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Equatorial Guinea

Recent offshore oil discoveries and the prospects for additional finds make Equatorial Guinea one of the leading areas for oil exploration in sub-Saharan Africa.

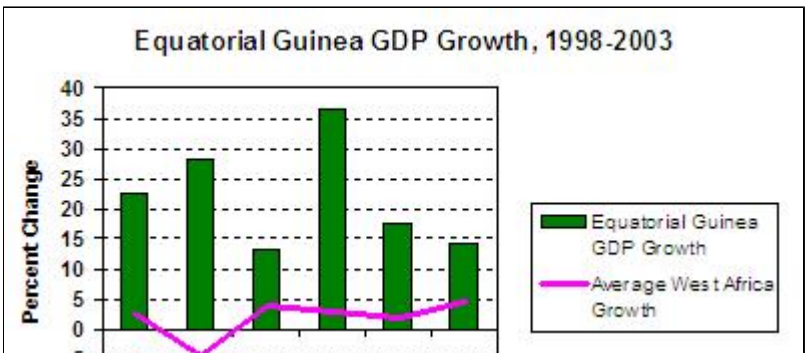
Note: Information contained in this report is the best available as of October 2004 and is subject to change.

GENERAL BACKGROUND

Equatorial Guinea is comprised of a mainland area (Rio Muni province) and a series of small islands, the largest of which, Bioko Island, houses the country's capital, Malabo. Equatorial Guinea is notable as the only Spanish-speaking country in Africa, having gained independence from Spanish rule in 1968. The country's current president, Teodoro Obiang Nguema, came to power in 1979 by leading a self-initiated coup that overthrew Francisco Macias Nguema, Obiang's uncle and the country's first president. In 1992, the government adopted legislation establishing a multiparty democracy. Since then, Obiang has been re-elected twice, most recently at the end of 2002, but both times amid opponents' allegations of election fraud.

Allegations of corruption and human rights abuses by Equatorial Guinea's government led to the closing of the U.S. embassy in Malabo in 1995. The rapid growth of U.S. private investment in Equatorial Guinea since 1996, however, combined with an increased U.S. interest in the region, prompted a July 2002 decision to reopen the U.S. embassy in the country.

For many years, agriculture (primarily cocoa, coffee and timber) formed the basis of the Equatoguinean economy. Since 1995, significant offshore oil discoveries in the Gulf of Guinea have caused oil to displace cocoa as the country's most important export commodity, and have made oil



production the major driver of
Equatorial Guinea's growth. Real gross domestic product (GDP) growth was strong at 14.2% in 2003, and is expected to be as high as 21.2% in 2004. GDP growth has been robust for several years, pushed higher by increased oil output. U.S. investment, almost exclusively in the oil/energy sectors, has increased dramatically since 1996. As of 2003, Equatorial Guinea was the third biggest recipient of foreign direct investment from the United States in sub-Saharan Africa, after South Africa and Nigeria.

Despite rapid growth in real GDP, there is strong evidence that oil revenues have been misappropriated by the government. Furthermore, the government's failure to direct oil revenues toward development -- especially to fund urgently-needed infrastructure improvements -- has undermined economic and social progress in the country. Meanwhile, the rapid increase in public sector spending has increased inflationary pressures, translating into average growth of the consumer price index (CPI) of about 7% annually for the past few years.

Historically, foreign aid has been an important part of Equatorial Guinea's economy, but during the early 1990's, several donors suspended aid programs due to non-performance. The World Bank originally severed its relationship with Equatorial Guinea in 1993, but resumed lending to the country in April 2002 with a program aimed at development of Equatorial Guinea's transport sector. An IMF-negotiated enhanced structural adjustment facility (ESAF) with Equatorial Guinea expired in 1996. Following Article IV consultations in November 2003, the IMF reported that the government in Malabo had made progress in improving administrative capacity and improved fiscal performance. Equatorial Guinea has maintained consistent relations with the African development Bank (AfDB), which has financed 24 loans and grants to the country.

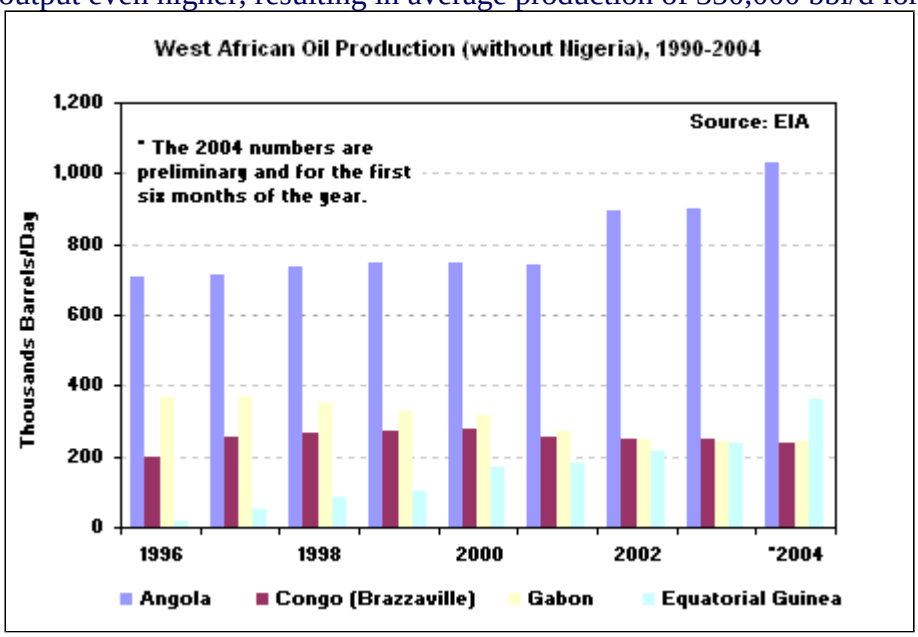
Territorial Disputes
The expansion of offshore oil exploration by Equatorial Guinea and its neighbors in recent years has increased the importance of maritime borders used to delineate each country's rights to offshore oil deposits. In March 1999, President Obiang signed a decree unilaterally adopting an equidistant median line to define territorial boundaries as stipulated under the U.N. Convention on the Law of the Sea. Cameroon, Sao Tome & Principe, and Nigeria subsequently accepted the decision as an improvement over oft-disputed traditional boundaries.

Equatorial Guinea currently is involved in a dispute with Gabon over the ownership of three islands in the Gulf of Guinea. In February 2002, Equatorial Guinea's nominal control was threatened when the government of Gabon seized control of Mbagne Island. Since then, the governments of both countries have met to discuss solutions to the issue, including the possibility of joint-exploration of the waters surrounding Mbagne. In July 2004, an agreement was reached, with the help of the U.N., allowing the countries to explore jointly for oil in the disputed territories while a final resolution is worked out under U.N. mediation.

OIL
Oil is Equatorial Guinea's most valuable asset. Since the discovery of the Zafiro field in 1995, production has increased more than tenfold, and oil has quickly become the country's most important export commodity, accounting for nearly 90% of the value of total exports in 2003. Equatorial Guinea's oil reserves are located mainly in the hydrocarbon-rich Gulf of Guinea, containing estimated probable reserves as high as 10% of the world total. As a result, large amounts of foreign investment primarily by U.S. companies, have poured into the country's oil sector in recent years.

Oil production from Equatorial Guinea is expanding rapidly, averaging 237,500 bbl/d, of which

206,000 is crude in 2003. This represents a tremendous increase from the 1996 oil output of 17,000 bbl/d. Production improvements and expansion projects undertaken in 2003 pushed petroleum output even higher, resulting in average production of 350,000 bbl/d for the first half of 2004.



Meanwhile, the government has been vague about plans to cap production levels to extend the life of the country's petroleum reserves. Three fields -- Zafiro, Ceiba, and Alba -- currently account for the majority of the country's oil output.

Equatorial Guinea 's oil profits have expanded since 1998, when the country introduced more liberal regulatory and profit-sharing arrangements for hydrocarbon exploration and production activities, including revised and updated Production Sharing Contracts (PSCs). As a result, government oil revenues increased from 13% to 20% of total oil export earnings. Although significant, the government's share is still relatively small by international standards.

In 2001, GE Petrol became Equatorial Guinea's national oil company. It was established as the primary state-run institution responsible for the country's downstream oil sector activities. However, since 2001 its primary focus has become managing the government's interest stakes in various PSCs with foreign oil companies. GE Petrol also partners with foreign firms to undertake exploration projects and has a say in the country's environmental policy implementation, as well. Plans to increase the government's stake in new and existing PSCs have been discussed, but not formally pursued.

Three Fields

Equatorial Guinea's total proven oil reserves are estimated at 1.1 billion barrels. The majority of these reserves are found in the Zafiro field, located northwest of Bioko Island and south of Nigeria's offshore oil fields. Zafiro was discovered in 1995 by ExxonMobil and Ocean Energy (bought by Devon Energy in 2003) and constitutes the northern portion of Block B, for which the two companies hold an exploration license.

In recent years, ExxonMobil has focused on increasing production from Zafiro, expanding drilling capacity to accomodate this plan. Zafiro is Equatorial Guinea's largest oil producer, with output rising from an initial level of 7,000 bbl/d in August 1996 to approximately 280,000 bbl/d by 2004. In July 2003, the operator began use of a new Floating Production Storage and Offloading (FPSO) vessel in the Southern Expansion Area (SEA) of Zafiro. This expansion project was implemented under ExxonMobil's Early Production System, which succeeded in bringing the project online in 19 months and increased production at the Zafiro field to 300,000 bbl/d.

Ceiba, Equatorial Guinea's second major producing oil field, is located just offshore of Rio Muni in exploration Block G and is estimated to contain 300 million barrels of oil. The field - discovered by Amerada Hess (formerly Triton Energy) in 1999 - began production in December 2000, just 14

months after its discovery. Ceiba's rapid development was facilitated by the government's strong interest in accomodating oil sector expansion. Amerada Hess has an 85% interest in Blocks G and F (directly north of G), for which it shares licenses with South Africa's Energy Africa (15% interest). These two companies have experienced continued successful exploration of Block G, resulting in additional discoveries in 2001 (Okume and Oveng fields) and 2002 (Akom, Elon and Abang fields). In July 2004, Amerada Hess received government approval for its plans for expansion of operations in Block G. The expansion project requires an investment of approximately $1.1 billion by the three partners, Amerada Hess, Tullow Oil and GE Petrol, and production is expected to reach 60,000 bbl/d by 2007 when it goes online.

Production at Ceiba has risen dramatically during the past 2-3 years, following improvements and upgrades to the facility. Additional production from Amerada Hess' fields in Northern Block G is expected to come online in 2007, bringing 60,000 Amerada Hess' total production to 60,000 bbl/d.

Ceiba's discovery has significantly increased interest in petroleum exploration of surrounding areas, with many new companies acquiring licenses in exploration blocks further offshore in the Rio Muni basin. International companies with interests in one or more exploration blocks include Chevron (U.S.), Vanco Energy (U.S.), Atlas Petroleum International (US), Devon Energy (US), Roc Oil (Australia), Petronas (Malaysia), Sasol Petroleum (South Africa), and Glencore (Switzerland).

Alba, Equatorial Guinea's third significant field, was discovered in 1991. Original estimates of reserves at Alba were around 68 million barrels of oil equivalent (BOE), but recent exploration has increased new estimates significantly, to almost 1 billion BOE. Unlike the Zafiro or Ceiba fields, exploration and production at Alba has focused on natural gas, including condensates. (See below for more detail.)

In August 2004, Marathon Oil reported production improvements of 20,000 bbl/d at Alba that will result in average production of 50,000 bbl/d by year's end. Marathon Oil announced in 2003 that it was planning to significantly increase investment in production operations in Equatorial Guinea, especially its liquefied petroleum gas (LPG) operation at Alba.

Adjacent to Alba is Block O. By the terms of a new PSC signed by the Equatoguinean government in May 2004, Block O will be explored by a consortium of Noble Energy EG Ltd. (UK), Glencore Exploration Ltd. (CH), and the national oil company, GE Petrol. Noble Energy will assume technical operatorship and control a 45% stake in the project, while GE Petrol will take on administrative operatorship and have a 30% working interest. Glencore Exploration will have a 25% working interest as well. The project calls for two wells to be drilled during the first three years of exploration.

Downstream

Equatorial Guinea's domestic petroleum consumption is estimated at 2,000 bbl/d, primarily in the form of motor fuel. The company Getotal, jointly owned by TFE and the government of Equatorial Guinea, has a monopoly on the distribution of petroleum products, all of which are imported.

In 2001, the Atlantic Methanol Production Company (AMPCO) completed construction of a $450 million methanol plant on Bioko Island, which now produces 20,000 bbl/d of methanol using 120 million cubic feet (MMcf/d) of natural gas from the Alba field.

NATURAL GAS

Equatorial Guinea's natural gas reserves are located offshore Bioko Island, primarily in the Alba and

Zafiro oil and gas fields. Natural gas and condensate production in Equatorial Guinea has expanded rapidly in the last five years in response to new investments by major stakeholders in the Alba nautral gas field. Alba, the country's largest natural gas field, contains 1.3 trillion cubic feet (Tcf) of proven reserves, with probable reserves estimated at 4.4 Tcf or more. Throughout the 1990's, Alba was used primarily for condensate production, while much of the natural gas from the field was flared off. Marathon Oil is the largest stakeholder in the Alba field with a 63.3% interest, while Noble Energy holds a 36.7% stake. Recently, Marathon has expanded exploration for natural gas at Alba with the aim of increasing gas production from the field.

Marathon Oil and GE Petrol have joined together in a $1.4 billion deal to construct a liquefied natural gas (LNG) facility on Bioko Island. In May 2003, the government gave final approval for the plan to construct an LNG plant, once Marathon and GE Petrol had secured a 17-year purchase agreement with British Gas (BG) of the United Kingdom. Under the contract, the LNG facility will supply 3.4 million tons of LNG to BG, beginning in 2007. Financing for the plant seemed to be in jeopardy earlier this year when the Equatoguinean government pulled out of a $400 million financing deal with Deutsche Bank, but now the government has announced that it will cover GE Petrol's share of the project with cash. The LNG plant will enhance Equatorial Guinea's position in the region's natural gas market if it begins to process natural gas production from neighboring countries, as proposed .

Natural gas consumption in Equatorial Guinea has increased in recent years, along with higher production. has made natural gas conveniently accessible. Natural gas consumption jumped to 45 Bcf in 2002, from approximately 1 Bcf during each of the four previous years.

ELECTRICITY

Estimates of Equatorial Guinea's generating capacity vary, with 15.4 megawatts (MW) of certain installed capacity, and 5-30 MW of estimated additional capacity. About 5.0 MW are located on the mainland, including 4 MW of oil-fired thermal capacity and 1 MW of hydroelectric capacity. Bioko Island receives electricity from two thermal plants and one hydroelectric plant. The expansion of natural gas production at the Alba field in recent years has provided a convenient fuel source for new power generation in the country. The 10.4-MW, natural gas-fired Punta Europa plant began operation in 1999, supplying gas-fired electricity to Bioko Island. Another 4-6 MW of generation capacity is currently under construction at the AMPCO complex on the island. Equatorial Guinea is estimated to have 2,600 MW of hydropower potential.

Equatorial Guinea's electricity sector is owned and operated by the state-run monopoly, SEGESA. The power supply is unreliable, due to aging equipment and poor management, as demonstrated by prolonged blackouts in Malabo in May 2002, and again in April 2003. As a result, small diesel generators are widely used as a back-up source of power supply.

Sources for this report include: Africa Energy and Mining; CIA World Factbook; Dow Jones Newswire; Economist Intelligence Unit ViewsWire; Energy Day; Financial Times African Energy; Global Insight; International Monetary Fund; Oil and Gas Journal; PR Newswire; RigZone; U.S. Energy Information Administration; World Bank; World Markets Analysis

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COUNTRY OVERVIEW

President: Teodoro Obiang Nguema
Prime Minister: Miguel Abia Biteo Borico
Independence: October 12, 1968 (from Spain)

Population (July 2004E): 523,051
Location/Size: West Central Africa -- the mainland region of Rio Muni borders the Atlantic Ocean just north of the Equator between Cameroon and Gabon; the islands of Bioko, Annobon, Elobey Grande, Elobey Chico and Corisco lie in the Atlantic Ocean / 28,050 square kilometers (10,831 square miles), about the size of Maryland
Major Cities: Malabo (capital) on island of Bioko, Bata on mainland enclave of Rio Muni
Languages: Spanish and French (official languages), Fang, Pidgin English, Bubi
Ethnic Groups: Fang (constitute majority of mainland population), Bubi (on Bioko Island), Annobonese, Ndowe, Kombe, and Bujebas
Religion: Christian (predominantly Roman Catholic), Traditional Beliefs

ECONOMIC OVERVIEW

Minister of Economy Commerce and Promotion: Jaime Ela Ndong
Minister of Finance and Budget: Mercelino Owono Edu
Currency: Communauté Financière Africaine (CFA).
Market Exchange Rate (9/7/2004): US$1 = 543.2 CFA Fr
Gross Domestic Product (GDP - $PPP) (2003E): $3.3 billion
Real GDP Growth Rate (2003E): 14.2%; **(2004F):** 21.2%
Consumer Price Inflation Rate (2003E): 7.3%; **(2004F):** 8.2%
Current Account Balance (2003E): -$900 million
Major Trading Partners: United States, Spain, France, China, Cameroon, United Kingdom, Japan
Merchandise Exports (2003E): $2.6 billion
Merchandise Imports (2003E): $1.1 billion
Merchandise Trade Surplus (2003E): $1.5 billion
Major Export Products: Oil, timber, cocoa
Major Import Products: Food, clothing, petroleum products, automobiles, machinery, iron and steel
Total External Debt (2003E): $300 million

ENERGY OVERVIEW

Minister of Mines and Energy: Antanasio Ela Ntugu Nsa
Secretary of State for Energy: Miguel Ekua Ondo
Proven Oil Reserves (1/1/04E): 1.1 billion barrels
Oil Production (2003E): 237,500 barrels per day (bbl/d), of which 206,000 bbl/d is crude oil
Oil Consumption (2003E): 2,000 bbl/d
Net Oil Exports (2003E): 235,500 bbl/d
Natural Gas Reserves (1/1/04E): 1.3 trillion cubic feet (Tcf)
Natural Gas Consumption (2002E): 45 billion cubic feet (Bcf)
Electric Generation Capacity (1/1/03): 15.4 megawatts (of which 80% is thermal and 20% hydroelectric)
Electricity Generation (2002E): 30 million kilowatthours

ENVIRONMENTAL OVERVIEW

Minister of Agriculture and Forests: Teodoro Nguema Obiang
Total Energy Consumption (2002E): 0.05 quadrillion Btu (<0.01% of world total energy consumption)
Energy-Related Carbon Dioxide Emissions (2002E; includes natural gas flaring): 3.98 million metric tons (<0.01% of world carbon dioxide emissions)
Per Capita Energy Consumption (2002E): 104.4 million Btu (vs. U.S. value of 339.1 million Btu)
Per Capita Carbon Dioxide Emissions (2002E): 8.3 metric tons (vs. U.S. value of 20.0 metric

tons)
Energy Intensity (2002E): 39,370 Btu/ $ nominal-PPP (vs. U.S. value of 9,344 Btu/$ nominal-PPP)**
Carbon Dioxide Intensity (2002E): 3.13 metric tons/ $ nominal-PPP (vs. U.S. value of 0.55 metric tons /$ nominal-PPP)**
Fuel Share of Energy Consumption (2002E): Natural Gas (93%), Oil (6%), Hydropower (0.04%)
Fuel Share of Carbon Dioxide Emissions (2002E; includes natural gas flaring): Natural Gas (94.2%), Oil (5.5%)
Status in Climate Change Negotiations: Equatorial Guinea signed and ratified both the United Nations Framework Convention on Climate Change and the Kyoto Protocol on August 16, 2000.
Major Environmental Issues: Deforestation, wildlife destruction, non-potable tap water and desertification.
Major International Environmental Agreements: A party to the Conventions on Biodiversity, Desertification, Endangered Species, Law of the Sea and Ship Pollution.

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar and wind electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and includes hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.
**GDP based on CIA World Factbook estimates based on purchasing power parity (PPP) exchange rates.

OIL AND GAS INDUSTRIES
Organization: Petroguinea state company in upstream activities (not yet active); downstream activities - Getotal (owned by Total, S.A. -- 80% and the government of Equatorial Guinea -- 20%)
Major Oil Fields (2002 production): Zafiro (180,000 bbl/d), Ceiba (50,000 bbl/d), Alba (6,500 bbl/d)
Major Foreign Oil Company Involvement: Amerada Hess (formerly Triton), ChevronTexaco, Devon Energy, Energy Africa, ExxonMobil, Marathon Oil, Noble Affiliates, Petronas
Refineries: None
Pipelines: None
Terminals: Proposed LNG terminal on Bioko Island (expected completion date of 2007)

LINKS

For more information from EIA on Equatorial Guinea, please see:
EIA - Country Information on Equatorial Guinea

Links to other U.S. government sites:
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