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Changing Patterns of Foreign Direct Investment in the Oil-Economies of the Gulf of Guinea

By Douglas A. Yates

1. Introduction

Africa is estimated to possess somewhere around 7 percent of the world's proven crude oil reserves, according to the Energy Information Agency. It may have up to 24 billion barrels in total proven and unproven reserves. West Africa is generally viewed by the oil industry as one of the world's leading deepwater offshore oil zones, with 633 fixed platforms, 13 floaters and 20 storage and offloading vessels. By 2008 a further 159 fixed platforms will be installed, drilling more than 700 wells. Overall oil production is expected to rise from 3.8 million barrels a day in 2001 to 6.8 million by the year 2008. In order to achieve this near doubling of production, it will be necessary to find massive foreign direct investment. According to the American Petroleum Institute, $10 billion in capital investment will be needed for every one million barrel a day increase in production. About $52 billion is going to be invested in African deepwater drilling by the year 2010. "Over $50 billion," announced a recent report, "the largest investment in African history, will be spent on African oil fields by the end of the decade." [1]

Who are the actors that will make this massive investment? Are they the same ones that have traditionally dominated the sub-region, or have new actors replaced them? How have fundamental changes in the structure of the international system since the end of the Cold War affected patterns of direct foreign investment in the Gulf of Guinea? How have the privatizations of European national oil companies affected their strategies in former colonial spheres of influence? What role is going to be played by the African national oil companies in this new "Scramble for African Oil?"

1 Ian Gary and Terry Lynn Karl, *Bottom of the Barrel: Africa's Oil Boom and the Poor* (Baltimore, MD: Catholic Relief Services, 2003).

2. From Colonial to Postcolonial Spheres of Influence

In the past, foreign direct investment in the oil industry followed colonial patterns of territorial sovereignty. Pioneer geophysical surveys and early wildcat drilling usually were conducted by majors coming from European colonial metropoles.

a. British Nigeria

In Nigeria, it was the British *D'Arcy Exploration Company* that first started engaging in reconnaissance work in 1937. Later the *Shell-D'Arcy Petroleum Development Company of Nigeria, Ltd.* was formed in September 1951 to conduct operations on behalf of the parent organizations (*Shell* and *BP*). Alone the British invested some $75 million in Nigerian exploration before finally producing oil in 1957. When Nigeria achieved its independence in 1960, however, the new government adopted procedures for granting exploration licenses to other foreign operators. So that by the outbreak of the Biafran War in 1967, American firms like *Mobil Exploration Nigeria, Tenneco, Amoseas, Gulf Oil Nigeria,* the Italian state firm *ENI,* the French subsidiary *SAFRAP* were present in the country.[2]

As time went on countless minor independent operators and subcontractors from around the world tried their hand in the Nigerian oil sector.[3] British firms played a predominant role as the partners of the Nigerian government, yet the presence of other multinationals took away their initial monopolistic position. Today the top foreign companies in Nigeria are *Shell, ChevronTexaco, Total, ExxonMobil* and *ENI-Agip*.[4]

All of them share their production with the *Nigerian National Petroleum Corporation (NNPC).*

b. French Equatorial Africa

Historically, France dominated petroleum development in its colonial sphere of influence. In both Gabon and Congo-Brazzaville the earliest seismic tests and drilling rigs were run by the *Société des Pétroles d'Afrique Équatoriale Française (SPAEF)*, a subsidiary of the French state petroleum bureau BRP. Oil was first discovered in Gabon, and its production was shipped to France in 1957. Crude oil

2 "World Roundup Report," World Oil, August 1949-1970.
3 At one point SAFRAP's future in Nigeria was in doubt, because the French had aided the Biafrans; but the company never suffered more than any of the other foreign firms, all of whom had large portions of their assets nationalized by the military regime.
4 Gary and Karl, p. 27.

production in Congo began two years later, also shipped to France. Because of the need for capital and technology, however, *SPAEF* took on foreign partners from the outset. In 1958 an agreement was announced whereby *Mobil Oil Française and Mobil Exploration West Africa* joined *SPAEF* in exploration and development of 6.2 million acres in Gabon and Congo. In 1969 the Italian *Agip* was wildcatting along the Congolese coast in a joint venture with *SPAEF*.[5]

In Gabon, after independence, the French resisted efforts by Mobil Oil to penetrate their neocolonial oil enclave, but desperately in need of partners, SPAEF started working with Shell. These joint-venture agreements were advantageous in that they divided the risk assumed in exploration and investment. They also allowed the French to maintain operational control over much of the production in their sphere of influence. To summarize, it would be fair to say that the French firms played a predominant role as partners of the Gabonese and Congolese governments, but the presence of other multinationals reduced their initial monopolistic position. Today the major petroleum firms operating in Congo-Brazzaville are *Total, ENI-Agip* and *ChevronTexaco*; while those in Gabon are *Total, Shell and Vaalco.*[6]

In 1952 the *Société de Recherches et d'Exploitation des Pétroles du Cameroun (SEREP-CA)* received a concession along the coastal area of the French Cameroon. The company was a wholly owned subsidiary of the French state oil company *Elf-ERAP*. Its first indication of gas occurred in 1955.[7] For 30 years *Elf-SEREP-CA* collected almost 20,000 line miles of seismic data, drilled 151 exploration wells (128 were offshore) and discovered 38 productive structures. In 1973 they made their first major find, transforming Cameroon into what briefly became Africa's third largest oil producer in the 1980s. In 1985 about 85% of the country's oil production came from *Elf-SEREP-CA*'s Rio del Rey offshore field, and the French were clearly predominant in the country's oil sector. But reserves were being depleted at too fast a rate, and the production was already in decline by the 1990s.[8] Despite winning a long running case with Nigeria over the oil-rich Bakassi Peninsula in 2002, today Cameroon is the smallest oil producer in the Gulf of Guinea.

The Chad-Cameroon Oil and Pipeline Project – currently the single largest private sector investment in Africa – will carry oil from 300 wells drilled in southern Chad to the Cameroon coast at the town of Kribi. Although *Total* had a share of

5 "World Roundup Report," World Oil, August 1958-1969.
6 Gary and Karl, pp.28, 34.
7 This motivated Shell-BP to become interested in some acreage in the British portion of the protectorate, adjacent to the group's Nigerian operations … later abandoned, in 1962, when the British Cameroons voted to join the by-then independent French Cameroun.
8 "World Roundup Report," World Oil, August 1956-90.

the Doba fields, because the Doba-Kribi project is under the operational control of *ExxonMobil, Chevron*, and the Malaysian state oil company *Petronas*, the clear monopoly of the French over the oil sector in their African sphere of influence has been seriously compromised.

c. Portuguese Angola

The situation further south in Angola, where the American oil companies played the pioneering role, can be explained by the relative underdevelopment of the Portuguese oil industry. Lacking any national oil champion of their own, Portuguese authorities invited the American *Sinclair Oil Company* to conduct exploratory drilling in their Angolan possession between 1918-32, without commercial success. In 1953 they granted a concession to a subsidiary of the Belgian firm *Petrofina,* who made the first commercial discovery in the colony in mid-1955. In 1957 the American *Cabinda Gulf Oil Company* was granted a concession, and started producing oil from the Cabinda Enclave in 1968. Following independence in 1975, the state oil company *Sonangol* became the sole legal concession holder, requiring foreign companies to work in association with it for exploration and production rights under 51/49 risk contracts. *Petrofina*'s holdings were nationalized, but *Gulf* was left with around two-thirds of Angolan production.[9] In the 1980s the MPLA regime in Luanda began selling its offshore blocks via Sonangol to a host of international companies. In 1984 Chevron bought Gulf, so today the top foreign oil companies are *ChevronTexaco, Total* and *ExxonMobil.*[10]

d. Belgian Congo

A subsidiary of the American *Gulf Oil Company* also discovered oil in the neighboring Belgian Congo in 1959 – changing its name to *Gulf Zaïre* in 1975, and once more after the takeover by *Chevron* in 1984. The present production by *Chevron-Texaco, Unocal, Teikoku Oil* of Japan, and Total averages 24,000 barrels a day. Since 1976 the fields have produced over 160 million barrels in partnership with the state oil firm *Cohydro. ChevronTexaco* announced in 2000 that it would boost spending by $75 million to drill new wells and expand production. The government also signed an agreement in June 2002 with the *British Heritage Oil* for exploratory drilling onshore.[11] What should be noted, in light of the question being

9 "World Roundup Report," World Oil, August 1948-1980.
10 Gary and Karl, p. 32.
11 Gary and Karl, p. 37.

addressed, is that the oil fields of the former Belgian Congo were not exploited by Belgian firms but American – a fact that can be attributed to the Cold War relationship between Zaïre and the United States. The close working relationship between *Gulf Oil*, the CIA and the Mobutu regime began when Mobutu attempted to annex the Cabinda Enclave in 1975.[12]

e. Spanish Guinea

Elsewhere, the predominance of American oil firms in Equatorial Guinea – *MobilExxon, Ocean, Marathon and Amerada Hess* – can be explained by the failure of the Spanish national champion *Repsol* to successfully develop the deepwater reserves. But it also is the result of a long-standing legal battle between Equatorial Guinea and Gabon over oil-rich Annobon Island, in which the French took the side of Omar Bongo, and lost. President Obiang Nguema never forgave them, and awarded the oil-rich offshore concessions in his country's territorial waters to *Mobil Oil,* instead of *Elf.*[13]

3. Competition for African Oil

The competition for African oil has changed from a *political* contest of European national oil companies monopolizing their countries' respective neo-colonial spheres of influence to an *economic* contest of multinational and national oil companies from around the world bidding for concessions across those old imperial boundaries. This change reflects three larger transformations: (a) The metamorphosis of the international system from a multipolar to a unipolar order, (b) The privatisations and multinational mergers of former national oil champions, and (3) The failure of African states to successfully nationalize their petroleum industries.

The gradual decline of British, French, Portuguese, Spanish and Belgian spheres of influence over the course of the 20th century was paralleled by the rise of American capitalism to global hegemony. The arrival of American oil majors in the European sphere of influence may have taken longer in those enclaves where the Europeans were more heavily invested (such as French Gabon) than in those where the colonial power was itself backwards (such as Portuguese Angola). But

12 John Stockwell, *In Search of Enemies: A CIA Story* (New York: Norton, 1978): p. 206.
13 Max Liniger-Goumaz, United States, France and Equatorial Guinea (Geneva: Editions du Temps, 1997).

Corporate Pioneers

Historical Map of African Oil

Dates indicate year of first major discovery and/or year production came on line.

(1934) Société Chérifienne des Pétroles

(1939) SEREPT

(1956) SN Repal CREPS & CFP-A

(1959) Standard (Jersey)

(1912) Turkish Petroleum Co.

(1892) First shipment of oil passes through the Suez Canal.

The coatal reserves were exploited before landlocked an deepwater discoveries became justifiable.

(1999) Talisman Sudan

The French began producing oil in the Gulf of Guinea after they lost their Saharan discoveries to the nationalists.

(1956) BP/Shell

(2003) Esso Tchad

(1972) SEREP-CA

Chad and Sudan have been recently brought on line by the American, Canadian, and Malaysian firms.

(1995) Mobil

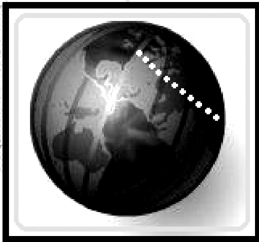
(1957) SPAEF

(1960) SPAEF

(1968) Gulf (Cabinda)

(1975) Gulf (Zaïre)

(1980) Elf (Angola)



South Africa had the drilling technology to drill for oil and gas with its own Corporations.

A Franco-American rivalry has developed in the Gulf of Guinea.

(1990) Mossgas

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their arrival was an inevitable byproduct of American hegemony. Other countries followed in the gap opened up by the Americans.

Simultaneously, the very nature of the major European firms, which had come to be intimately identified with the national interests of their respective mother countries, underwent a grand transformation. Companies like *British Petroleum* and *Compagnie Française des Pétroles* had been "national" champions founded with very clear missions. Although they entered into joint venture agreements with other firms in order to raise capital and share their high-risk investments, they essentially did business within closed imperial political economies during the colonial era. But as the 20th century unfolded, the state oil companies became "multinational" enterprises, with their own distinct interests. Moreover the overwhelming victory of neo-liberal economic doctrine pushed their governments to privatize them, breaking the linkages between the firms and the national interests. As the world oil markets expanded and liberalized, the older concerns for national oil autonomy became somewhat anachronistic for the private oil multinationals. Directors of major European oil corporations replaced their patriotic concern for the national interests with a preoccupation for the interests of their shareholders.

African state-owned companies could never dream of competing against the giants, so they relied on the protection of their states, who demanded "Africanization" of personnel, and shares in local extractive subsidiaries of the major multinationals. The dream was that African majority shareholding would bring technology transfer, but the reality is disappointing, and today the African national oil companies are essentially rent collecting political partners of the foreign operators. Today two of the top six firms in West Africa are African national companies – *NNPC* and *Sonangol* – claiming a 48% share of total oil production in the sub-region (see Table 1 and 2). As legally required partners of all foreign operators, by law, they receive on behalf of their respective governments a share in the foreign companies' production. Consequently they appear as important oil producers, when in fact they are really passive partners benefiting from the productive capacity of their foreign partners.

Shell actually produces more oil in Nigeria alone (1 million b/d) than is attributed to it for the sub-region (328,000 b/d).[14]

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14 Shell Petroleum Development Corporation of Nigeria (which produces around half of Nigerian crude) gives 55% of its production to the NNPC. Shell, the operator, takes only 30% for itself.

Table 1: **Top Fourteen Oil Producing Companies in West Africa (bpd) 2003**

Company	bpd
NNPC (Nigeria)	1,423,000
TotalFinaElf (France/Belgium)	471,000
ChevronTexaco (US)	355,000
ExxonMobil (US)	342,000
RD-Shell (UK/Netherlands)	328,000
Sonangol (Angola)	260,000
ENI (Italy)	219,000
ConocoPhillips (US)	45,000
Ocean Energy (US)	34,000
Marathon (US)	16,000
Amerada Hess (US)	15,000
Canadian Natural Resources	3,000
Unocal (US)	3,000
INA (Croatia)	2,000

Source: The Energy Intelligence Top 100: Ranking the World's Oil Companies (2003)

Three major foreign oil companies have historically dominated the Gulf of Guinea: Shell, TotalFinaElf and Chevron, who in 1999 produced around 75% of the 3.7 million barrels a day (30% for *Shell*, 25% for *Chevron* and 20% for *TotalFinaElf)*. *ExxonMobil*, despite being the largest oil company in the world, was notably less present yet always eager to establish itself in the region. Philippe Copinschi, who completed intensive research on the subject for his doctorate at "Sciences Po," has argued that the historical actors in the region *(Shell, Chevron and Total)* were for a very long time sheltered from veritable competition in their respective zones of activity, but are now facing ambitions of the new super-majors (notably *ExxonMobil)* as well as numerous independents seeking an internationalization of their activities:

Several reasons explain this evolution: On the one hand, the bulk of developments are being made in deepwater offshore, so a company's financial position and its technological mastery have replaced the directness of political linkages as key elements of success. Under these conditions, the risk of long-term marginalization of medium-sized actors is great. On the other hand major oil group profit

requirements have opened the door to independents pursuing market niches (marginal or mature fields that don't interest the majors).[15]

New Asian actors are arriving in the African oil industry, such as the Malaysian state oil company *Petronas* (which has been extremely active in Chad and Sudan), the *Chinese National Oil Company,* the *Japanese National Oil Company, Mitsubishi,* etc. (see table 2). The presence of these new actors does not indicate the withdrawal of traditional ones. On the contrary, it reflects an oil boom atmosphere. When measured in terms *nominal frequency,* that is, sheer number, it might appear as if new "minors" are becoming predominant. But what is much more difficult to measure through such data is the *relative size* of the participation in exploration and production of the "majors." Not only is the scale of investment greater for the major multinationals, but also much of the oil discovered by the smaller independents is often sold to the traditional majors, whose vertically integrated operations and constant demand for new supply make them ideal partners.

While figures on production do not easily disclose the relative share of a company's investments due to legal arrangements and joint operation agreements, it is possible to measure the share of investments in *offshore* development. Since the vast majority of West African oil exploration is taking place in the offshore, especially deepwater concessions, it is possible to make inferences about total corporate investments from these offshore investments (see table 3). Capital spending on deepwater projects will reach close to $20 billion by 2004, according to forecasts based on industry spending trends and projections by PFC Energy.[16] *BP, ChevronTexaco, ExxonMobil, RD-Shell* and *TotalFinaElf* will control more than 60% of the spending because they operate a large percentage of the projects. The "capital expenditures" (capex) levels shown below represent the amount of capex the operators control through operatorship. These projections incorporate capex figures for projects and discoveries in more than 1,000 feet of water, including some significant discoveries currently under appraisal. The figures are based on cumulative gross mean capex from more than 120 individual probabilistic project models.

Only two companies have offshore activities throughout the region: (1) *TotalFinaElf,* thanks to the historic presence of *Elf* in Gabon and Congo, and to an aggressive Angola strategy pursued for the past decade, the regional leader in

15 Philippe Copinschi, "Stratégie des Acteurs sur la Scène Pétrolière Africaine (Golfe de Guinée), Revue de l'Énergie, no. 523, janvier 2001: p. 34. This text has also been published in the "Série analyses et synthèses" of the Cahiers de l'économie, no 43. (Institut Français du Pétrole).

16 PFC Energy's "Global Deepwater Competition" service provides analysis of over 120 deepwater projects that are aggregated into company and regional deepwater portfolios. For more information contact Susan Farrell at sfarrell@pfcenergy.com.

Table 2: **Reported oil production by company and country (bpd) 2001**

	Angola	Cameroon	Congo	DROC	Eq.Guinea	Gabon	Nigeria
African National Oil Companies							
Hydro Congo			2,600				
NNPC							1,252,833
SNH		9,000					
Sonangol	219,400						
Major Multinationals							
Chevron	168,000*		20,000	9 000			158,000*
Elf	96,000**	16 000	110,000			105,000	144,000**
ENI	80,200		69,000			3,000	80,667
Exxon	1,000				89,000***		
Mobil							249,000
Shell		19,000		3,182		56,000	250,000
Independents							
Amerada					7,332	9,000	
Braspetro	19,200						
Energy Africa					4,738	4,900	
INA	7,700						
Marathon						16,000	
Naftagas	7,700						
Ocean					30,444		
Perenco		3,000		3,819		32,000	
Petrogal	5,400						
Phillips							31,000
Svenska	9,700						
Teikoku				5,810			
Triton					25,847		
Unocal				3,190			
Other		48,000	111,000			29,100	33,055

Source: West African Oil and Gas Sourcebook 2002

** includes Texaco* *** includes Total & Petrofina* **** includes Mobil*

Table 3: **Gross Operated Deepwater Capital Expenditure 2002-2010** ($ million)

Operator	Global Capex	West Africa Capex
BP	15,603	3,172
ExxonMobil	14,190	13,861
TotalFinaElf	13,015	12,435
ChevronTexaco	9,512	6,760
Shell	9,403	5,281
Amerada Hess	2,588	2,549
ENI	462	279

Source: Offshore, Oct. 2002: p. 10

deepwater offshore, and (2) *ExxonMobil,* thanks to major investment efforts launched in recent years by *Exxon* and *Mobil* separately (trying to make up for their historical absence in the region) and most of all to their merger. *ExxonMobil* is today present in almost all the key blocks of deepwater offshore, in Angola, Congo, Nigeria, Equatorial Guinea, and São Tomé & Príncipe (where it controls the majority of the exploratory concessions). It is also, notably, the operator of the Doba field in southwestern Chad. But the Americans were not always so prominent in the region.

4. African Rentier States

Oil dependency is also difficult to measure, not only because of the lack of transparency, but also because of the operationalization of the concept of "dependency." In 2002, for example, the largest oil producer in the region – Nigeria – depended on oil for 40% of its GDP (see table 4). But oil represented 83% of Nigerian government revenue, and around 95% of its total exports. Which of these three indicators should be used to measure oil dependency? National income? Government revenue? Or Exports?

If we measure oil dependency in terms of the proportion of the GDP, then Equatorial Guinea would be the most dependent, Gabon the second, Congo-Brazzaville third, Angola fourth, Nigeria fifth and Cameroon sixth. However, if we measure oil dependency in terms of proportion of government revenue, then Angola would be first, Nigeria second, Congo-Brazzaville third, Equatorial Guinea fourth, Gabon fifth, and Cameroon sixth. Finally, if we measure oil dependency in terms of pro-

Table 4: **Measures of Oil Dependency: National Income, Government Revenue & Exports**

	GDP	Revenue	Exports
Eq. Guinea	86%	61%	90%
Gabon	73%	60%	81%
Congo	67%	80%	94%
Angola	45%	90%	90%
Nigeria	40%	83%	95%
Cameroon	4.9%	20%	60%

Source: Commission Economique pour l'Afrique, Bureau pour l'Afrique Centrale, Les économies de l'Afrique centrale 2003.

portion of total exports, Nigeria would be first, Congo-Brazzaville second, Angola and Gabon tied for third, Gabon fourth, and Cameroon fifth. In terms of central tendency, oil and gas dominate all of these countries' trade relations with the rest of the world. In terms variance, however, we might distinguish between *oil-dependent economies* (Equatorial Guinea, Gabon) *and oil-dependent states* (Angola, Nigeria, Congo-Brazzaville).

Compared to the oil industry in the Persian Gulf – where national oil companies control most "upstream" activities and foreign firms control the "downstream" business – the oil industry in the Gulf of Guinea has been the privileged reserve of foreign multinationals. In the Persian Gulf the national oil companies pump the oil, and sell it to the foreigners. In the Gulf of Guinea, the foreigners pump the oil, and sell it to themselves (often keeping two sets of books, and squirreling away the difference in Swiss bank accounts). What role will the African state oil companies play in the future? Will they manage to seize control of their national resources from the foreigners, or will they continue to serve as mere rent collectors? Only two state oil companies in the region are major producers of oil: the *NNPC* (Nigeria) and *Sonangol* (Angola). Of these, only the former is a potential operator in the deepwater future. The debate is underway in Nigeria as to whether or not the *NNPC* will take an active role, and become a veritable offshore producer, or remain a mere rent collector in an oil world dominated by ever-merging supermajors.

Business, in general, can best be understood as a system of power. The emergence of a significant degree of concentration of power does not mean the end of competition. It does mean that competition has been raised to a new level. The

impetus to invest abroad arises out of a competitive struggle among giants. To become masters of their own destiny, African oil producing states have to overhaul the existing international trade and investment patterns and transform their industrial and financial structures. But there are a number of features of their historical situation that hinder them: The lateness in time at which they approached the problem of industrialization; their poverty and economic underdevelopment; their relative backwardness in comparison to the developed countries; the unequal contact between them which facilitates the drain of surplus and distorts patterns of production. Monopoly is the central element of the theory to explain the drive behind European imperialism in the 19th and 20th centuries. It is also central to the explanation of why the capitalist system so operates as to allow only some of its component countries to become fully industrialized. Billions of dollars of direct foreign investment, in this light, are not good omens for the African national oil companies.