

# Black Gold and the New Scramble for Africa: The Case of São Tomé

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From Liberia to Angola, oil companies are bidding for lucrative contracts for exclusive rights to Africa's oil. This flurry of activity has been dubbed the 'New Scramble for Africa', mirroring the original, which led to the creation of the current African. This new scramble, however, is not exclusively a European affair. Resources are available to the highest bidder or the most lucrative offer as countries now have more options for buyers. Interest in African oil results from various factors. The United States of America [US] is attempting to reduce its reliance on Middle Eastern oil, while China is looking for new energy sources to fuel its rapid economic growth. The involvement of these actors on the continent has a direct influence on the democratic process – mostly negative. São Tomé and Príncipe is a relatively new player in the oil industry and has an opportunity to avoid making the same mistakes that other African countries have made. The Dutch disease and the institutionalisation of corruption are just two problems facing this tiny island nation, in addition to fending off the hegemonic aspirations of Nigeria and resisting US attempts to make it into a regional satellite state. Domestically, a mood of discontentment is directed at the government for failing to improve the lives of the citizens, while the ruling party suffers from factionalism and corruption scandals. If these issues are not dealt with appropriately, any one of them could explode into a conflict situation. The overall assessment is not encouraging, but the country can and has adopted several measures that, if implemented, could turn the oil curse into a veritable blessing.

## Introduction

At present, the world's oil supply and production capabilities are reaching their peak. Currently global oil production is barely one million barrels per day over global consumption. Given the escalating demand from China's fast growing economy, there is a

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Figure 1: São Tomé

real danger that the demand for oil will outstrip supply by 2020. In this context Africa's oil supplies, or 'black gold', is of increased strategic importance to the global players and is resulting in a new scramble for the continent's oil supplies.

China's demand for oil is growing exponentially. Currently, China imports 25% of its oil from Africa and this figure is set to double in the coming years. Africa's black gold is also

of growing strategic interest for the United States of America (US). At present, African oil accounts for 12% of the US's total yearly consumption and this figure is set to increase to 25% over the next 15 years.

There are, however, a number of issues that account for the importance of African oil other than mere increased global demand. First, sub-Saharan Africa holds the second highest oil reserves in the world after the Middle East. The fact that these are largely untapped affords greater opportunities for foreign oil companies and countries. To emphasise the point, consider the following – proven oil reserves in West Africa have doubled, and are now yielding 60 billion barrels of crude oil. Indeed, it is estimated that by 2010, West Africa will produce one-fifth of the world's oil output. Second, Nigerian oil in particular is highly attractive as companies are able to make higher profits per barrel than oil from other parts of the world because it has a lower sulphur content. Third, African oil makes strategic sense to the US given the political volatility in the Middle East and the fact that its strained relations with countries like Venezuela and Bolivia might also mean constrained access to oil and gas reserves in Latin America. In this context, it needs to be mentioned that much of West Africa's oil is offshore, insulated from domestic political or social turmoil. Fourth, and closely related to the latter point, is that Nigeria is the only sub-Saharan African oil producer that is part of Organization of Petroleum Exporting Countries (OPEC). By acquiring control of African oil reserves that are not part of OPEC, the US may weaken the hold of OPEC states on the oil market. Is it any wonder, then, that Washington has been gently pressuring Nigeria to leave OPEC?

Under these circumstances, it is understandable that US companies have invested between US\$30 billion and US\$40 billion in West and Central African oil fields over the past decade. China, too, has already invested US\$15 billion in oil fields and is expected to spend ten times as much in the next decade. The China National Petroleum Corporation owns 40% of Sudan's oil venture, whilst also investing heavily in Angola, Algeria, Gabon and Nigeria, as well as exploring and fostering links with Equatorial Guinea and Congo.<sup>1</sup>

Africa's oil resources have prompted the media, academia and businessmen alike to dub this as the 'new scramble for Africa's resources'. This immediately leads one to compare current events with the original 'scramble' for Africa, when major European colonial powers had arbitrarily carved up the African continent without any qualms about how this would affect the local populations whose lives they were disrupting. This superficial state formation had dire consequences for the development of Africa's social, political and economic structure.

This article aims to critically examine the current scramble and assess its impact on the continent. The case study will be the island nation of São Tomé and Príncipe. There will be a brief assessment of the scramble followed by a concise assessment of the dynamics at play in São Tomé so as to contextualise the scramble and project its future impact on said

dynamics. This will then be followed by recommendations on how the state should deal with its newfound wealth.

São Tomé has been chosen as a case study because relatively speaking it is in the initial stages of developing its oil reserves. Unlike states like Nigeria or Sudan who can be termed as veterans of the oil game, São Tomé is a newcomer and as a result is poised to learn from the past mistakes of its African counterparts. Nigeria's past does not have to be São Tomé's future. If it so chooses, the increased interest in its oil can be a blessing if the ruling government has the political maturity to rise above factionalism and exploit this opportunity for the benefit of its people as a whole.

## The Scramble for Africa's Resources

Recent media attention has depicted the interest in Africa's resources as a scramble and many have gone so far as to equate it to the 'Scramble for Africa' that was seen towards the end of the nineteenth century.

This scramble was conducted between the leading global powers at the time, namely Britain, France and to a lesser extent, Germany, Portugal and Belgium. Control over Africa benefited them in that they could exploit Africa's resources while simultaneously having access to a market for their products. Africa's resources, both mineral and agricultural fuelled Europe's growth while it maimed and stunted Africa's growth.

This disruption in the development of the continent cannot be underestimated as primarily, the scramble affected state formation very negatively.<sup>2</sup> European states had been formed as a result of wars that were fought over hundreds of years and features such as rivers and mountain ranges were important determinants of state borders. Similar imperatives were clearly not in play when one looks at the African map after the inroads of the scramble. There are numerous examples, from Namibia to the Gambia, of states that were created with the intention of benefiting the colonisers and not the people on the ground. The viability of a state like the Gambia is dubious at best, while a huge state like Nigeria that clumps together people of over 200 different ethnicities is hardly any better.

Aside from this, Africa was stripped of its resources. Cocoa, coffee, groundnuts, cotton and palm oil was exported along with gold, tin, nickel and copper. Ghana was formerly known as the Gold Coast for its vast gold reserves that were duly exploited by British mining companies.

The word 'scramble' is used to denote the speed at which this interaction took place. It was a 'mad dash' to acquire as much as possible in the least possible amount of time. This scramble itself has been well documented in history books and provides a useful backdrop for our discussion, but is not the focal point of this paper.

## The 'new scramble'

The 'new scramble' has definite similarities with the original scramble in principle, but is obviously different in that it is taking place in a different political and economic climate. However, it is important to bear in mind the differences between the old colonial scramble for Africa and the newer scramble currently taking place for Africa's energy resources. The world has changed drastically in the past 100 years and so have the role players and the resources in demand. This is especially seen in terms of China's aggressive entry into Africa as a serious competitor to the West for Africa's energy resources. Another important difference regarding the new scramble is that African countries have the freedom and discretion to decide with whom they will do business with. During the nineteenth-century scramble, Africans had no say over who would be their colonial masters and to whom they would sell their resources. In the 'new scramble' they have a choice and it is in their best interests to choose wisely.

China is the world's fastest growing economy and has the world's largest population. In order to maintain its current growth levels, it needs to search for new energy sources. Jiang Zemin stated in March 2000 that the "purpose of the Sino-Africa Forum is to construct international political and economic order and explore new Sino-African cooperation",<sup>3</sup> reflecting the importance of Africa as an energy source.

Oil extraction is a major investment on the part of oil companies and needs an environment of relative political stability. They need to be sure that there is little risk of the government deciding to nationalise their property or of a military revolt that could lead to disruptions in oil production. Having said this, it must be mentioned that few of Africa's oil-producing states provide this political stability.

China is undeterred by the risks involved in these unstable states. Either that or the potential benefit to be derived from investing in such states is so great that they are willing to take the risk. This fact, coupled with a desperate need for oil has been a strong motivating factor in Chinese exploration of African oil. Not only are the Chinese undeterred by the risks involved, they are also willing to deal with despotic regimes.

The Chinese can certainly not be accused of duplicity in that they do not accord their own citizens with liberties such as press and economic freedom, so are able to argue that they are not concerned about the manner in which African states are run. They operate on a strict policy of non-intervention in domestic affairs and adhere to the principle of state sovereignty. In essence it's a case of turning a blind eye to human rights violations. Chinese oil companies have adopted an blatant business approach to their operations in Africa and one is forced to ask what the implications of this will be for Africa's democratic future. The propping up of undemocratic governments will, one fears, erode the African Union (AU) efforts to instil a democratic culture and render it useless in this respect, in addition to having dire implications for the citizens of undemocratic states.

“Although Beijing continues to claim that its aid to Africa is not premised upon political conditions, in practice it always terminates its aid when any African state violates its one-China policy by recognising Taiwan.”<sup>4</sup> This is the only political condition that China attaches to its investment and may be a small price to pay when compared with the amount of investment that it can bring into Africa.

“China has the fourth-largest economy in the world when measured in nominal dollars, and the second-largest when adjusted for differences in purchasing”.<sup>5</sup> It needs as much oil as it can possibly lay its hands on and since it is not operating in a vacuum, it needs to be one up on the other actors on the scene. Not only is it a staunch supporter of the principle of sovereignty, it is also prepared to do what the US and other Western states are unwilling to do, namely, sponsor large prestige projects and give loans and credit lines that aren't linked to any democratic reforms.

This approach works in a two ways. Firstly, it offers African countries an alternative to Western loans. These loans are often tied to democratic and economic reforms as was seen with the Structural Adjustment Programmes that were attached to World Bank loans in Africa in the late 1980s and 90s. This is a bitter pill to swallow for most governments as reforms inevitably lead to an erosion of their power and control over the citizens and the nation's resources.

The second advantage of granting concessions to Chinese companies is that they fund large state projects. These prestige projects are a tool that African governments can then use to demonstrate that they are doing something, improving the lives of their citizens, although it is doubtful whether the creation of a new stadium affects the life of the average man on the street. Aside from having a different venue to watch the local football match on Saturday, the new stadium adds no real value to the quality of his life.

The second new actor in this scramble, the US, is not without fault with regards to involvement in Africa. The reason for its increased interest in Africa's resources can albeit superficially be summed up in two numbers: 9–11. The longer-term outcome of this event was increased anti-American sentiment throughout the world, combined with Islamic fundamentalism and discontent at the hegemonic role of the US in the international system. This potent combination of factors forced the US to evaluate not only its foreign policy but its energy policy as well.

The realisation in the US that a significant proportion of its oil comes from the Middle East region and that it was vulnerable in this respect, compelled it to search for alternative sources of oil. This shift in policy makes it explicit that the US is looking for oil supplies from non-OPEC members and would like to increase its imports of African oil.<sup>6</sup>

Despite this, one would have thought that the most logical place to start this search for alternative sources of oil would be in the US's own backyard: Latin America. States like Venezuela and Bolivia are oil producers and the cost of transporting oil from that region

would be cheaper for the US government. The problem lies in the leftist tide sweeping over Latin America. It would be erroneous to equate the regime of Castro to that of Morales but there is a definite shift in mood and this has negatively affected US relations with specific countries in the region.

The most obvious example of this is US relations with Venezuela that have rapidly deteriorated since Chavez came into power. He has blatantly shown his disregard for the Bush administration and its attempts to assert US influence in the region. From supporting samba groups at the Rio Carnival this year to supporting leftist parties on the continent, Chavez is proving to be a thorn in the US's side. His blatant antagonism is because of his realisation that the US is indeed economically vulnerable. He is using the only power at his disposal, that of soft power; a form of power that has become increasingly important in the post-Cold War era.

In effect, this forces the US to look outside of this region for oil supplies. The US has a rather dubious past relationship with Africa as it fought proxy wars on African soil with the Soviet Union. It propped up leaders like Mobutu who virtually destroyed the Democratic Republic of Congo (DRC) but this has not deterred US companies from trying, with some success, to enter African markets.

## Black Gold

Oil has been chosen as the topical resource because of its scarcity and strong influence in policy formation. It lights up the cities at night from New York to Tokyo – and its no secret that oil is a finite resource.

The problem with oil extraction is that it does not directly benefit the population with the resource. Indeed 54% of the population in oil-rich countries live below the poverty line.<sup>7</sup> In effect, it creates a situation commonly known as the ‘Dutch Disease’. This is a situation in which a “sudden inflow of dollar-denominated revenues leads to a sharp appreciation in the domestic currency”.<sup>8</sup> The influx of foreign currency has negative implications for the domestic economy in that it makes other sectors less competitive.

There is an alternative – the creation of an oil fund. This is not a lofty idea that cannot be applied in a practical sense. Norway is a success story in that it created an oil fund from money derived from the sale of its oil reserves. The fund is now worth US\$160 billion. It relies heavily on oil but is also actively seeking to diversify its economy while saving money from oil sales.<sup>9</sup> This move requires a degree of political maturity and genuine concern for the future of the state. The government is not in power in order to enrich itself but it actively pursues a policy that will ensure that even after oil reserves are depleted, Norway will still be able to function. In the case of São Tomé such an oil fund could be useful in the development of a vibrant tourist sector as well as engaging in pro-active



measures to halt environmental deterioration such as deforestation and soil erosion, which have seen revenues from the cocoa industry plunge.

São Tomé was specifically chosen for this paper for two reasons. The first is linked to what has already been mentioned; it is a new player in the oil market and because of this has thus far done little to permanently affect its future. The second reason is that like Norway, São Tomé is a small state with a small population. This means that if managed properly, its oil reserves could bring about a noticeable improvement in the lives of its inhabitants but it will have to overcome domestic, regional and external (in the form of the US) factors in order to do this.

### **São Tomé's appeal**

“Geopolitical and strategic considerations have moved the African oil and gas sector up the agenda as the US government seeks to reduce its dependence on oil from the Persian Gulf.”<sup>10</sup> São Tomé is attractive to the US because of four main reasons. First, it is in close proximity to the US. This means that transportation costs are lower than importing oil from the Middle East. Second, and equally important, is it the fact that São Tomé isn't a member of OPEC. This leaves it free to determine its own quotas. The third advantage is that China has no involvement in the oil sector whatsoever. Given the Asian giant's aggressive expansion into Africa, one would expect it to be involved at some level and to be in direct competition with the US and Canadian companies. The problem, however, lies in the fact that São Tomé formally recognised Taiwan in 1997 on the condition that São Tomé would receive US\$30 million in developmental aid from Taiwan. (entire reference is from Europa 2005) This led to a souring of diplomatic ties with China as it asked that the island repay its US\$17 million debt and promptly cut off ties with São Tomé.<sup>11</sup> This leaves the US to dominate all oil exploration in the country. Lastly, the oil in the Gulf of Guinea is of better quality than that from Latin America, making it the most logical option.

### **Domestic Politics and the Propensity for Conflict**

São Tomé is a small island situated in the Gulf of Guinea. Its main export in the past has been cocoa but the discovery of oil is set to change this. It has a population of 169 000 and gained independence after the 1974 coup in Portugal. It was a one-party state until an amendment to the constitution in 1990 that changed it into a multi-party democracy, and the island of Príncipe received autonomy in 1995.<sup>12</sup>

The structure of São Tomé's domestic political scene has much in common with many African states. It is marred with factionalism and power struggles that have led to an established pattern of conflict between the three levels of government. The vague



separation of powers exacerbates this potential conflict situation and has led to much social unrest.

The main actor in the domestic scene is former-President Trovoada. This man has been a dominant feature in the domestic politics of São Tomé since his inauguration as president in 1991. During his presidency, he dissolved the Assembleia Nacional when it began talking of granting autonomy to Príncipe and putting through legislation for constitutional reform that would curb presidential powers. As has been the case with many African leaders, he apparently sees politics as a chance for personal enrichment and the constitutional reforms would have severely hampered his retirement fund plans. The constitution does, however, put a limit to the number of terms for which an individual can serve as president, so when the time came for him to step down, Trovoada backed the current president, Fraderique de Menezes.

## Public discontent

The government of President Menezes is where the real potential for conflict lies in terms of domestic politics. He was elected on a slim mandate, 56.3% of the votes, and faces factionalism within his own party, the Movimento de Libertacao de São Tomé e Príncipe – Partido Social Democrata (MLSTP-PSD).<sup>15</sup> There is a clear separation within the party between the old guard and the new guard, who are in favour of modernisation.

According to Brown, in his list of indicators covering the underlying causes of domestic conflict, a high degree of popular discontent with the regime is listed as the first indicator.<sup>14</sup> The inhabitants of the island nation have protested against the government over drastic fuel price and consumer goods increases as well as failure to pay the back-dated salaries of civil servants in 1997. Although the government increased salaries, this problem cropped up again in 2003 and has been cited one of the reasons for the military coup in 2003.<sup>15</sup>

Despite having oil reserves and a population of less than 200 000, São Tomé has a Gross Net Income per capita of US\$370 and has until this point relied heavily on donor funding to support its economy. The Centre on Globalisation and Sustainable Development specifically cites São Tomé as an example of a situation in which oil revenues can actually worsen living standards. It makes reference to the 2003 coup as a result of public discontent over the corrupt government and its inability to improve the lives of the citizens.

Citizens were vocal about their developmental concerns in 2005 and this led to a strike by civil servants. It was prompted, once again, by oil concessions and the distribution of funds. The prime minister resigned on 3 June, citing differences with the president over the allocation of oil concessions to foreign oil companies and how to deal with the civil strike.<sup>16</sup> His concern was the excessive influence of the government in the oil deals, and he was a member of the modernisers in the party who wanted a reform to the system. Menezes

promptly appointed one of his loyalists in his place, Ms Silveira, a party veteran who is also a member of the old guard.

## Governmental corruption

The 2003 coup was led by military officers who sought to overthrow the government because of what they felt was a failure to improve the lives of the citizens and a lack of transparency in oil deals.<sup>17</sup> Furthermore, a group of citizens in a public letter accused the president of not explaining how US\$100 000 from the Nigerian oil company Chrome Oil ended up in his bank account. Chrome Oil Services Limited was formed in 1994 and since then has expanded its operations to include consultancy and project management services as well as construction supervision, feasibility studies and oil-well drilling and exploration. Among their services they boast a highly skilled manpower force that “has an extended and proven experience in the erection, commissioning, start-up and day-to-day operation of various plants”.<sup>18</sup>

Menezes subsequently explained that this was a donation for the party to be used for the legislative election, although this does not explain why the money had to be placed in his private Belgian account. After talks with the AU, South Africa, Nigeria and the US, the situation was resolved and Menezes was returned to power, promising transparent management of oil funds and a separation of powers between the president and the government. Three months later, US oil companies were “offered more than \$500 million to explore the deep waters of the Gulf of Guinea”.<sup>19</sup>

Perhaps coincidentally, Menezes had been in Nigeria to renegotiate the terms of the oil agreement between Nigeria and São Tomé regarding distribution of oil revenues. Nigeria and São Tomé signed the Joint Development Zone (JDZ) in 2003, administered by a bi-national authority based in the Nigerian capital Abuja, to demarcate the oil fields and the distribution of funds. The JDZ agreement covers

an area of approximately 35 000 square kilometres that includes the seabed, subsoil and the adjacent waters thereof. It also provides for joint control by the State Parties of the exploration for and exploitation of resources within the JDZ aimed at achieving optimum commercial utilisation.<sup>20</sup>

However, Menezes had wanted to renegotiate the terms as he felt they were unfavourable to São Tomé. The reported US\$100 000 deposit into his private bank account could be interpreted as a kickback, perhaps to allow Chrome Oil to expand into the São Tomé oil blocs.

The corruption of the oil rights allocation process became public in 2005 when Arlindo Carvalho resigned as minister of Natural Resources “amid allegations of irregular procedure and high-level corruption in the award of offshore oil exploration rights”.<sup>21</sup> He accused the

previous government of acting for their private interests when awarding oil concessions. He blamed the Trovoada's government of dubious dealings with the US-based oil company, Environmental Remediation Holding Corporation (ERHC), controlled by Nigerian millionaire Sir Emeka Offor. ERHC's major stakeholder just happens to be Chrome Energy,<sup>22</sup> the very same company that gave Menezes the alleged kickback. The company has little experience in oil exploration but was "granted a lead role in two of the five offshore blocks and a large slice of equity in the other three without having to (officially) pay a cent".<sup>23</sup>

Trovoada was subsequently fired by Menezes for using his post as an advisor to the president on oil matters to further his own interests.<sup>24</sup> Therefore, it appears that there was already a corrupt process in awarding oil concessions and the danger of this is its possible entrenchment in the system. If this corrupt culture is allowed to take root in not only the oil sector but the governmental system at large, it will be difficult to revert back to a 'normal' fashion of running not only the industry but the government of the state as well.

Evidence of corruption within in the governmental structure was brought to light in 2006 when the Foreign Affairs minister "resigned after coming under widespread criticism for spending nearly US\$500 000 of aid from Morocco without reference to other members of the government".<sup>25</sup> He was a close friend of the president, who supported him in this scandal, saying that the alleged misappropriated funds went to the procurement of presidential vehicles. Surprisingly, Ms Silveira was the one who asked for his resignation, perhaps an indication of a changing tide in the group dynamics of the Menezes loyalists.

## Regional Dynamics

Despite São Tomé's geographical size, it is of great importance to both regional and foreign actors. The most dominant influence comes in the form of Nigeria as it tries to exert a certain degree of control over oil exploration in the waters that the two nations share. The second influence, to a lesser degree, is Angola. Both countries to a varying extent are trying to assert their influence in the development of São Tomé's oil reserves but Nigeria has exerted a negative influence not only in oil exploration but in domestic politics as well.

Angola has a long history of intervention in the affairs of São Tomé. Shortly after independence the Angolan government stepped in to quell an attempted coup in 1988 and effectively propped up the Movimento de Libertacao de São Tomé e Príncipe (MLSTP) government. It entered the domestic political scene again in 1995 when a group of 30 soldiers staged a coup and detained Trovoada.<sup>26</sup> Both are former Portuguese colonies and the government of São Tomé has not hesitated to call upon Angola in times of need.

The Nigerian influence is not restricted to the domestic arena as its involvement in oil deals affects the economic sphere as well. The issue at stake here is the oil and gas reserves and the distribution of oil funds from exploration. In this respect, Nigeria has

tried to get more access to oil by using companies like ERCH. Although Menezes managed to renegotiate the deal between the state and ERCH, the deal still largely favours the inexperienced company. It “has only one full-time employee on its payroll – chief executive Ali Memon, has never drilled an oil well or produced a single barrel of oil anywhere in the world and it has very little investment capital at its disposal”.<sup>27</sup>

It would be overstating the obvious to say that this is a recipe for disaster. If the company has only one employee and has never produced a barrel of oil, what business does it have being in São Tomé? Clearly this is an attempt to loot São Tomé’s oil resources and retain the profits made from the oil sales. It is doubtful whether the citizens of São Tomé will ever see the proceeds of this oil deal and any hope that they have to see development in their state was signed away along with the oil reserves in the ERCH deal.

The Economic Intelligence Unit highlights growing concern over Nigeria’s influence particularly because São Tomé does not have a developed infrastructure or the institutional capacity required to deal with the Nigerian challenge.<sup>28</sup> Nigeria is a veteran in the oil industry and is hardly known for its transparent policies. The potential for conflict is great as Nigeria tries to dominate the island’s oil sector while São Tomé tries to formulate a policy that would best suit its people. Nigeria’s influence on domestic politics has already been stated but the onus now lies on the politicians to resist the temptation of personal gain in favour of the greater good.

The problem lies with Menezes, who is seen to be favouring Nigerian companies. His excessive involvement in the oil sector has been heavily criticised and demonstrates the ambiguity surrounding role of the president and the extent of his presidential powers. Fortunately, the government has managed to pass “some of the most progressive and comprehensive resource laws and the country’s newly established Oil Revenue Management Law”.<sup>29</sup> These could be the very measures that the country needs to regulate the industry.

If the government decides to assert itself and directly challenge the Nigerian domination of the oil exploration in the shared waters, this could lead to a conflict situation. According to Mitchell, “conflict situations involve conditions of scarcity and values, which place a premium on the possession of the same resources or positions”. Oil is undoubtedly a scarce resource and both parties place a high value on it. He goes on to say that parties can agree over the resource but the conflict situation arises from who “obtained the most of it”.<sup>30</sup> The disagreement over the 60:40 sharing ratio and the dubious ERCH deal is an example of this. Since both parties place a high value on the oil reserves, and the resource is in high demand, both have a high stake in its exploitation.

The JDZ was modelled on other agreements in the region but São Tomé has to devise an agreement that would be most beneficial for it. The government needs the political will to follow this change through and the diplomatic savvy to execute it without ruffling too many feathers.

Politicians on the island need to be careful in the manner in which they distribute oil income because the island of Príncipe, where most of the oil is situated, has been severely neglected in terms of infrastructure and social development. The government can learn from the events currently taking place in the oil-rich Delta state of Nigeria. The “world’s seventh-largest oil exporter has failed to spread its oil wealth adequately” resulting in the unrest seen in the Niger Delta.<sup>31</sup> The Nigerian government resorted to using its security forces to quell the unrest that has been fuelled by corruption, pollution of the environment as well as the general lack of development in the state.

According to online reports in IRIN News, the 5 000 inhabitants of Príncipe feel increasingly resentful towards the government because São Tomé has received the bulk of investment and development and even though the small island does not pose a military challenge, it could destabilise the country if it organises protests or adopts guerrilla tactics to sabotage oil exploration projects.<sup>32</sup> This is not a far off possibility because there was a coup in 2003 and evidence shows that the citizens have a tendency to express their discontent in the form of protests. This vulnerability could also be exploited by external actors such as Nigeria and possibly Angola in an attempt to gain control of the waters surrounding Príncipe.

## External Involvement

The seriousness of US interest in African oil manifested itself in 2003 in the creation of the “African Oil Policy Initiative Group (AOPIG), comprised of representatives from Congress, various offices of the Bush Administration, oil companies, international consultants, and energy specialists”<sup>33</sup> but its search for new oil sources is negatively affecting the geopolitics of the region.

According to World Bank estimates,

resource-rich areas are four times more likely to experience violent conflict and foreign development can alter diplomatic relationships and exacerbate already existing tensions by degrading local environments or creating strife over sharing revenue.<sup>34</sup>

The domestic situation already has potential to explode into a conflict if the appropriate measures are not taken.

The involvement of foreign companies in corrupt practices will only heighten the tensions between the local population and the government. It goes without saying that these companies should adhere to proper, transparent business practices but if the normal way of getting something done is through bribery, then in order to gain access to oil reserves, they will be tempted to revert to unethical business practices. It is therefore up to the government to root out corruption and make the oil industry more transparent.

The US has made attempts to re-enforce its presence in the region by asking leave to set up a military base on the island. This move was taken after the 2003 coup.<sup>35</sup> The government rejected this encroachment, and wisely so. It would be in the best interests of the US to have a base there because it would then be in close proximity to its other oil exploration projects in the region and should any political instability occur, it would be able to step in and protect its nationals.

On the other hand, this base might not be in the best interest of São Tomé because it would tie it to the US government and this might limit its freedom of action in negotiating future oil deals. There is the strong possibility that the US would expect preferential treatment with regard to contracts. On the other hand, the presence of the US could give momentum to democratic reforms, particularly constitutional amendments because the US has a history of insisting upon the adherence to democratic norms.

Up to this point, São Tomé has kept the US at arms' length but this policy could be up for revision if Nigeria continues its aggressive bid for influence. The US could act as a counter balance to Nigerian influence. If the government can play it right, US presence in the country could prove to be a mutually beneficial relationship.

São Tomé's recognition of Taiwan has deterred China to date and Nigeria and the UD have been the dominant role payers in the oil industry. The involvement of Canada and Japan, both keen energy seekers, has been limited to the financial sector, with the Japan Bank for International Cooperation offering financial services and assistance to potential investors. The private arm of the World Bank, the International Finance Corporation, lists the provision of guarantees, equity as well as loans among their list of services on the island. These services are limited to the oil and gas industry as well as the financial sector.

With China's heavy investment and involvement in Angola and as well as Nigeria, it is possible that São Tomé could fall under the sphere of Chinese influence, without realising it and would be powerless to prevent it. Nigeria and Angola may use the island as a satellite state, but should more reserves be found, China and the US will undoubtedly enter the foray and begin a struggle to control the oil resources. The regional powers may become increasingly involved in the island's domestic politics but should the stakes be raised, the remaining super power and the biggest threat to US dominance on the continent will become involved. Should this happen, it is likely that the government will choose to side with the US, given its past relations with the state as well as its non-existent ties with China. It must be noted that São Tomé has relations with Macau, a special administrative region of China that has autonomy in economic and commercial matters but succeeds control of its defence and diplomatic relations to the state. This may present a loophole through which the *status quo* between the two countries could be changed.

## Future Prospects

The vagueness of the constitution with regard to the separation of powers has been the source of much political conflict. The recognition of Taiwan in 1997 over the People's Republic of China without consultation of the government by Trovoada was met with a huge uproar in the legislature. This led to the eventual agreement that there would be a constitutional change to clearly define the powers to be accorded to the president. The main aim of this is to curb "presidential powers substantially, in favour of the legislature".<sup>36</sup>

With regards to transparency in oil dealings, São Tomé is a member of the Extractive Industries Transparency Initiative (EITI) that was launched by Tony Blair. This is an attempt to hold company executives and governmental executives accountable for what they do with the money from oil sales. This gives hope to transparency in future dealings although it will take a firm commitment on the part of the government.

São Tomé can find a cure for the Dutch Disease if it diversifies its economy. It would not be economically prudent to revert back to or intensify cocoa production; it should instead focus on developing its tourism sector. São Tomé has not yet fully exploited its potential as a tourist destination and should market itself as such. If this is done, it could create jobs for the locals and in doing so empower them economically. A 2006 estimate puts the service industry as accounting for 68.1% of the country's GDP, despite being underdeveloped.<sup>37</sup> Simple steps such as reducing the prevalence of malaria and investing in coastal property, with the aim of creating resorts could boost São Tomé's tourism industry. The infrastructural system would need to be overhauled in order to deal with the influx of foreigners but this would be beneficial to the local population in the long term. The transportation system throughout the island is in disrepair and oil revenues could be used to improve it, thereby linking previously isolated area with more developed centres. This will serve to integrate the infrastructure of the island, permitting the farmers and fishermen to have better access to cities, thus enabling them to increase their incomes.

The World Bank devised a Country Assistance Strategy in 2005 based on a four-year plan. The government can work in conjunction with the Bank, which strives to continue and improve upon the "social sector service delivery (and) capacity-building in public finance management".<sup>38</sup> The Bank is also committed to assisting the government to translate petro-dollars into tangible benefits for its population. A working relationship with the Bank is essential should the government truly wish to uplift its people. In its Poverty Reduction Strategy Paper, São Tomé has identified the need to build capacity, increase and improve on access to public services and reduce the gap between the urban and rural people. The government does not have to do it alone; it can work in conjunction with interested partners to develop the country. Here it is important that São Tomé has many international well-wishers, something it would do well to capitalise upon. In



December 2000, São Tomé benefited from a US\$200 million debt-relief package under the highly indebted poor countries (HIPC) initiative, which helped bring down the country's US\$300 million debt burden. Moreover, in August 2005, São Tomé signed a new three-year International Monetary Fund (IMF) Poverty Reduction and Growth Facility programme worth US\$4,3 million.<sup>39</sup> What is important however, is that the government and civil society in São Tomé develop a strategic partnership to ensure that they make use of this external assistance in order to provide assistance to the most marginalised groups whilst simultaneously building and diversifying the economy. In other words, there needs to be a better interface between international donor support and domestic governance issues.

## Conclusion

São Tomé finds itself at a crossroad. Its future development relies heavily on the way in which it manages its oil reserves. In this, domestic politics play an important role as there is a need for the consolidation of democratic norms and accountability in the country. An oil fund to manage the influx of foreign currency into the country would go a long way towards decreasing its inevitable dependence on oil as a source of income. Diversification of the economy needs to take place alongside the development of the oil sector in order to cushion the inhabitants from the Dutch disease.

On a regional scale, it needs to fend off Nigerian meddling in its domestic politics as well as procurement deals. Politicians need to implement policies and grant concessions that will benefit its citizens and ensure the development of Príncipe so as to ward off any potential unrest on the island. On an international level, it needs to be wary of its dealings with the US and China and extract the best possible terms from the oil companies. São Tomé does not have to take the same route as other African countries. It can change the status quo and set a new standard for relations between African countries and the rest of the world.

This last assertion might seem improbable given the relatively small size of São Tomé in relation to both international and regional players. However, this tiny West African state might well be assisted by a remarkable consensus that is rapidly developing among the countries of the world. The ongoing conflict in Darfur as well as the attacks by local militias in the Niger Delta against oil companies, has demonstrated to various states that engaging in oil extraction without engaging in consultation, making social investments in local communities or attempting to broker peace in conflict zones, is counter-productive to their long-term energy security prospects. In recent weeks this has seen China subtly applying pressure on the Khartoum regime to find a peaceful settlement to Darfur. The international consensus is also motivated by the fact that the aggressive competition between international players for energy resources may also be counter-productive from the perspective of global energy security. More importantly, the emerging international

consensus is best illustrated in the Statement on Global Energy Principles issued by the G-8 Summit in St Petersburg last year. This statement stresses the importance of an open, transparent, efficient and competitive energy order, enhanced dialogue with relevant stakeholders, the promotion of transparency and good governance in the energy section (which will hopefully reduce the incidence of corruption), and the need to address the energy challenges of the poorest populations in developing countries.<sup>40</sup> The most important issue here is that there is an acknowledgement that insecurity anywhere threatens security everywhere. This is especially truly in the energy sector, which connects one part of the world to other parts of the world in such a direct manner. Increasingly, key players in the world's energy sectors realise that they need to respect rather than alienate local communities; that they need to encourage good governance and bring an end to conflict if they intend to ensure a sustainable energy supply – that it can no longer be business as usual.

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