# PETROLEUM IN
# EQUATORIAL GUINEA 2003

## 1. MARATHON OIL NOW IS ONE OF THE MOST IMPORTANT PETROLEUM COMPANIES

This is a company that is in clear process of expansion (in 1997 it occupied 36th place in the world classification of oil companies, and in 2001 it was in 10th place). With its base in Houston (USA) and its interests in Equatorial Guinea, it has grown notably in the last few years. At the end of 2001 (officially January 3, 2002) it acquired through 993 million dollars of Guinean shares the company CMS Energy and on the 20th of June, 2002, for another 155 million, the other small company (Globex), in both cases located in the Alba deposits, visible from Malabo, the capital of the country. In September 2002, the Guinean government approved the expansion of capacity (Phase 2A) of this field, whose work will be finished in the last months of this year. Another phase, 2B, will be available at the end of 2004. This has all converted Marathon Oil in one of the most important companies in offshore Guinea.

At the moment is disposes of 63.33% of Block (Alba), 47% of Block D, 52.4% of a condensing factory, 45% of a methanol factory (Atlantic Methanol Production) and 52.2% of a LPG factory (liquid petroleum gas that comes from refined brute oil; it is formed from 80% propane and 20% butane; this fuel is considered “clean”, and whose utilization, for example, in collective transport in big cities will notably diminish pollution levels).

The second phase of oil exploration and exploitation in Guinea (the first would be in the colonial period and in the intents of Elf and Hispanoil and GEPSA in the early 80s) began in 1990 with the work of Walter International. In successive years, United Meridian Corporation obtained concessions without much success. Both were small North American companies, but in 1995 UMC associated with Mobil Oil.

Up until now, exploitation has centered in the Alba deposit, but in 1995 they also entered into Zafiro (to the west of Bioko Island) and Mobil Oil there produced, in 1997, 40,000 barrels/day.

Besides Mobil Oil, other large and medium companies have invested in the sector.
Those who presently have an interest in the country are: Marathon Oil, Amerada Hess, Exxon Mobil, Chevron Texaco, Vanco Energy, Ocean Energy, Energy Africa y Petronas. The first six are American; Energy Africa has its central base in Johannesburg and Petronas (the last to come in) in Malaysia.

Looking at these thirteen years, from many points of view, the development of this sector has had very few repercussions in the rest of the Guinean economy. The oil sector is still isolated in an environment characterized by misery and the idleness and control of the government. The 2003 edition of Bilan du Monde, edited in Paris by the group Le Monde, says of Guinea: "At the edge of the black gold, there is no ther economic sector of interest to the Guinean authorities". Infant mortality is still higher than Sub-Saharan Africa (107,7 of infant deaths in the first year related to infants born and survived). A study done in 1995 shows that 5% of the population (around 20,000 people) controlled 80% of the national wealth. PNUD estimated in 1996 that 60% of the population (some 240, 000 people) lived in absolute poverty, which implicated levels of income inferior to 365 dollars/year, in other words, less than 500 F CFA daily (125 pesetas).

Oil companies have done nothing but act as allies and accomplices with the Guinean dictatorship. The close relations between Mobil Oil and the Guinean government began in 1995.

In this relationship, Pastor Micha, the current Minister of External Relations, played an important part (at that moment he was recently named ambassador in Washington and to the United Nations). On May 18th, 1995, Micha publicly received instructions from president Obiang to sensitize American economic operators so that they invest in Guinea and so that "friendship and cooperation relations between Washington and Malabo are more strongly ". These relations received a new formulation during the trip made on the 25th of April and the first days of May by and important Guinean delegation made up by Manuel Nguema, uncle of the dictator and known torturer, and Juan Oló, Minister of Mines and Hydrocarbons and brother of the Guinean first lady, Constancia Mangue. The delegation visited Houston and Washington.

A few months later, after summer, a publicity campaign began to develop in the United States in order to improve the image of the Guinean regime. Its most relevant benchmark was the publication of one whole page in the New York Times.

The preparation of this campaign was led by the lobbying firm Black, Maneforth, Stone & Kelly, who had also edited pamphlets destined at possible American investors in which they tried to give an idyllic image to Equatorial Guinea: a small paradise, free of tribal confrontation and with a stable political regime. However, between February and August 1995, the leader of the Democratic-Christian Progressive Party, Severo Moto, was jailed in Malabo. In this period he was tried twice, once by a military tribunal together with a civil group and members of the armed forces, who belonged to his party. The weakness of the accusation and the lack of guarantees in both processes were evident. It was only because of international pressure that he was not condemned to death.

In February 1996 presidential elections were held after a campaign plagued with irregularities. The official results had Obiang winning 97.85% of the votes. Together with this early political intervention, which was modified and more discreet than in past years, oil exploitation presented from the beginning three characteristics that, for the moment, it has not lost:

- The benefits do not go beyond the circles closest to the dictator
- Notable secrecy is produced
- Conditions are especially favorable for oil companies.

Profits from oil have been mortgaged, first in the short term and then in the long term, contracts with foreign companies have been renegotiated in order to obtain advances and management of income from hydrocarbons continues to be opaque and without any previous evaluation.

For Guineans, everything involving oil was, and continues to be, a mystery. Fernando Abaga tells it like this: “the first thing that comes to attention is when they want to study oil exploitations and everything that characterizes this activity is clandestine. The government does not communicate any information such as data regarding production or the income that it generates.”

Negotiations between the government and oil companies are carried out in a clandestine way. The contacts that the government has with oil companies, which should be public documents, are not and are not within reach of the public, and stay in the dark: one only knows that the country is an oil exporter, but nothing else.

In terms of the contracts, there are three conditions that are unfavorable for Equatorial Guinea. The first is regarding the late entry of a participation system in production, which is planned for the year 2003, and after the amortization of the effected investments of the oil companies. It is hoped that this participation system will substitute the actual one of royalties, which only ascends 10% of the exportations.

In second place, the contracts permit a rise in the residual value of the oil inversion of 30% at the end of every year, as well as the postponement of losses registered by companies during their exploration operations. This includes the costs incurred as a consequence of unsuccessful drilling, and in this way they are recuperated in the productive wells. In third place, the arbitrary exonerations that the companies are granted in favor of imports.

In April 1998 the government renegotiated a part of the contracts. “It is estimated that the conditions obtained are more favorable, since the new conditions permit that the state obtain by way of a “gradual royalty system” income that ascends 12-16% of the value of the exportations, 5% of the capital participation, as well as the introduction of a scaled participation mechanism in production, instead of rates of production. A 25% utility tax will also be applied".

"It is evident that these new measures will improve conditions for Equatorial Guinea, that income will rise especially through the utility tax and the participation in production. However, it is still unfavorable if it is compared with the rest of the countries in the region whose utility taxes are between 48.7 and 50%.

Production in this sector passed 17,000 barrels/day at the end of 1996 to 83,000 in 1998 and 120, 00 in 1999. In the period 1999- 2000 concessions were obtained, or exploitations of new fields began by the companies Triton, Energy Africa, CMS and Vanco Energy. At the beginning of 2000 the Guinean authorities finalized their relation with the lobby company Black, Maneforth, Stone & Kelly (which was called Black, Kelly, Scruggs & Healey) and signed a new contract with Africa Global Partners.

In its relations with the American administration it is noteworthy to take into account the annual publication, by the State Department, of very critical reports regarding the situation of human rights in Equatorial Guinea. In March 2001 the Guinean dictator made a “private visit” to the United States in order to, without a doubt, improve the image of his regime in this country.

In June 2001 a report was published entitled “Equatorial Guinea: A Country Profile for US Businesses” in which it defines Guinea as “the most important destination for American investments in the African Sub-Sahara after Nigeria, Angola and South Africa.” Chevron Texaco, Exxon- Mobil, Triton Energy, Vanco, Ocean Energy, Oceaneering International and Africa Global Partners financed the report.

The methanol factory project built on Bioko Island by Atlantic Methanol Production (now belonging to Marathon Oil) received all shorts of support from distinct American instances: 173 million dollars from the Overseas Private Investment Corporation (OPIC), "one of the highest loans conceded by this support entity to American investments overseas”; another 200 million as a guarantee of “political risk” and finally, it received the consideration of “ecological installation” granted by the EPA (Environmental Protection Agency) of the United States to companies that reduce environmental contamination.

On the 8th and 9th of June, 2001, Reuters and the Financial Times printed declarations that were made the day before by Obiang in Bata indicating that the oil company contracts “were not satisfactory” and that “they are not positive for the country and should be modified”. The dictator announced the creation of a national oil company (then, Petroguinea, now GEpetrol) that would be in charge of “increasing the percentage in the royalties, the percentage in the participation in crude, and…the percentage in the participation in shares ".

Although he did not explain how these negotiations would proceed, he did say that his intention was to increase the participation of the Guinean state to 50 or 51% of shares, in other words that the State would be the owner of the companies.

Up until the date, it seems that the contracts with American companies have not been modified, [and the participation of the Guinea in the production in the exploited deposits is very reduced: 3% in the Alba deposit (Marathon Oil); 5% in the Zafiro deposit (Exxon-Mobil) and 5% in Ceiba (Amerada Hess)], however, the contract with the Malaysian company Petronas, signed February 2002, recognizes that GEpetrol receive 15% of royalties.

GEpetrol was legally created in February 2001, but did not start working until 2002

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