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A United Kingdom (UK) court case exposes the international side of corruption in the oil industry. FH Bertling UK, the former UK subsidiary of the German logistics company, is fined £850,000 (\$1.1m) for bribery relating to a \$20m oil forwarding contract with Angola's state-owned oil company, Sociedade Nacional de Combustíveis de Angola, E.P (Sonangol). State-owned Agência Nacional de Petróleo e Gás (ANPG) (national petrol and gas agency) launches a new oil and gas bidding round for 55 oil blocks over a five-year period. This is the first bidding round led by ANPG under the new rules and procedures for public tenders for concessions and services in the oil sector. Corruption in the construction industry has cost Angola an estimated \$20 billion since 2002, a sum equivalent to about one-fifth of current national debt.

Bertling UK executives found guilty of Sonangol bribery

A major court case in the **United Kingdom (UK)** has exposed part of the international side of corruption in the oil industry. **FH Bertling UK**, the former UK subsidiary of the **German** logistics company, has been fined £850,000 (\$1.1m) in a London court for bribery relating to a \$20m oil forwarding contract with **Angola's** state-owned oil company, **Sociedade Nacional de Combustíveis de Angola, E.P (Sonangol EP)**.¹ The UK's **Serious Fraud Office (SFO)** carried out two investigations into Bertling UK's activities, beginning in 2014 when the SFO began investigating allegations of bribery to secure a freight forwarding contract worth £16m (\$20m) with **United States (US)**-based energy company **ConocoPhillips** for its **Jasmine North Sea Oil** field.² The SFO found that Bertling UK used bribery extensively to ensure that ConocoPhillips did not question its prices:

"The investigation also revealed a separate side agreement, with further bribes agreed to be paid to ensure that inflated prices charged by FH Bertling for other freight services were waved through without complaint by ConocoPhillips's staff."³

In the course of this investigation, the SFO found that Bertling UK had bribed an unidentified Sonangol official to secure shipping contracts, between 2004 and 2006:⁴

"Through that corruption, the company 'won' and retained \$20m worth of freight forwarding services contracts for the company."⁵

The Sonangol official who obtained the bribes remains unnamed. An ARC source who has carried out cross-border criminal investigation relating to Angola says:

*"Withholding the name tends to be normal practice, to prevent prejudice. If the facts have been referred to Angola's [**Procuradoria-Geral da República**] PGR [attorney-general] for further investigation, this withholding would certainly allow a fair trial in Angola. It isn't clear whether the person in question still works for Sonangol; since 2006, there have been many changes to personnel and to the corporate structure of Sonangol's shipping and logistics departments. Nor did Sonangol publish their shipping contracts. The company had a great deal of autonomy;*

¹ energyvoice.com, 3 Jun 2019

² Serious Fraud Office (SFO) London UK announcement, 6 Jun 2019

³ SFO announcement, 22 Jul 2016

⁴ SFO announcement, 22 Jul 2016

⁵ SFO announcement, 6 Jun 2019

latitude to enter into contracts and a complete lack of oversight. What is unusual here is that the foreign service provider, Bertling UK, got caught.”⁶

Commenting on the sentencing, Judge **Christopher Hehir** said:

“This was a very serious piece of corruption indeed. It was planned and systematic. The corruption of a public official brings huge risks of environmental and social harm as well as damaging and corrupting the commercial environment.”⁷

FH Bertling Ltd and six current and former employees were convicted of conspiracy to make corrupt payments to an agent of Sonangol, contrary to section (1) of the **Criminal Law Act 1977** and section (1) of the **Prevention of Corruption Act 1906**.⁸ FH Bertling Ltd was fined £850,000 (\$1.1m) for the bribery scheme it created to secure contracts in Angola. The six executives convicted of bribery and conspiracy received suspended sentences of up to two years and fines of up to £20,000 (\$26,000).⁹ The parent company, **FH Bertling International GmbH**, which denied all knowledge of the corrupt scheme, surrendered control of the UK subsidiary on 1 January 2017, and FH Bertling Ltd appointed liquidators on 3 April 2018.¹⁰

This case demonstrates that obtaining contracts corruptly and paying bribes to wave through inflated prices was part of the company’s business model. Even though corruption trials that focus on the activities of foreign companies in Angola are relatively rare, common sense suggest that there are other undiscovered cases. Corruption is often seen as a problem internal to Angola, rather than an international problem but this is questionable. Corruption has two ends and as the judge pointed out, it does real harm.

Oil agency launches new oil and gas bidding round

Angola’s **Agência Nacional de Petróleo e Gás (ANPG)** (national petrol and gas agency) has launched a new oil and gas bidding round for 55 oil blocks, to be offered over a five-year period.¹¹ This is the first public auction in Angola since the pre-salt layer blocks auction of 2011,¹² and is the first bidding round under the new dispensation, led by ANPG not Sonangol, whose role is now that of national concessions operator. The bidding will take place under the new rules and procedures for public tenders for concessions and services in the oil sector.¹³

The objectives of this bidding round are to develop new areas of oil and natural gas exploitation to replace the older production zones, boost exploration, maximise reserves replacement and ultimately increase national production of oil and gas, as well as overhauling the governance of Angola’s hydrocarbons sector.¹⁴ Angola aims to

“...intensify the replacement of reserves in order to smooth the deep decline of oil production, ensure self-sufficiency in refined products by building new refineries, and increase national production capacity.”¹⁵

ANPG CEO **Paulino Jerónimo** announced details of the licensing round on 4 June and provided details of the roadshows:

⁶ Source, Angola analyst, London

⁷ SFO announcement, 6 Jun 2019

⁸ SFO announcement, 6 Jun 2019

⁹ SFO London 22 Jul 2016 and 4 Feb 2019 (sentencing)

¹⁰ Companies House (UK) corporate records 13 Nov 2017 and 3 Apr 2018

¹¹ Diario da Republica I series 22, 18 Feb 2019

¹² Agência Nacional de Petróleo e Gás (ANPG) announcement, 5 Jun 2019

¹³ Angola Presidential Decree No. 86/18 of April 2, 2018

¹⁴ ANPG announcement, 5 Jun 2019

¹⁵ ANPG announcement, 5 Jun 2019

*“The promotion of the blocks is starting immediately. The ANPG will embark on an international roadshow in September to engage with investors in **Houston [US]**, **London** and **Dubai [United Arab Emirates]** prior to opening the tendering process in October.”¹⁶*

The first licensing round will focus on new exploration areas in the south of Angola; nine blocks in **Namibe Basin** and one in **Benguela Basin**. Separately, by direct negotiation with companies, the state will offer offshore and deep-water blocks 6, 30, 44, 45, 46 and 47, with negotiations expected to be concluded this year. Blocks 30, 44 and 45 are already subject to a Memorandum of Understanding (MoU) with US-based oil company **ExxonMobil**, signed in December 2018, and it is anticipated these blocks will now be licensed.¹⁷

The bidding round will be launched in October 2019 and run until 2025. Thirty-one blocks will go to public bidding between 2019 and 2023. In 2020, terrestrial blocks in the **Congo** and **Cuanza** basins will be opened to tenders. In 2021 six maritime blocks and free areas of blocks 31 and 32 will be offered.¹⁸ Sonangol may take a minimum 20% holding in any new concessions and will have the right to be financed by up to 20% by the international members, where Sonangol is not the operator.¹⁹

ANPG is also launching Angola’s first marginal fields bidding round, to attract new and existing **African** players, international independents and medium-sized operators, through offering more attractive fiscal terms.²⁰ Paulino Jerónimo noted:

“Our new regulatory framework provides tax incentives for the exploration of marginal fields. Over the years, Angola has made several discoveries deemed too uneconomical for development. Our new fiscal and contractual terms are focused on incentivising the exploration and production of such reserves for both African and international medium-sized E&P companies.”²¹

This new bidding round will focus in the first place on oil and gas reserves in the southern half of the country, rather than the older oil fields in Cabinda and offshore from **Luanda**, developing Angola’s long-term hydrocarbon strategy despite low oil prices. Infrastructure is also being put in place. The port at **Namibe (Namibe Province)** is being developed by **Japanese** investment. As important for Angola’s strategy is whether ANPG will deliver a more transparent process in the oil sector.

Reconstruction in Angola loses \$20 billion through corruption

Angola has lost about \$20 billion in corruption in the construction sector since 2002, according to widely respected economist and expert in public finances **Alves da Rocha**, director of the **Centro de Estudos e Investigação Científica (CEIC)** at the **Universidade Católica de Angola** (centre for studies and scientific research at the catholic university of Angola).²²

Rocha presented the report in Luanda at the end of May 2019. He noted,

“Between 2002 and 2017 the Angolan state invested about \$150 billion in infrastructure development and post-war reconstruction. On an annual basis, reconstruction activities constitute about 10% of GDP.”²³

The amount was financed by the state's own resources (from petroleum taxes) and by external credit lines. Transport infrastructure absorbs about 70% of **China's** entire credit line.²⁴

¹⁶ ANPG announcement, 5 Jun 2019

¹⁷ Frontier Energy, 25 Feb 2019

¹⁸ Diario da Republica I series 22, 18 Feb 2019

¹⁹ Diario da Republica I series 22, 18 Feb 2019

²⁰ ANPG announcement, 5 Jun 2019

²¹ ANPG announcement, 5 Jun 2019

²² SAPO, 2 Jun 2019

²³ SAPO, 2 Jun 2019

²⁴ SAPO, 2 Jun 2019

In order to gauge the costs of infrastructural development in Angola, the CEIC carried out joint research with **OSISA-Open Society Angola** and **CMI-Chr. Michelsen Institute**, an independent research institute in **Norway**, with the support of the **World Bank**.²⁵

The researchers found themselves unable to identify real costs in the sector and used a World Bank estimate of 12.5% to estimate losses of \$20 billion. This may be a low estimate – UK-based **Construction Sector Transparency Initiative (CoST)** says of the construction sector:

*"It is difficult to determine precisely the value of losses through corruption, but estimates tend to range between 10 and 30%. The experience of the CoST programme suggests that a similar amount could be lost through mismanagement and inefficiency."*²⁶

The researchers found a complete lack of transparency in Angola's entire value chain, in the sector. It was almost impossible to access information on tenders, contracts, contractors, project costs, project supply chains and oversight of projects. Access to information was normally refused by the competent public bodies.²⁷ The report's researchers noted:

"Exercising independent control tends to be difficult in this sector, where contracts and funding schemes are complex and often kept secret."

The report's key findings in Angola were:

- Government insiders facilitate bribes, which reinforces the problems of corruption;
- Under the **Programa de Investimento Público** (public investment programme), *"no project had good feasibility studies partly due to a lack of human resources capacity"*;
- The projects financed by credit lines were launched without proper preparation and there was no culture of evaluation or supervision of the works;
- Difficulty in developing a competitive domestic industry, under-invoicing, lack of competition in the bidding, price fixing with final costs greater than initially indicated, project overruns were all risks;
- Infrastructure development focused on Luanda and failed to reach outside urban areas; Water supply and urban drainage systems currently only cover a small part of the population, with existing systems in poor condition; Rural areas lack transport and production support infrastructure.²⁸

The report did not provide detailed examples but the real-world effects cannot be doubted. Angola's new international airport, **Novo Aeroporto Internacional de Luanda (NAIL)**, is one example (see *ARC Briefing Angola March 2019*). By 2017, the cost of building the airport had reached over \$6 billion, with only a half completed airport to show and no accounting for the expenditure.²⁹ **Brazil**-based construction giant **Odebrecht**, which has had a wide range of construction projects in Angola including hydro-electric projects, roads, dams, sewage and water systems, was found guilty in Brazil in one of the largest corruption cases in history.³⁰

Problems of corruption in the construction industry are global but impact more on developing countries. Angola has incurred a national debt of about \$100m (80% of GDP in 2019), borrowed to finance Angola's reconstruction; the sum lost through corruption is about one-fifth of current national debt. President **João Lourenço's** (2017-present) strategy is to bring in further funding to complete projects and extend infrastructure across Angola. More transparency in Angola's construction might it make possible to reduce reconstruction costs inflated by dishonesty and reduce borrowing.

²⁵ OSISA, "The Cost of Developing Infrastructures in Angola", accessed 3 Jun 2018

²⁶ World Economic Forum, 4 Feb 2016

²⁷ OSISA, "The Cost of Developing Infrastructures in Angola", accessed 3 Jun 2018

²⁸ OSISA, "The Cost of Developing Infrastructures in Angola", accessed 3 Jun 2018

²⁹ Macau Hub, 1 Mar 2019

³⁰ BBC, 17 Apr 2019

Planner

June 2019 **(Angola)** A high level delegation of the **US Federal Reserve (Fed)** is to visit Angola for discussions with **Banco Nacional de Angola** (central bank) concerning the resumption of US dollars in banking operations in Angola.

June 2019 **Luanda (Angola)** Expected completion date for transfer of **Sonangol's** contracts, concessions and relations with international oil companies to the **Agência Nacional de Petróleo e Gás (ANPG)** (national petrol and gas agency);

Q2 2019 **(Angola)** The government is expected to issue eurobonds worth \$2 billion shortly, its third eurobond issue;

Q3 2019 **Luanda (Angola)** A working group coordinated by the finance minister will conduct the international public tender to award Angola's fourth global telecommunications operator licence;

2019 New diamond hub will open in **Saurimo**, comprising a diamond cutting and polishing factory, a professional technical training school and supporting institutions and industries;

2019 Sell-off of state-owned oil company **Sonangol's** assets continues until end of 2019;

2019 **Luanda (Angola)** Trials of **Jose Filomeno dos Santos** and other high-ranking ex-officials variously charged with defrauding the state, embezzlement or theft, will take place during the year. No trial dates are confirmed as yet;

24 Oct 2019 **Sochi (Russia)** President **João Lourenço** is to take part in the **Russia-Africa Summit**;

18 Nov – 6 Dec 2019 **Luanda (Angola)** Angola will host **African Union's (AU)** 18th Session of the International Law Commission followed by the AU's 8th International Law Forum, entitled "*Constitutional Democracy, Rule of Law and Fight against Corruption*";

April 2020 **Luanda (Angola)** Luanda's **Novo Aeroporto Internacional de Luanda (NAIL)** (new international airport) to open;

2020 - 2025 **(Angola)** **World Bank** to provide funding to increase economic diversification for a five-year period.

2020 **Luaxe** kimberlite mine, managed by **Russia-based Alrosa**, begins production;

2020 **(Angola)** First local and municipal elections;

2021 **(Angola)** National elections;

2022 **(Angola)** End date for **Banco Poupanca e Credito's** recovery plan

Chronology

12 Jun 2019 **Luanda (Angola)** **Lusa Southern African Scientific Services Centre for Climate Change and Sustainable Land Management (SASSCAL)** makes available €10m (\$112.76m) to Angola to develop scientific research projects;

12 Jun 2019 **Hong Kong (Hong Kong)** **Lusa Fitch Ratings** Africa department director **Jan Friederich** says Angola has made "*impressive progress*" but high public debt prevents improvements in the country's rating;

12 Jun 2019 **Luanda (Angola)** **Lusa** Angola calls for the **African Union (AU)** to create the **African Humanitarian Agency** to address the forced displacement of people resulting from

natural disasters;

12 Jun 2019 **Luanda (Angola)** *Lusa* **Millennium Atlântico Bank** promotes investment fund for structural projects in oil sector;

8 Jun 2019 **St Petersburg (Russia)** *Lusa* **Isobel dos Santos** speaks at **St Petersburg International Economic Forum Russia-Africa** session;

7 Jun 2019 **Luanda (Angola)** *Angop* Former transport minister **Augusto Tomás**, in third day of trial, rejects responsibility for financial control of the **Conselho Nacional de Carregadores** (national freight council) and charges that he appropriated 1 billion kwanzas (\$40m) from this body;

6 Jun 2019 **Luanda (Angola)** *Angop* **United Nations Food and Agriculture Organization (FAO)** provides \$15m for the implementation of projects to eradicate hunger in Angola;

6 Jun 2019 **Luanda (Angola)** *Angop* The economy and planning ministry, the **Banco de Desenvolvimento de Angola (BDA)** (Development Bank of Angola), the **Credit Guarantee Fund**, and eight Angolan commercial banks sign an agreement to make AKW 141 billion (\$434m) available to finance the **Programa Asistencia Credito (PAC)** (credit support programme) until the end of 2019;

6 Jun 2019 **Luanda (Angola)** *Angop* **Agência Nacional de Petróleo e Gás (ANPG)** signs an agreement with **United States**-based oil and gas firm **ExxonMobil** for operations in block 15;

6 Jun 2019 **Luanda (Angola)** *Angop* **Assembleia Nacional** approves revised Akz 10.3 billion (\$305.9m) state general budget for 2019, based on a downgraded average oil price of \$55 a barrel, from \$68 per barrel;

6 Jun 2019 **Luanda (Angola)** *Club-K Net* **Banco Nacional de Angola** (central bank) deputy governor **Rui Minguês de Oliveira** is proposed as new chairman of the **Banco Poupança e Credito (BPC)** to replace **Alcides Horácio Frederico Safeca**, after three directors resign from the BPC board;

6 Jun 2019 **Luanda (Angola)** *Angop* A partnership agreement for the construction of high-conversion crude oil refinery in northern **Cabinda Province** is signed between **Sonangol Refinación (Sonaref)** (10%) and the **United Shine** consortium (90%), which additionally obtained the contract to install a gasoline production unit at the Luanda refinery from Sonangol;

31 May 2019 **Kinshasa (DRC)** *Angop* Presidents **Paul Kagame (Rwanda)**, **João Lourenço (Angola)** and **Felix-Antoine Tshisekedi (DRC)** agree to strengthen security cooperation, aimed at uprooting all non-state armed groups and end threats to state security;

28 May 2019 **Luanda (Angola)** *ANGOP* Angolan defence minister **Salviano de Jesus Sequeira** and Portuguese counterpart **João Gomes Cravinho** discuss strengthening military cooperation at the 18th meeting of the **Portuguese-Angolan Joint Commission on Defence**;

27 May 2019 **Luanda (Angola)** *Voice of America* Southern Angola faces the worst drought in decades, with at least 2.3 million people at high risk of suffering malnutrition;

27 May 2019 **Luanda (Angola)** *Angop* **Banco Nacional de Angola** (central bank) basic interest rate falls from 15.75% to 15.50%, following the downward trend of annual inflation;

21 May 2019 **Luanda (Angola)** *Lusa* The **World Bank** is to increase financing to Angola's private sector during the period 2020-2025, to boost economic diversification;

15 May 2019 **Luanda (Angola)** *Angop* Angola and **China** to strengthen political trust and re-launch bilateral cooperation in industry, agriculture, fisheries, mining and education; turnover between Angola and China stood at \$28 billion in 2018.