Angola wants bigger piece of the pie

With its fast developing oil production, Angola is becoming increasingly more important for energy supplies in Europe and the US. The western oil multinationals have been able to maintain their leading position in Angola but oil nationalism is on the rise. National oil company Sonango is demanding a bigger piece of the pie.

Photo: Heerema Marine Contractors

by Rudolf ten Hoedt

The Angolan capital of Luanda is in the grip of a feverish construction frenzy. A portion of the billions of dollars the country earned during the past few years from the export of oil is being spent on bricks and steel. 'Obviously, this building frenzy is a good thing as opposed to extreme poverty,' says Angolan novelist José Eduardo Agualusa. 'At least the building boom is providing some employment and creating the impression of progress. Only, it's indiscriminate. The charming market hall in Quinaxixe has just recently been demolished and other historic buildings are being threatened with the same fate.'

The current high point is the new headquarters of Sonangol, the national oil company. The building was inaugurated last year by Angola's president José Eduardo dos Santos. The 22-storey building is located on Luanda's bay in the dilapidated centre of the capital. With lots of blue tinted glass it rises high above the poorly maintained surroundings of mostly colonial houses. According to proud Sonangol itself the $100 million building, with helipad and two gyms, is 'the most modern in Angola'.

The formerly Marxist rulers of Angola used Sonangol as an instrument in developing their country into an 'oil province'. 'The Sonangol Tower symbolises both the current buoyancy of the Sonangol Group and its political masters,' says Oxford University academic and Angola expert Ricardo Soares de Oliveira. Everybody wants in. The Chinese prime minister was there in February, Nicolas Sarkozy visited last year and the Americans are building their largest embassy in Sub-Saharan Africa in Luanda.

In 2008 Angola was China's second biggest source of crude oil with an average of 600,000 barrels per day (bpd). With 450,000 bpd it is now good for close on 5% of American oil consumption and the Americans want more. Consequently, over 50% of Angola's export is destined for the two superpowers. A significant portion of the remaining 50% goes to Europe, particularly France. The French procure approximately 20% of their oil demand from Angola.

Treading on eggs

Angola's oil production has shown impressive growth. Starting at 281,000 bpd in 1986, it first exceeded 700,000 barrels in 1996 and reached 900,000 bpd in 2002. Since then, in just six years' time, the country has more than doubled production. Last year it briefly passed the 2 million barrels.
Angola boasts many advantages compared to its big rival Nigeria, which produces roughly 2.3 million barrels of oil per day. Angola's production is not hindered by attacks. No oil workers are kidnapped. The country's elite have not broken up into opposing factions that make off with some of the oil riches. They have organised their oil affairs amazingly well. This has resulted in a stable oil industry that is developing quickly with the intensive involvement of foreign companies.

Hence no one wants to miss out on the opportunity in Angola. Relative newcomers like the Chinese are doing all they can to expand their influence. Those who have been there for some time are trying to protect their interests. France is afraid that Total might lose some of its foothold. The Angolans have already bared their teeth once. In 2006 they refused to renew Total's licence for Block 3 out of anger over the arrest in Paris of arms dealer Pierre Falcone from whom the Angolans purchased arms with embezzled petrodollars. In 2002 BP was "punished" when the British disclosed payments made to the Angolan government for concessions. Even ExxonMobil, the largest foreign investor, replaced the managers of its Angolan operations recently at the insistence of the Angolan government. The IOCs are treading on eggs.

> *'As soon as you leave the oil sector, you are in the most insecure, unpredictable, insider-controlled economy in Africa'*

Sonangol was established in 1976, one year after the country's independence. The ruling party fenced off the oil industry which it acknowledged as the country's primary source of income. Sonangol became the counterpart for the foreign oil companies. At that time Gulf, which later merged into Chevron, ran the show together with Belgian-French Petrofina, which was later taken over by Total.
As Soares explains, 'Sonangol was to become a flexible and reliable company, excluded from central planning and state-led economic policies, and insulated from the anti-corporate mentality and the disregard for the rule of law that would soon become prevalent in all other sectors of the economy. Sonangol's priority became contractual negotiations with oil firms, while the latter would remain responsible for exploration and production.'

Sonangol confidently acquitted itself of its task. The company surrounded itself with consultants from Algeria, Italy and the US and guaranteed an income for the Marxist government that by that time was fighting a civil war against rival party Unita. 'When the MPLA dropped its Marxist garb at the beginning of the 1990s and the ruling elite enthusiastically converted to crony capitalism, Sonangol was the leading domestic entity in Angola's political economy,' says Soares. 'It was an island of competence thriving in tandem with the implosion of most other Angolan state institutions.'

> *'The company boasts a level-headed management board with clear long-term vision, which is unique in the Gulf of Guinea'*

Tough

The company has developed into a formidable partner in negotiations with IOCs and suppliers. 'They are not easy,' admits Roddy Lafontaine of Heerema Marine Contracts, a Dutch off-shore contractor that is expanding quickly in Angola and the rest of the Gulf of Guinea. 'The company has tough negotiators – professional, first-rate personnel usually trained in eastern Europe. Sonangol is the most stable oil company in West Africa, boasting a level-headed management board with clear long-term vision, which is unique in the Gulf of Guinea.'

According to Ricardo Soares, Sonangol also plays a key role in the rigorous political management by which the president of Angola controls the elite. 'Sonangol is a great company,' says Soares. 'It is a company with a lot of smart people. They run the show very efficiently and professionally. But they run it for the president. The bottom line is the interest of the presidency.'

The president's position in Angola is inviolable. In Luanda, one does not speak of 'the president', but only of 'the presidency'. The presidential country palace Futungo de Belas is the centre of power. There, the coordinates were plotted for the allocation of the 4.2 billion dollars of oil revenue that according to Human Rights Watch disappeared off the government's books between 1997 and 2004.
According to Soares, Sonangol, which did not respond to EER's repeated requests for an interview, is the pivotal tool for the interests of the clique of the Futungo de Belas. 'Sonangol has been the centrepiece of the presidency's vast system of parallel finances that has included up to half of Angola's yearly oil revenues. This has resulted in a "parallel state" with Sonangol and Futungo in the centre. A parallel state, vastly more efficient than Angola's dilapidated state structures, that has contributed towards both the marginalisation of formal institutions in Angola and the increase of Futungo power.'

Under Chief Executive Manuel Vicente, a confidant of President Dos Santos, the company is considered to be an engine of national development. Sonangol also invests in non-oil related sectors in Angola, like banking. The Sonangol universe has even progressed beyond the country's borders with participations in Africa (Air Tanzania), Portugal (e.g., Galp Energia), Spain (Caixa Galicea), the US, South America and Asia. This was sufficient reason for Africa Energy Intelligence to recently proclaim Sonangol the first Sovereign Wealth Fund of Sub-Saharan Africa.

Newcomers

Total, the European oil company with the largest interests in Angola, expresses itself in cautious terms when speaking about Sonangol and the business climate in Angola. 'We have an excellent relationship with Sonangol and the current government,' says Frederic Cegarra, vice-president of Total's Angola operation. 'Better strike out the word current.'
Total's presence in Angola stems from 1996, when Elf Acquitaine was the first to strike oil in deep water. The Girasol field in Block 17 lies 135 kilometres off the coast of Angola at a depth of 1200 to 1500 metres and came on stream in 2001. The Angolans themselves consider Elf Acquitaine's Girassol strike as a turning point in their national history. Angola changed from an average oil producing country to a hotspot in the global search for major oil reserves.

The French currently account for 25% of Angolan oil production. 'In January 2009, Total and Chevron were the second largest operators in Angola after ExxonMobil,' says Cegarra. He says that Total's share in Angolan oil production is not under pressure, despite increasing competition. 'The IOCs have not been displaced in Angola by newcomers. The four majors are still producing the bulk of Angolan output. But Sonangol is also emerging as an important operator.'
There are increasing signs that Sonangol aims to strengthen its grip on the oil sector and is pursuing a majority share in new licences. Up to now, Sonangol's share has remained at 30%. Syanga Abilio, former vice-president of Sonangol's upstream division, stated in Houston last year that Sonangol wants to have more reserves of its own and is striving for a participation of 'more than 50 percent'. That would come at the expense of the foreign oil companies. Although this threat has not yet been turned into deeds, the IOCs must take into account the possibility that Sonangol will want to control a larger share of the Angolan oil industry.
And then there is competition from China. Sinopec, together with the other Chinese state-run oil major CNOOC, is currently making frantic efforts to get on board Total's strategic Block 32 as a joint shareholder. Sinopec is already a partner in ultra-deepwater Block 31 operated by BP.

Recently the question has arisen as to whether Angola's oil production will suffer from rising costs, falling oil prices and Opec cuts. Angola, currently OPEC chair, has reduced its production to 1.6

Dutch oil service company Heerema Marine Contractors (HMC) installed a new drilling rig in Angola's offshore waters. The installation took place in 370 m water depth in Angola's off shore block 14 being operated by Angola veteran Chevron. HMC is moving a considerable part of its business from the Gulf of Mexico to the Gulf of Guinea. The company last year signed a $ 1 billion contract with BP for building a deep water construction off the coast of Angola.

million bpd for 2009.

Current prices have not quite brought the industry in Angola and elsewhere in the Gulf of Guinea to breaking point, according to Lafontaine of Heerema Marine Contractors. But they are getting closer to the danger zone. 'The break-even point is between 30 and 40 dollars. The threshold is much lower in Nigeria.'

According to press reports, development costs for BP's ultra-deep Block 31 are already double the cost of the company's current largest deepwater project Greater Plutonio (Block 18). And Total is said to rethink its block 32 ultra-deepwater development. Total's chief executive Christophe de Margerie warned in September last year that some of Total's new deepwater offshore projects in Angola require a $70 per barrel crude price to deliver a 12.5% rate of return on investment.

According to Cegarra, Total has no plans whatsoever to radically change its investments and projects. 'Production cuts and current prices are, hopefully, temporary. New developments will take 3 to 4 years to get on stream. By then, the whole situation may have changed dramatically. We are talking here about long-term commitments. We are planning for the long term and also have to consider short-term constraints. Our job is to take calculated risks, so we invest, cutting costs today without compromising the future. We are counting on good returns over a period of twenty years.'

That's good news for the Angolan rulers, because a sudden regression in the oil industry could endanger their position of power. 'Oil in Angola is an enclave industry' says Soares. 'As soon as you leave the oil sector, you are in the most insecure, unpredictable, insider-controlled economy in Africa.'

The majority of the Angolan people are following it all but comprehend little of the system. 'There is not much openness as to how the Angolan economy is managed,' says novelist Agualusa. 'The state companies are a closed book. Nobody knows what's going on. Everyone assumes there is corruption and that money is poorly spent. But we just don't know.' ■