

Play for Oil: PGS on São Tomé e Príncipe

-how the doors were opened for Norwegian seismic surveys in the Gulf of Guinea



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Norwegian Play for African Oil Rights

The Norwegian seismic services company PGS obtained lucrative oil agreements in São Tomé e Príncipe without having to go through bidding rounds. Here is the story of how PGS obtained its agreements and opened the door for a partner the authorities had not approved.

It can't have been easy for the authorities in São Tomé e Príncipe. Located at the equator, south of the coast of Nigeria, the island group constitutes one of Africa's smallest and poorest states. Few people speak English, few know any law, and even fewer have the least acquaintance with the oil business. Simultaneously, the tiny state's 160,000 inhabitants are seated on what could be a gold mine of unused oil resources. How should the authorities deal with the oil companies that suddenly turned up? How could they play along when the companies started their intricate oil games?

Even though little São Tomé has the best hand of oil cards, they have still had a bad tendency to end up holding the bag when they start negotiating for the black gold. Whether they are in conflict with the larger neighbouring countries on the mainland or they are bargaining with foreign oil companies, the conditions often end in the other part's favour. The 12th of February 2001 would not differ from this pattern. Representatives of the Norwegian seismic services company Petroleum Geo-Services (PGS) had then arrived on the tropical islands to sign two agreements.

One of the agreements would give PGS a 10-year monopoly to map the sea floor outside the country and the right to sell the collected data to the oil business. The other gave PGS the right to become the operator in three oil blocks. All this they managed without having to go through a single bidding round. Several experts whom Norwatch has talked with consider the agreements extremely disadvantageous for the island state.

Norwatch has obtained copies of the secret agreements and has discovered loopholes that have had a great impact on the present situation for the oil administration in São Tomé. The terms implied that PGS without problem could sell the agreements on to other companies. This is what happened to one of the two agreements, the production agreement. Norwatch has now found that the authorities are left with a partner they never had endorsed, a partner who would become an operator in the best areas of São Tomé's waters. Not only that: it wasn't just anyone who took over the production agreement. The petroleum minister in São Tomé at the time, Luis Prazeres, has told Norwatch that the person who took over the production agreement is the same person who negotiated the agreements for PGS. PGS, for its part, dismisses the claim from the former petroleum minister as untrue.

Even though the terms were not favourable for São Tomé e Príncipe, the agreement was nevertheless an important milestone. The country was still just searching for oil, and in 2001 the authorities had scarcely any experience with petroleum issues. What they needed above all was PGS's extensive expertise in marketing unknown waters to the rest of the oil industry. They had deliberately chosen an important company with a large international network, and even though the Norwegians at that time were struggling economically, PGS's earnings at that time were after all four times those of the state of São Tomé e Príncipe.

PGS had taken on a great risk. They had entered into an area that nobody had previously mapped thoroughly, and they had promised to invest large amounts in a project that few had dared to think about. For this risk, they had to be paid. Later, the critics claimed that the

payment was on the large side, and many have wondered how São Tomé could have signed an agreement that was so advantageous to PGS. Many have blamed the politicians' lack of experience, combined with desperation to get on the spinning oil merry-go-round as soon as possible. The possibility that corruption had been involved was quickly denied by Jens Ulltveit-Moe, at that time head of PGS and formerly president of the Confederation of Norwegian Business and Industry. So, how had PGS managed to obtain such a favourable agreement?

The Witness

The international companies' competition over the profitable African oil agreements is a matter of good political contacts – which is something PGS had.

To help them, they used a well-positioned intermediary with strong ties to the heads of São Tomé society. From what Norwatch has learned, it is this intermediary who reveals his identity on the last page of each of the two agreements that Norwatch has obtained. There one can find the signature of an untitled person with an African-sounding name, Wade Cherwayko. He has signed as a “witness”. But Cherwayko is not just anyone – and certainly not just a witness to the signing of the agreement. It was he who opened PGS's doors to the oil adventure in São Tomé.

Wade Cherwayko is not an African but a Canadian sports car enthusiast of Ukrainian descent. Norwatch has tried to follow the tracks of this man in a series of companies over the years. Through his commissions and positions in a series of oil companies with interest in the Gulf of Guinea, he has acquired many good contacts in the region. And it is probably here he became acquainted with PGS. It may have been in the dictatorship of Togo, where PGS at the end of the nineties shot seismic and marketed seismic data of the country's sea floor. Always willing to take a risk, Cherwayko had large projects going on in Togo, with a Canadian oil company named Abacan, which he had established in 1997. But his projects in Togo never got very far, for in 2000 Abacan went bankrupt. Cherwayko's company was valued at one billion dollars. And then the value fell to zero overnight.

Some years after the Abacan bankruptcy, Cherwayko had found new pastures, and he did a good job for PGS in São Tomé. Little could Prazeres, then petroleum minister, guess what kind of compensation the Canadian was to receive for his efforts and how many dealings the two of them would have in the future.

The Director Executive of São Tomé's petroleum agency confirms that it was Cherwayko who was PGS's bridgehead on the island in 2000. “It was Cherwayko who first made contact with the president and the ministers,” Director Luis dos Prazeres told Norwatch when we met him in his office in São Tomé.

The director knows what is talking about, because the day he and the PGS representatives signed the agreements he was a member of the country's government. Then he was petroleum minister. “I remember that from the day our prime minister asked me to initiate negotiations with PGS and all the time until we signed the agreement, I was under the impression that Cherwayko was employed by PGS. It was he who represented PGS in the negotiations,” Prazeres recalled.

The Business Connection

Cherwayko had good local contacts when he was working on the PGS agreement in São Tomé. According to Norwatch sources, it was Patrice Trovoada, son of the president at that time, who was his closest ally.

Patrice Trovoada is one of the most influential citizens of São Tomé, and today he is the leader of a medium-sized political party. His assets are considered a “national secret”. No one knows where the money comes from, what companies they are invested in, or how he manages to pay the rent on his houses in Houston and Paris. When he drives around the capital in his highly polished four-wheel drive cars, he is said to be followed by bodyguards. This despite the fact that there is practically no crime in the country.

Prazeres confirms to Norwatch that the president’s son played a part in the negotiations for the PGS agreement. The meetings took place under the auspices of the Petroleum Agency’s predecessor, the National Oil Commission, and were directed by the president, at his palace. “Yes, one day we were informed that Patrice Trovoada was to become a member of the Oil Commission,” said Prazeres.

As of the next meeting the president’s son is supposed to have participated actively in the negotiations with PGS. But the commission never questioned Trovoada’s competence. According to several independent sources Norwatch has spoken with, Patrice Trovoada is an old business partner and friend of the “PGS representative” Wade Cherwayko.

One of those who participated in the negotiations has informed Norwatch that neither Cherwayko nor Trovoada indicated that they had known each other previously when they met at the negotiating table. Nevertheless, there are rumours about their close business connections.

“We have an expression in Portuguese, “Não há fumo sem fogo”,” the source who participated in 2001 told us. There is no smoke without fire.

Through Wade Cherwayko’s connections with the president’s family PGS had opened the doors to the highly promising waters of the Gulf of Guinea.

Not the First Time

The PGS agreement is not the only controversial agreement that Cherwayko and the president’s son are supposed to have caught in São Tomé. They are also supposed to be involved in the story of an oil agreement between the authorities and and at that time unknown American company named ERHC.

According to a report written by the Attorney-General in São Tomé in December 2005, a trio consisting of Cherwayko, President Miguel Trovoada, and the president’s son Patrice Trovoada is supposed to be the architects behind the 2001 agreement between São Tomé and ERHC. Without relevant oil experience and without permanent employees, ERHC succeeded in obtaining an agreement that has cost São Tomé millions of dollars, an agreement that experts call exceptionally bad. According to three British researchers, who are among the leaders in studies of the West African oil industry, “it is an unparalleled development to give so many oil blocks and prerogatives to a single company without a bidding process, let alone a small obscure firm with few notable assets which was on the verge of bankruptcy at one point”. The scholars write that they have not seen an equally bad agreement in post-colonial Africa. The lucrative agreement with the American mini-company is supposed to have cost

the poverty-stricken island state as much as \$58 million in lost income, just during the second licensing round last year. If ERHC had not obtained the large rights in São Tomé, the authorities could have sold them to resourceful and established oil companies. Last year's loss is as large as the republic's revenues in a normal budget.

The ERHC agreement is connected to a large transaction from ERHC to one of Wade Cherwayko's Caribbean-registered companies. Today ERHC is under investigation for corruption in the USA, and in May their offices were subjected to a raid by federal American authorities. FBI agents have especially been on the lookout for their correspondence with the authorities in São Tomé e Príncipe.

It is, in other words, a team with a controversial background that is supposed to be behind the PGS agreement. Experts Norwatch has spoken with believe it is unfair to compare the ERHC agreement with the PGS agreements. PGS has after all invested large amounts in mapping the sea floor, whereas ERHC has nothing like it to refer to. And while PGS had to pay bonus money on signing the final oil agreement with the authorities, ERHC got away with paying nothing in signature bonus. But there is after all much evidence indicating that the agreements came into existence through the same channel and by the same procedure: the authorities in São Tomé distributed extensive rights to a foreign company and promised to give away the operator responsibility for several oil blocks – without carrying out any bidding rounds. And when the agreements had been signed, they were not made public. PGS's production agreement was to remain unknown for a long time after the ceremony in São Tomé e Príncipe on 12 February 2001.

The Lucrative Agreements

It was not until the newly elected president, Fradique de Menenez, launched his campaign against the previous administration's oil agreements, in 2003, that the production agreement with PGS was made public. Then it was also revealed what good terms the Norwegians had gotten. The other PGS agreement, with regard to seismic investigations, had already been known for a while.

The production agreement gave PGS first right to enter into three so-called production sharing agreements, for three blocks. PGS was in addition given the option to participate with the government, up to a maximum of 15% in any so-called participatory interest that the authorities might have in the country's territorial waters in the future. The authorities committed themselves to never give production rights to another oil company without first conferring with PGS. The Norwegians were to have first claim to the blocks, every single time. And that's not all: PGS was in any case guaranteed to have the operatorship, and no other company was to receive better terms than them.

The seismic agreement, for its part, gave PGS exclusive rights to shoot seismic and market the seismic data in the area during the next 10 years. The company was to receive 85% of the data sale and 10% of all the government's signature bonuses until it had had its own expenses reimbursed threefold.

The newly elected president received support from the World Bank to carry out an external examination of the old oil agreements. The American law firm that the government used delivered a crushing judgement: the agreements that Cherwayko later was found to have been involved in getting signed (both with ERHC and with PGS) were characterized as "extremely one-sided" – in the poor nation's disfavour. This evaluation was quickly leaked to the

international media, and the criticism was related in, among other things, a long article series in the newspaper “Dagens Næringsliv”. “We are a small, poor country with a unique possibility. We cannot squander this one chance,” President Menenez told “Dagens Næringsliv” back then in 2003.

PGS thought that the authors of the evaluation could not have known what the norms of the oil business were, but nevertheless accepted a renegotiation of the agreement.

Unwarranted Criticism

During the spring of 2003 several critical articles were published in “Dagens Næringsliv” – with many queries to answer for PGS. When Norwatch met with PGS at their headquarters outside Oslo this past summer, they felt that the criticism they had received for their involvement in São Tomé was “somewhat unwarranted” and that the agreements had been presented incorrectly. According to PGS, the production agreement did not include PGS but rather a company named Aqua.

“We had a certain part-ownership in Aqua, and this is the company that had the agreement with the authorities. We have now sold off our shares in Aqua”, Sverre Strandenes, head of the Africa section of PGS Marine Geophysical, explained.

In São Tomé Norwatch has had access to both the old agreements from 2001 and one of the two that were later renegotiated. All the agreements were signed by PGS Exploration. Several other documents that Norwatch has read confirm that the version first presented to Norwatch by PGS is, mildly put, extremely misleading.

Even when there was most debate about the PGS agreements, Aqua – or, as the company is really named, Aqua Exploration – was considered a subsidiary of PGS. At the time when the production agreement was renegotiated, several months after “Dagens Næringsliv” stopped publishing its critical articles, the links between PGS and Aqua were so close that Dan Whealing, then vice-president of PGS’s African section, signed the renegotiated agreement not only on behalf of PGS but also as director of Aqua. Moreover, according to a report whose contents PGS has approved, Aqua Exploration was “established by PGS Exploration to hold its interests” in the production agreement. Even PGS must at that time have believed that it had stronger ties to Aqua than it actually had, since in its annual reports to the stock exchanges in Oslo and New York, PGS wrote that it on 31 December 2003 owned 40% of its subsidiary Aqua Exploration, even though numbers from PGS’s partner in São Tomé show that it owned only 15%.

“Isn’t it a little misleading to say that it ‘was not PGS but Aqua that held the rights’? PGS had after all established Aqua solely for the purpose of taking over the production rights in São Tomé,” Norwatch queried.

After having checked the matter, Sverre Strandenes confirmed that it was PGS that negotiated the agreement in 2001. “We got the right to transfer it to one of our partly owned companies”, he explained.

Strandenes said that the agreement was transferred to the company Aqua, in which PGS owned 40% in the beginning and of which they sold off more during the following years.

Partner with Money

When the production agreement was signed, PGS was in an extremely poor economic state, shaken by write-downs in the billions and on the verge of bankruptcy. To meet its obligations in São Tomé, it allied itself with a company named Equator Exploration. Several sources in São Tomé have confirmed this to Norwatch. PGS's partner was registered in the British Virgin Islands at the same time that the Norwegian company was negotiating with São Tomé. During the months and years to come, many agreements and deals were to be made between PGS and Equator. The most important was that PGS would hand over the production agreement to the subsidiary Aqua Exploration, into which Equator was to buy in as majority shareholder. In addition, Equator would move in as an important financial partner in the seismic explorations. This was revealed in Equator's reports.

Since PGS transferred the production agreement to Equator, São Tomé has landed in an awkward and unexpected situation. Whereas the authorities actually signed the agreement with PGS, they finally ended up with Equator. How could PGS without further ado sell the agreement on to Equator?

From One Thing to Another

From what Norwatch has learned, PGS registered its new subsidiary, Aqua Exploration, in the Bahamas in March 2001, only a few weeks after signing the agreement in São Tomé. Shortly afterwards it transferred the production agreement to its new subsidiary. As we shall see, it was easy for PGS to hand the agreement over to its subsidiary.

The agreement between PGS and São Tomé established clearly that companies connected to PGS through ownership links could take over the production agreement. But the agreement text did not specify how strong these links had to be; in theory, therefore, PGS could transfer the agreement to any company at all in which it owned just one share. And since the authorities at this point had not yet finished enacting petroleum legislation, there were no obstacles preventing PGS from selling the agreement on to other companies. As Norwatch today understands the authorities in São Tomé, during the negotiations they had not envisioned such a resale scenario. In other words, there was nothing in the agreement to prevent PGS from reselling it.

The World Bank-supported study from 2002, of which Norwatch has a copy, wondered about precisely this possibility to resell that the Norwegian company had received. The rights to assign the agreement to an affiliate of PGS "seems to us overly broad and provides the Government very little protection in the event the entity that PGS assigns [the rights, ed.note] to is not either technically or financially capable of performing the obligations of PGS under this Agreement". The lawyers had found a decisive point in the agreement. In the years to follow, Aqua was to become more and more loosely connected to PGS, right up to the day when Aqua was completely sold out of the PGS company.

Norwatch has learned that Equator started its acquisition of PGS's subsidiary Aqua on 6 April 2001 – one day after it had issued Equator shares for \$4 million. First, Equator bought 60% of the Aqua shares – and thereby 60% of the production agreement. The parts agreed on a price of \$2 million, exactly the same sum that PGS had agreed to pay São Tomé for the production agreement.

In 2003 and 2004 Equator bought the last drops of Aqua. First, 25% was bought for the trifling sum of \$1, 2 weeks after the renegotiation in May 2003. The last 15% were bought for

\$1.5 million in 2004. This becomes apparent when the various reports from Equator and PGS are compared.

To make it extra complicated, PGS's production agreement was not transferred directly to Aqua but first went to another PGS company, Sea Lion Exploration, registered in the Bahamas, a tax haven. The correspondence between PGS and the authorities which Norwatch got hold of confirms this transfer of rights via Sea Lion. Technically speaking, it was Sea Lion that owned PGS's shares in Aqua, and it was they who got the profits from the sale of the shares. In this manner PGS could collect all the profits from the Aqua sale tax-free.

Cherwayko Takes over the Agreements

Towards the end of 2004, after Aqua had been completely bought up by Equator, PGS's old intermediary from the negotiations in São Tomé, Wade Cherwayko, finally received payment for his efforts – since Equator was established and supervised by the same Cherwayko. He is heavily represented as an owner and is the managing director and prime mover in the company. The man who had negotiated the two agreements for PGS, and signed them both as witness, ended up getting one of the agreements himself. São Tomé's authorities stood on the sidelines and observed.

At that time Equator had no oil projects anywhere in the world, and scarcely any employees. The only thing it owned was the production agreement it had bought from PGS. With this point of departure the British Virgin Islands-registered company was entered in The Alternative Investment Market (AIM) in London in December 2004. In the course of one day the company got \$100 million in share capital.

Today it is therefore Wade Cherwayko's company Equator Exploration that has taken over PGS's dual role. On the one hand, it shoots and sells seismic in general partnership with PGS; on the other hand, it has first right to two oil blocks, anywhere in the country's waters. As if that is not enough, the agreement relay with PGS has also given Equator the right to be operator.

São Tomé Is the Loser in the Game

Since it is both expensive and technically difficult to be the operator of an oil block, strict demands are usually made when a country's petroleum authorities choose an operator. But São Tomé did not get the opportunity to make a thorough analysis of its partner Equator. Today it is left with a company that, without conspicuous relevant experience, got the right to choose – and become the operator of – the most lucrative blocks in the country. The authorities are left the losers – without even knowing they were participating in the game.

“You signed the two agreements with PGS, a company you say was chosen because it was world known and competent. But then PGS transferred the production rights to Equator, which then was both newly started and unknown. But they had no experience?”, Norwatch queried.

“That is right. Equator was in the start phase at that time. But we have a very satisfactory collaboration with them now,” Luis Prazeres in the Petroleum Agency told Norwatch. Prazeres considers the situation to be that Equator came to São Tomé mainly to obtain the option for the oil blocks and that the seismic aspect was only secondary. “I consulted with lawyers whether it was all right that the companies did this. They answered that it is not illegal according to the agreement. It seems they only needed to inform us,” Prazeres said.

After Equator became registered on the AIM exchange in London, it has very active in trying to speed up the process in São Tomé. Its shareholders have been told that the oil blocks are right around the corner.

The authorities may have thought that PGS should receive a lucrative production agreement as compensation for costly and hazardous seismic surveys. But it was Wade Cherwayko who ended up with this payment, as compensation for what he had done as PGS negotiator. Four years after São Tomé e Príncipe gave away the production rights for only \$2 million to PGS, Chrwayko's Equator received \$100 million in share capital on the AIM exchange in London. Somewhere or other there is someone who has made a lot of money, and it is at any rate not São Tomé e Príncipe.

Could Never Have Happened in Norway

Erling Kvalsheim, geologist in The Norwegian Petroleum Directorate, believes that a similar incident, with transfer of rights between companies, could never have happened in Norway. "Definitely not. In this country there is a system by which the authorities formally approve all kinds of settlements. Such rights can only be transferred to a company that the authorities have endorsed as an operator," Kvalsheim informed Norwatch.

"When oil companies are given licenses by Norwegian authorities, the parts at the same time enter into an agreement regulating what happens if the ownership structure of the companies changes. These agreements must be approved by the authorities," Kvalsheim explained. Constantly more countries are developing legislation to prevent rights from being transferred unchecked between companies. In São Tomé, however, such legislation has not yet been completed. There was nothing, therefore, to prevent PGS from transferring the rights as they wished. PGS needed only to inform the authorities that they were transferring the rights to Aqua, which then was bought up by Equator.

"I am afraid such transfers have been common in some parts of the world. It is in any case something we warn against in those cases when we give advice to other countries' authorities," Kvalsheim emphasizes.

Cherwayko Never Negotiated

"For us, this is history which the new management has put straight," Ola Bøsterud, Vice President Group Communication in PGS, told Norwatch.

"How do you feel about the production agreement being sold on to Equator – a company not considered qualified by the authorities?", Norwatch queried.

"PGS is fully within its rights in transferring the agreement and selling it off. As I understand it, there was nothing in the agreement stipulating that the new owners had to be prequalified. In the production agreement there was no mention of production rights but of options in order to negotiate product-sharing contracts for selected blocks. The authorities can therefore set the final general terms," Bøsterud said.

According to PGS, Wade Cherwayko was never involved in the PGS negotiations in São Tomé. "Wade Cherwayko has never been a PGS representative in the country and never negotiated on our behalf. Our negotiations were led by our Africa Asset Manager," Bøsterud claimed. "In negotiations about such agreements it is quite common for the negotiations to be carried out at the highest level, since these are important negotiations about a country's future

oil and gas activities. This agreement was negotiated with the prime minister and petroleum minister of the country as the other party,” Bøsterud explained.

“But Luis Prazeres, the Director Executive of the National Petroleum Agency of São Tomé e Príncipe, who at that time was the petroleum minister, perceived Cherwayko as the PGS representative on the island and says that it was Cherwayko who negotiated?”

“What we say is that we conducted the negotiations ourselves, and that Cherwayko has never been our representative,” Bøsterud concluded.

Norwatch has made three interview appointments with Patrice Trovoada, the son of the previous president, both in São Tomé and by telephone. He has avoided turning up for any of them. Wade Cherwayko in Equator Exploration has not answered Norwatch’s requests for an interview.

Exclusive PGS Renegotiation in São Tomé

PGS relinquished a large amount of money but kept the exclusive rights. This was the result when the Norwegian seismic company renegotiated its lucrative agreements with the African island state São Tomé e Príncipe. Norwatch has gotten hold of the secret agreements in São Tomé.

Small changes were made when the authorities in São Tomé e Príncipe forced the Norwegian company Petroleum Geo-Services (PGS) back to the negotiating table in 2003. From what Norwatch has learned, in practice PGS still has a very long-lasting monopoly on seismic exploration off the tiny African island state.

The poverty-stricken country has not yet started its own oil industry, but many are optimistic with regard to the future, considering its opportune location in the oil-rich Gulf of Guinea, just south of Nigeria's overflowing oil fields. This year the first oil well was drilled, and if the exploration gives results, production can begin sometime around the end of this decade. PGS has a major part to play in this development.

PGS has for years had extremely good terms in its agreements with São Tomé. True, when it renegotiated its agreements, the Norwegian company had to give away one of three blocks, plus the rights to a few million dollars in profits. Simultaneously the risk in their oil projects was reduced. Their great and unique privileges were, however, not touched.

Until 2011 PGS has exclusive rights to map the sea floor off the coast of São Tomé. In many ways the hands of the authorities are tied. They cannot issue a single license to an oil company in any of its exclusive economic zone without using the Norwegian company to shoot seismic.

The new agreements that PGS have in São Tomé e Príncipe are the result of hard renegotiations. PGS began its involvement there already back in 2001, when the company signed two gilt-edged agreements with the country's government. One of the agreements concerned seismic exploration of the sea floor off the coast, and the other gave the Norwegian company the right to pump out the oil. But the newly elected president considered the agreements to be extremely unfair and a bargain for PGS. The authorities therefore gave a Houston-based law firm the job of examining, among other things, the PGS agreement. The analysis mentioned several factors that were both unusual in relation to standards within the industry and unfavourable for the government. When the criticism was repeated in the Norwegian press, PGS answered that the American lawyers must not have been aware of what is normal in the industry. Nevertheless, they accepted renegotiation of the agreements, after the new president threatened to cancel the agreements.

No matter what is normal or not, as Norwatch understands the renegotiated agreements, several of the points that were criticised in the analysis have not been changed in the new agreements.

“To us the criticism of our involvement in São Tomé is history. This is something the new PGS leadership has sorted out,” Ola Bøsterud, Vice President Group Communication in PGS, told Norwatch.

PGS explained that the agreements they have with the authorities in São Tomé are seismic

agreements that are standard in the industry. He also emphasises that São Tomé still can enter into a contract with any company at all about shooting seismic in the country.

Hesitant

It is difficult to obtain information on what the new agreements between PGS and the São Tomé authorities contain, since clauses in all the agreements specify that neither of the parties may publicise them. Both parties have kept this promise.

Norwatch went to São Tomé in June this year to learn more about the terms of the agreements that PGS has with the authorities in the country today.

“The renegotiated seismic agreement entails that São Tomé will receive greater profits. That is all I can say. But it is apparent that we have gotten a much more favourable agreement,” Luis dos Prazeres, Director Executive of the National Petroleum Agency of São Tomé e Príncipe, explains to Norwatch the first time we met him in June.

Prazeres also says he will check with his colleagues whether he can divulge more about the contents of the renegotiated agreements.

In several oil-rich African countries the lack of openness in the petroleum administration has been a main cause of corruption. Many of the countries with the largest oil resources have therefore ended up in the deepest poverty and with the most violent conflicts. This is what the well-informed authorities in São Tomé want to avoid. The island’s elected representatives have therefore passed one of Africa’s strictest legislations to ensure openness in the petroleum administration. In addition, São Tomé and its big brother, Nigeria, have declared that there is to be complete openness in the administration of the oil fields that the two countries are going to develop together.

Even though the legislation forces the petroleum administration to put all facts on the table, it has so far not been known what PGS and the authorities agreed on in 2003. The dilemma is that the legislation on openness was not passed until the year after the renegotiated and secret PGS agreement was signed. Journalists, researchers and students Norwatch has spoken with have found locked doors when searching for information. Norwatch has nevertheless succeeded in gaining access to the confidential agreements. Well-placed sources in São Tomé, under vows of complete anonymity, have given Norwatch copies of the two original agreements from 2001 and one of the two renegotiated agreements from 2003.

A week after Norwatch met Prazeres for the first time, we returned with copies of three of the altogether four agreements that PGS has entered into. Prazeres then willingly answered questions about the last one. Norwatch is the first to divulge their contents, but it is uncertain whether they have improved that much for São Tomé.

\$2.8 Million in Loss

The greatest change is so far worth \$2.8 million for São Tomé. This is at least what the authorities may have earned – and PGS lost – so far by renegotiating the seismic agreement. But since most of the rights have been retained, this does not prevent that PGS most probably will yield a profit when the accounts from the São Tomé involvement have been settled.

In the original seismic agreement from 2001 PGS committed itself to map the sea floor in São Tomé’s territorial waters, including the areas that later were to be included in a newly

established joint development zone with Nigeria. In addition to shooting seismic, PGS was to market and sell the data obtained to international oil companies, as is customary in seismic companies' so-called multi-client agreements.

In addition to the income from the seismic sales, it was decided that PGS would receive 10% of all future signature bonuses that São Tomé were to earn on the basis of the PGS data. São Tomé e Príncipe were, on the other hand, not to receive income from the seismic sales until the company had its own expenses reimbursed threefold. This was criticised as giving too unfavourable conditions for São Tomé.

Things turned to the better for the San Tomean government after the seismic services agreement was renegotiated in 2003. In stead of PGS receiving 10% of *all* signature bonuses, Norwatch can now reveal that PGS were to receive that the parties agreed upon a one time payment. The PGS cut of the signature bonus incomes was agreed to consist of only 10% of *the first licensing round*. The sum was not to exceed \$7.5 million. And it didn't.

Norwatch got to know on São Tomé that when the first licensing round was terminated in 2004, PGS ended with a sum of \$4.92 million in signature bonus incomes, exactly 10% of the government's \$49.2 million. PGS is very hesitant on making public these figures, and explains to Norwatch that it is only "a very modest sum of less than ten million dollars". The summer of 2006, PGS was still waiting to receive its cut of the bonus. From what Norwatch understands, PGS is meant to share the money with its partner Equator Exploration, which financed parts of the PGS activities on São Tomé.

As far as Norwatch can calculate, PGS has so far lost \$2.8 million from renegotiation the seismic services agreement. \$2.8 million equals 10% of São Tomés incomes from the second –and to this point last- licensing round that the authorities carried out in cooperation with the neighbouring country Nigeria in 2005. Even though PGS has had a significant loss of income vis-à-vis the authorities, it is still in the data sales to the private, international oil companies, that the big money is located. And no change is supposed to have been done in the conditions for these sales of seismic data.

It is not clear how much PGS has earned on the seismic sales to the international oil business. In an interview with the newspaper "Dagens Næringsliv" in 2002, the chairman of PGS Jens Ulltveit-Moe told that the company's income from the Joint Development Zone (JDZ) with Nigeria at that that point had exceeded \$10 million. Since then, PGS has continued to sell the data sets, both from the JDZ as well as from the exclusive economic zone of São Tomé.

The company tells Norwatch that they do not have the possibility to tell Norwatch how much they have earned from the assignment on São Tomé, but estimates the costs to be around \$15 million. It is therefore probable that when the data sales are finished, and the bonus income received, PGS will get a good return from their investments. Despite of the renegotiation.

Less Risk

In addition to the seismic survey agreement, PGS in 2001 got an agreement for option of oil production in three blocks of its choice in the exclusive economic zone of São Tomé. In 2003, also this agreement was renegotiated. But from what Norwatch understands, the outcome was not solely negative for PGS.

The original production agreement committed the authorities to never go to another oil company without first having conferred with PGS. The Norwegians were to have the first right to bid for each block – every time- in São Tomé’s territorial waters. In addition, PGS was guaranteed to be operator, and no other company was to get better conditions than them. Each of the three blocks presupposed a \$5 million signature bonus. PGS was furthermore given the option to participate with the government, up to a maximum of 15% in any so-called participatory interest that the authorities might have during the next ten years.

That PGS would be permitted to retain the rights both to shoot seismic and to choose blocks was criticised by several sources and considered to be detrimental to São Tomé’s interests.

The renegotiated production agreement, which Norwatch has obtained a copy of, entailed two changes. The number of blocks was reduced from three to two, whereas the signature bonus that PGS had committed itself to paying the day the final contract was to be signed, was – perhaps surprisingly – reduced from \$5 to \$2 million. Even though PGS lost a block, they negotiated an agreement that led to less risk than previously for the company. If the future oil wells should turn out to be empty, the company would not lose as much as previously. The first agreement actually opened for just this possibility to reduce the bonus in the future. The World Bank-supported analysis called this opening “difficult to understand”.

After PGS entered into the production agreement with São Tomé in 2001, the Norwegians have gradually handed all the production rights over to its partner Equator Exploration. The earlier criticism that PGS functioned both as an oil company and as a seismic services company for the same area has thus gone down in history. This dual role has been taken over by Equator.

Still Lucrative Seismic

Even though PGS now has sold off the production agreement, it still has the seismic agreement in São Tomé, with very favourable terms. Several sources in the industry with whom Norwatch has spoken call these remaining terms highly unusual and extremely favourable for PGS.

- The authorities do not have the possibility of issuing licenses to oil companies without using the Norwegian company to map the sea floor. This applies to São Tomé’s whole exclusive economic zone. In several ways the authorities’ hands are tied: nothing in the agreement specifies what will happen if PGS refuses to map any of the territorial waters that the authorities wish to develop. This was one of the important points in the World Bank-supported analysis from 2002.
- Only PGS alone – not São Tomé or the parties jointly – decides the terms for permitting the oil companies can use the data collected.
- PGS’s agreement is valid for all of 10 years, until 2011. That is an extremely long time for a seismic agreement.
- PGS is exempted from paying any kind of tax to São Tomé’s state treasury in connection with the assignment.

Geologist Erling Kvadsheim in The Norwegian Petroleum Directorate said that none of these terms would have been permitted in the North Sea. “We would not have recommended any of this. The way you describe it, PGS is the only seismic services contractor in São Tomé. If the authorities wish to obtain further data, they have to use PGS. That is very unusual. It may be that it is legally valid, but it doesn’t sound like standard terms,” Kvadsheim stated.

Good News

Petroleum Director Prazeres pointed out that PGS has done a very good job for São Tomé's authorities. He explained that it is to a great extent thanks to PGS's skilful marketing that the island state has received so much attention in international oil circles. Because the interest level has been high, the profits from the sale of blocks have also been very good. Both PGS and São Tomé will benefit from this.

"We have had a very good and close collaboration with PGS," Prazeres said. "Not least, we have been very satisfied with the training programme. PGS has given us invaluable knowledge about geology, security, law and English," he explained.

As part of the agreement, the Norwegian company has carried out a training programme for the authorities in the country, valued at \$10,000 a month.

PGS plays an important part in São Tomé today. Several independent experts with whom Norwatch has spoken confirm that PGS has invested great efforts in increasing the interest in São Tomé's waters. In the course of the past year PGS shot seismic in 5800 km of the country's exclusive economic zone. Soon PGS will aid in the task of drawing up the grid of blocks. This grid will be the point of departure for a new bidding round, probably next summer.

PGS Satisfied

Ola Bøsterud, Vice President Group Communication, and Sverre Strandenes, head of the Africa section of PGS Marine Geophysical, consider the renegotiated seismic services agreement a standard and straightforward agreement and do not want to go into detail about the contents.

"We don't put forth the commercial terms of this kind of agreement, since it is sensitive with regard to the competition. That is also the case for all kinds of confidential agreements we have with oil companies and authorities. But it is a fact that PGS so far has invested substantially more in the country than we have gotten back, economically speaking," Strandenes told Norwatch.

Communications Vice President Bøsterud pointed out that both parties are satisfied. "The seismic services agreement is a completely ordinary commercial agreement that is entered into in all countries where a company shoots seismic on their own account to help a country map its continental shelf in the initial phase. Such an agreement is based on the seismic services company then getting back its investment through the future sale of seismic and by having an exclusive right for an agreed period to carry out new multi-client seismic explorations on the shelf," Bøsterud said.

"Multi-client studies is the designation of seismic explorations in which several parties join forces to finance an exploration but in which the seismic services company has the future ownership of the data on their hands," Bøsterud explained.

He also stated that PGS does not have the exclusive rights to the contract-seismic explorations in the country. Furthermore, "this signifies that the authorities in São Tomé are completely free to offer any participant at all to shoot seismic studies for their own use on their continental shelf."

“With regard to the production agreement, we are out of that. The reason is not that it originally was the wrong kind of agreement for São Tomé e Príncipe. The problem was that PGS was to get ownership shares in licenses. That placed us on both sides of the table. Suddenly, we were both an oil company and a contractor, and that caused potential conflicts of interest between us and our customers. So, when the case received so much attention from the press, we made a clean cut and got out of the agreement”, Strandenes said.

Unfair Criticism

The PGS team believes that the criticism of the agreements PGS signed in 2001 was somewhat unfairly slanted. In contrast to the authorities in São Tomé e Príncipe, PGS believes that they never had an option for blocks. On the contrary, they claim that they had the *right to bid* for blocks. According to PGS, it was therefore never a matter of the company having production rights, only options to be able to negotiate for production-sharing contracts for selected blocks in the country.

“In the media at the time, it could seem as if it was contractually regulated that PGS for a very small sum *de facto* was to have access to these blocks. But the case was that we had an option to bid for these blocks, and it was up to the authorities whether they would accept or reject such a bid,” Strandenes said. “PGS was permitted to bid, but then the authorities also had the right to reject the bid,” Bøsterud concurred after checking the agreement.

But PGS’s partner, Equator – who later took over PGS’s rights – interprets the matter differently. According to them, the production agreement entails that the company has the *right to* oil blocks. In the agreement, which Norwatch has obtained a copy of, no mention is made of the authorities being able to reject PGS’s bid. When Norwatch asks for an explanation of where in the agreement this appears, Bøsterud said, “When a company has selected a block, it is always the authorities that set the general conditions. Among other things, they can decide which working plan to apply. Then it is up to the option holder to choose whether they want to continue or not.”

The agreement that PGS had with São Tomé e Príncipe guaranteed that no other company in the future could get a more favourable working programme than PGS.