Institute for Security Studies

Situation Report

Date Issued: 26 April 2004
Author: Gerhard Seibert[1]
Distribution: General
Contact: asap@iss.co.za

São Tomé and Príncipe Update

Executive Summary

On 24 April, the Nigeria – São Tomé and Príncipe (STP) Joint Ministerial Council (JMC) was expected to announce the winners out of the twenty companies that participated in the licensing round for the oil blocks in the two countries' Joint Development Zone (JDZ). However, at the end of the two-day meeting in Abuja it was only revealed that the exploration rights for the most promising block (Block 1) were jointly attributed to ChevronTexaco (51%), ExxonMobil (40%), and the Norwegian Equity Energy Resources (9%). Unexpectedly, the JMC declared it would announce the winners of the other six blocks at a later date. This event was supposed to mark the end of a difficult selection process by the Joint Development Authority (JDA) that started after the official opening of bids last October. At the time, STP expected a payment of signature bonuses of $200 million, four times the country's GDP. Meanwhile, it has become clear that this sum probably will be much lower, though still more than the country's GDP.

During March 2004 a controversial oil agreement with the Guernsey-based Energem Petroleum provoked a government crisis. As a result, the president's party left the government coalition and the relationship between the president and the government has become fragile. While a government reshuffle has momentarily solved the crisis, the new coalition government is not a stable one and the eruption of another crisis is only a question of time. Furthermore, the implementation of the Memorandum of Understanding of 23 July 2003 that ended the coup has not yet been completed. Frequent rumours of another military coup so far have remained unfounded.

Both the July 2003 coup and the islands' future oil wealth have increased donor countries' readiness to provide military aid to strengthen and modernise STP's small armed forces. In addition, the archipelago's strategic position in the oil-rich Gulf of Guinea has attracted US interest in initiating military co-operation with STP. In this regard, there are indications that Washington is seriously considering the establishment of a non-permanent naval base in STP. Oil has also brought in US legal and economic experts to help elaborate the country's oil management law.

Finally, the overall social-economic situation in the archipelago has remained difficult and there have been protests from several sectors of society.

The end of the 2003 coalition government

The lifespan of the coalition government constituted after the July 2003 military coup by the Liberation Movement of São Tomé and Príncipe/Social-Democratic Party (MLSTP/PSD), the Independent Democratic Action (ADI) and the Democratic Movement Force of Change (MDFM) did not last long.[2] When Prime Minister Maria das Neves (MLSTP/PSD) returned home from a visit to Lisbon in late February this year she demanded the dismissal of the ministers of natural resources, Tomé Vera Cruz, and of foreign affairs, Mateus Meira 'Nando' Rita (both of the MDFM, the party of President Menezes). The prime minister accused the ministers of having concluded government business without her knowledge and consent. On 13 February 2004, the day of her departure for Lisbon, Minister Vera Cruz had signed a controversial oil agreement with Energem Petroleum, a subsidiary of Canadian-based DiamondWorks (for details see below). Das Neves considered this agreement detrimental to the national interest. On the other hand, Minister Mateus Rita had travelled to Luanda to sign an agreement on commercial air transport with the Angolan government, also without the prime minister's authorisation.

On 4 March, though the government decided to cancel the agreement with Energem, the crisis continued. The US and Portuguese ambassadors intervened in an attempt to avoid a major political upheaval. The following day, at a press conference, the four ministers of the MDFM, including Health Minister Claudina Cruz and Justice Minister Justino Veiga, announced publicly their withdrawal from the ruling coalition. Vera Cruz and Mateus Rita both denied the prime minister's allegations and maintained that she had been kept informed about their activities. Vera Cruz admitted only that Das Neves had not seen the final version of the oil agreement because she was leaving for Lisbon. Mateus Rita, who had been prevented by Das Neves from signing the agreement in Luanda, claimed that he had informed the prime-minister about his intentions and stressed that as foreign minister he had the authority to sign such agreements. He added that the respective document had been under negotiation since 1984 and had been discussed by various joint government missions.

President Menezes has not held himself above the dispute but has accused the prime minister of dishonesty. The president claimed that during a meeting of the National Petroleum Council (CNP) – following her return from Lisbon – the prime minister had in fact confessed that she did know of the draft agreement with Energem. He added that Minister Vera Cruz had worked with CNP members Afonso Varela, a lawyer, and Rafael Branco, the prime minister's special oil advisor. In response to Das Neves' declarations that the agreement with Energem was prejudicial to the State, he recalled that the most serious crime committed in STP in the area of oil agreements had been the signing of the treaty with Environmental Remediation Holding Corporation (ERHC) by a MLSTP/PSD government in 1997.[3]

The 2004 government reshuffle

In an attempt to replace the MDFM in the coalition, the MLSTP/PSD invited the Democratic Convergence Party (PCD) with its 11 parliamentarians to join the government. The PCD declined the invitation, however, maintaining that it did not trust the leadership of the actual executive and preferred to remain in opposition. The prime minister and her party played down the crisis, saying it was a normal government reshuffle similar to any other elsewhere in the world. On 8 March, the MLSTP/PSD declared its willingness for the MDFM to continue its participation in the coalition, though without the two ministers Vera Cruz and Mateus Rita as had been demanded by the MDFM. The MLSTP/PSD formed a three-member contact group called the troika, composed of Rafael Branco, Homéro Salvaterra, and Carlos Tiny, to help solve the crisis.

The following day, the prime minister made a proposal to President Menezes for a government reshuffle. The President refused to accept the new nominees, inviting a delegation from the Economic Community of Central African States (ECCAS), to mediate in the dispute. Comprising the foreign ministers of Congo Brazzaville (Rodolph Adada) and Gabon (Jean Ping), the ECCAS delegation met separately with all parties represented in parliament. While the MLSTP/PSD was at pains to depict the delegation's visit as an exercise in information gathering, the MDFM denied any mediation was necessary in what was essentially a minor crisis. In any event, Adada and Ping essentially concurred that this was trivial compared to the coup of July 2003.

Finally, on 14 March, President Menezes accepted the new candidates proposed by the prime minister. Vilfrido Santana Gil of the four-party alliance Uê Kedadji became the new health minister, while Arlindo de Ceita Carvalho (ADI) was appointed minister of natural resources. The former secretary of state for state reform and public administration Elsa Pinto (MLSTP/PSD) was promoted to minister of justice, while Cosme Dias occupied her former post. The defence minister Óscar Sousa took over the foreign affairs portfolio until 28 March when the ambassador to Taiwan, Ovídio Pequeno (independent) assumed this post.

Together with the eight members of parliament of the ADI and the Uê Kedadji, the government has now 32 deputies in the 55-member National Assembly. The ADI's acting secretary-general, José Fret Lau Chong, guaranteed that his party would support the government. Neverthless, in late March, Patrice Trovoada of the ADI and the president's oil advisor, tried to call an executive committee meeting to urge the ADI ministers to leave the government. There were allegations that he had been pressured by President Menezes to do so. The minister of trade, Júlio Silva (ADI), however, successfully frustrated this ploy.

Rising expectations: Príncipe's public outcry

Months earlier the government had provoked a public outcry on the island of Príncipe. On 28 October, one day after the official opening of the bids for the oil blocks in São Tomé city, the regional government of Príncipe sent a letter to Prime Minister das Neves complaining that no official representative from the sister island had been invited. The minister of natural resources, Tomé Vera Cruz tried to explain this away as an error of protocol. The representative of the Abuja-based Joint Development Authority (JDA) in São Tomé, Olegário Tiny, used the excuse of a lack of logistics and personnel. He regretted that the more than 500 invitations to local people were distributed door-to-door only from 24 October, too late for those in distant Príncipe.

In mid-November, a letter signed by 74 Príncipe inhabitants rejected the government's explanations as untrustworthy and denounced the recent reinforcement of the military contingent on Príncipe as unfortunate and detrimental to the spirit of national unity. The signatories added that they would not tolerate another act of repression against the local population similar to that during the hunger revolt of 26 and 27 December 1981. In December 2003, on the 22nd anniversary of the hunger revolt of 1981, a committee of the inhabitants of Príncipe demanded compensation for the incurred damages. The letter said that those people who at the time had suppressed the revolt had been promoted, while those who had been maltreated and arbitrarily imprisoned for months had been left to their fate. One of the three signatories of the committee's letter was Vilfrido Gil, who in March 2004 was appointed minister of health.

Implementation of the Memorandum of Understanding of 23 July 2003

Only in September 2003 did the National Assembly appoint its three representatives to the 13-member Monitoring Commission headed by the special representative of the ECCAS, Congo Brazzaville's foreign minister Rudolfo Adada, to monitor the application of the Memorandum of Understanding (MoU) of 23 July 2003.[4] On 29 November, the Commission held its first meeting to evaluate compliance with the MoU concerning:

- the creation of a National Forum for Reconciliation;
- the approval of a law for the management of oil resources by the National Assembly;
- the application of the amnesty law granted to the coup plotters;
- the solution of the problems and demands of the armed forces;
- the integration of the ex-members of the "Buffalo" Battalion; and, finally,
- the restructuring of the armed forces.

However, the assessment focused solely on evaluation methods, and it was only on 14 February 2004, that the Commission met again. This time the Commission noted considerable progress in the improvement of conditions in the armed forces following the receipt of supplies from South Africa, Nigeria and Portugal. Less progress had been made with regard to the reintegration of ex-members of the "Buffalo" Battalion, which depended largely on South Africa. The Commission stressed the need for the collection and destruction of arms outside army control, a project supported by the United Nations and the USA. In addition, the members of the commission considered the organisation of the National Forum for Reconciliation of great importance. Meanwhile, the follow-up meeting, announced for March 2004, has yet to be held.

Although the MoU of 23 July 2003 stipulates that a National Forum of Reconciliation be convened within three months, this project has been subject to considerable delays. Only in late December did the National Organising Commission, entrusted with organising the forum, announce the constitution of a nine-member executive secretariat to prepare the event. At the same time, the Commission created five sub-commissions: for political and institutional affairs; defence and security; economic and financial affairs; social affairs and environment and logistics. On 12 January 2004, Carlos Tiny (MLSTP/PSD), a former WHO-representative in Maputo, was elected coordinator of the forum. It also was agreed that the decisions of the forum would not have a binding character. Thereafter the organisation of the conference failed to go ahead, because the local authorities could not decide on the size of the event. In late March President Menezes called the speaker of parliament, the prime minister, the president of the Supreme Court, and coup plotters grouped under the FDC, to demand the dismissal of Tiny, who had participated in his party's troika to solve the government crisis earlier that month. Menezes claimed that because of Tiny's involvement in those events, the latter could no longer guarantee the transparency and impartiality necessary for the task. He proposed, instead, a pastor of the Seventh Day Adventist Church, José Manuel Dias Marques, to replace Tiny.

In response, the spokesman of the Forum's Commission rejected Menezes' demands and declared it was not the president's competence to dismiss Tiny. He maintained that only the Commission of the Forum was entitled to dismiss the elected members of its Executive Committee. Nonetheless, Tiny declared himself ready to step down so as not to jeopardise matters, saying that at no time had it been required that participants in the forum abstain from political activity. He stressed that despite being the president of all Santomeans, Menezes had publicly assumed the *de facto* leadership of the MDFM party, rhetorically asking why the president denied others the same right of partisan activity. He further revealed that Menezes also had dismissed Rafael Branco as head of the organising committee for the summit of the heads of the Community of Portuguese-speaking Countries (CPLP), scheduled for July in São Tomé, and from the National Oil Council.

On 6 April, Menezes stressed that according to the MoU the president was in charge of the forum. He rejected accusations of having taken an arbitrary decision, since there was no constitutional provision saying that a commission created by the government had greater competence than the head of state. Menezes guaranteed that the forum would in fact take place at the end of June. It has been reported that the USA has pledged $300,000 to help finance it.

Another event related to the July 2003 coup occurred on 22 December, when soldiers with armoured cars surrounded a house of former "Buffalo" soldiers to compel them to surrender their remaining arms. Arlécio Costa, leader of the Democratic Christian Front (FDC) and a former "Buffalo" soldier, condemned the action as being contrary to the policy of national reconciliation. He agreed to the handing over of weapons, however, after receiving security guarantees. Finally, the arms were handed over a few days later after Costa and army commander, Lieutenant Colonel Idalécio Pachire, had signed an agreement guaranteeing the protection of the former "Buffalo" soldiers.

In early January the first permanent commission of the National Assembly questioned Defence Minister Óscar Sousa about the military action against the ex-"Buffalo" soldiers. The Commission also asked the minister about the legal status of arms imported from Libya that allegedly were stored in the President's private residence, Quinta de Favorita, and the despatch of 100 young recruits for military training to Angola in November. The defence minister justified the sending of the recruits by saying that better training facilities were available in Angola. The Commission concluded that the state had the right to purchase and store weapons without prior knowledge of parliament.

Political opposition in STP

The country's political parties have also been affected by widespread organisational shortcomings and institutional weakness. Despite several announcements, the ADI, without an elected leader since late 2001, has so far failed to arrange a party congress. In early 2002, the MLSTP/PSD had announced that it would hold a party congress immediately after the general elections in March of that year. This congress has yet to be convened. In November 2003, the MDFM held district assemblies and elected district secretaries, but its congress for the 1,200 delegates announced for mid-January, has yet to be organised.

In mid-April 2004, the MLSTP/PSD appealed to President Menezes, who the previous month had publicly admitted he was the virtual leader of the MDFM,[5] to abandon the party leadership, since this function was constitutionally incompatible with his position as head of state. Menezes replied that he would not accept lessons in democracy from the MLSTP/PSD, which had ruled the country during the one-party period. He explained that as long as he was head of state we would not formally assume the party leadership. Of all the political parties, only the PCD, succeeded in holding its congress announced six months previously. At the meeting, on 10 April, the economist Leonel Mario d'Alva, prime minister of the transitional government of 1974–75 and speaker of parliament from 1991 to 1994, was elected as the new party leader. The position had been vacant since October 2002 when his predecessor Arzemiro dos Prazeres stepped down following internal disputes.

Even worse has been the situation concerning local elections, which have not been held since December 1992 as a result of financial constraints and a lack of political will. The same applies to the regional elections in the island of Príncipe which have been held once only, in 1995. In early 2004, the secretary of state for state reform, Elsa Pinto, declared that local elections in São Tomé and regional elections in Príncipe might finally be held during 2004 provided that the revision of the respective legislation could be concluded in time.

More successful has been the performance of the country's Audit Office (*Tribunal de Contas*), which was set up in June 2003. Last January this institution submitted its first report on various government accounts to the National Assembly and the Public Ministry. The 36-page report denounced irregularities in the management of public funds administered by the Budget Office and the Public Treasury during the year 2003. Among the anomalies detected were the contracting of public works worth more than Db250 million (ca. $25,000) without the necessary public tender; arbitrary payments of housing subsidies for ministers; and, inflated mobile phone expenses by government ministers. One of the construction firms that allegedly had benefited from the illegal direct allocation of orders is owned by Alcino Barros Pinto, the leader of the parliamentary group of the MLSTP/PSD.

The auditors discovered that the Public Treasury maintained an account in a private local bank, although the State is not allowed to open accounts in private institutions. The report blames the presidency of having channeled $50,000 from a petroleum fund of $5 million originating from an advanced payment by Nigeria to Menezes' s private company CGI to finance repair works at the president's residence on Sundy estate on Príncipe, although there had not been any public tender. The report considers the management of state property as deficient. Furthermore, the Audit Office criticises the absence of an inventory of the state's property or of adequate archiving of documentation. The head of the Audit Office, Francisco Fortunato Pires, said that the massive waste of public monies over the period of 27 years prior to the creation of an audit office, had completely bankrupted the State. The sectors accused of having committed irregularities have rejected the allegations as unfounded and maintained that the report had undermined the credibility of the Audit Office.

Developments within the defence and security sectors

Growing foreign interest in military co-operation

The attempted coup of July 2003, STP's expected future oil wealth and the country's strategic position in the oil-rich Gulf of Guinea have attracted considerable foreign interest in military co-operation with the small island republic. Washington, in particular, has shown increased commitment and STP has welcomed US engagement since it serves to keep local regional powers at a distance. In September, Air Force General Charles Wald, deputy commander of the US Forces European Command (which also includes Sub-Saharan Africa in its area of responsibility) advocated the construction of a non-permanent military base in São Tomé to guarantee stability in the Gulf of Guinea. He compared the strategic importance of the island with that of Diego Garcia in the Indian Ocean, considering the archipelago's geographic position potentially attractive for the construction of a Forward Operating Location, the official designation for non-permanent bases with basic infrastructure for emergencies. In November 2003, Washington announced the visit of the US navy ship "Swift" with 50 seaman and 100 marines on board to STP, the first US naval visit to the archipelago.

In the same month, the major of the artillery and commander of the Military Training Centre, Idalécio Pachire, was appointed chief of general staff of the armed forces. Shortly before his instalment he was promoted to lieutenant-colonel, the country's highest military rank. The 46-year old Pachire was trained in military academies in Cuba, the ex-Soviet Union and Portugal and began his military career in 1977. His predecessor, Lieutenant-Colonel António Paiva, appointed in May 2003, had resigned after the July 2003 coup.

In early February 2004, before leaving for a workshop on Democratic Governance, Defence and Security organized by the Center for Strategic and International Studies (CSIS) in Washington, Pachire announced an American military action plan for STP, including the rehabilitation of the sick-bay of the General Staff in March, the destruction of outdated sea-mines and other obsolete ammunition as well as the collection and destruction of small arms owned by civilians, and joint navy manoeuvres in the country's EEZ with the launching of missiles by the US Navy in May. In March 2004, US army specialists in STP held a training workshop for military and security personnel to prepare them for new defence challenges. Washington expects STP to achieve the technical means and human resources capable of executing an effective defence and security policy to tackle new defence demands over the next five years.

At the end of March, US defence specialists headed by Reserve General Raoul Henri Alcalá paid a visit to STP. In addition to the US military advisor for the local armed forces (already in the country) Alcalá announced the arrival of a lieutenant-colonel to represent the US European Command permanently in the archipelago. He declared that although his country was interested in defending the country's independence and the stability of the Gulf of Guinea region, he denied knowing of any project or plan to establish a naval base in the island.

In addition to the ongoing training course, the USA promised to equip the local coast guard to enable the country to defend its EEZ. The Americans have also paid attention to the development of STP's infrastructure. On 13 February, the US Trade and Development Agency (USTDA) announced two grants (of $450,000 and $350,000 respectively) to finance feasibility studies for the creation of a deep-sea port and the extension and modernisation of STP's international airport. The agency announced that US companies would be awarded the contract for the project after competitive bidding. In fact, the lack of a deep-sea port has long hindered the country's development, since ocean-going ships must anchor about a mile offshore, while smaller vessels are limited to a single pier at the local shallow port. The two grants represent the first investments of USTDA in STP.

Various other countries have provided or pledged military aid on a smaller scale. Shortly after the coup, STP received non-lethal equipment and office material from South Africa as part of the MoU of 23 July. At the same time a first group of the 250-man strong Presidential Guard received military training in Nigeria. On 2 November, during his short visit to STP, Brazilian President Lula da Silva signed seven cooperation agreements in various areas including the oil sector and military assistance. In February, Nigeria's resident ambassador Saidu Pindar handed over a shipment of military equipment, vehicles, office material, and medical drugs for the armed forces as a contribution to the fulfilment of the MoU. Already in November France's new ambassador to STP, resident in Libreville, Jean-Marc Simon, declared his country's intention to participate in the restructuring of the armed forces and train military and security personnel in order to reinforce STP's defence and security system.

At their 10th Summit in Brazzaville in late January, the heads of state of ECCAS also promised to support the restructuring of the armed forces and national security in STP – announcing that Angola would be in charge of this commitment. In addition, during a visit to the archipelago in early February, the Portuguese secretary of state for foreign affairs and cooperation, Manuela Franco, attended the signing of a new 2-year programme of bilateral technical-military cooperation destined for the restructuring and modernisation of STP's armed forces. The programme includes assistance to the organisation of the defence forces; crisis management capacity building; supply of military transport vehicles; training of the coastguard and of joint units for humanitarian aid operations; assistance to the military engineering and construction unit; and, finally, support for the anti-malaria campaign. In the same month, after several years of inactivity, the local army organized a manoeuvre code-named *Conóbia 2004* on São Tomé's northwest coast to combat arms and drugs traffickers.

Efforts at strengthening the security apparatus

Following the July coup, STP's police has been included in attempts to strengthen the security apparatus. In October 2003, the former president of the Chamber of Commerce, Armando Correia, was appointed commander of the National Police. In order to improve the image of the police, Correia, who once had been a member of the criminal police announced the creation of special police units, including an anti-terrorism unit and one against organised violent actions such as coups. To subsidise the low salaries of the police, Correia promised the establishment of a special shop with low-priced goods for the police. Furthermore, he announced a doubling of the number of policeman by the end of 2004. Angola and Portugal have been the principal donors for the police. In this regard, Correia has sent dozens of policemen to Angola to be trained in rapid intervention techniques and during February 2004 Portuguese instructors arrived to train the local police. Correia said he intended to use Portuguese experience to create personal security units to protect politicians, as the coup had shown the fragility of local security forces.

STP's oil sector

Introduction

Unsurprisingly, the most important economic developments in STP have occurred in the emerging oil sector. On 16 October 2003, at the request of President Menezes, Nigeria agreed to a daily allocation of 30,000 barrels of crude oil to STP for sale on the international market. Nigeria has similar allocation deals with other countries in the region (mostly for political reasons) and the recipients of such allocations make between 6–10 cents per barrel profit. In this case, STP signed a contract on the sale of this crude with the Japanese owned oil-trading company Arcadia. STP buys the crude at the market price and bears all costs involved, including transport from the oil platforms to the refineries. And, while the profit per barrel is only a few cents, STP hopes to earn $1.4 million a year through the deal.

On 23 September 2003, President Menezes appointed the economist Patrice Trovoada, the son of former president Miguel Trovoada (1991–2001), as special advisor on oil to the president.[6] At an international conference on business and investment opportunities in the JDZ in early November 2003, attended by 200 participants (mostly Nigerian), Patrice Trovoada claimed that over the following years investments in the JDZ would reach $5 billion, of which STP's local economy could obtain at least 1%. A few days after the conference the government appointed Arzemiro dos Prazeres, the former minister of trade, industry, and tourism, as executive director of the free trade authority in STP. Prazeres declared that, following the Nigerian example, STP intends to create free trade zones for services to the oil industry. He mentioned Agulhas Bay on Príncipe and Porto Alegre, the airport and the future deep-water port in São Tomé, as possible locations for free trade zones that would also include offshore banking.

However, perhaps the most memorable day in the country's recent history was 27 October 2003 when twenty oil companies submitted 33 bids for eight of the nine deep-sea oil blocks in the Nigeria – STP JDZ, which had been put on tender on 22 April 2003 (see map and table below). The ceremony in São Tomé presided over by President Menezes was broadcast directly by the local National Radio. In his opening speech Menezes warned of the risks of oil wealth becoming a curse and promised that his country would be transparent and accountable.

ChevronTexaco offered a signature bonus of $123 million for a license for Block 1, while the Nigerian Conoil made a bid of $120 million for the same block. The Nigerian Foby International submitted a bid of $113 million for Block 2 and the Nigerian ECL International made a bid of $100 million for Block 4. In addition, the Nigerian ERHC/Chrome (which under a controversial agreement has rights to stakes of 15 to 30 per cent in six blocks) offered $60 million each for Blocks 1 and 2. France's Maurel & Prom offered $55 million for Block 6, while Block 8 failed to attract offers. The minimum acceptable signature bonus had been fixed at $30 million per block.

Based on the highest bids, a total of $500 million were offered for the nine blocks covering about one third of the JDZ, an area of 28,000 square km. Estimates of oil reserves in the nine blocks range from 6 to 11 billion barrels of crude oil, while the total JDZ is estimated to contain between 8 and 24 billion barrels. Less majors than expected partipated in the licensing round and the only bidding oil companies with a proven track record of exploration and production were ChevronTexaco, the US Andarko and the Norwegian Statoil. Within the Nigerian group of companies that submitted 23 of the 30 bids, many are suspected of merely being speculative real estate companies (which will try to sell on the blocks they bid for at a better price to a genuine oil company).

Results of opening bids for nine blocks of the Nigeria-STP JDZ, 27 OCTOBER 2003 (All amounts in millions of US$)

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 (Australia)	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								

ERHC/Chrome and ExxonMobil

In addition to ERHC/Chrome the US major ExxonMobil had pre-emption rights of 40 and 25 per cent in three blocks. The preferential rights stem from investments such as seismic studies done in STP's EEZ prior to establishment of the JDZ in 2001. Because of the preferential rights of these two companies, the other companies are compelled to cooperate with them in exploring and producing in these blocks. After the announcement of the winners is made, the JDA has to negotiate production-sharing agreements with the oil companies. The signature bonuses will be paid only after the signing of these agreements. In accordance with the JDZ agreement signed in February 2001, Nigeria will receive 60% of the revenues, and STP 40%.

The guidelines for investors issued by the JDA included technical criteria such as technical capability, a committed work programme, geological interpretation, development proposals, environmental policies, and the commitment to the training of local labour. Reportedly, some Nigerian companies with close ties with the government in Abuja exerted pressures on the JDA to be included.[7] The British company Clearwater was entrusted with checking the competing companies for their financial and technical capacities. In mid-November 2003, the Joint Ministerial Council (JMC) of both countries declared that as a result of the pre-emption rights the whole process could not be concluded before March.

Following a JMC meeting in Abuja on 30 December, STP and Nigeria asked ExxonMobil and ERHC/Chrome to exercise their preferential rights within 45 days. ExxonMobil was given 30 days to take up its option on three blocks of their choice, up to 40% on one and a maximum of 25% each in two others. Thereafter ERHC/Chrome would have 15 days to exercise preferential rights in six blocks: 15% in two, 20% in another two, 25% in one, and 30% in one. ERHC does not pay signature bonusses in four of the six blocks. Potential investors had criticised the deal because it forces them to have a partner with a limited track record in the oil industry. The two companies cannot have more than a 40% interest in one single block. The companies would be required to match the highest bid for such blocks. At the same JMC meeting, Nigeria and STP also signed a Memorandum of Understanding on the exploration of non-hydrocabon mineral resources in the JDZ. President Obasanjo approved a loan of $8million to the JDA to carry out their functions. In 2003 the JDA had an income of $2million through its own operations.

In early February 2004, the JDZ officially opened its office in São Tomé. The head of the office is the lawyer Olegário Tiny, a former member of National Oil Commission. Tiny announced that his office would play an important role in the promotion of oil related investments in his country, particularly with regard to logistical support to oil platforms. On 13 February 2004, the JDA chairman, Taju Omar, announced that ExxonMobil would take a 40% stake in Block 1 at a cost of about $49 million. Thereafter the process was again delayed as ExxonMobil did not take the up to 25% stake to which it had an option in two other blocks. Despite personal appeals by President Menezes, in late March the company definitively declined to exercise the two options. Reportedly, ExxonMobile had been interested in the Blocks 2 and 4, but considered the signature bonuses too expensive. According to other reports, ExxonMobil was unhappy with having to cooperate with ERHC/Chrome. Consequently, on 29 March 2003, the JDA notified ERHC to exercise the six preferential rights. Two weeks later the Nigerian company took four signature bonus-free stakes of 15, 20, 25 and 30 percent respectively in Blocks 6, 3, 4, and 2 and another two stakes of 15 and 20 percent in Blocks 5 and 9 for which signature bonuses are payable.

The signature bonus-free options will cost STP lost income of almost $75 million (150% of the country's GDP).

DiamondWorks and Energem Petroleum Corporation

On 20 January 2004, the Vancouver-based mining and mineral exploration company DiamondWorks Ltd, which has operations in twelve African countries, announced that it had signed a Memorandum of Understanding (MoU) with STP for the establishment of a joint venture for trading in crude oil allocated to the country by other African oil producers, and refined oil products. On 18 February, the company announced the signature of an expanded MoU by its Guernsey-based subsidiary Energem Petroleum Corporation Ltd., including the commercialisation of hydrocabon 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. In terms of the agreement, Energem will receive 70% of the profits derived from trading in crude from other African producers, while 30% will accrue to the STP government. The company stressed that the agreement would not impinge on the Arcadia deal concerning the 30,000 barrels/day from Nigeria.

DiamondWorks' CEO Tony Teixeira maintained in an interview with Reuters that the MoU signed by the oil minister had been approved by the prime minister and the president.[8] In São Tomé, however, the agreement provoked a political crisis, since according to the prime minister the oil minister had signed the agreement without her authorisation, as was previously discussed. Consequently, on 4 March 2004 the Council of Ministers decided to declare the MoU null and void and in response, on 10 March, Energem's Tony Teixeira sent a three-page letter to President Menezes expressing his concern about events, claiming that there was no reason for any criticism of the MoU that had been negotiated over a period of seven months. He considered that when the document was signed by both sides, there had been no doubts about the advantages for STP, including annual revenue of at least $3.5 million; job creation and professional training for Santomeans; transfer of know-how and a credit line for development projects to a total of $100 million. Despite the government's decision, Energem maintained that its MoU was properly negotiated and was still operational.[9] Inconceivably, by mid-April the government still had not sent any written notification to the oil company.[10]

Other actors

During a three day visit to Malaysia in early January 2004, President Menezes invited the Malaysian state oil company Petronas, which also operates in Equatorial Guinea, to participate in the exploration of STP's EEZ. Petrobas chairman Tan Sri Azizan declared that Petronas would study the requirements of STP authorities. While Prime Minister Das Neves was in Lisbon in February she received a delegation from the Portuguese oil company Galp Energia who manifested their interest to establish a partnership with STP and Das Neves invited the Portuguese company to submit a concrete proposal.

Oil legislation

Important developments also occurred in the area of oil legislation. In mid-October 2003 the National Assembly asked a three-member parliamentary commission headed by the Assembly's vice-president Carlos Neves (MDFM/PCD) to present a draft law for the application and management of oil revenue within 60 days. In mid-November Neves announced that parliament would approve the law before March 2004 (the presumed date of the arrival of the signature bonuses). In the same month, a five-member team from the Earth Institute of Colombia University in New York headed by the economist Jeffrey Sachs stayed in São Tomé and announced it would help parliament elaborate the oil revenue law. In addition, the government also asked the World Bank for assistance in the development of such a law. In turn, the World Bank entrusted a five-member expert team headed by former Alaska governor Steve Cowper with this project.

On 2–3 December 2003 the ministry of natural resources and environment, in co-operation with the parliamentary commission for the elaboration of oil law, the United Nations Development Programme (UNDP) and the World Bank organised a two-day conference on 'Basic Notions about the Oil Industry and Experiences of Resource Management'. The topics included the mechanisms of product-sharing and possible scenarios for STP; the impact of oil on economies of developing countries; the necessity of a legal institutional framework; and, finally, the options for a sound management of oil revenues. In his opening speech President Menezes again promised to do his utmost to see there is transparency in the management of future oil revenues. At the conference, the consultant Thomas E O'Connor explained that following the payment of the signature bonuses estimated at $100 million in 2004, the country would not receive significant oil revenues before 2017. O'Connor expected the oil companies to drill the first exploration holes in 2005, while in the period of 2008–2011 the oil platforms would be installed in the JDZ. Therefore, oil production could only start in 2012. During the first five years of production the oil companies would recoup their investments, corresponding to 80 per cent of the oil production. During this period STP would receive only some tax revenue and its 40 per cent share of the remaining 20 per cent of the production.
On 29–30 March, the ministry of natural resources, the National Assembly, UNDP and the World Bank organised a follow-up workshop on the management of oil revenue in São Tomé. The objective of the conference was to involve civil society in the discussion of the best way to manage future oil receipts. At the workshop the team from Columbia University explained their proposal for an Oil Revenue Management Law presented two weeks earlier. The World Bank team headed by Steve Cowper had prepared some recommendations concerning oil revenue legislation, but presented its own proposal for a regulation law of oil revenue management in mid-April.

At the same time as the workshop in São Tomé took place, President Menezes took part in a conference on 'Promoting Accountability and Transparency in Africa's Oil Sector: Reform Efforts in Nigeria, Angola, and São Tomé and Principe' at the Center for Strategic and International Studies (CSIS) in Washington. Despite his involvement in the controversial deal with Energem, Menezes promised to make public any oil deals made with his country and payments made by foreign oil companies. Other participants at this conference were Angola's minister of finance, José Pedro de Morais, Nigeria's finance minister, Ngozi Okonjo-Iweala, and General Charles Wald, deputy commander of the US Forces European Command.

The 2004 budget

In mid-November 2003 the government submitted an Annual Budget for 2004 worth about $65 million, of which capital investment accounted for $42 million. The budget was $10 million higher than the previous year's, and includes $13 million stemming from the expected payment of signature bonuses by oil companies. Foreign donors finance about 80% of the budget. Education and health represent 18% and 17% of the budget respectively, while defence and security have also been given priority. Total government salary expenditures are expected to increase by 34%. Government revenue is scheduled to increase by 30%, economic growth by 5% and the inflation rate by 9%.

In addition, the government declared macro-economic stability and poverty reduction as priorities, since it intends to qualify for debt forgiveness by the IMF. In mid-February the National Assembly approved the budget with 31 votes. In November 2003, an IMF mission warned the government against indiscipline in the expenditure of oil revenue, saying this would jeopardise forgiveness of 90 per cent of the country's $300 million debt. The IMF announced the preparation of new 3-year programme that would be qualified by the approval of the oil management law by the National Assembly, because in the absence of this law the government's future fiscal policy would be vague. On 17 March the administrative board meeting of the IMF recognised that the government had made considerable efforts in macro-economic management during the period 2002–2003.

The economy: an update

In late December 2003, the minister of trade, industry, and tourism, Júlio Silva, announced that from January 2004 foreigners would no longer be allowed to engage in retail trade in STP. The measure was aimed at protecting local informal traders against competition from neighbouring countries and to avoid an increase in local unemployment. The minister recommended foreigners to engage in local food crop production and export the crops to their countries of origin. He added that the government would permit foreigners to engage only in wholesale trade.

In a somewhat paradoxical move, in late March 2004 Minister Silva announced the government's determination to integrate STP economically in the Central African sub-region. At the time the Central African Monetary Union (CEMAC), which has overlapping membership with ECCAS, organised a workshop on the free Central African market for local businessmen in São Tomé.[11] Silva explained that the gradual opening of the market and the free movement of people and goods would be concluded by 2008. Countries with less integration capacity, such as STP were considered to benefit from financial assistance stemming from customs revenue imposed on imports from non-member states. The minister said that the government recognised the risk of the opening of the local market for local entrepreneurs, but emphasised that STP had no alternative since the costs would be higher if the country failed to integrate. So far, except with Gabon, STP has almost no air and maritime links with its Central African neighbours, which represent a market of some 200 million consumers.

The anticipated oil rush in STP has attracted several investments in the financial sector. Although since 2001 dominated by a single commercial bank, in the last three months the sector has grown to four commercial banks. On 20 December 2003, President Menezes inaugurated a local branch office of the Cameroonian Afriland First Bank with a capital stock of $2 million. On 13 March President Menezes opened the Banco Equador, which replaces the Banco Comercial do Equador (BCE) declared bankrupt in 2002. The majority shareholders of the new bank (with a capital of $3 million) are the Angolan groups Monbaka and António ‘Mosquito’ Mbakassi, each with a 40% stake. The Angolan investors declared their intention of increasing the capital stock in the short-term to $5 million.

A week later the head of state inaugurated the National Investment Bank owned by the private Portuguese airline Air Luxor (90%) and its subsidiaries in STP and Cape Verde (5% each). In turn, Air Luxor is the property of the Lisbon-based Indo-Portuguese family Mirpuri. The bank has a capital of $2.5 million and intends to increase this amount to $50 million within the next five years. Menezes denied rumours that he had a stake in the new bank. Already in late January the Commercial Bank of Cameroon (BCC) had announced its intention of opening a subsidiary in STP as soon as possible.

The tourism sector, one of the country’s potential growth sectors witnessed a few developments. In January 2004, Air Luxor, which since late 2002 has operated two weekly flights from Lisbon to São Tomé, announced its interest in investing in the country’s hotel sector. In its first year of operations, the private Portuguese airline transported more passengers on the route than the total number of passengers previously transported by TAP Air Portugal. Air Luxor intends to extend the air connection from São Tomé to Luanda in 2004, depending on receiving government authorisation. In the same month the Madeira-based Pestana, the largest Portuguese hotel group, announced the construction of a five-star 100-room hotel and a casino worth $20 million in São Tomé city, an investment primarily destined for the business sector. In addition, Pestana announced it was investigating the construction of other hotel units in the country.

In March 2004 the government decided to sell by public tender the old luxurious residences on the old plantation estates, to promote rural tourism. The decision is also an attempt to save from total ruin the generally dilapidated colonial architecture on the plantations. The investors will be obliged to maintain the original colonial architecture of the plantation buildings unchanged. One of the historic buildings will remain state property for the Spanish cooperation to establish a turism school, an investment of €3 million.

In early April the government announced a round-table conference on tourism development for 4–7 May. During the event a strategy for the development of STP’s tourism will be presented to local and foreign operators. Despite the growing number of travel agencies and hotel rooms in the country, the overall growth of the tourism sector is behind target. To address this problem, the Tourism and Hotel Office has identified priorities for tourism development, including the improvement and diversification of the market, the improvement of infrastructure, capacity building for local tourism agents, training of human resources, and the strengthening of the promotion and marketing of the country’s tourism.

In late February 2004, the National Assembly approved the laws on gambling and casinos in the country and on the liberalisation of the telecommunications market. Since 1989 the local telecom market has been a monopoly of the Companhia Santomense de Telecomunicações (CST), a joint venture of Portugal Telecom (51%) and the government (49%). Under the liberalisation law demanded by the IMF, the CST maintains the exclusive right to operate the public international telecommunications service and mobile phone service until December 2005, to allow the company to recoup investments in modernisation made since 1989. In early April, the CST introduced the automatic roaming service for cell phone connections with the Portuguese TDM, a subsidiary of Portugal Telecom. Later the service will be extended to other Portuguese operators, the CST announced. The company's commercial director expected the number of subscribers of the mobile phone network to equal those of the fixed phone network within the next twelve months.

Protest and social unrest

Social protest and labour unrest has affected various sectors of STP's small society. In mid-January 2004, 300 men who live on the sale of illegally extracted sand from the country's beaches threatened to hold a protest in front of the government's office against measures that prohibit the extraction of sand from all beaches near the capital except two, Praia Juventude and Praia Abade. The government had sent army patrols to all beaches to stop the destruction of the environment. For the first time, the government had seriously applied the nature conservation legislation approved in 1996. In a meeting with the protesters the government explained its motives for the measures. Consequently, the sand dealers promised to cooperate with the government to protect the beaches.

However, two weeks later the agreement with the sand dealers provoked the protest of the 2,000 inhabitants in the fishermen's village of Micoló in the north of the island, who did not accept the further extraction of sand from the nearby Praia Juventude. The illegal exploration of sand for construction and the consequent coastal erosion is, in fact, threatening the very existence of the village. The villagers, whose only livelihood is fishing, complained that since the 1980s the sea had come 30 metres closer to the village. They accused the government of cowardice in that it feared the loss of votes from the sand dealers, reminding the authorities that they represented more votes than the sand dealers. In an attempt to solve the sand problem, in early April 2004 the ministry of national resources invited companies to present viable proposals for the extraction of submarine sands, sand imports from neighbouring countries and the grinding of local basalt rocks.

Dissatisfaction with the government also affected the rural areas and the education sector. In early January the president of the local Federation of Small Farmers Associations, Teodórico Campos, declared that some associations would return the eleven tractors that they had received from the government last September because they were unsuitable for rural roads. The farmers complained that the fuel costs of the tractors were higher than transport by private vehicles. The minister of agriculture, Jorge Amado, replied that the expected repairs to rural roads would help to improve the performance of the tractors. In addition the farmers doubted they would be able to repay the credit of €20,000 for each tractor within the prescribed period.

2004 has also been marked by student protest. In January, the broadcasting of a list of 160 students selected for study courses in Brazil resulted in extensive protest. Candidates that were excluded accused the authorities of irregularities, complaining that criteria fixed by the Brazilian government such as the required average points and a maximum age of 25 years had not been applied, while students from poor backgrounds with a higher average had been excluded. At the end the same month, the students of the teacher training college Instituto Superior Politécnico (IPS) went on strike, demanding the payment of a scholarship of Db600,000 ($60) and the replacement of the actual BA degree with an MA degree. When the Santomean government delayed the payment of the scholarships for the first quarter of this year to the country's 200 students in Cuba, the Cuban ministry of higher education threatened the government with the withdrawal of the students' scholarships if the money had not arrived by 10 April.

Meanwhile, the health sector has not been unaffected by social demands. On 30 January 2004, in a letter to Health Minister Claudina Cruz, the 26 doctors of the country's only hospital demanded higher payment for emergency services, and better working conditions. They demanded an increase in emergency service payments from Db150,000 ($15) per shift to Db50,000 ($5) per hour on working days and to Db100,000 ($10) on holidays and weekends. They threatened to refuse duty services after 29 February unless their demands were met. Hospital doctors complained that in comparison with similar professional groups they were disadvantaged, since they lived on less than $4 per day, including what they received for emergency services. On 1 March the doctors began their boycott of emergency services after the government refused their reduced demand for Db40,000 ($4) per hour.

Conclusions

When President Menezes refused to accept Prime Minister Maria das Neves' resignation following the July 2003 coup, insisting on her re-appointment, many observers expected a period of political stability because the relationship between the two seemed to be a good one. Yet, the recent government crisis in STP has, once again, revealed that political instability is a persitent feature in the country. The struggle for power between the president and the government, the fact that the current coalition government has a fragile parliamentary basis, and the government's internal disagreements and factional fighting constitute fertile ground for future political crisis and can easily lead to its collapse. Nevertheless, while political instability is likely to continue for the foreseeable future, another military coup has become highly unlikely. More likely, however, is the emergence of social unrest in various sectors of STP's society due to a widening gap between a small rich elite and the impoverished majority of the population.

STP has welcomed the increased commitment by the US for military co-operation and has encouraged US military presence in the Gulf of Guinea – it considers it useful to keep powerful regional neighbours at a distance. In this regard, and since the establishment of the JDZ, not only has Nigeria become the most important regional partner but President Menezes is indebted to this country since President Obasanjo played a key role in restoring the constitutional order after the July 2003 coup. Furthermore, the Nigerian business tycoon Sir Emeka Offor helped twice to finance Menezes's election campaigns. On the other side, to counterbalance Nigerian influence, the ruling MLSTP/PSD has reinforced its traditional ties with the Angolan government. Therefore, expectations that the increasing Nigerian presence in STP would completely replace the longstanding co-operation with Angola have proved to be unfounded. Recently the economic, military and cultural co-operation with Luanda has been strengthened. Last week Angola started to construct a new embassy in São Tomé. On 23 April Prime Minister das Neves was in Luanda to ask the Angolan government for a credit of $5 million to finance the CPLP head of states summit at the end of July in São Tomé.

Within a few months STP expects the payment of signature bonuses of more than $100 million. After this windfall it will take several years before oil production will start and oil revenue will flow. Both the government and President Menezes have repeatedly declared that STP would avoid errors committed by other oil producing countries and would invest future oil revenue in the development of other sectors of the economy. On various occasions at home and abroad Menezes promised transparency and accountability in his country's oil dealings. Yet, the affair of the recent controversial deal with Energem/DiamondWorks has shown that, at least so far, his pious words have served to please his audience rather than having been followed up by concrete deeds. International human rights organisations have appeared on the scene in an effort to prevent the *oil curse* from affecting STP.[12] Only the future can show if STP will become something akin to an African model oil producing country or if, on the other hand, the country's performance will confirm that inevitability of the curse.

---

1 The author is a post-doctorate Fellow of the Fundação para a Ciência e a Tecnologia (FCT), Lisbon, and a researcher at the Centro de Estudos Africanos e Asiáticos (CEAA), Instituto de Investigação Científica Tropical (IICT), Lisbon, Portugal.

2 The Independent Democratic Action (ADI) is close to former president Miguel Trovoada (1991–2001) while the Democratic Movement Force of Change (MDFM) is President Fradique de Menezes's party.

3 In 2001 the Nigerian Crown Energy owned by Sir Emeka Offor took a majority stake in ERHC.

4 Eugénio Tiny (independent), Edgar Neves (MDFM/PCD) and Luís Soares (MLSTP/PSD).

5 Tomé Vera Cruz is the official party leader.

6 Patrice Trovoada, who had participated in the oil negotiations with Nigeria, had resigned as foreign minister following disagreements with Menezes during February 2002.

7 Público, January 20, 2004.

8 Reuters, Canada's Diamondworks to trade West African crude, 23 February 2004.

9 Energy Compass, 19 March 2004.

10 Personal communication with Energem's legal advisor.

11 While STP is not a member of CEMAC, it is one of the 11 member states of ECCAS.

12 In addition, an expert team of Columbia University (financed by the billionaire and philanthropist Soros has been busy elaborating an oil management law for the country (at no cost for STP).