

## AFRICA RISK CONSULTING

### Angola Briefing August 2016

#### Angola Summary 12 August 2016

**The United Kingdom (UK) Serious Fraud Office (SFO) charges seven FH Bertling Ltd employees on counts of making corrupt payments to a Sociedade Nacional de Combustíveis de Angola (Sonangol) agent. The \$750m Companhia Bioenergia de Angola Lda (Biocom) complex in Malanje province announces it will produce 256,000 tonnes of sugar by 2020. Three separate attacks between Frente para a Libertação do Enclave de Cabinda (FLEC) rebels and Forças Armadas Angolanas (FAA) (Angolan armed forces) between 30 July and 6 August reportedly lead to the death of 27 FAA soldiers. Angola Liquefied Natural Gas (LNG) announces that it has suspended LNG exports until mid-to-late August to carry out scheduled maintenance and testing.**

#### SFO charges FH Bertling employees with bribery

The **United Kingdom (UK) Serious Fraud Office (SFO)** on 13 July charged seven employees of logistics services company **FH Bertling Ltd**, the UK-based subsidiary of **Germany-based Bertling Group**, with one count each of making corrupt payments to an agent of **Angolan** state-owned oil and gas company **Sociedade Nacional de Combustíveis de Angola (Sonangol)**.<sup>1</sup> The charges signal that Angola's oil and gas sector remains corrupt and non-transparent. FH Bertling allegedly made the payments between January 2005 and December 2006, in contravention of section 1 of the UK's **Prevention of Corruption Act 1906**.<sup>2</sup> The SFO statement alleged that

*"Peter Ferdinand, Marc Schweiger, Stephen Emler, Joerg Blumberg, Dirk Juergensen, Giuseppe Morreale, Ralf Peterson and FH Bertling Ltd conspired together and with others to bribe an agent of the Angolan state oil company, Sonangol, to further FH Bertling's business operations in that country."*<sup>3</sup>

Bertling has not commented on the SFO charges, but the company's website states that the company is

*"... committed to conducting its business in an ethical manner, in accordance with the values and principles set out in its values and code of conduct."*<sup>4</sup>

FH Bertling and the above-named individuals appeared at **Westminster** magistrates' court on 4 August.<sup>5</sup> The SFO began investigating FH Bertling in September 2014.<sup>6</sup> Local commentators affirm that Sonangol has no internal anti-corruption policy or code of ethics that would reduce the risk of corrupt payments,

*"As far as I know, there is no code of ethics, and if there is, it is not published or employed. There is no transparency in [Sonangol's] accounts; they do not regularly publish activity or accounting reports. Even when they advertise, it tends to be with false figures... Isabel dos Santos' recent appointment [to CEO] is clearly nepotistic and does not bode well for the company... there is nothing that would indicate a change in attitude at Sonangol."*<sup>7</sup>

<sup>1</sup> Financial Times, 13 Jul 2016.

<sup>2</sup> Financial Times, 13 Jul 2016.

<sup>3</sup> www.breakbulk.com

<sup>4</sup> www.loadstar.co.uk

<sup>5</sup> www.sfo.gov.uk

<sup>6</sup> www.sfo.gov.uk

<sup>7</sup> Source, legal and political scientist, Luanda

Many analysts believe that Sonangol's operations are unlikely to change significantly following Isabel dos Santos' appointment in June (see *ARC Briefing Angola June 2016*), despite some positive reaction from several oil and gas sector players who claim that her appointment could signify youthful, innovative change at Sonangol:

*"Until now she hasn't brought anything new. Foreign companies are managing Sonangol, under the same shroud as usual... Other companies where Isabel dos Santos is head are similarly opaque in management. We don't know if they pay tax or not, their revenue, or anything else for that matter. The truth is that there is no indication of transparency with the new CEO of the Angolan state oil company."*<sup>8</sup>

### **Biocom to produce 256,000 tonnes of sugar**

**Companhia Bioenergia de Angola Lda (Biocom)** said it plans to produce 256,000 tonnes of sugar by 2020.<sup>9</sup> Biocom is a joint venture between **Cochan** (40%), an offshore registered group of companies with high-level links to the presidency, **Brazil**-based international construction and engineering company **Odebrecht** (40%), and Angola state-owned **Sonangol Holdings** (20%).<sup>10</sup> Biocom is developing a \$750m agro-industrial complex in **Malanje Province** to produce sugar, ethanol and electricity. Biocom's production target is expected to meet 50% of Angola's demand for sugar, and to produce ethanol and electricity for the domestic market.<sup>11</sup>

The Angolan government has backed the project with a \$300m sovereign guarantee.<sup>12</sup> The government approved Biocom's project in mid-2013.<sup>13</sup> However, the approval process allegedly lacked transparency:

*"In this one we also know that the approvals and the allocation of lands and so on, were done without any open tender."*<sup>14</sup>

According to Odebrecht, production capacity for the first phase of the project is 2.2 metric tonnes of sugarcane per year.<sup>15</sup> This will yield 256,000 metric tonnes of sugar and 23 million litres of ethanol, and generate 235 gigawatt-hours (GWh) of electricity per year. Biocom expects to reach production maturity in the 2019/2020 harvest and that its **Kapanda** brand of sugar will meet 50% of Angola's demand.<sup>16</sup> Local sources, however, question the true benefits for the labour market and economy:

*"In terms of jobs, [the Biocom] project will translate into very little, because it will not require intensive manual labour. It will still employ some people, but the benefits of this will be highly local. Similarly, [the possibility to increase trade] is small in terms of economic growth."*<sup>17</sup>

Biocom, through Cochán, has high-level links to the presidency. General **Leopoldino 'Dino' Fragoso do Nascimento**, owns Cochán. Nascimento is a powerful former military officer who now straddles the 'blurred' lines between a government official and a private businessperson in Angola. The **Financial Times** referred to Nascimento, informally known as Dino, as one of three of the most powerful officials in Angola.<sup>18</sup> Dino was formerly head of communications in the presidency. He is now a special adviser to General **Manuel Helder Vieira Dias Junior** (a.k.a. **Kopelipa**), who is chief of the **Casa Militar** (military, security and intelligence office) in the presidency.<sup>19</sup> President **Jose**

<sup>8</sup> Source, legal and political scientist, Luanda

<sup>9</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>10</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>11</sup> [www.bloomberg.com](http://www.bloomberg.com)

<sup>12</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>13</sup> Source, high level board member of a major local bank, Angola

<sup>14</sup> Source, high level board member of a major local bank, Angola

<sup>15</sup> [www.bloomberg.com](http://www.bloomberg.com)

<sup>16</sup> [www.odebrechtonline.com.br](http://www.odebrechtonline.com.br)

<sup>17</sup> Source, legal and political scientist, Luanda

<sup>18</sup> *Foreign Policy*, 13 Feb 2014.

<sup>19</sup> Report of the Berne Declaration – Trafigura's Business in Angola, Feb 2013.

**Eduardo Dos Santos** (1979- present) appointed Dino to his new role through a presidential decree in September 2010. Dino heads Cochan, a group of offshore companies with a local Angolan registered entity.<sup>20</sup> Cochan has stakes in a wide range of investments in Angola, particularly in the oil and gas sector, through **Cochan Angola**, a joint venture with **Puma Energy**.<sup>21</sup> This draws significant concern regarding market competitiveness in Angola,

*“There is no capitalism in Angola. It is true that the economy has been decentralized, but this does not necessarily lead to a capitalist economy. We have a system similar to neo-mercantilism where there is a market; there is the possibility for small traders and producers to exist freely without having to submit themselves to centralized direction. However, the entire essential economy depends on the interests of president José Eduardo dos Santos. Therefore, it is not surprising that a large-scale project such as this is financed with large state finances, and [dos Santos] probably has a stake in the company, even if through a proxy.”<sup>22</sup>*

### Clashes between security forces & FLEC kill over 27

Three clashes between the **Frente para a Libertação do Enclave de Cabinda (FLEC)** (Front for the Liberation of the Enclave of Cabinda) and the **Forças Armadas Angolanas (FAA)** (Angolan armed forces) between 30 July and 6 August resulted in the death of 27 FAA soldiers.<sup>23</sup> The trigger for the attacks appears to be the death of FLEC leader **Nzita Tiago** from natural causes in early June.<sup>24</sup> The clashes indicate that tensions between the government and the FLEC are increasing. The FLEC is a **Cabinda Province** separatist movement that has operated since independence. Estimates of the number of FLEC militants range from the low hundreds to 5,000.<sup>25</sup>

The first two attacks were to the north of the regional capital **Cabinda**, and took place between 30 and 31 July.<sup>26</sup> The FLEC communicated that it had killed 17 FAA soldiers, but did not specify the exact location of the attack.<sup>27</sup> The FAA did not issue any statement about the attack.<sup>28</sup> There is no independent information about the incidents. The third attack occurred in **Bitechique**, between the towns of **Dinge** and **Massabi** (Cabinda Province), killing 10 soldiers.<sup>29</sup> The FLEC claims to have seized artillery and light armament from the soldiers, and also set fire to three FAA vehicles.<sup>30</sup> **Alberto Kizua**, spokesperson for the FAA, claims that the FLEC’s information is false, and that it seeks to manipulate international and national public opinion,

*“This did not occur in the timeframe they claim, because if so, we would not be continuing our work quietly. There was no such attack against the FAA and there is not a single bit of truth in what the FLEC says... We would like to inform that the international press should not read too much into what the FLEC is saying because this is military propaganda.”<sup>31</sup>*

Local sources confirm that FLEC communication is difficult to verify accurately,

*“The truth is that sometimes we obtain information in an officious manner from citizens who live in these areas, but unfortunately this information cannot contribute to reliable journalistic work, because we cannot access these areas and neither can we contact the authorities.”<sup>32</sup>*

<sup>20</sup> www.cochan.com

<sup>21</sup> www.cochan.com

<sup>22</sup> Source, legal and political scientist, Luanda

<sup>23</sup> Source, journalist, Luanda

<sup>24</sup> Multiple sources: RFI, 3 Jun 2016; Source, journalist, Luanda.

<sup>25</sup> Reuters, 8 Aug 2016.

<sup>26</sup> Source, journalist, Luanda

<sup>27</sup> Source, journalist, Luanda

<sup>28</sup> Source, journalist, Luanda

<sup>29</sup> Reuters, 8 Aug 2016.

<sup>30</sup> Source, journalist, Luanda

<sup>31</sup> Source, FAA spokesperson, Cabinda

<sup>32</sup> Source, journalist, Cabinda

Nevertheless, local sources confirm that military activity is noticeable from Cabinda, for example with helicopter movement,

*"We see helicopters flying over the city... which tells us there is military activity in the interior."*<sup>33</sup>

In a separate statement after the clashes, the FLEC warned the **Chinese** government to repatriate all Chinese nationals in Cabinda's oil producing areas as their presence *"constitutes a provocation"*.<sup>34</sup>

### LNG exports suspended until mid-to-late August

**Angola Liquefied Natural Gas (Angola LNG)** announced on 20 July that it had suspended LNG exports until mid-to-late August to carry out scheduled maintenance and testing.<sup>35</sup> This is another setback for Angola LNG, since the facility came back online only in June 2016, following an April 2014 shut down due to design flaws.<sup>36</sup> At the time, the facility was expected to come back online in mid-2015.<sup>37</sup> Since resuming operations in June 2016, Angola LNG has exported a total of four LNG cargoes, well below analyst expectations of between six and nine LNG cargoes.<sup>38</sup> Angola LNG, which has a 5.2 million tonne-per-year capacity, is only expected to return to full capacity operation in September 2016.<sup>39</sup>

**United States (US)**-based **Chevron** holds a 36.4% interest in Angola LNG, Angola's first onshore LNG export facility.<sup>40</sup> Angola LNG began operations in mid-2013.<sup>41</sup> Sonangol has a 22.2% interest in the company.<sup>42</sup> Other shareholders include: **France**-based **Total** (13.8%); **UK**-based **BP** (13.8%) and **Italy**-based **ENI** (13.8%).<sup>43</sup>

### Implications

The charges from the SFO indicate that Sonangol remains a company that has a marked reputation for operating opaquely and for a strong affiliation to the ruling political elite. The allegations are a reminder of the potential corruption risks within the country as a whole and the oil sector in particular, especially when engaging with Sonangol, a company that has a largely negative reputation in this domain. Despite the absence of explicit details of the allegations, it would appear that there is little evidence that Sonangol has made notable improvements to anti-corruption practice since 2006. Moreover, the appointment of Isabel dos Santos to CEO would appear to have given sceptical commentators a licence for a more authoritative condemnation of the company's opaque operations and management, as they view the appointment as clear nepotism that will only perpetuate the same alleged malpractice. Her appointment, in their view, is evidence of wide scale nepotism and opaque operation at state level in Angola.

The announcement of Biocom's production would appear an encouraging step towards real economic diversification of Angola's economy, which remains heavily dependent upon oil revenues. However, evidence of stakes in Biocom from within dos Santos' inner circle, use of government funds, as well as reports that real employment and export potential are limited, raise concerns as to the true benefit of the \$750m project.

<sup>33</sup> Source, journalist, Cabinda

<sup>34</sup> Reuters, 8 Aug 2016.

<sup>35</sup> Reuters, 21 Jul 2016.

<sup>36</sup> [www.lngindustry.com](http://www.lngindustry.com)

<sup>37</sup> [www.lngindustry.com](http://www.lngindustry.com)

<sup>38</sup> [www.lngindustry.com](http://www.lngindustry.com)

<sup>39</sup> [www.upstreamonline.com](http://www.upstreamonline.com)

<sup>40</sup> [www.upstreamonline.com](http://www.upstreamonline.com)

<sup>41</sup> [www.naturalgaseurope.com](http://www.naturalgaseurope.com)

<sup>42</sup> [www.upstreamonline.com](http://www.upstreamonline.com)

<sup>43</sup> [www.naturalgaseurope.com](http://www.naturalgaseurope.com)

Tension between FLEC rebels and the FAA appears to be mounting, despite the questionable reliability of communication from both parties. Regardless of the veracity of the claims, the fact that the FLEC is actively communicating would indicate that the independence struggle remains ongoing.

The suspension of LNG exports marks continued setbacks to a project marred with design and operational inefficiencies. The invested parties in the Angola LNG project would appear, however, closer to solving the project's issues.

---

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

**ARC's** core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

[www.africariskconsulting.com](http://www.africariskconsulting.com)

### About ARC Briefing:

**ARC Briefing** is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

**ARC Briefing** is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

[www.briefing.africariskconsulting.com](http://www.briefing.africariskconsulting.com)

### Getting in touch

Please contact us by email [info@africariskconsulting.com](mailto:info@africariskconsulting.com) or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)