

CHAPTER I

**THE GEO-STRATEGIC IMPORTANCE
OF THE GULF OF GUINEA**

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The Gulf of Guinea and the Global Oil Market: Supply and Demand

By Johannes Dieterich

1. The US Takes a New Interest in the Gulf of Guinea

With more than 50 years in business, Gene van Dyke is not someone who gets easily excited. But when the subject of oil exploration in Africa is raised, the 70-year-old geologist-entrepreneur from Texas can't help getting emotional. "West Africa's potential is really phenomenal," says the founder and chairman of the Houston based exploration company Vanco Energy, "West Africa is now, and will be in future, fantastically important to the global oil economy."

Van Dyke has good reason to be excited. He holds the exploration rights for 30 million acres in eight African countries (from Ivory Coast to Ghana, Equatorial Guinea, Gabon, Namibia and over to Madagascar) – more than any of the conventional big names in the oil business, the so-called "supermajors."

Van Dyke points out that whereas the discovery ratio for oil wells in the United States is normally about 10 percent, in West Africa the same ratio has been almost 60 percent. This means that at least every second hole drilled has been a hit.

His only regret, Van Dyke told a journalist recently, is that he wasn't so successful when he was younger.

The Texan oil tycoon is not alone in his enthusiasm about Africa's emerging potential. Jim Musselman, head of US-based Triton Energy, agrees: "West Africa is one of the hottest spots in the world right now." Tiny little states like Equatorial Guinea or São Tomé & Príncipe, whose existence wasn't even known in Washington until recently, are today referred to as "African Kuwaits" or "African Bruneis." And experts like the London based oil nerd Duncan Clarke are already talking about a "Third Scramble for Africa." First came the European powers to divide up the continent more than 200 years ago. Later came the capitalist and communist superpowers to secure their spheres of influence. And now the tycoons are coming with their oil tankers in tow. Experts predict that American oil companies will invest 60 billion US Dollars in West Africa in the next 20 years – this is by far the

largest influx of revenue in African history. It is also more than all development aid provided by Washington since the dawn of independence of most African states in the early 60s.

It's been reported recently that the Bush administration shows a vivid interest in the newly discovered treasures of West Africa. First there was a very prominently attended symposium convened by the Institute for Advanced Strategic & Political Studies in January 2002 in Washington. A working group called the African Oil Policy Initiative Group emerged from this conference, comprised of representatives from various relevant offices in the Bush Administration, the House of Representatives, the Senate, international consultants, oil companies, and interested U.S. investors.

The working group recommended that African oil be treated as a priority for the national security of the United States after 9-11, that the US government declare the Gulf of Guinea an "area of vital interest," and that it set up a sub-command structure for US forces in the region. (It even considered establishing a Marine base on the island state of São Tomé & Príncipe.)

While it is not yet clear whether or not the Bush Administration has taken the latter proposals of the working group seriously, it was reported recently that the United States is planning to transfer some of its forces from Europe to Africa. General James Jones, Supreme Allied Commander of American forces in Europe, told journalists earlier this year that American warships currently on patrol in the Mediterranean might soon spend half their time off the West African coast, in what he called "a fairly focused engagement in that part of the world". According to the British think tank Oxford Analytica the governments of Cameroon, Gabon and Equatorial Guinea have already reached access agreements with the government in Washington allowing U.S. forces to use their airfields.

There is no doubt that Washington sees African oil as a crucial opportunity for further diversifying U.S. oil supply. It even seems like the removal of Saddam Hussein from power hasn't diminished this foreign policy interest at all; which is understandable, considering Washington's volatile grip on the developments in and around Iraq. While the demand for oil is still growing significantly in the United States from around 20 million barrels per day to projected 26 million in 2020 there will be little if any growth in domestic oil production – increasing American dependence on foreign imports even more.

U.S. Assistant Secretary of State Walter Kansteiner pointed out at the oil symposium in Washington that, "For too long official Washington has been gripped by the perception that the United States has no vital interests in Sub-Saharan Africa. Nothing could be further from the truth. As the political and security conditions of the Persian Gulf deteriorate, the availability and appeal of reliable,

alternative sources of oil for the American market grows. African oil is emerging as a clear direction U.S. policy could take to provide a secure source of energy.”

Not long after, the National Intelligence Council formulated a strategic goal that the United States should increase the African share of its oil supply: From today’s roughly 15 percent share to at least 25 percent by the year 2015. Vice President Dirk Cheney in his National Energy Policy report also described West Africa as “the fastest growing supply source of oil and gas for the American market.”

2. Potential of the Gulf of Guinea in the Global Oil Market

However, a quick look at the statistics tempers the excitement somewhat. Table 1 shows that Africa’s share of the global oil market is still pretty limited. It ranks only second last with its share of 10,6 percent or 7,9 million barrels a day – long after the Middle East (with almost 21 million barrels), North America (with 10,8 million, excluding Mexico) and even after Pacific Asia (with almost 8 million barrels of oil).

Table 1: **Production, Consumption, and Reserves of Global Oil: 2002**

Region	Production (‘000 bpd)	Consumption (‘000 bpd)	Reserves proved (‘000 m. barrels)	Reserves proved
Middle East	20,973	4,338	685.6	65.4%
North America	10,778	21,696	37.3	3.6%
South & Central America	10,239	6,381	98.6	9.4%
Former Soviet Union	9,482	3,381	77.8	7.4%
Asia-Pacific	7,987	21,399	38.7	3.7%
Africa	7,937	2,527	77.4	7.4%
Europe	6,740	16,025	19.7	1.9%
Total World	73,935	75,747	1,047.7	100.0%

Source: BP 2003 Statistical Review of World Energy

The first African producer country does not even appear on the charts of the top ten oil producers: It is Nigeria in 13th position with a daily output of roughly two million barrels of oil (Table 2).

Table 2: **Oil Production by Countries: Daily Output in thousands of Barrels (* Opec)**

Country	Daily Production	Country	Daily Production
1. Saudi Arabia*	8,680	11. United Arab Emirates	2,270
2. Russian Federation	7,698	12. Iraq	2,030
USA	7,698	13. Nigeria*	2,013
4. Mexico	3,585	14. Kuwait*	1,871
5. China	3,387	15. Algeria*	1,659
6. Iran*	3,366	16. Brazil	1,500
7. Norway	3,330	17. Libya*	1,376
8. Venezuela*	2,942	18. Indonesia*	1,278
9. Canada	2,880	19. Kazakhstan	989
10. United Kingdom	2,463	20. Angola	905
Total World	73,935	of which OECD	21,516
		of which OPEC	28,240

Source: BP 2003 Statistical Review of World Energy

This picture doesn't really change when we look into the future proven potential of the continent. According to British Petroleum's renowned statistical review, African oil only accounts for 7.4 percent of world proven reserves. (A figure that doesn't reflect most of the "iffy" unproven potential about which Gene van Dyke is so excited.)

In his essay "The Third Scramble for Africa" – which by the way can be purchased for the negligible amount of \$9,000 – oil expert Duncan Clarke ends up with more optimistic estimates of African reserves. He extrapolates that the continent can perhaps expect reserves of altogether 160 to 180 billion barrels. So even gazing at his crystal ball Clarke concedes that Africa is still "no Middle East," where under the Arabian sands lay almost 700 billion barrels of the black gold.

We get a further insight into the relative importance of African oil to the global oil markets by linking the five major energy-exporting regions with the three major energy-importing ones. The table clearly indicates a regionalization of supply and demand: (1) The Middle East first and foremost sends its oil to East and Southeast Asia; (2) The former Soviet Union and North Africa concentrate their exports on Europe; (3) Latin American oil production targets the USA. It is only West Africa, which has a fairly diversified demand side and is not yet dependent on a single regional client. This may change, if the USA is pushing forward

to compensate for depleting oil stocks at home and with its American neighbors with more oil from West Africa. The Gulf of Guinea may then become a region producing oil essentially for American consumers.

Table 3: Inter-Regional Movements of Oil Supply & Demand (2002, mbd)

From \ To	USA	Europe	East- and SE-Asia	Rest of World	Total EXPORTS
Gulf OPEC/Middle East	2.31	3.24	11.29	1.23	18.06
Former Soviet Union	0.20	4.35	0.40	0.42	5.37
North Africa	0.28	1.77	0.20	0.37	2.62
West Africa	1.12	0.71	1.04	0.27	3.13
Latin America	3.95	0.47	0.19	0.32	4.93
Rest of World	3.50	1.36	3.22	1.43	9.51
Total IMPORTS	11.36	11.90	16.34	4.04	43.63

Source: BP Statistical Review of World Energy (2003)

A fourth chart is the most encouraging one for West Africa. It reflects the oil reserves in deep waters. Here we can see the continent, for a change, ahead of every other part of the world. Almost 15 billion barrels of oil will soon be accessible in deep waters, mainly in the Gulf of Guinea. Forbes magazine even dreams of 24 billion barrels of reserves in West Africa.

Table 4: Deep Water Reserves 2003

Country / Region	Billion of Barrels
1. West Africa	14.495
2. Gulf of Mexico	12.393
3. Northwest Europe	3.126
4. Mediterranean Sea	1.868
5. Brazil	8.396
6. Asia-Pacific	2.139

Source: Douglas-Westwood/Infield Systems' World

3. The Attraction of the Smelly Armpit

This is indeed good news for the region, especially since American oil companies love this oil. It is not only of very high quality – light and with low sulfur content. It is also fairly close to American soil – you don't have to schlep it all around the globe. It will be extracted from open sea platforms that are almost extra-terrestrial in appearance, far away from the dire and often troubled mainland of the respective states. Imagine the oil of the Niger delta some hundred kilometers out in the open sea: Shell wouldn't have the image problem it is struggling with today. Last but not least, none of the countries in this region except Nigeria belong to OPEC – in times of continuing conflict between the United States and the Arabic world an almost inestimable advantage.

Ed Royce, the Republican Chairman of the U.S. House of Representatives Subcommittee on Africa, has summed the situation up: “Our best partners are in West Africa for many reasons. West Africa is closer, making it easier to move product from there to here; and its resources are, in most cases, not landlocked. Things usually work fairly well if you're out in deep water.”

Once disregarded as the sweaty armpit of Africa and hated by colonial bureaucrats as the kind of place where even paper clips get rusty on the desktop from the humidity of the air, the Gulf of Guinea has suddenly become the place to be, or to be left out.

It is worth noting at this stage that the interest in the region is a predominantly, if not exclusively, American affair. Industrial powers like Japan or Germany aren't part of the new scramble at all. (To the dismay of some German politicians, who accuse their oil industry of being totally phlegmatic. An influential German politician focusing on Africa told me recently that one could tell a German company that it must drill right here to get oil and they would still not lift a finger.) There are Malaysian and Australian participants in the West African oil rush, but these are smaller companies, which are involved in high-risk exploration. Even France's famous influence – together with Elf-Aquitaine's oil fields in Gabon – is now in danger of drying up. But right up to its merger with TotalFina, Elf-Aquitaine still derived more than half of its global oil production from sources in the Gulf of Guinea.

In a memorandum drafted by some American oil executives and sent to President Bush last year, the US companies state almost triumphantly: “It is important to underscore that most of the oil and gas concessions awarded in Equatorial Guinea to date, have been awarded to US firms. This is in stark contrast to neighboring countries in the region, where the United States has consistently lost out to French and other European and Asian competitors.” This, if nothing else, sounds indeed like the soundtrack for a new “Scramble for Africa”.

So one might expect to see West Africa moving closer to the last remaining superpower on the other side of the Atlantic. Already Fradique de Menezes, the president of tiny São Tomé, was granted an honor to which other statesmen aspire in vain for a lifetime: Having breakfast with the US president. Washington has reopened its embassy in Equatorial Guinea, where the old colonial language of Spanish is increasingly drowned out by a deep-throated Texan drawl, and private American security companies are training the Coast Guard in São Tomé & Príncipe.

4. Big Players, Small Players and Emerging Champions

If we turn to the supply side of the equation, we also see big discrepancies. It is highly probable that the number of oil exporting states in sub-Saharan Africa will rise from the current eight to perhaps as many as sixteen in the near future. There are the very lucky states like Equatorial Guinea or São Tomé & Príncipe, whose leaders have woken up to the news that they are sitting over huge bubbles of black gold. And on the other hand there are less fortunate states like Togo, Benin or Ivory Coast, whose prospects seem to be rather limited. Gabon, some experts say, might even have seen the best days of its bonanza and its reputation of the worlds biggest importer of French champagne, though Duncan Clarke estimates, that there are still reserves in the range of five billion barrels of oil on and offshore Gabon waiting to be exploited.

It is understandable that those differences might lead to tensions. We have already experienced some live rounds that have been fired in the heat of the oil bonanza not far away from here: The conflict around the island of Bokassi between Nigeria and Cameroon is still not resolved by now. There are countless disputes about demarcations of possible or existing oilfields, which tend to be tackled by establishing joint development zones nowadays. But there is always the danger that one of these conflicts spirals out of control, especially if one of the countries feels it has been left out of the rush.

Undoubtedly the biggest players in the West African oil bonanza are Nigeria and Angola.

Today Nigeria is the United States' fifth largest oil supplier – and the West African superpower wants to increase its daily output from currently roughly 2 million barrels a day to 4 million by the year 2010. With proved reserves of 24 billion barrels but possible reserves of up to 80 billion Nigeria can afford to be more generous or wasteful (whichever way you want to put it), and is even threatening to leave the OPEC cartel if its quota isn't increased. That, of course, is music to the ears in Washington.

The other big player is Angola, which currently exports almost one million barrels of crude oil daily, supplying eight percent of US demand. Angola also wants to double its daily output to two million barrels a day. That doesn't sound unrealistic, since Angola increased its proven oil reserves between 1995 and 1999 through deep-water discoveries by 600 percent. The country is said to have won "the oil jackpot of the 21st century" with proven reserves in the area of 15 billion barrels.

Another oil exporting country in the region is Congo-Brazzaville, which ranks third in sub-Saharan Africa, currently producing almost 300,000 barrels a day and which is sitting on perhaps two to three billion barrels of reserves. Similarly Chad has gotten on the map with the famous Doba-Kribi pipeline that became operational in October 2003. It is estimated that Chad might have oil reserves of up to three billion barrels. The assessment for Namibia is controversial, with Gene Van Dyke talking about a potential of almost three billion barrels, while Duncan Clarke is more skeptical. So far not much has really been proven, he cautions.

Finally we might note that Libya, Algeria and Sudan are the other major oil exporters on the African continent. With the lifting of United Nations sanctions against Libya, and with Sudan finding peace and slowly overcoming its bad reputation with the Americans as a rogue state (mainly because of the Sudanese governments tacit support of Washington's war against terror) these countries may become more important for the world energy market in the near future. Perhaps to a lesser degree for the US than for Europe, since almost 70 percent of North African oil currently goes to the European Union.

5. A Gas Boom Around the Corner?

The analysis cannot be closed before having looked briefly at the stepsister of oil exploration: i.e. natural gas. Experts agree that gas is becoming increasingly important for energy consumption globally - with an almost 25 percent share in 2002 compared to just 19 percent six years earlier. Crude oil's share of world energy consumption amounted to 38 percent last year. Gas has become the preferred fuel in most developed countries, because it burns cleaner than oil and it is relatively cheap. Experts reckon that global demand will jump dramatically over the next 25 years.

In Africa gas is still treated as a by-product of oil exploration, and is flared to a large extent. But there are mounting efforts by oil companies to use this gas commercially. Which of course warrants huge investments, since you need gas pipelines – or at least installations – to liquify the substance in order to get it from

remote areas to the market. Nevertheless the demand is there. An African oil symposium in Washington in January 2002 has predicted that the United States will soon face a deficit in its gas supply. (Currently America alone consumes a quarter of the world's total consumption of 2,5 trillion cubic meters per year.)

There are also considerations that African countries should work together towards the establishment of regional or even a continental gas grid and should further discourage the flaring of gas through legislation or financial incentives like tax credits for gas producers. So far gas is only used on the continent on a significant scale in Algeria and Egypt, accounting for a mere 2,7 percent of world-wide gas consumption.

Africa's share of gas reserves is more or less in line with that of oil. According to the BP Statistical Review the sub-continent has proven reserves of almost 12 trillion cubic meters, which accounts for 7,4 percent of global reserves.

Table 5: Proved Gas Reserves (in trillion cubic meters)

Europe & Eurasia	61.0	(39.2%)
Middle East	56.0	(36.0%)
Asia Pacific	12.6	(8.1%)
Africa	11.8	(7.6%)
North America	7.1	(4.6%)
South & Central America	7.0	(4.5%)
Source: BP		

The beneficiaries of the gas bonanza in 2002 are not necessarily the oil kingdoms: Top of the charts in production was Algeria with 80.5 billion cubic meters, followed by Egypt (22.7 billion) and Nigeria (17.7 billion). In this regard my own chosen homeland South Africa, a notorious "dry hole," also has its humble share of luck: There are some sizeable gas fields off the coast of the Western Cape.

6. Conclusion

Africa is not going to become another Middle East. But this doesn't mean that the commercial interest in this relatively neglected part of the oil-producing world hasn't increased. There is great interest in Houston and Washington. If we still lived in a polarized world, then perhaps we would see a new "Scramble for Africa." But under the current anarchic structure we will rather see a new grab for small and selected sections of the continent.

An altogether different question is of course, whether the discoveries – however significant – will be turned into "black gold" or "devil's excrement" (as OPEC founder Juan Pablo Alfonzo once put it). That is, will the fortunate African states and their people and perhaps even the rest of the continent indeed benefit from the bounty, or will the thick, viscous black muck only besmirch the pockets of a few and ruin the modest prospects for future economic productivity. As Ed Royce lamented, "Oil development has proven to be more of a curse than a blessing for many developing nations."

Is Chairman Royce right? I hope he will be proven wrong.