

BACKGROUND DOCUMENT ON SOUTH AFRICA- EQUATORIAL GUINEA SOCIO-ECONOMIC RELATIONS



SOCIO- ECONOMIC SECTION

ECONOMIC DIPLOMACY

South Africa – Equatorial Guinea Agreements on Cooperation in the Economic, Trade and Investment Sectors.

The Government of the Republic of South Africa (RSA) and the Government of the Republic of Equatorial Guinea (EG) have entered into a number of agreements with the aim to enhance their relationship in different spheres of interest. In this regard, focus is on economic relations (i.e. cooperation on trade and investment). In their quest to implement cooperation in the economic spheres of influence, the two countries entered in to the following agreements and a protocol:

- General Co-operation Agreement
- Agreement for the Reciprocal Promotion and Protection of Investments
- Protocol to the Agreement for the Reciprocal Promotion and Protection of Investments

1. Background summary of the Agreements and the Protocol

1.1 General Co-operation Agreement

In December 2003, the Government of the Republic of South Africa and the Government of the Republic of Equatorial Guinea met in Pretoria, South Africa where they entered into a *General Co-operation Agreement (GCA)* with the desire to promoting friendship, brotherhood and cooperation between the two countries. The primary principles that inform the basis of the agreement (GCA) are enshrined in the Charter of the United Nations and the Constitutive Act of the African Union as well as on the basis of the norms of International Law.

The overall rationale for this agreement is to undertake to develop and strengthen co-operation in various fields of common interest. Moreover, the agreement serves as a basis to develop, negotiate and sign sector specific Agreements in various fields.

The two countries further agreed (within the context of the agreement) that it may be amended by mutual consent of both countries through exchange of diplomatic notes.

1.2 Agreement for the Reciprocal Promotion and Protection of Investments

As driven by the desire to promoting friendship, brotherhood and cooperation between the two countries, the Government of the Republic of South Africa and that of the Republic of Equatorial Guinea entered in to an *Agreement for the Reciprocal Promotion and Protection of Investments* on 17 February 2004, in Pretoria, South Africa.

In this regard the two countries undertook to create conducive and favourable conditions for greater investment by investors of either of the two countries in the territory of the other. The basis of the foundation of this agreement is based on the belief that the encouragement and reciprocal protection under international agreement of such investments will be conducive to the stimulation of individual business initiatives and moreover will play a fundamental role in increasing prosperity in the territory of both countries.

Over and above, the agreement stands also to re-affirm the principles of strict respect for sovereignty, sovereign equality, territorial integrity, political independence, mutual interdependence, non-aggression and respect for borders existing on achievement of independence.

1.3 Protocol to the Agreement for the Reciprocal Promotion and Protection of Investments

In addition to the *Agreement for the Reciprocal Promotion and Protection of Investments*, the Government of the Republic of South Africa and that of the Republic of Equatorial Guinea agreed on a *Protocol to the Agreement for the Reciprocal Promotion and Protection of Investments* which shall constitute an integral part of the agreement. Broadly, the Protocol focuses on the provisions as stipulated in Article 7 of the agreement.

2. Summary account on Bilateral Economic Relations: South Africa – Equatorial Guinea

Bilateral trade statistics suggest that trade between South Africa and Equatorial Guinea is thus far minimal. The trade balance is skewed in South Africa's favour. Equatorial Guinea is South Africa's 115th export destination in the world. However, recent developments in terms of interaction suggest that trade between the two countries has increased significantly since 2006. South Africa exports machinery, perishables, furniture and equipment, whereas Equatorial Guinea exports machinery.

The leadership of both countries has committed themselves to work towards stronger ties in various areas of interest (Agriculture, Health Defence and Security, Communications, Tourism, Education, Trade and Investment, etc.) which will be dealt with, within the context of a bilateral Joint Cooperation Commission (JCC) which is to be finalised in 2012.

3. Background Summary: Economy of Equatorial Guinea

Equatorial Guinea's hydrocarbon riches are currently the largest to all other economic activities in the country. Oil and gas exports are expected to drive the economy of EG for years to come. The government is seeking to diversify the economy by encouraging amongst other economic activities, agriculture and financial services. Equatorial Guinea has other resources, including its tropical climate, fertile soils, and rich expanses of water, deep-water ports, and reserves of unskilled labor. Construction booms have enhanced related skills. The once significant economic mainstays of the colonial era--cocoa, coffee, and timber--have received some attention, though they remain miniscule in comparison to the energy sector.

Per capita income rose from about \$590 in 1998 to approximately \$37,900 in 2010. The Equatoguinean budget grew enormously as royalties and taxes on foreign company oil and gas production provided new resources to a once-poor government. Government revenue for 2010 was about \$6.739 billion. Oil accounts for more than 81% of government revenue. Value added tax and trade taxes are other large revenue sources for the government. Real GDP growth was estimated at 0.9% for 2010, a drop from 5.3% for 2009

The International Monetary Fund (IMF) has held regular Article IV consultations, or periodic country evaluations, with Equatorial Guinea since the 1996 end of the country's Enhanced Structural Adjustment Facility (ESAF). In 2011, the IMF noted that "Equatorial Guinea's largely oil-driven economy was hit hard by falling oil prices in the wake of the global crisis. While oil prices have bounced back, the absence of large discoveries make [it likely] that oil production will decline over the medium term. Without strong domestic engines of growth,

economic activity will slow jeopardizing development goals and hopes of more inclusive growth, while sustained spending of oil wealth will run down government deposits. Even if more oil is discovered, the economy's oil dependence would leave it highly vulnerable to external shocks. Economic diversification is inevitably vital to future welfare."

GDP (2010 est.): \$24.66 billion.

Real GDP growth rate (2010 est.) 0.9%.

Inflation rate (2010 est.): 8.2%.

Natural resources: Petroleum, natural gas, timber, small, unexploited deposits of gold, manganese, and uranium.

Agriculture (2010 est.): 2.2% of GDP. *Products*--coffee, cocoa, rice, yams, cassava (tapioca), bananas, palm oil nuts, manioc, livestock, and timber

Industry (2010 est.): 93.9% of GDP. *Types*--petroleum, natural gas, fishing, lumber.

Services (2010): 3.8% of GDP.

Trade: Exports (2010 est.)--\$10.24 billion: hydrocarbons (97%), timber (2%), others (1%).

Trade Imports (2010 est.)--\$5.743 billion. *Major trading partners*--United States, Spain, China, France, and Italy.

Currency: Communauté Financière Africaine (CFA) franc.

4. Investment and Business Climate

Since 1991 the government of Equatorial Guinea under the leadership of President Obiang Nguema Mbasogo has undertaken a number of reforms to reduce its predominant role in the economy and promote private sector development. Its role is a diminishing one, although many government interactions with the private sector are at times unpredictable. The government has sold some state enterprises, and the country's economic policies include an open investment regime. Equatorial Guinea is attempting to create a more favourable investment climate, and its investment code contains numerous incentives for job creation, training, promotion of non-traditional exports, support of development projects and indigenous capital participation, freedom for repatriation of profits, exemption from certain taxes and capital, and other benefits.

Qualitative restrictions on imports, non-tariff protection, and many import licensing requirements were lifted in 1992 when the government adopted a public investment program endorsed by the World Bank. Trade regulations have been further liberalized since Central African Economic and Monetary Union (CEMAC) reform codes in 1994. This included elimination of quota restrictions and reductions in the range and amounts of tariffs. The CEMAC countries agreed to the introduction of a value added tax (VAT) in 1999. In early 1997, the government began efforts to attract significant private sector involvement through cooperative efforts with the Corporate Council on Africa visit and numerous ministerial efforts. In 1998, the government privatized distribution of petroleum products, and Total has stations in the country.

The government of EG is eager for greater South African investment. The involvement of PetroSA in the exploration and development of Block Q, which it acquired in November 2004 is seen as an important step in building cooperation between the two countries in order to share experience in the petroleum industry and to work together towards increased intra-Africa trade.

Note: Investment and Business Climate

- The United States of America (USA) has announced its new investment in the hydrocarbon production amounting to \$7 billion since 2008.
- China won exploration and drilling rights in a new offshore block and began drilling in 2009. With investments estimated at over \$12 billion, the United States is the largest cumulative bilateral foreign investor in Equatorial Guinea, although the Chinese presence is growing steadily fast.

Very important to note: Investment and Business Climate

Although the government seeks to expand the role of free enterprise and to promote foreign investment, it has had little success in creating an atmosphere conducive to investor interest. This is true in that while business laws promote a liberalized economy, the business climate remains difficult. Application of the laws remains selective. Corruption among officials is widespread, and many business deals are concluded under non-transparent circumstances. A wage law now regulates separate wage levels for the petroleum, private, and government sector. There is little industry in the country, and the local market for industrial products is small.

5. General overview: Economy

Before the discovery of oil in Equatorial Guinea (EG), exports were mainly dominated by agricultural production, which declined dramatically under the period of authoritarian rule. The trade balance in the late 1980s and early 1990s was in constant deficit, only to improve with the explosion of oil production in the early 1980s. With a depreciation of the Communauté Financière Africaine franc (CFA Fr), the price of timber from Equatorial Guinea became less expensive relative to timber from other countries. This depreciation has led to a dramatic increase in timber exports. These two industries propelled the country into a surplus in the mid-1990s. The international trade position of the country has then improved dramatically.

With no real manufacturing base, almost every manufactured goods have to be imported. The increased activity in the oil sector has led to a surge in imports to service this industry's needs.

The country's main trading partner is the United States, consuming 62 percent of the country's exports and providing 35 percent of the imports. France, Spain, China, Cameroon, and the United Kingdom are also important trading partners.

5.1 Infrastructure

Infrastructure has improved considerably in the last few years. Numerous, large-scale

infrastructure investments have been completed or are underway. Several ports and a new terminal were built to accommodate the needs of the oil industry. Surface transport options are increasing as the government has invested heavily in road pavement projects. Considerable funds have been invested in improving transportation, including paving most roads in the country; new airfields in Annobon, Corisco, and Mongomo; and a new port on Annobon. A French company operates cellular telephone service in cooperation with a state enterprise, though the sector was opened to competition in 2007.

Equatorial Guinea's electricity sector is owned and operated by the state-run monopoly, SEGESA. The government has expressed interest in privatizing the outmoded electricity utility. Equatorial Guinea's electricity generating capacity is more than adequate to meet demand on both the continent and the island of Bioko, although the power supply has been unreliable. The country's distribution network has been incapable of delivering reliable electricity to end users, due to aging equipment and poor management, as demonstrated by regular blackouts in Malabo. As a result, small diesel generators have been widely used as a back-up power source. A project to modernize the grid was scheduled for completion by 2010. However, the end of 2011 became evident that they have missed the timeframe target in terms of completion. Equatorial Guinea is estimated to have 2,600 megawatts (MW) of hydropower potential.

Potable water is available in the major towns but is not always reliable because of poor maintenance and aging infrastructure; consequently, supply interruptions are frequent and prolonged in some neighbourhoods. A major project to upgrade the public water system in the cities of Malabo and Bata was expected to be completed in 2010. In this regard as well, the end of 2011 became evident that they have missed the timeframe target in terms of completion. Some villages and rural areas are equipped with generators and water pumps, usually owned by private individuals.

Telecommunications have improved dramatically in recent years. Parastatal GETESA, a joint venture with a 40% ownership stake held by France Telecom, provides telephone service in the major cities through a digital fixed network and mobile coverage. GETESA's fixed-line service has 20,000 subscribers and the mobile service is used by over 200,000. Internet access is widely available and is increasing, providing some improved access to information.

Equatorial Guinea has two of the deepest Atlantic seaports of the region, including the main business and commercial port city of Bata. The ports of both Malabo and Bata have been severely overextended. A half-billion dollar renovation project for the Port of Malabo is nearing completion, and a renovation of the Bata port was scheduled to begin. The government has made significant progress in a project to renovate and expand Luba, the country's third-largest port, located on Bioko Island. Luba has become a major transportation hub for offshore oil and gas companies operating in the Gulf of Guinea. Luba is located some 50 kilometers from Malabo and was previously virtually inactive except for minor fishing activities and occasional use to ease congestion in Malabo.

The influx of oil workers has increased international air activity. Major international carriers now connect Malabo directly to Addis Ababa, Paris, Madrid, Frankfurt, and Casablanca.

The runway at Malabo's international airport (3,200 meters) is equipped with lights and can service Boeing 747s. The runway at Bata (2,400 meters) does not operate at night but can

accommodate aircraft as large as B737s. Bata is undergoing an upgrade with runway extension and expansion. Two minor airstrips (800 meters) located at Mongomo and on the island of Annobon have been extended and can now accommodate B737s. Air service between the island and continental territories is restricted to five (5) small airlines. In March 2006 the European Union blacklisted airlines based in Equatorial Guinea from flying into the EU. A project to gain International Civil Aviation Organization (ICAO) accreditation for various parts of the airline industry is underway and a contract has been signed to bring both Bata and Malabo up to ICAO and Transportation Security Administration (TSA) standards.

Note

A major American airline announced that it is interested in beginning service to the airport in the capital, Malabo.

5.1.1 General overview: Infrastructure

As propelled by both the revenues from natural resources and the increased demands for power, roads, and harbours to continue the production of natural resources, the country has made large improvements in the vastly underdeveloped **infrastructure**. This includes upgrading the port at Luba, the airport at Malabo, and many roads linking major cities. The telecommunications revolution has slowly been introduced with a new digital network, public phone booths, a cellular system, and even some limited Internet access.

6. Background Summary on Economic Sectors: Equatorial Guinea

6.1 Agricultural sector

(i) Cocoa and Coffee

The once thriving cocoa and coffee industry was severely devastated by years of economic mismanagement under authoritarian rule. Cocoa and coffee production in 1969 stood at an impressive 36,161 tons and 7,664 tons, respectively. By the mid-1990s cocoa production had plummeted to less than 3,000 tons (1993) and coffee production to under 200 tons (1996). Obscured in these numbers is the decline in the quality of the products, which has been especially glaring in the quality of cocoa. With only a few large and inefficient plantations still producing coffee and cocoa, coupled with declining cocoa prices due to the European Union's (EU) loosening of regulations on the percentage of cocoa needed for chocolate production, the future of these two industries is bleak.

(ii) Timber

Timber exports have been increasing rapidly in recent years due to government promotion of the industry and available capital from oil revenues. By 1997 trade in tropical wood exports alone amounted to almost 6 percent of GDP. The economic success of this industry has been a mixed blessing, increasing economic growth and employment, but threatening serious environmental damage.

While environmentalists have become increasingly active on this issue, the most serious challenge to this industry remains the weakening of markets in Asia due to the aftermath of

the recent financial crisis coupled by the slow recovery. This crisis has both reduced exports to the region and, with the weakening of the Asian currencies, has been followed by a drop in the price of timber from other exports in Asia. The *Economist Intelligence Unit* argues that the competition from Asian timber exports was felt as early as 1998, decreasing sales substantially. Even with this competition, the recent investments in infrastructure (especially the roads and port systems) may greatly help the timber industry to improve.

(iii) Fishing

The small island of Annabón is situated in the midst of one of the richest fishing areas in the Atlantic Ocean. The 300,000-square-kilometer area around the island is an exclusive maritime fishing zone, although the government of Equatorial Guinea has granted concession to the EU for the use of this zone. Few reliable figures exist on the size of current production, but it is clear that the rich fishing waters offer a substantial opportunity for the development of a large domestic fishing industry.

6.1.2 General overview: Agricultural sector

The soil of this region is very fertile and produces a great variety of products such as timber and some of the world finest cocoa, which used to be the primary source of employment and export of the Island.

Currently the government of Equatorial Guinea and the Ministry of Economic, Commerce and Business Development in particular has re-prioritized the agricultural sector to be revived in order to diversify the economy of EG. The strategy and the plan of action are enshrined in the government's development strategy called the Horizon 2020.

7. INDUSTRY

(i) Manufacturing

The manufacturing industry of Equatorial Guinea contributes only a 0.6 percent of GDP. Manufacturing is limited to the mainland processing of timber and a water-bottling plant at Bata. Despite the high overall growth rates, the lack of skills and capital, the small size of the local market, and the current status of national infrastructure make any significant growth in the manufacturing sector unlikely."

(ii) Oil

In the late 1980s and early 1990s the economy of Equatorial Guinea was fuelled by international aid; it is now fuelled by oil. The country has emerged as the sixth largest oil producer in sub-Saharan Africa, an amazing feat for such a small country. This sector has attracted a number of significant international investments. These investments have ranged from a **joint-venture** between local producers and interested partners to produce diesel and methane gas, to contracts for foreign firms to explore for oil offshore, to the pumping of crude oil from existing oil deposits. Oil remains the largest export and is the potential key to further economic development. Profits from the oil industry have been used for the upgrading of the country's infrastructure.

Note

The current status quo shows that the United States is still the main beneficiary in this industry.

(iii) Mining

The country is believed to have large deposits of gold, diamonds, uranium, bauxite, iron ore, titanium, manganese, and copper. Little domestic production has occurred in this sector, but new mining codes were issued in 1995 to attract investments in the sector. Efforts to negotiate mining contracts with multinational corporations have been much more complex than expected. The lack of infrastructure, less severe for the development of oil resources, is especially damaging to this sector due to the need to ship produces through rural areas to coastal ports. At the very least, the mining sector will take years to develop.

Note

This is one of the opportunities that have not yet received real attention despite their significant drive and demand in the international community.

8. SERVICES**(i) Tourism**

The pristine environment and rare animals offer the country a tremendous amount of potential for tourism. To date, tourism has made very little contribution to the local economy, although investments in infrastructure and the recent establishment of Mt. Allen National Park may help attract tourists. The recent construction of a number of hotels in Malabo offers some sign of the future significance of tourism to the economy.

9. Other Economic Prospects or indicators: Equatorial Guinea**9.1 Monetary Unit:**

Communauté Financière Africaine franc (CFA Fr). One CFA Fr equals 100 centimes. There are coins of 1, 2, 5, 10, 25, 50, 100, and 500 CFA Fr and notes of 50, 100, 500, 1,000, 5,000, and 10,000 CFA Fr. [The country is part of the "Franc Zone," which includes a number of former French colonies in Africa that share a common currency that is pegged to the French franc. The Communauté Financière Africaine franc was introduced in 1985.]

9.2 CHIEF EXPORTS:

Petroleum, timber, cocoa

9.3 CHIEF IMPORTS:

Petroleum, manufactured goods, and equipment

9.4 GROSS DOMESTIC PRODUCT:

US\$960 million (purchasing power parity, 1999 est.)

9.5 BALANCE OF TRADE:

Exports: US\$555 million (f.o.b., 1999). **Imports:** US\$300 million (f.o.b., 1999).

10. South Africa's Projects in Malabo, EG

- **Moca Project**

This is for the Production and Exportation of cattle and sheep by the government of Equatorial Guinea. The department, after receiving a letter in which the said project was proposed, wrote a letter to the Minister of Agriculture, Forestry and Fisheries. A response is still awaited.

To note

Taking into account the Economic strategy that the government of Equatorial Guinea has taken in diversification of economic activities, it is paramount important that the South African government, the Department of Agriculture and Fisheries in particular should consider reviving in consultation with the relevant Ministry in Equatorial Guinea this project. The project stands the opportunity to

- **PetroSA**

PetroSA's office in Malabo, Equatorial Guinea was opened in November 2004 primarily to provide necessary support for its exploration and development activities in the country. PetroSA is involved in the exploration and development of Block Q, which it acquired in November 2004. Mr Valentin Ela Maye Mba, was appointed PetroSA country Manager in Malabo, Equatorial Guinea. PetroSA's presence in Malabo is an important step in building cooperation between the two countries in order to share experience in the petroleum industry and to work together.

With regard to the developments/progress thus far, Mr Mba indicated some concerns to the Ambassador pertaining to a number of issues amongst others the following:

- He has not received necessary support and cooperation from PetroSA Head Office (HO) in South Africa,
- That PetroSA HO in South Africa has not yet acted aggressive enough in asserting itself in pursuance of South Africa interests in Equatorial Guinea (EG),
- PetroSA HO in RSA, has not yet met the Ambassador of Equatorial Guinea in South Africa,
- PetroSA HO had not visited its office in EG since 2004.
- **South African Airways(SAA) flying to Malabo**

The Government of Equatorial Guinea has also expressed its desire for the South

African Airways to fly to Malabo. To note is that, so far the carrier has indicated that the numbers of passengers flying to Malabo do not add-up to satisfaction from a business perspective. However, that the carrier will at regular intervals monitor the trends on passenger numbers overtime.

11. Opportunities for RSA

Malabo is full of business opportunities in different sectors of the economy, such as financial institutions, construction, logistics and services, insurance, energy, communication, just to mention but a few.

Ministries

- Mines and Energy
- Health
- Tourism
- Communications
- Agriculture Forestry & Fisheries
- Revenue Services
- Water Affairs
- Defence
- State Security
- Environmental Affairs
- Roads and Transport
- Trade and Industry
- Public Enterprises
- National Treasury
- Economic Development

Sectors

- Banking
- Construction
- Electrical Engineering
- Logistics