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No Oil Yet, but African Isle Finds Dealings Slippery

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A decade ago, geologists found signs that one of Africa's least-known countries, the tiny island nation of São Tomé and Principe, might hold a king's ransom in oil.

The first drop of oil has yet to be produced. But these days, little São Tomé may have attracted ample supplies of something else, federal investigators suspect — oil-related corruption.

All of this might not seem unusual in Africa, where oil and corruption often go hand in hand. However, São Tomé, a former Portuguese colony off the coast of Nigeria, was supposed to be different. In recent years, a steady stream of activists like the Columbia University economist Jeffrey D. Sachs have gone there to try to make sure that any energy boom would benefit its 150,000 people, rather than politicians and companies.

"Oil can be a blessing or a bane for a country," Mr. Sachs said. "The theory was to help São Tomé avoid the resource curse."

Things, however, have not quite worked out that way.

The recent Justice Department indictment of William J. Jefferson, a Democratic congressman from Louisiana, contends, for example, that he solicited a bribe from a company seeking his help with an oil-related dispute involving São Tomé.

Separately, federal authorities are investigating a small Houston-based company whose only assets are large holdings in São Tomé to determine if it bribed the country's officials. On another front, a powerful Nigerian businessman who is the chairman of the Houston company, ERHC Energy, is under investigation in his country for possible insider oil dealings.

All those involved — Mr. Jefferson, ERHC, and that company's chairman, Emeka Offor — deny that they did anything wrong.

Still, the experience of São Tomé, a poor country that supports itself by selling cocoa and commemorative stamps featuring celebrities like Elvis Presley and Brigitte Bardot, shows how just the hint of oil can set off a scramble for riches. Along with Mr. Sachs, those who sought to help included George Soros, the billionaire turned philanthropist, and a high-powered Washington lawyer, Gregory B. Craig, who defended President Bill Clinton during the Monica Lewinsky scandal.

"In West Africa, the scent of oil alone may be enough" to produce corruption, said Joseph C. Bell, another Washington lawyer who has traveled to São Tomé to work on new oil laws.

At the center of the São Tomé story stands ERHC, a tiny company whose ranks have included a collection of characters and politically connected entrepreneurs like Mr. Offor. According to a 2005 report by the attorney general of São Tomé, Mr. Offor is one of the largest donors to Nigeria's ruling political party and a close ally of Olusegun Obasanjo, who until recently was Nigeria's president.

São Tomé's unusual journey through the backwaters of the oil industry traces back to the mid-1990s, when ERHC arrived there. Large underwater oil deposits had been found nearby, off the coast of Nigeria, and ERHC believed that the tiny island might be the next big prize in west Africa.

At that time, the Texas company was owned by some wildcatters and an enterprising Florida businesswoman named Noreen Wilson. Over the years, she has been involved with several penny stock companies including a short-lived enterprise called Pizza Group Inc.

In 1997, Ms. Wilson signed a $5 million contract that gave ERHC, which was then known as the Environmental Remediation Holding Corporation, exploration rights in São Tomé for 25 years. The contract was soon described by some outside experts as extremely lopsided.

Soon afterward, Ms. Wilson resigned from ERHC during an investigation of the company by the Securities and Exchange Commission. But she appeared to retain an interest in the island's future; in 2001, for instance, she apparently reached out to Mr. Jefferson for help there, his indictment suggests. At that time, São Tomé's new president was threatening to break a number of oil-related deals, including ERHC's.

Ms. Wilson, who declined through her lawyer, Joseph A. Artabane, to be interviewed for this article, is not named in that indictment. But the filing describes how two unnamed people, a business executive and a lobbyist, went to see Mr. Jefferson about an oil-related dispute on São Tomé. In return for a promise of help, Mr. Jefferson demanded that a family member receive benefit, a demand that was met, the indictment states.

Mr. Artabane, who said that Ms. Wilson testified before the Jefferson grand jury, declined to confirm that she was the executive involved, but he did not dispute it either. The lobbyist involved was James P. Creaghan, according to his lawyer, E. Barton Conradi, who said his client has cooperated throughout with authorities. Mr. Creaghan worked with Ms. Wilson during that time. (Neither of them has been accused of wrongdoing.)

Meanwhile, wheels were already spinning in São Tomé when activists like Mr. Sachs, the economist, arrived. Their mission: To prevent it from following in footsteps of other African countries where corruption and waste typically follow oil. In Nigeria, the continent's largest producer, most people live on less than $2 a day while politicians have stolen or squandered billions.

Initially, hopes were high. Soon after his election as president, Fradique de Menezes, a cocoa plantation owner, vowed that his country would be different. And he turned for help to outsiders

like Mr. Craig, the Washington lawyer who represented President Clinton during his impeachment trial.

But Mr. Craig, like others who followed him, found himself facing some powerful adversaries: Nigeria and Mr. Offor. In 2001, Nigeria had jumped in the picture when it signed an agreement with São Tomé to share oil revenues from waters between the two nations. Mr. Offor, the ally of Nigeria's president, bought ERHC, which was then near bankruptcy, just a few days before that agreement was signed.

Mr. Craig said that while he successfully renegotiated contracts with other oil companies in São Tomé, Mr. Offor would not budge. "The metaphor of David versus Goliath doesn't quite capture the relation between São Tomé and Nigeria," he said. "It's more like an ant."

In time, ERHC did agree to some changes in its contract, but the company retained extremely favorable terms, including the right to choose among the best oil blocks without paying the type of special one-time fee that governments typically demanded.

Mr. de Menezes continued to seek assistance; in 2003, for instance, he reached out to Mr. Sachs.

"He called and said, 'Look we've found some oil and the sharks are swimming around us now, and I'd like some help to manage this properly,' " Mr. Sachs recalled in a recent interview.

As part of that effort, a Columbia University team and others helped draft a new oil law that contained safeguards to make sure São Tomé spent its oil-related revenue properly. The team then traveled around the country, holding meetings on cocoa plantations and in churches, where they explained to residents how the new statute would protect their interests.

"Imagine what would happen if there was a big flood that hit us," stated a cartoon-like booklet that they handed out to residents. "The oil law creates a dam."

By late 2005, however, a report by the attorney general of São Tomé delivered a dose of reality. Among other things, it found that some companies that won blocs in the zone controlled jointly by São Tomé and its neighbor were headed by Nigerian businessmen with political ties but no oil experience.

The bidding process "was subject to serious procedural deficiencies and political manipulation," the report concluded. In addition, the report found some large multinational oil companies were so suspicious of ERHC that they decided not to bid and added that ERHC "may have made improper payments to government officials."

ERHC has disputed those findings and said in a statement that it received its rights legitimately and that it has also made numerous concessions to São Tomé.

"We care about perceptions of ERHC Energy and we have been working to fully understand any concerns expressed about our activities," the company said.

The attorney general's report may have precipitated last summer's raid on ERHC's Houston offices by the F.B.I. Among other things, F.B.I. agents took a file marked "William Jefferson," a reference to the Louisiana congressman, a publicly filed subpoena shows.

Dan Keeney, a spokesman for ERHC, said that the company was not aware of "any facts to suggest that the U.S. government investigation of ERHC is in any way related to the ongoing investigation of Congressman Jefferson."

Whatever the case, ERHC has emerged thus far as the biggest winner in São Tomé. Over the last year, it has sold off various rights to its holdings in São Tomé, making tens of millions of dollars in the process.

As for the reform effort by Mr. de Menezes, the country's president, he has been far less publicly vocal over the last year, outside consultants said. Mr. de Menezes, who met on several occasions with Mr. Jefferson, did not respond to repeated requests to be interviewed for this article.

Despite earlier predictions of vast oil finds, it is unclear whether waters off São Tomé will ever produce oil in commercial quantities. Last year, Chevron drilled the first exploration well there but failed to find much oil and, for the moment, has no immediate plans to drill again. ERHC said that it and a partner planned to drill next year.

The new oil and anticorruption statutes drafted by consultants like Mr. Bell, the Washington lawyer, have become law. But with all the obscurity and intrigue that has now descended onto São Tomé, he, like others, question if it will make any difference.

"The game is not lost yet," Mr. Bell said. "But it is a very uphill game."