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São Tomé and Príncipe: The End of the Oil Dream?

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On 23 September 2013, the French oil company Total has abandoned Block 1 in the São Tomé and Príncipe – Nigeria Joint Development Zone (JDZ). This comes only about a year after the Chinese state-owned energy company Sinopec, its subsidiary Addax, Equator Exploration, and other stakeholders abandoned three oil blocks there. Total's reasons are the same as those stated in 2012: disappointing results of exploration drillings due to hydrocarbon reserves that are too limited to justify further investment.

The decision has been a serious blow for the JDZ, set up in 2001 by Nigeria and São Tomé and Príncipe and shared by a 60/40 split between the two countries. In the worst case, Total's exit might represent the end of São Tomé and Príncipe's hopes of oil wealth, which began when the impoverished island state signed the first oil exploration agreement with a foreign company in 1997. Thereafter the country signed another two agreements with oil companies, but the three contracts were all renegotiated in 2003, because foreign oil experts deemed them harmful to the country's national interests. In 2004 São Tomé passed an oil revenue management law that has been praised as exemplary by international legal specialists.

In the same year, the country established a National Oil Agency (ANP) with a staff trained by foreign oil experts financed by the World Bank and Norwegian Agency for Development Aid (Norad) as part of the Norwegian Oil for Development Initiative. At the time, everybody expected the country's oil production to start within a few years. Since 1999, São Tomé and Príncipe has had fourteen different oil ministers. However, the country has not yet produced any oil or gas and, consequently, the exemplary oil law has never been actually applied.

Total announced its withdrawal at a joint meeting of the stakeholders of Block 1 and the Abuja-based Joint Development Authority (JDA) at the company's headquarters in Paris on 23 July. Since 2010, when the company took over Chevron's 45.9% stake – the American company withdrew after its explorations turned up little oil – Total has been the operator of Block 1. During a December 2011 meeting in São Tomé, François Le Cocq, Total's project director, announced that his company would invest US$ 200 million in the drilling of two wells in Block 1. This revived hopes that the block would produce the country's first oil in 2015. At the same meeting, Olegário Tiny, then one of São Tomé's two directors at the JDA, claimed that within three years oil production would certainly start since all indicators pointed to the existence of commercially viable oil in Block 1. In 2006 Chevron had drilled the exploration well Obo-1 in Block 1, at the time the first drillings in the entire JDZ. However, in the same year, the US company caused great disappointment and even disbelief in São Tomé when it revealed that no commercially viable hydrocarbons had been discovered.

In October 2003, during the first licensing round of oil blocks in the JDZ, Chevron offered a signature bonus of US$ 123 million for Block 1, the highest bid of all nine blocks in the auction. At the time, the JDA fixed the minimum bid per block at US$ 30 million. Bonuses totaling some US$ 500 million were offered for the seven blocks, while two blocks did not receive valid bids. The amount of money provoked a wave of enthusiasm, and great expectations of rapid oil wealth in São Tomé and Príncipe, a country almost completely dependent on foreign aid.

However, the assignment only advanced at Block 1, where the consortium included Chevron (51%), ExxonMobil (40%) and Dangote Energy Equity Resources (DEER, 9%), a company owned by the Nigerian business tycoon Aliko Dangote. Elsewhere, due to doubts concerning the financial and technical capacity of bidders stymied the awards, leading to a second licensing round of auctions for five of the remaining JDZ blocks in late 2004. In May 2005, amidst accusations of irregularities, the five blocks were awarded to different consortiums.

Later in 2005, the Block 1 consortium began to change, when the London-based Afren secured an indirect working interest of 4.4% through a 49% equity interest in DEER. In 2007 Chevron assigned 5.1% of its share to South Africa's Sasol. In the same year, the Geneva-based Addax acquired Exxon's 40% working interest and subsequently another 2.4% from Sasol.

Despite the results of Chevron's exploration drilling in Block 1, the takeover of the operatorship by Total in 2010 heightened expectations in São Tomé, since the block is located adjacent to OML 130 in Nigeria where the French company successfully extracts oil in the Akpo field. The French were expected to tie the expected discovery in Block 1 to the Akpo field development. Between March and July 2012, Total drilled the two exploration wells in Block 1, Obo-2 and Enitimi-1. Amidst the optimism created around Total's drilling operation, the JDZ was hit by a new setback, when later that year Sinopec, its subsidiary Addax (since the takeover in 2009), Equator Exploration, and all other investors, with the exception of the Nigerian company ERHC, abandoned Blocks 2, 3 and 4, due to poor results of four exploration wells drilled in 2009 and 2010. Sinopec and Addax had not participated in the licensing auctions, but acquired their interests in the three blocks from other stakeholders in 2005 and 2006.

Due to its controversial preferential rights, awarded by the Sãotomean government in exchange for the company's services rendered for the country's oil development, the Houston-based ERHC claimed working interests in Block 2 (22%), Block 3 (10%), and Block 4 (19.5%).

Blocks 5 and 6, the other two JDZ blocks awarded in 2005, have not been developed. Due to legal quarrels between ERHC and the Iranian consortium International Commerce and Communications (ICC) – Oil Exploration Consortium (OEC), 75% stakeholder and operator of JDZ Block 5, the production-sharing contract (PSC) for this block was only signed in February 2012. Formally São Tomé's state-owned oil company Petrogás, took over ERHC's working interests of 15% each in this block and in Block 6. Petrogás was officially created as early as May 2001, but exists only on paper; it has never had any management or staff, or conducted operations.

More than eight years after the announcement of the block awards, the PSC for Block 6 has not been signed. Since 2004, the JDA has not organized any other licensing round. Given the proven limited recoverable oil reserves in four blocks, and the consequent exit of several major oil companies, any new auction would be doomed to failure.

Anticipating Total's recent decision, Sasol (2.7%) and Afren (4.4%) relinquished their interests in Block 1. Addax is likely to follow suit, leaving DEER as the only remaining stakeholder in the site. Consecutively, since 2007 four major oil companies have abandoned the JDZ due to unsatisfactory exploration drillings: Exxon, Chevron, Sinopec and Total. In view of this scenario it is highly unlikely that the JDA in Abuja will easily find new operators and other stakeholders with adequate financial and technical capacities available to invest in deep-sea oil exploration in four blocks with limited reserves. The Nigerian companies ERHC and DEER do not have such capacity.

These realities notwithstanding, the JDA believes that it will be possible to find new investors to replace the companies, which abandoned the four blocks. The argument is that Total quits Block 1 since the quantity of discovered exploitable hydrocarbons would not correspond to the so-called global corporate portfolio size, a standard used by major oil companies. However, the JDA claims this would not impede independent medium-sized oil companies with adequate financial and technical capacities to invest in the acreage abandoned by Total.

Since JDA's managers have to justify an annual budget of around US$ 12 million, a heavy burden for São Tomé and Príncipe, the JDA tries to downplay the impact of the withdrawal of the oil companies on the future of the JDZ. The highly indebted country counts on foreign donors to cover more than 90% of its US$ 150 million annual budget, and the government is on the hook for 40% of the JDA's expensive operational costs. The debacle of the JDZ is a severe blow for São Tomé and Príncipe. The disappointing outcomes of the exploration drillings in the JDZ are likely to further diminish the already low interest in the country's own Exclusive Economic Zone (EEZ). The first licensing round for seven blocks in the EEZ in 2010 was a complete flop. Only six third-tier oil companies submitted bids, while not a single major oil company did show up. Finally, in May 2011, one single exploration license was awarded to the Nigerian company Oranto Petroleum for EEZ Block 3. A PSC with Oranto including a signature bonus of US$ 2 million was signed in October of that year. Under preferential agreements, EEZ Blocks 4 and 11 were allocated to ERHC and Blocks 5 and 12 to

Equator Exploration in 2010. Meanwhile, the ANP signed a PSC for EEZ Block 5, but not yet for Blocks 4, 11 and 12. Due to failure of the bidding round in late 2011, then Prime Minister Patrice Trovoada declared that a new licensing round of EEZ blocks would not be held until at least 2015, the year of the anticipated start of oil production in JDZ Block 1, which was expected to draw the attention of major oil companies to the EEZ. This hope has now been dashed.

The excitement and high hopes of rapid oil wealth in São Tomé and Príncipe, first sparked by the first licensing round for oil blocks in the JDZ ten years ago, has long faded away. However, despite the poor prospects, international organizations like the IMF and the African Development Bank have maintained optimistic economic growth forecasts for the impoverished twin-island republic, based largely on oil production forecasts for 2015. Based on the archipelago's anticipated oil revenue, in October last year the US online business news site *Business Insider* even forecast São Tomé and Príncipe as the world's fastest-growing economy over the five-year period from 2013 to 2017. In its last report for São Tomé and Príncipe of July 15, 2013 the IMF has predicted GDP growth to jump from 5.5% in 2014 to 38.7% in 2015. Yet, Total's exit from the JDZ has exposed such optimistic economic growth forecasts as wishful thinking, if not sheer fantasy. The truth is that currently there is no guarantee that São Tomé and Príncipe will become an oil producer, at least not in the near future.

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