, Sam Bass, compared the quantity of oil with that discovered in 1968 in Prudhoe Bay and The North Slope in Alaska. It was announced that lease sales of oil concession rights would start before the end of 1998, after the number, surface and location of the concession blocks had been defined. Bass declared that the seismic data necessary for the lease sales would be made available for analysis until the end of May. ERHC announced the drilling of a test well in late 1998, admitting, however, that it was subject to unknown risks and the availability of human and financial resources.

In the same month ERHC's Moreen Wilson announced the establishment of an offshore Logistics Centre in São Tomé that would be run by the future joint-venture company with the government for the oil industry in the Gulf of Guinea region. ERHC declared that the Logistics Centre, which was supposed to provide all services and supplies to support drilling offshore, including a dry dock facility, would reduce production costs because oil companies operating in the Gulf of Guinea would not have to rely on centres in continental Africa that had been affected by political instability. ERHC announced that Jugobanka AD Podgorica of Montenegro (ex-Yugoslavia) had agreed to provide

$50 million of financing. The company claimed that the bank, in which AMCO Montenegro had a 51% stake, had assets of about $3.3 billion and was the 14th largest bank in Europe. In June AMCO Montenegro's chairman, Nick Banicevic, a Yugoslav citizen, together with his wife and son were detained for 45 minutes at Libreville airport in Gabon and interrogated by the local police, because they were travelling with diplomatic passports issued in São Tomé. According to the diplomatic passports Banicevic was financial advisor of Prime Minister Bragança, and his son was an advisor to Foreign Minister Salvaterra. The immigration department in São Tomé denied any of the three diplomatic passports but admitted that the Banicevic family had visited STP twice as guests of ERHC's representatives. At the time rumours circulated that Bragança might be appointed ERHC's local representative after the legilsative election in November 1998. In the end, Banicevic failed to raise the promised funds for the logistics centre and never returned to São Tomé.

By mid-1998 ERHC still owed the government $3 million of the initial payment of $5 million. Notwithstanding, in July of that year ERHC and the government set up the joint-venture oil company *Sociedade Nacional de Petróleo de São Tomé e Príncipe* (STPetro), with the government owning 51% of the stock capital of $100,000. This agreement gave ERHC the right to obtain four oil blocks of its choice in the country's EEZ. Carlos Bragança Gomes, a trained agronomist, former government minister under the one-party state, and a nephew and advisor of Prime Minister Bragança, became president of the new company. Mateus Meira 'Nando' Rita, a former secretary of state for co-operation, became STPetro's general manager. In August PFC transferred all of its rights and obligations in the venture with STP to ERHC. Meanwhile, ERHC paid another $2 million of its commitments to the government. The next month ERHC engaged Carlos Gomes and Mateus Meira Rita as the company's consultants, allegedly for a monthly salary of $5,000. Following an internal conflict, Noreen Wilson was expelled from ERHC in October 1998 and Jim Callender took control of the company. Subsequently, Wilson joined Hellinger's Island Oil Exploration. In December 1998 ERHC announced that it would divest from all non-core operations in the USA to focus its efforts on the STP project. In fact, this decision had been taken due to financial constraints affecting ERHC.

Apparently the company was on the brink of bankruptcy. During the first quarter of 1999 ERHC incurred a net loss of almost $1.7 million, and the total accumulated losses had reached more than $11 million. The company was facing penalties and interest due to its failure to have its Registration Statement declared effective in the United States. As a result, it could not obtain additional debt and equity financing. In addition, ERHC lacked the finance to meet its commitments to STPetro. In April 1999, the ERHC Investor Group Inc. presented an offer to ERHC in the form of a letter of intent to acquire 51% of the issued and outstanding shares of the company. Under the terms of the letter, ERHC achieved Standstill Agreements from its noteholders, which enabled the company to meet all its debt obligations, including interest and penalties. Subsequently, the new majority shareholders, who reportedly included Hellinger and his son, changed ERHC's board. Stephen J.Warner became the new president and Ernest D.Chu was appointed financial officer of the company. Still, the financial problems continued. By the end of the third financial quarter in June 1999, ERHC had incurred a net loss of $5.1 million and a net cash operating loss of $385,000.

In February 1999 ERHC had signed an agreement with the British company Technology and Communications International Corporation Ltd (TCI), a small company without its own financial capacity, to set up a Logistics Centre for offshore oil activities in São Tomé. Three months later Prime Minister Posser da Costa (1999-2001), a business associate of Hellinger, entrusted the latter's Island Oil Exploration Company to seek financing for the logistics centre within six months. Subsequently, Hellinger met in London with all the investors including ERHC, TCI, and the Norwegian SIMEX to discuss financing the logistics centre as a joint project. The ambitious project included a deep-water port with dry dock facilities, an extension of the airport, a satellite gateway system and storage and maritime support facilities. The group approached the African Development Bank's private sector department to finance the project's budgeted $50 million. However, like Banicevic of Jugobanka AD Podgorica of Montenegro two years previously, TCI and their partners did not succeed in raising the necessary funds for the logistics centre.

Following this string of failures, ERHC appointed a new CEAO, Geoffrey Tirman, who had taken a majority stake in the company, and he initiated talks on a revised agreement with a government commission presided over by Carlos Gomes. When the two parties failed to reach a consensus, Tirman accused the government of a lack of seriousness, broke off the negotiations and left São Tomé. In response, in early October 1999 the government of Prime Minister Posser da Costa rescinded the agreement with ERHC, arguing that the company had largely failed to meet its financial and other obligations. Posser da Costa was being advised by a World Bank consultant, who characterised the ERHC agreement as prejudicial to STP's national interests. In response, Tirman, in an open letter to the prime minister, accused STPetro's president, Carlos Gomes, of corruption. Tirman maintained that following his refusal to provide Gomes with the requested incentives, the latter had obstructed negotiations with the government. Tirman claimed that during the talks in September Gomes had told him that Prime Minister Posser da Costa would appoint him as chairman of Petrogás, a fully state-owned enterprise Petrogás that would be established to deal with all of STP's future oil agreements. Further, Tirman asserted that Gomes had suggested that after his departure from STPetro to Petrogás he could still be useful to ERHC, provided that the Americans continued paying his monthly salary of $2,500 and an additional monthly consultancy fee of $5,000 into his Portuguese bank account. Tirman wrote that he had refused to keep paying the $5,000 on the grounds that this violated the US Foreign Corrupt Practices Act. Gomes denied all allegations and demanded that ERHC prove them. In turn he explained that the real problem was that ERHC was fiercely opposed to the establishment of Petrogás, a 100% state-owned oil company, and wanted to eliminate all provisions referring to seismic surveys that had not been carried out.

In January 2000 the local television Televisão Santomense (TVS) broadcast a video in which Tirman formally apologized to Prime Minister Posser da Costa and expressed his interest in settling the dispute with the government. But ERHC had already embarrassed the government by lodging a request for arbitration at the International Chamber of Commerce in Paris, without any prior warning. During that period, ERHC was subject to an investigation by the US Securities and Exchange Commission (SEC), regarding missing accounting records. In addition, ERHC had failed to submit its latest annual report, arguing that it did not have the funds to pay the audit fees. Further the company failed to meet its obligations with its creditors. Ultimately, ERHC did pay some of its creditors, who had agreed to such a deal, in the form of common stock shares.

Subsequently ERHC declared its insolvency to the SEC and considered beginning bankruptcy procedures. The company's only asset, noted in its filing to the SEC, was its holdings in STP. Notwithstanding ERHC's uncertain future, the government resumed negotiations with the company in March. One reason for the government's interest in settling the conflict with ERHC was that the joint-venture company STPetro had signed a technical assistance agreement with Mobil the year before the rupture. When a settlement with ERHC was finally reached in early 2001, the company had again changed hands.

Seismic survey and maritime boundary agreements

Seismic data proving the existence of deep-sea oil deposits in STP's territorial waters were a prerequisite for attracting oil companies to the country. As ERHC itself was unable to conduct seismic studies, it looked for other companies to do the job. Consequently, in September 1998, during a visit of President Trovoada and a 16-member delegation to the United States, STPetro and Mobil signed a technical assistance agreement to survey 22 deep-water blocks within an 18-month period in STP's EEZ. Initially the blocks, varying in area between 1,000 and 6,000 sq km, had been scheduled for open bidding in July 1999. According to the agreement, Mobil received an exclusive option on the entire EEZ, including a production sharing agreement for further evaluation through exploratory drilling once Mobil had completed its technical survey (budgeted at $10 million), within the agreed 18-month period. Mobil also negotiated with STPetro to conduct two experimental drillings within 18 months of signing the production sharing agreement. On its effective date Mobil would pay a signature bonus of $5 million plus an additional bonus of $1 million for each selected block. The company would pay STP $2 million within ten days after the effective date of the technical assistance agreement and another $2 million after nine months. In January 1999, Mobil's seismic contractor, the Schlumberger subsidiary Geco/Prakla (now WesternGeco),started a two-month survey of 2,723 km of seismic 2-D data in Mobil's concession area. In September a delegation from Mobil presented the STP government the results of the seismic survey, identifying the blocks with a high probability of oil deposits. These blocks were all situated in the area of the country's EEZ that superseded the maritime borders claimed by neighbouring Nigeria.

STP had been aware of the importance of reaching maritime border agreements with its neighbours in the Gulf of Guinea. After having filed its maritime boundary claims with the UN Law of the Sea Commission in New York, the respective maps were sent to the neighbouring countries. Negotiations with Equatorial Guinea commenced in October 1998. Nine months later the Presidents Trovoada and Teodoro Obiang Nguema signed an agreement on the delimitation on their countries' maritime borders. Five of STP's 22 deepwater blocks surveyed by Geco/Prokla were located alongside Equatorial Guinea's territorial waters. A similar agreement with Gabon on the delimitation of the common maritime borders, based on the principle of equidistance between the two countries, was reached in April 2001. Almost two years before, in August 1999, a STP government delegation protested in Abuja against the Nigerian government's decision the previous month to sell deep-sea oil blocks situated in an area claimed by STP as part of its own EEZ. Four months later formal maritime boundary talks with Nigeria commenced. In April 2000 the negotiations with Abuja ended without an agreement on the maritime boundaries between the two countries.

The principal obstacle was Nigeria's refusal to accept STP's proposal that based the boundary on equidistance between the continent and the islands. However, faced with the possibility of a prolonged legal conflict with Nigeria, the Santomeans sought a viable compromise settlement. Consequently, in August the same year Nigeria and STP achieved an agreement on the joint exploration of hydrocarbons in the waters disputed by the two countries. Under this agreement Nigeria received 60% of the profit of the common zone and STP 40%, and they shared the costs of operation in the same proportions. Following several other negotiation rounds, Foreign Ministers Rafael Branco of STP and Dubem Onyia of Nigeria finally signed a 45-year treaty on 21 February 2001 that created a 28,000 sq. km large Joint Development Zone (JDZ) that was to be managed by a Joint Development Authority (JDA) based in Abuja. The Authority's board consists of four executive directors, two from each country, to be appointed by the respective head of state for a renewable period of six years. The JDA reports to a Joint Ministerial Council (JMC) comprised of four ministers from each country. The JMC has the overall responsibility for all matters concerning the JDZ. In January 2002 Presidents Obasanjo of Nigeria and Menezes of STP inaugurated the JDA office in Abuja. Flávio Pires dos Santos, former chairman of STP's National Oil Commission became executive director of the JDA's Non-Hydrocarbon Resources Department, while Luís Alberto Prazeres, the country's first minister of National Resources (1999-2001) was appointed executive director of the Commercial and Investment Department. The Nigerian Taju Umar became executive director of the Monitoring and Inspections Department and Chairman of the JDA, and Carlos Gomes, the former head of STPetro, became deputy director of Monitoring and Inspections. Nigeria advanced $8 million for the first year of operations. Only in February 2004, however, did the JDA officially open a local branch office in São Tomé.

Article 5 of the JDZ treaty and an appendix to the agreement defined a triangular area called the Special Regime Area that represented 10% of the acreage of Block 246, exploited by Nigeria, to be administered by Abuja. In compensation for the exclusion of the parcel from the JDZ, together with the treaty, Nigeria promised STP several projects in a memorandum of understanding signed together with the treaty. These projects included a refinery and crude oil allocation, working interest in a block, the establishment of a port, the equipping and training of coast guards, and the grant of university scholarships. The memorandum was amazingly vague since it did not include any details, quantities or dates; it left everything open to future negotiations. It was almost inevitable that the implementation of the memorandum to the treaty would become a bone of contention between the two countries.

Nine days before signing the treaty with Nigeria, the Santomean government and the British subsidiary of the Norwegian oil service company Petroleum Geo-Services (PGS) signed an agreement on the execution of marine seismic studies outside blocks 1-22, which had been conceded to Mobil. PGS had been awarded exclusive seismic acquisition rights by the Nigerian government to an area included in the JDZ in 1999. The agreement signed with STP provided PGS with the exclusive right to conduct seismic services for a ten-year period and to 10% of all signature bonuses paid for blocks surveyed by PGS during this period. The company was not obliged to share any substantial part of its income stemming form the sale of seismic data until it had recovered at least three times of its total costs. At the same time, PGS concluded an exploration and production agreement with the government that included the option to enter into a production sharing contract for three blocks of its choice in exchange of a signature bonus of $2 million. This deal provided PGS with the uncommon double role of seismic service company and oil exploration company for the blocks surveyed. After signing of the production-sharing contract PGS had to pay an additional bonus of $5 million per block and after commercial discovery another $3 million per block. PGS initiated the seismic survey in the EEZ in late November 2001. In April 2002, after six months of studies, PGS confirmed the country's potential oil wealth stating that the identified blocks were commercially viable.

Nigerian Chrome appears on the scene

Then in May 2001, as part of an agreement mediated by the Nigerian government, STP settled the conflict with ERHC that had been taken over by the Houston-based Nigerian company Chrome Energy Corporation three months before. The new owner, who had taken a 56% stake in ERHC, withdrew the request for arbitration at the International Chamber of Commerce in Paris lodged by the company's previous owners in late 1999. Chrome reportedly had to pay millions of dollars to creditors to avoid ERHC's bankruptcy. In the event, ERHC/Chrome made a mysterious payment of $550,000 to Procura Financial Consultants and one STP Energy Corporation, registered in the British Virgin Islands. Chrome Energy is part of the Chrome Group, a private holding company owned by the Nigerian politician and business tycoon Sir Emeka Offor with various companies in the United States and Nigeria. Offor had been an ally of the late Nigerian dictator Sani Abacha (1993-1998) and was considered close to Obasanjo. His group of companies is engaged in commercial banking, insurance, air transportation, energy, telecommunications, oil and gas, and downstream petrochemical and refining, primarily in Nigeria.

Although lawyers advised against a settlement, because they thought that STP could win the arbitration, both the government of Posser da Costa and President Trovoada had been in favour of the settlement. The Santomean negotiation team included Foreign Minister Rafael Branco and Trovoada's son Patrice, the president's economic advisor who was rumoured to have many personal contacts in Nigeria. Chrome had reportedly threatened that an arbiters ruling in favour of ERHC/Chrome would result in the implementation of the original May 1997 agreement. In addition, Chrome would ask President Obasanjo not to ratify the treaty on the JDZ, and would resort to international law to confiscate STP's assets abroad and impede oil exploration in STP for many years. STP subsequently abandoned arbitration and the government allowed ERHC/Chrome far-reaching financial advantages within the JDZ, including a 15% working interest in two blocks of ERHC/Chrome's choice, a 5% share in signature bonuses and a 10% share of profit oil, and a 1.5% over-riding royalty interest in production. In addition, ERHC/Chrome received two blocks of its choice in the EEZ without paying a signature bonus, and the option to acquire a 15% working interest in another two blocks of its choice. ERHC/Chrome assigned its 49% stake in STPetro to STP and, consequently, relinquished its rights to acquire, as STPetro, four blocks within the EEZ. This new 25-year agreement with ERHC/Chrome replaced the one signed in 1997 and was contingent on the ratification of the treaty on the JDZ by the National

Assembly in São Tomé. The Nigerian Foreign Minister Dubem Onyia witnessed the signing of the agreement in May 2001[11].

Foreign experts considered the agreement with Chrome as one of the worst in the recent history of Africa's oil industry.[12] In early 2002 a group of expatriates from STP published an open letter titled *Coisa Pública II* that criticised the deal in fierce terms as detrimental to STP's national interests. Equally, the IMF blamed the government for a lack of transparency in its oil dealings and considered the ERHC/Chrome agreement as prejudicial to STP's national interests, since it diverted the country' potential oil revenue away from the treasury.[13] The controversial agreement nourished persistent rumours about the possible payment of bribes to STP government officials. At the request of the IMF the government hired lawyers from a Washington, D.C.-based law firm to conduct an analysis of all of STP's oil dealings. The legal experts presented their highly critical assessment that was financed by the World Bank in April 2002. They considered the two agreements with ERHC as extremely one-sided, since the government received little in return for what it gave to the company. In their judgement both agreements with PGS were also extremely one-sided and favoued the Norwegian company. In the lawyers' opinion only the technical assistance agreement with Mobil approached similar agreements elsewhere in the international oil industry.[14]

Meanwile Fradique de Menezes, son of a Portuguese father and a Santomean mother, had become president. Menezes had served his country successively as representative of STP's Trade Centre in London, ambassador in Brussels and economy minister before he became a private businessman in São Tomé in 1987. The import of cement and export of cocoa made him wealthy. In 1993 he was expelled from the MLSTP/PSD because as a deputy in parliament he had not voted according to his party's orientation. Subsequently he joined the *Acção Democrática Independente* (ADI), the party of President Trovoada. At the end of his second and last term in 2001 Trovoada and his son Patrice were looking for a suitable candidate who would be able both to pursue their interests and defeat Manuel Pinto da Costa, leader of the MLSTP/PSD and Trovoada's archrival, in the presidential elections. Their choice fell on Menezes. In the elections of July 2001 Menezes won in the first round with 54.4% of the votes, while Pinto da Costa obtained only 38.4% of the ballots. Vote buying, a common practice in STP, had evolved during the campaign. However, Menezes had also won because he promised to combat corruption and, unlike Pinto da Costa, he was not associated with the abuses of power and maladmistration during the period of one-party rule. Emeka Offor, owner of Chrome and Trovoada's friend, had financed Menezes's electoral campaign.[15]

Prompted by the Trovoadas, President Menezes dismissed Prime Minister Posser da Costa shortly after his inauguration and appointed an interim government with Patrice Trovoada as foreign minister. However, the honeymoon with the Trovoadas did not last for long and Menezes soon distanced himself from his former patrons. In December that year Menezes created his own party, the *Movimento Democrático Força de Mudança*

[11] The agreement was signed by President Chude Mba and Chairman Sir Emeka Offor of ERHC/Chrome and Minister of Natural Resources Luís dos Prazeres and Foreign Minister Rafael Branco.
[12] Frynas et al 2003, p. 67.
[13] IMF Country Report No. 02/30, February 2002.
[14] Memorandum: Oil Business Between DRSTP and Nigeria, ERHC, Exxon-Mobil and PGS, Washington, 12 April 2002.
[15] According to Group Captain Nnamdi Nnoruka, Offor's cousin and associate, in an interview in Newswatch (Lagos), 25 February 2002.

(MDFM). Following quarrels with Menezes about funds from Taiwan, Patrice Trovoada resigned from his government post in February 2002. In turn, Menezes accused the Trovoadas publicly of treating STP as their private fiefdom. In the same month Chrome Oil Services, one of Offor's companies, sent a payment of $100,000 to Menezes's company's bank account in Brussels. Months later, after repeatedly having been confronted with the evidence of the bank transfer, Menezes publicly confessed to having received the money, but maintained that it had been a campaign donation for his party MDFM. STP legislation, however, explicitly forbids party funding by foreign entities.[16] Despite having accepted campaign funds from Chrome, Menezes, who constitutionally is not in charge of economic affairs, remained at the forefront of demands to renegotiate his country's controversial oil agreements.

## Renegotiating the oil agreements

While President Menezes was in the United States to participate in the UN Children's Summit in May 2002, he received a copy of the American lawyers' analysis of the oil agreements. Back home, on the 24th of May, during a press conference, Menezes publicly demanded the renegotiation of all oil agreements signed by various governments with ERHC/Chrome, ExxonMobil, Nigeria, and PGS. Based on the lawyers' analysis, the head of state argued that the agreements contained grave errors and their terms were extremely unfavourable to his country. He also blamed the STP advisors and lawyers who had participated in the negotiations for the prejudicial terms of the contracts. Menezes attributed the anomalies detected by American the lawyers to a lack of experience of the country's negotiators. This critique was also directed at former president Miguel Trovoada and his son Patrice, Rafael Branco and Posser da Costa, who had negotiated or signed the contracts, though at the time Menezes had been a deputy for the ADI in parliament and did not raise any doubts about the treaties. Menezes had also reacted in response to demands by the IMF, who in February 2002 had urged the local authorities to take action following the results of the analysis of the agreement signed with EHRC/Chrome.[17]

Meanwhile STP demanded the implementation of the commitments included in the vague memorandum of understanding to the JDZ treaty. In May 2002 a Santomean delegation to Abuja headed by Rafael Branco, the minister of natural resources, negotiated the supply of 60,000 barrels of crude oil per day as compensation for the approximately 100 sq. km part of Block 246 in the JDZ that had been conceded to Nigeria. Upon his return to São Tomé Branco declared that before defining the quantity of crude, the modalities of supply had to be discussed. With regard to the promised scholarships he declared that in September the first students could leave for Nigerian and other universities abroad. On June 3, President Obasanjo arrived for a three-hour visit to São Tomé to discuss Menezes's demand to renegotiate the terms of the agreement on the JDZ with Nigeria. Following the meeting, Menezes explained that Obasanjo had urged him to solve all problems on a bilateral level and to avoid any public declarations. In addition, the Nigerian president had promised the advance payment of $5 million for signature bonuses, at the time estimated at $120 million, and to help solve the question concerning the daily supply of 60,000 barrels. In July, Nigeria advanced the $5 million, however, the question of crude supplies remained unsolved.

[16] Lei dos Partidos Políticos, Art. 27, 4.
[17] IMF Concludes 2001 Article IV Consultation with STP. Washington, 28 February 2002.

At the UN Summit on Sustainable Development in Johannesburg in early September, President Obasanjo promised President Menezes 10,000 barrels of crude per day in compensation for Block 246, only 1/6 of the quantity initially promised. The next month, the Nigerian ambassador in São Tomé, Saidu Pindar, confirmed to Menezes that the supply would be 10,000 barrels per day. The diplomat asserted that this quantity had been fixed in a Memorandum of Understanding signed by both countries on September 25, 2002. Yet two weeks later Minister Branco complained that Nigeria had not fulfilled any provision of the memorandum, although the first oil supplies had been promised for mid-January 2002 when the JDA office was inaugurated. In early November Menezes assured Obasanjo in a letter that, despite certain misinformation, his country was fully committed to the implementation of the JDZ treaty in every detail. Then he asked if Nigeria was equally committed to the implementation of the treaty including the promises of the memorandum that he described as an integral part of the agreement. Menezes's letter to Obasanjo went unanswered. Instead, in February 2003 Nigeria declared null and void the memorandum of understanding that promised STP compensation for Block 246. In exchange, the 10 per cent of this block separated out under the memorandum was returned to the JDZ. Although the government was content that the problem with the memorandum had been removed, in São Tomé many complained about the loss of crude oil supply, scholarships and a refinery. Remarkably, neither the Nigerian nor the STP parliament ratified the alteration of the JDZ treaty.

In July 2002, during the fruitless quarrels with the Nigerians about compensations, two famous American lawyers, Greg Craig and Michael O'Connor of the Washington, D.C.-based firm William & Connolly visited São Tomé for two weeks at the invitation of President Menezes, to check all oil agreements. While on the island they met regularly with Menezes to discuss their assessment. The two lawyers came to the same conclusion as their colleagues: the agreements were detrimental to the country's national interests. Former US congressman Joseph P.Kennedy, the head of Citizens Energy Corporation, had got Craig, who had been President Clinton's lawyer during the Monica Lewinsky affair, in touch with Menezes.[18] At the same time, in an attempt to polish up their image, ERHC/Chrome hired former ChevronTexaco vice-president Richard Matzke as a special advisor. In September 2002, President Menezes met with President Bush and then attended the annually UN General Assembly in New York. While in New York, and encouraged by the conclusions of the American lawyers, President Menezes wrote to ERHC/Chrome that his country would not go ahead with the agreement of May 2001 since it was 'so terribly one-sided as to be unconscionable and unenforceable'. Nevertheless, Menezes indicated that he was open to renegotiation of the agreement. Four days later the company replied by disputing Menezes' statement and claimed that as head of state he had no legal authority to cancel any contract since he was non-executive under his country's semi-presidential Constitution. ERHC/Chrome stressed that its rights in the JDZ could only be discussed by the JDA and vowed to vigorously defend its rights in the agreement in all international jurisdictions. The following month, ERHC/Chrome filed brief in Washington requesting a US commitment to support the company in any such dispute. At the same time, ERHC/Chrome president Chude Mba agreed to meet Menezes to discuss a possible compromise. In turn, Menezes threatened that his country would resort to the international courts if the renegotiations with the Nigerian company should fail.

[18] The New Yorker, 7 Ocober 2002.

In November, exactly one week after Menezes's letter to Obasanjo demanding the promised compensations for Block 246, the Nigerian government decided to suspend the long scheduled licensing round for the first nine blocks in the JDZ until STP clarified the contentious issues with third parties. Only after the solution of these problems would the licensing round go ahead, the Nigerians assured. Finally, the three agreements with third parties were all renegotiated in early 2003. In January the government signed a new contract with ExxonMobil that gave the company pre-emptive rights to one stake of 40% in one block and 15% each in another two blocks of its choice in the JDZ. ExxonMobil was obliged to match the signature bonuses and terms offered by other bidders. This was much more favourable to STP than the previous agreement that gave the ExxonMobil rights to several blocks of its choice for signature bonuses of only $1 million each, in turn for carrying out seismic and feasibility studies.

Despite initial reluctance PGS finally agreed to new talks with STP. The Norwegian company claimed to have invested $14 million in seismic studies and to have trained 41 Santomean nationals in various areas of the oil industry. PGS was unwilling, however, to change the two contracts since they considered them ethically sound and legally binding.[19] The new agreement with PGS was concluded in early March 2003, but no details were revealed. Finally, in mid-March ERHC/Chrome relinquished its earlier rights to an over-riding royalty interest, a share of signature bonuses and a share of profit in the JDZ. Under the new agreement, ERHC/Chrome increased its rights to participate in the JDZ from a total of a 30% working interest in two blocks to a total of 125% working interest spread over six blocks, ranging from 15% to 30% each. In addition, the Nigerian company was freed from paying signature bonuses on four of the blocks. Although the previous agreement remained essentially intact, the government saw no alternative, since supposedly Nigeria had threatened to paralyse the licensing round if the agreement with ERHC/Chrome was not respected.[20] The company justified the excessively favourable terms on the grounds of the $12 million it had invested in the development of STP's oil sector.[21] STP's chief negotiator was Rafael Branco, then minister of natural resources, who had been involved in the previous deal with the Nigerians. STP's National Oil Commission (CNP) had an advisory role in the negotiations. One of the CNP's members was the Foreign Minister Mateus Meira Rita, a former ERHC consultant who owned 500,000 company shares. He had received the shares instead of his salary when ERHC had run out of cash. Two other commission members had also been on ERHC's payroll at STPetro.[22] On April 10, 2003, the new agreement was officially concluded. Analysts also considered the new deal excessively generous to ERHC/Chrome and out of line with international oil industry practices. Potential investors criticised the deal since it compelled them to co-operate with a partner with a limited track record in the oil industry.

## Licensing round

Notwithstanding the three renegotiated and concluded agreements paved the way for the long awaited auction of the oil blocks. In late April 2003 the licensing round for the first

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[19] Dagens Næringsliv (Oslo) 13-15 January 2003.
[20] E.I.U. Country Report STP July 2003.
[21] Silverstein 2003.
[22] Ibidem.

nine of 25 blocks in the JDZ, covering about one third of its area, was officially launched in Abuja. Estimates of oil reserves in the nine blocks range from 6 to 11 billion barrels of crude oil. The minimum bid per block was set at $30 million. At the time STP expected at least $100 million as it share from the signature bonuses, almost twice the value of the country's GDP. In June the JDA marketed the blocks during road shows in London and Houston, Texas.

Three months after the start of the licensing round and amidst rising prospects of future oil wealth, on July 16, 2003, soldiers launched a bloodless military coup in São Tomé.[23] Like the country's first coup in 1995, the constitutional order was reinstated after one week of negotiations. Whereas in 1995 the negotiations with the military were mediated by Angola, this time a total of eight countries, including Angola, Nigeria, Portugal and the USA, and three inter-state organisations were involved in the mediation process. Many foreign observers, unaware of the country's domestic problems, quickly blamed oil as the principal motive for the coup. Though oil certainly played a role in the event, such a monocausal view ignores the importance of other domestic factors in the genesis of the attempted takeover. The coup had been planned by the leaders of a small political party that was partly made up of Santomean members of the former Buffalo Battalion of the South African apartheid regime. They took action because the government had rejected their continuous financial demands for so-called reintegration into STP society. The former Buffalo soldiers found a willing partner in local military, who in vain had repeatedly denounced the deplorable state of the armed forces and the hardships suffered by the ordinary soldiers. While oil cannot be considered the principal cause of the coup, STP owed the involvement of eight countries in the international mediation to its increased importance as future oil-producing country. Due to the excessive protagonism of President Obasanjo in the process, Nigeria's influence in STP increased, to the detriment of rival Angola, the archipelago's most important regional ally before the creation of the JDZ. During the period of MLSTP one-party rule, Luanda provided fuel supplies and Angolan troops were based in São Tomé. Although Angola has since lost influence, the country is likely to remain an important partner for STP.

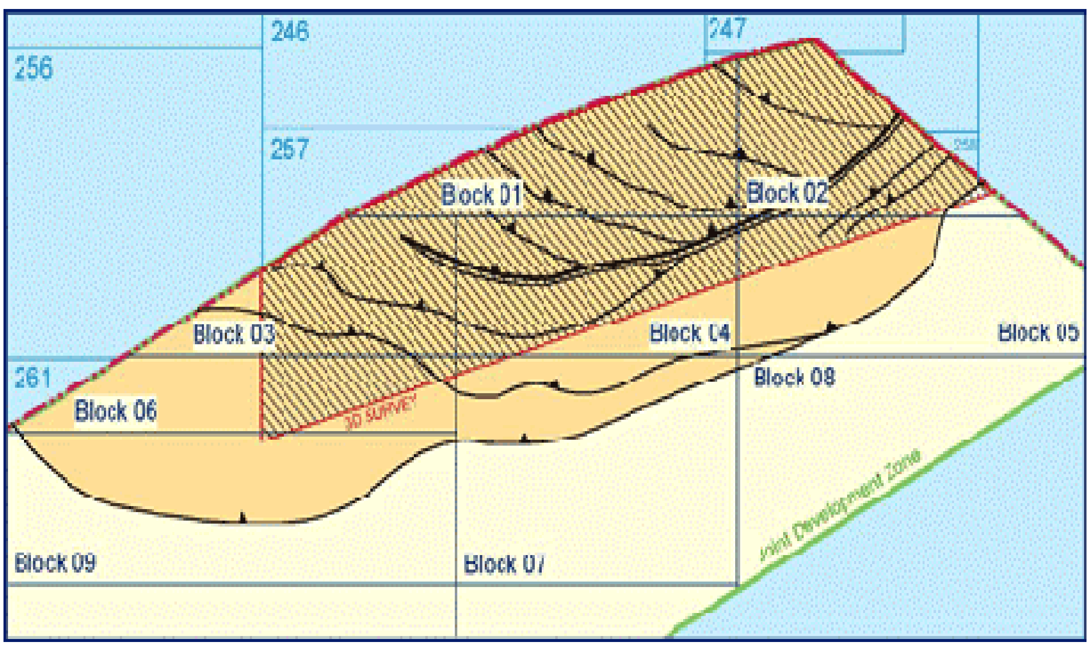
Concerns about Nigeria also played a role when in late September 2003 President Menezes reconciled with Patrice Trovoada and appointed him special presidential oil advisor, without payment. In São Tomé the former president's son is known as a wealthy businessman, however, he does not run a business there and nobody knows the source of his private wealth. In October, after all bilateral problems with STP had been removed, Nigeria conceded STP a daily allocation of 30,000 barrels of crude oil per day at a guaranteed margin of US $0.13 per barrel until the end of 2004, for sale on the international market. The government entrusted the Japanese owned oil-trading company Arcadia with the sale of the crude. The country expected to earn about US $1.4m annually from the deal.

One of the most memorable days in STP's recent history was 27 October 2003, when during a solemn ceremony in São Tomé, 20 oil companies submitted 33 bids for eight of the nine oil blocks in the JDZ that had been offered for public tender. The only flaw was the failure of the government in São Tomé to invite the local authorities in Príncipe, provoking a public outcry on the small sister island. President Menezes, who presided over the ceremony broadcast directly by the local *Rádio Nacional,* warned in his

[23] For a detailed account of the coup and its background see Seibert 2003.

opening speech of the risks of oil wealth becoming a curse and promised that his country would be transparent and accountable. Altogether there were five signature bonus bids of $100 million or more. ChevronTexaco offered the highest signature bonus of $123 million for a license for Block 1, the most promising of all the blocks, while Nigerian Conoil and the American SEO International submitted bids of $120 million and $107 million respectively for the same block. Two other Nigerian companies, Foby International and ECL International made bids of $113 million for Block 2 and $100 million for Block 4 respectively. Block 7 did not receive a valid bid and Block 8 failed to attract any bid at all. Based on the highest bids, a total of about $500 million was offered for the seven blocks. This result provoked a wave of enthusiasm in São Tomé since this would signify a windfall of some $200 million (more than three times the country's GDP) for the impoverished island state. The signature bonuses, however, would only be paid by the winning companies after the signing of the production-sharing contracts. Fewer major international companies than expected participated in the auction and the only companies with proven track records of deep-sea oil exploration and production were ChevronTexaco, the American Andarko and the Norwegian company Statoil. Many of the nine Nigerian companies that presented 23 of the bids were suspected of being speculative real estate companies that would resell the blocks they had bid on for a higher price to a genuine oil company.

**Results of opening bids for nine blocks of Nigeria-STP JDZ, 27 October 2003 (all amounts in millions of $)**




| Company | Block 1 | Block 2 | Block 3 | Block 4 | Block 5 | Block 6 | Block 7 | Block 8 | Block 9 |
|---|---|---|---|---|---|---|---|---|---|
| **Andarko (USA)** | | 30 | | 40 | | | | | |
| **Atlas Petroleum (Nigeria)** | 55 | | | 40 | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Centurion Energy (Canada)** | 60 | 45 | | 50 | | | | | |
| **Chevron Texaco (USA)** | 123 | | | | | | | | |
| **Conoil (Nigeria)** | 120 | | | | | | | | |
| **ECL International (Australia)** | | | | 100 | | | | | |
| **Energy Equity Resources (Nigeria/Norway)** | 61 | | | 33 | | | | | |
| **ERHC/Chrome (Nigeria)** | 60 | 60 | | | | | | | |
| **FiltimHuzod (Nigeria)** | | | | | | 32 | | | |
| **Foby Engineering (Nigeria)** | | 113 | | | | 35 | | | 45 |
| **Fusion Oil (Australia)** | | | | | 10 | | 10 | | |
| **Burrel & Promo (France)** | | | | | | 55 | | | |
| **NPDC (Nigeria)** | 50 | 30 | | | | | | | |
| **Ocean Energy (USA)** | 57.5 | | | | | | | | |
| **Oil & Gas Nigeria Ltd** | 40.2 | | | 41.5 | | | | | |
| **Petrocamak Europe (UK)** | | | | 70 | | | | | |
| **Sahara Energy (Nigeria)** | | | 35 | | 35 | 35 | | | |
| **SEO International (USA)** | 106.3 | | | | | | | | |
| **Statoil (Norway)** | 60 | | | | | | | | |
| **Suntrust Oil (Nigeria)** | 45 | | | | | | | | |

Following the opening of the bids, the JDA asked the British company Clearwater to analyse the financial and technical capacities of the competing companies. In November 2003 the Nigeria-STP JMC announced that due to the pre-emption rights of ExxonMobil and ERHC/Chrome the whole process could not be concluded before March 2004. At the end of the year, the JMC asked the two companies to exercise their preferential options. ExxonMobil was given 30 days to take up its option on three blocks of its choice. Thereafter ERHC/Chrome would have 15 days to exercise its preferential rights to six blocks. The two companies could not have more than a 40% interest in one single block, equivalent to STP's share in the JDZ, and would be required to match the highest bid for such blocks, with the exception of the four bonus-free options of ERHC/Chrome.

By mid-February 2004, ExxonMobil decided to take the 40% option in Block 1 at a cost of some $49 million. However, the company hesitated to exercise its 25% preferential rights in two other blocks, which delayed the whole process. Finally, despite personal appeals by President Menezes, in late March ExxonMobil definitively declined to exercise the two options. Reportedly, the company had been interested in participating in Blocks 2 and 4, but considered the signature bonuses too expensive. ExxonMobil may also have been reluctant to work with ERHC/Chrome. Subsequently, in mid-April, ERHC/Chrome exercised four signature bonus-free options of 15, 20, 25 and 30% respectively in Blocks 6,3,4, and 2 and took another two stakes of 15% and 20% in Blocks 5 and 9, for which signature bonuses were payable. The four signature bonus-free options would cost STP almost $75 million in lost income or 125% of the country's GDP.

Recent developments

On 24 April 2004, a meeting of the JMC in Abuja was expected to announce the winners of the licensing round. Unexpectedly, however, the meeting only disclosed that the exploration rights for Block 1 were jointly awarded to ChevronTexaco (51%), ExxonMobil (40%) and Equity Energy Resources (EER, 9%), a company jointly owned by Norwegian interests (49%) and the Nigerian business tycoon Aliko Dangote (51%), who is close to Nigerian president Obansanjo. EER had been created shortly before the closure of the licensing round. Surprisingly, the JMC decided to postpone the allocation of the remaining blocks to a future date. The decision was a blow for ERHC/Chrome, because the company's pre-emptive rights could not become effective. It was later revealed that both the Nigerian and the STP government wanted to avoid assigning the blocks to companies with uncertain financial and technical capacities. President Menezes announced that new seismic studies would be undertaken by PGS before a new licensing round for the remaining eight blocks would be held. The sale of Block 1 entitled STP to a signature bonus share of $49 million, much less than the $200 million expected at the time of the opening of the bids. Most of the $49 million has already been spent and will be used to repay advance payments by Nigeria and to cover operational costs of the JDZ and $13 million earmarked for the 2004 budget. ChevronTexaco also promised the government it would sign a product-sharing agreement with the JDA in August and start drilling in 2005.

In May President Menezes appointed Carlos Gomes and Jorge Santos, the presidential economic advisor, as STP's new executive directors of the JDA in Abuja. Gomes also replaced Taju Omar as the JDA's chairman. In late June in Abuja, Presidents Obasanjo and Menezes signed a nine-point agreement on transparency in payments, expenditure and other dealings in the transactions in the JDZ. The guidelines for reporting of this Abuja Joint Declaration would be those adopted by Britain's Extractive Industries Transparency Initiative (EITI). All information to be made public according to the declaration would appear on the website of the JDA.[24] On various previous occasions both the STP government and President Menezes had promised transparency and accountability in the oil sector. In his address at the opening of the bids of the licensing round Menezes promised that he would struggle until the last day of his term for the

[24] www.nigeriasaotomejda.com

right of all Santomeans, without exception, to benefit from the country's national resources.[25]At an international oil conference in São Tomé in December 2003 he declared his intention to guarantee transparency, good governance and efficiency in the management of future oil revenues.[26] During a conference on 'Promoting Accountability and Transparency in Africa's Oil Sector' at the Center for Strategic and International Studies (CSIS) in Washington in March 2004 Menezes declared he wanted to assure that oil is a blessing for STP and not the curse it has been to other African petrol states and even promised to make public any oil deals made with his country and payments made by foreign oil companies.[27]

Shortly before his pious words in Washington Menezes had been involved in a controversial oil deal that had provoked political turmoil in São Tomé. In January 2004, the Canadian mining company DiamondWorks, which operates in twelve African countries, signed a Memorandum of Understanding (MoU) with the STP government for the creation of a joint venture for trading in refined oil products and in crude oil allocated to the country by other African oil producers. In mid-February 2004, DiamondWorks disclosed an expanded MoU, signed by its Guernsey-based subsidiary Energem Petroleum Corporation Ltd., that included the marketing of hydrocarbon products to be produced in STP's EEZ and the establishment of a joint venture for the supply of fuel and petroleum products to enterprises operating in the EEZ. Under the agreement Energem would receive 70% of the profits stemming from the re-sale of crude from other African producers, while STP would get 30%. Patrice Trovoada, the presidential oil advisor, had initiated the deal with Energem. There was no transparency at all involved. The agreement became known only when a DiamondWorks's business communiqué was inadvertently made public.

The agreement provoked a political crisis in São Tomé, since Prime Minister Maria das Neves maintained that the oil minister Tomé Vera Cruz had signed the agreement without her authorisation. She considered the terms of the deal prejudicial to the country. Consequently, on 4 March 2004 the government declared the MoU null and void. Despite the government's decision, Energem maintained that the MoU was properly negotiated and was still operational. Meanwhile the political crisis in São Tomé continued. Minister Vera Cruz, chairman of Menezes' party MDFM, and three other ministers from his party declared their withdrawal from the coalition with the MLSTP/PSD. Vera Cruz denied the prime minister's allegations, admitting, however, that she had not seen the final version of the agreement. In response to the prime minister's declarations that the agreement with Energem was bad for STP, President Menezes recalled that the most serious crime committed in the country in the area of oil agreements had been the signing of the treaty with ERHC by a MLSTP/PSD government in 1997. Finally on 14 March the political crisis was settled by a government reshuffle. Arlindo de Ceita Carvalho (ADI) became the new minister of natural resources, the fifth minister holding this portfolio since 1999.

When the controversial deal with Energem became known, an oil-advisory group at Columbia University in New York strongly recommended that the STP authorities not

[25] Discurso do Presidente Fradique de Menezes, Cerimónia da Abertura das Ofertas sobre os primeiros Blocos de Petróleo, São Tomé, 27 October 2003.
[26] Discurso de Abertura pelo Presidente Fradique de Menezes, Seminário do Banco Mundial/PNUD sobre 'Noções Básicas sobre a Indústria Petrolífera e Experiências de Gestão de Recursos', 2 December 2003.
[27] Speech by H.E.Fradique de Menezes, CSIS Conference, Washington, 30 March 2004.

close such contracts, but rather sell crude oil allocations by public tender. The five-member advisory team was affiliated with Columbia University's Earth Institute, headed by the economist Jeffrey Sachs and financed by billionaire George Soros' Open Society. They first visited São Tomé in November 2003 when they offered the local authorities their services free of charge to help elaborate STP's oil revenue management law, as demanded by the IMF. STP welcomed the initiative since the engagement of Columbia University could improve the image of the local government. Besides the country lacked the legal expertise to design oil legislation. In October 2003 STP's National Assembly had entrusted a three-member parliamentary commission to present a proposal for such a law. Besides the Columbia University advisory team, the government had also asked the World Bank for assistance in drafting the oil legislation. Subsequently, the World Bank paid a five-member expert team headed by former Alaska governor Steve Cowper to draft a legal proposal. The Cowper team prepared some recommendations concerning oil revenue legislation for a workshop on oil revenue management in São Tomé at the end of March and by mid-April presented a complete proposal for a regulatory law of oil revenue management. The advisory team from Columbia University even submitted three consecutive drafts of the oil revenue management law to the lawmakers in STP. In contrast, the local parliamentary commission lacked the expertise and experience to draft its own proposal. The oil revenue management law finally approved by the National Assembly in mid-August 2004 is largely based on the drafts of the two US expert teams. The bill provides for the creation of a National Oil Account, the sound management of the account including the allocation of 10% of the annual oil revenue used to Príncipe island (which makes up about 4% of total population), the establishment of a Permanent Reserve Fund for future generations, annual audits of the oil accounts by both the local Audit Office and international audit firms, transparency principles, and the creation of a eleven-member Oil Control Commission.[28]

Recent US involvement in STP has not been restricted to the oil sector. Since 1996 Voice of America has operated a relay station in São Tomé that serves the entire African continent. It is the country's potential oil wealth and strategic position in the Gulf of Guinea, however, that has attracted US interest in military co-operation with the island republic. From the outset STP has welcomed US military engagement since it serves to keep local regional powers like Nigeria at a distance. In early 2002 the African Oil Policy Initiative Group (AOPIG), a lobby group of the American oil industry, stressed the future importance of the Gulf of Guinea region for US oil supplies and advocated the establishment of a military base in São Tomé. In July that year, General Carlton Fulford, then deputy commander of the US European Command in Stuttgart that also includes Sub-Saharan Africa in its area of responsibility, paid a visit to São Tomé. The general discussed security issues with the local authorities, but denied plans for the creation of a military base on the island. In October, the US Secretary for African Affairs, Walter Kansteiner, made a three-day visit to São Tomé to hold talks on bilateral co-operation. In September 2003, Air Force General Charles Wald, deputy commander of the US European Command, advocated in an interview the construction of a non-permanent military base in São Tomé to safeguard stability in the Gulf of Guinea. He compared the strategic importance of the island with that of Diego Garcia in the Indian Ocean. In his opinion the islands' geographic position was potentially attractive for the establishment of a Forward Operation Location, the official

[28] Anteprojecto de Lei-Quadro das Receitas Petrolíferas, Assembleia Nacional, May 2004.

designation for non-permanent bases with basic infrastructure for emergencies. In March 2004 General Wald visited São Tomé as part of a tour of eleven African countries. The same month the private American security company Military Professional Resources Incorporated (MPRI), which has close ties to the US defence department, sent Reserve Air Force Colonel Raoul Henri Alcalá to São Tomé to conduct an assessment of the country's defence necessities one it became a major oil producer. Alcalá claimed he had been sent for a one-year mission by the US European Command, however, the Pentagon denied this.[29] For obvious reasons the USA has also paid attention to the development of STP's infrastructure. In February 2004 the US Trade and Development Agency (USTDA) announced a grant of $800,000 to finance feasibility studies for the construction of a deep-sea port and the extension and modernisation of São Tomé's international airport. Simultaneously STP's army commander announced a US military action plan for his country, including the destruction of obsolete ammunition, the collection and destruction of firearms owned by civilians, and joint manoeuvres with the US Navy. The Americans also promised to help equip the local coast guard to enable the country to defend its EEZ.

## Concluding remarks

As a newly emerging oil producing country STP has the unique opportunity to avoid what has become known as the 'resource curse', the negative consequences of oil wealth experienced by many other oil producing countries. The country's decision makers have repeatedly promised transparency, accountability and asserted their intention to invest the future oil wealth for the benefit of the entire nation. The recent approval of the externally conceived oil revenue management law suggests that they really mean it. Considering STP's recent past, however, there is no guarantee at all that this law will be fully applied and that violations will be prosecuted. The country lacks a functioning judiciary and an independent media, while the incipient civil society is weak and intertwined with the state. All democratically elected presidents and governments promised to combat corruption, however, effective anti-corruption measures were never taken. Consecutive governments have failed to implement the agreed economic and structural reforms, which has repeatedly resulted in the suspension of IMF/World Bank programmes. A lack of transparency and accountability resulted in the prejudicial oil agreements, although inexperience in dealing with oil companies also played a role in the process. Likewise, despite his demands for renegotiations and promises for transparency, President Menezes's acceptance of secret payments by Chrome has undermined his credibility. In view of dominant local political practice laws alone are insufficient to avoid the 'resource curse'. There must also be a change of mentality and local political culture. Given the weakness of local civil society external pressures by international donors and human rights organisations might be helpful in the process. In any case, the beginning oil era is a great challenge for the tiny country.

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