

AFRICA RISK CONSULTING**Angola Monthly Briefing July 2019**

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Natural resources and oil minister Diamantino Azevedo says Angola proposes to privatise much of its mining industry, beginning with the diamond sector. Diamond marketing will also be partly privatised. State-owned oil company Sonangol is to sell its shareholding in telecommunications company Unitel. Angola contracts United States (US)-based law firm Squire Patton Boggs to aid in returning US correspondence banking to Angola, as a team from the US Federal Reserve visits Angola to make an assessment.

Diamond industry to be restructured and privatised

Angola's mining industry is to be restructured in the same manner as the oil industry. This is a major reversal of Angola's long-standing policies on maintaining national control of important and extensive mineral reserves. Speaking in **Lisbon (Portugal)**, Angola's natural resources and oil minister, **Diamantino Azevedo**, said the government is making improvements in the governance of the sector.¹

The restructuring will begin with the diamond sector. This has been a nexus of political issues since the 1990's, encompassing a major resource war, when the opposition **União Nacional para a Independência Total de Angola (UNITA)** seized control of the diamond fields, leading to **United Nations (UN)** sanctions on their illicit diamond trading, as well as human rights issues in the artisanal mining sector, and major corruption as state players gained diamond mining concessions and diamond buying rights.

Azevedo said:

*"We are going to start a process of transformation in which the two [diamond] companies will stop being concessionaries and will be transformed into operators; in the future we will take the two companies to the stock exchange and in the case of one of them, we will carry out an almost total privatization."*²

The national diamond mining company, **Empresa Nacional de Diamantes EP (Endiama)**, will be privatised first and its capital will later be partially floated on Angola's **Bolsa de Valores e Derivativos** (stock exchange) when it opens for business.³ Endiama is currently both the concession holder and diamond miner, with a shareholding in all major mining ventures. This will change with the new system, which will introduce a new agency, the **Agência de Recursos Naturais** (national resources agency). Endiama's function will be that of managing any remaining state interests in the mining sector.⁴ If the same model as that of state-owned oil company **Sonangol** is followed, then Endiama will sell all its subsidiaries and become a standalone state mining company, possibly with responsibility only for artisanal diamond production. Azevedo said the government will reformulate the way the ministry and state-owned companies operate, to create a mineral resources agency that will be regulator and concessionaire:

"Endiama is being restructured to stop being a concessionaire and part of its capital will be dispersed on the stock exchange. The future natural resources agency will benefit from all the

¹ Lusa, 5 Jul 2019.

² Lusa, 5 Jul 2019.

³ Lusa, 5 Jul 2019.

⁴ Lusa, 5 Jul 2019.

experience and assets of the state-owned company that deals with precious metal and mineral resources.”⁵

Although the process of restructuring the mining sector has only just begun, Azevedo says there is already considerable interest from multinationals.⁶ Angola is currently the world’s sixth largest diamond producer, exporting 8.4 million carats valued at \$1.2 billion in 2018.⁷ Angola intends to increase this to 14 million carats a year by 2022.⁸

Two major international companies are currently responsible for the majority of Angola’s diamond production and both are now expanding their production. **Russia-based Alrosa Group**, the world’s largest diamond mining company, has been producing about three-quarters of Angola’s output since the late 1990’s, from the joint venture **Catoca** mine in **Lunda Sul** province, which produces about 6.8 million carats of diamonds a year.⁹ Alrosa is in the process of starting up a larger, higher value kimberlite mine at **Luaxe** (Lunda Sul), which is expected to come on stream late next year and to considerably increase Angola’s diamond production, making it the world’s third largest producer. In April, Alrosa signed new agreements with Angola covering diamond prospecting, production and sales.¹⁰ Alrosa will almost certainly remain the dominant private player in Angola’s new system.

Australia-based Lucapa Diamond Company’s mine at **Lulo (Lunda Norte)** is currently the second most significant diamond mining company in Angola, and will also remain a dominant player in the industry, producing and marketing very large high-value stones,¹¹ worth about \$1,353 per carat, from its alluvial mines, valued at \$25m in 2018.¹² Lucapa is about to start further kimberlite exploration of the 70 pipes discovered in 2018, according to Lucapa MD **Stephen Wetherall**:

“The next phase of the kimberlite programme builds on the great body of exploration work completed over many years at Lulo to pin-point the source pipes hosting the world’s best alluvial diamonds. Like the diamond experts involved in our recent technical review, we remain convinced that the kimberlite source of these diamonds awaits discovery.”¹³

Angola’s diamond trading company, **Sociedade de Comercialização de Diamantes de Angola EP (Sodiam)** will also be part privatised, according to Azevedo, and will retain an operational capacity in the diamond trading sector.¹⁴ In the first quarter of 2019, Sodiam sold 2.65 million carats valued at \$369m,¹⁵ a major income stream for Angola. President **João Lourenço** (2017-present) highlighted Sodiam’s investments in a speech to the ruling **Movimento Popular de Libertação de Angola (MPLA)** about the “*illicit enrichment of an elite*” saying:

“It is not acceptable and we cannot be satisfied with the fact that public companies, especially Sonangol and Sodiam, have also been able to finance some of these private businesses as if they were credit institutions.”¹⁶

The known investments are those previously held with **Isabel dos Santos**, daughter of former President **José Eduardo dos Santos** (1979-2017), including **United Arab Emirates**-based diamond trading company **Odyssey**, which was shut down in June 2018.¹⁷ Trading partnerships with Angolan, **Indian** and **Belgian** diamond trading and cutting companies are also likely divestments. It is unclear

⁵ Lusa, 5 Jul 2019.

⁶ Lusa, 5 Jul 2019.

⁷ Kimberley Process Annual statistics 2018

⁸ Lusa, 30 Apr 2019.

⁹ Diamond Loupe, 8 Apr 2019.

¹⁰ Diamond Loupe, 8 Apr 2019.

¹¹ Mining MX, 6 Jun 2019.

¹² Mining MX, 18 Nov 2018.

¹³ Mining MX, 6 Jun 2019.

¹⁴ Lusa, 19 Mar 2019.

¹⁵ Lusa, 30 Apr 2019.

¹⁶ VII Congresso Extraordinário do MPLA, 15 Jun 2019.

¹⁷ Macau Hub, 26 Jun 2018.

how far Sodiam will be privatised but the 2018 diamond trading law now allows mining companies to sell 60% of their production directly to the markets.¹⁸

Although diamonds are currently Angola's largest developed mineral industry, Azevedo has made it clear that the reforms will extend to Angola's entire mining and mineral sector:

"It is the same logic and we are now working on the strategy of how this will be done; the other state-owned companies that take care of precious and metallic mineral resources will cease to exist, and [we will] utilize all the experience and assets of these state enterprises in the embryonic natural resources agency and we are further enabling the geological institute to better intervene in the geological knowledge of Angola. We already have several firms investing in projects in the country. We have several projects for prospecting gold, phosphate and ornamental stones."¹⁹

Other state mining companies include **Ferrangol EP**, the gold phosphate and iron ore producer, which has already given up its concessionary role to become solely a mining company.²⁰

The initial process of setting up the new agency, which transfers all concession powers back to the ministry of natural resources, in tandem with the sales of any non-core interests, will take at least a year, judging from the Sonangol model. In the second phase, the government intends to float remaining elements of these companies on Angola's nascent stock exchange. State companies tend to absorb any profits they make, and too many of the existing concessions are linked to major political and military figures. Attracting credible foreign investment in the mining sector will be difficult without these reforms.

Sonangol to sell shareholding in Unitel

Angola's oil company, Sonangol, is to sell its 25% shareholding in telecommunications company **Unitel**, held via telecoms subsidiary **Mercury Telecom (MSTelcom)**. (The other three shareholders are **Geni** (25%), represented by General **Leopoldino do Nascimento "Dino"**, **Vidatel** (25%), owned by Isabel dos Santos, and **PT Ventures** (25%), represented by **Brazilian** media company **Oi**.)²¹ While General Dino and Isabel dos Santos are closely allied, both Sonangol and Oi intend to sell their shareholdings in Unitel, partly due to problems with Isabel dos Santos' control over Unitel, and in Sonangol's case, also because they are obliged divest shares in non-core assets under new government policies.²²

Sonangol's share sale was first discussed in November,²³ but suspended while a new board of directors was agreed. Sonangol had wanted Isabel dos Santos removed from her position on the board of directors of Unitel, but dos Santos was re-elected to the board in March this year.²⁴ Former Sonangol CEO **Carlos Saturnino** noted during shareholder negotiations:

"We have to defend the interests of Sonangol. We are a state company and our shareholder also has its strategy. We need to defend these interests very well. The shareholder structure has four entities and each entity holds 25% of the capital, which is why we do not accept that a shareholder makes decisions in default and unilaterally."²⁵

According to the **London Financial Times**, the sale will now go ahead. Unitel is valued at \$2 billion. It is the largest telecoms operator in Angola, and one of the largest companies in the country with 10.4 million subscribers and revenues of \$958m.

¹⁸ Mining MX, 6 Jun 2019.

¹⁹ Lusa, 5 Jul 2019.

²⁰ Angop, 28 Oct 2018.

²¹ Jornal de Angola, 26 Feb 2019.

²² Jornal de Angola, 26 Feb 2019.

²³ Macau Hub, 16 Nov 2018.

²⁴ Reuters, 19 Mar 2019.

²⁵ Jornal de Angola, 26 Feb 2019.

Brazilian shareholder Oi is also keen to sell its share in Unitel, after taking the company to arbitration in **Paris (France)**. The arbitration tribunal at the Paris-based **International Chamber of Commerce** ruled in March this year that the other shareholders should pay Oi \$654.2m plus costs. The figure includes \$339.4m representing impairment losses caused by violations of Unitel's shareholders' agreement, \$314.8m in compensation for non-payment of dividends due since 2012, and Oi's costs of \$13m. Oi had claimed up to \$2.8 billion in the arbitration.²⁶

Oi is currently in administration in Brazil and intends to sell its share in Unitel as part of its recovery plan. The company has allegedly received offers from both Sonangol and Isabel dos Santos. Sonangol reportedly offered \$1 billion in cash and settlements, although Oi told **Brazil's Comissão de Valores Mobiliários** (securities and exchange commission) it was a not firm proposal but a discussion. Isabel dos Santos was said to have offered \$850m in installments, with the possibility of cash payment by one amount adjusted to present values. Oi did not deny this.²⁷ The Oi case suggests that the value of Sonangol's share in Unitel may be much higher than thought, although it is also likely that two shareholders are prepared to pay a premium for final settlement with Oi giving the successful bidder more control over the company and the eventual sale of Sonangol's share. The sale of 50% of Unitel is complicated by the fact that 50% of the shareholders are politically exposed persons (PEP's), under investigation by Angola's **Procuradoria-Geral da República** (attorney-general). Isabel Dos Santos has yet to return to Angola to face questioning, despite agreeing to do so. Whether international telecoms companies will take an interest in Unitel's shares in this context may be moot until Angola's investigations are complete.

Angola hires US lobbying firm to support return of US correspondence banking

João Lourenço's government has hired **United States (US)**-based international law firm and lobbying company **Squire Patton Boggs** to aid it in convincing the US government to return dollar correspondence banking to Angola.²⁸ The contract comes after a team from the **US Federal Reserve System** visited Angola on 17 June to discuss the strengthening of the ties between the Federal Reserve System and the **Banco Nacional de Angola (BNA)** (central bank).²⁹ At the end of the visit, the US ambassador to Angola, **Nina Maria Fite**, made it clear there would be no immediate outcome from the visit:

"There is no date set for the return of US banks; the market is following up the reforms."³⁰

The Angolan government has retained Squire Patton Boggs for a year initially, at a fee of \$4.1m, to assist Angola in finding support for reforming the banking sector, for international investment, and to identify allies in **Washington (US)**.³¹ US journal **Politico** noted that the contract had been filed with the **US Department of Justice**.

Robert Kapla will lead the lobbying team hired to convince Washington of the credibility of Angola's banking system. Kapla said of Angola:

"Lourenço is currently engaged in a robust political transition in Angola, and it's a tough one because it involves battling a 38-year history of deeply embedded corruption, and he wants to change that."³²

Despite the discouraging outcome of the Federal Reserve visit, US-based **Citibank** is said to have informed the BNA that it intends to return to the country, about 16 years after it closed its

²⁶ WhiteCase LLP, 1 Mar 2019.

²⁷ Telesintese Brazil, 13 Jun 2019.

²⁸ Politico, 2 Jul 2019.

²⁹ Angop, 19 Jun 2019.

³⁰ Angop, 19 Jun 2019.

³¹ Politico, 2 Jul 2019.

³² Politico, 2 Jul 2019.

representative office in **Luanda**, according to Angolan newspaper **Valor Económico**. Citibank senior managers took part in the Angola Oil & Gas 2019 conference, held in Luanda from 4 to 6 June.³³

US dollar transaction clearing services have not been available in Angola since November 2016 when **Germany-based Deutsche Bank**, the last bank to offer this service, left the market.³⁴ Angola's benchmark currency is the euro, since about 2016.³⁵

The Angolan banking system presently has only three representative offices of foreign banks, Germany-based **Commerzbank** and **South Africa-based Firststrand Bank** and **NedBank**. The hope is that if negotiations with the US Federal Reserve go well, **Bank of America** and Deutsche Bank will return to the Angolan financial system.³⁶

A shortage of dollars arising from the pullout of US correspondence banks has been a major problem for Angola. Much international trading in oil diamonds and other commodities is dollar based, and shortages have affected the value of the kwanza. The credibility and robustness of Angola's **Anti-Money Laundering and Anti-Terrorist Financing** laws and implementation have been called into the question by US banks but reforms to the banking sector – and prosecutions of bankers and bank closures – suggest that the financial systems will be reshaped. Although Squire Patton Boggs' role in identifying external expertise to reform the banking sector is a major step, Lourenço wants not only US dollars but also a better relationship with Washington.

Planner

Q3 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 **Luanda (Angola) Agência de Recursos Naturais** (national resources agency) to be set up, to take over all mining concessions within the country, together with partial privatisation of mining;

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

2019 **Saurimo (Angola)** New diamond hub will open, 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.

³³ Macau Hub, 12 Jun 2019.

³⁴ Export.gov Angola guide, 1 Nov 2018

³⁵ Macau Hub, 12 Jun 2019.

³⁶ Macau Hub, 12 Jun 2019.

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 Poupança e Crédito**'s recovery plan

Chronology

10 Jul 2019 **Luanda (Angola)** *AfDB* The governments of Angola and **Portugal** and the **African Development Bank (AfDB)** sign a country-specific compact designed to accelerate the inclusive, sustainable and diversified growth of Angola's private sector;

6 Jul 2019 **Lisbon (Portugal)** *Club-K Banco Valor* head **José Manuel Ferreira Pinto** is on trial in Lisbon on charges of tax fraud and money-laundering;

2 Jul 2019 **Luanda (Angola)** *East African* Angola delays introduction of first stage of VAT to October 2019, when 421 large companies will begin to act as agents to collect VAT from 40,000 taxpayers for fuels, mobile phones and bread, amid concerns about popular reactions to imposition of VAT and lack of preparedness;

2 Jul 2019 **Vienna (Austria)** *Angop Organisation of Petroleum Exporting Countries (OPEC)* extends existing cuts to oil production quotas until 31 March 2020; Angola's quota is 1.48 million barrels per day, higher than actual production in first quarter 2019;

1 Jul 2019 **Luanda (Angola)** *Angop* President **João Lourenço** makes three-day state visit to **Cuba** to sign co-operation agreements in *inter alia* health care, scientific research and small and medium industry;

1 Jul 2019 **Luanda (Angola)** *Angop* **United States** and Angola sign Memorandum of Understanding on security and public order;

1 Jul 2019 **Luanda (Angola)** *Angop* The **International Monetary Fund (IMF)** resident representative in Angola, **Max Alier**, says that subsidies for water fuel and energy should be abolished, since they are inefficient and benefit people with greater financial power rather than the poorest sectors;

1 Jul 2019 **Luanda (Angola)** *Angop* Angola institutes a 30-day fuel reserve supply for petrol, diesel, JET-AI, JET-B and kerosene to prevent future fuel shortage crises;

28 Jun 2019 **Luanda (Angola)** *Angop* Luanda's **04 de Fevereiro International Airport** receives \$300m for upgrades over the next 18 to 24 months, increasing its capacity from 1.5 million to 4 million passengers;

19 Jun 2019 **Luanda (Angola)** *Angop* A high-level delegation of the **US Federal Reserve System** visits Luanda for a 48-hour visit to discuss issues concerning the restoration of US dollars to banking operations in Angola;

18 Jun 2019 **Luanda (Angola)** *Angop* Angola, the **Democratic Republic of the Congo**, and **Republic of Congo** hold tripartite meeting on strengthening border security between the three countries;

18 Jun 2019 **Luanda (Angola)** *East African* Angola's highest military court, the **Supremo Tribunal Militar** (supreme military court), places General **José Maria**, ex-head of **Serviço de Inteligência e Segurança Militar (SISM)** (military intelligence and army security) under house arrest after charging him with embezzlement of restricted military documents and equipment, and insubordination;

17 Jun 2019 **London (United Kingdom)** *Royal Institute for International Affairs* Angola will invest \$60m in clearing landmines in the southeast of the country, through the American-British demining charity **HALO Trust** who say an estimated 1,155 minefields remain to be cleared;

15 Jun 2019 **Luanda (Angola)** *Angop* The director of the **Serviço Nacional de Recuperação de Activos da Procuradoria Geral da República** (national services for recovery of assets of the Attorney General's Office) warns **Elektron Capital SA**, owned by **Manuel Domingos Vicente** and **Manuel Hélder Vieira Dias Júnior "Kopelipa"**, that shareholders' assets will be seized if Elektron does not pay back \$125m of state monies loaned to Elektron by state-owned oil company **Sonangol** to buy shares in **Banco Economico**;

14 Jun 2019 **Luanda (Angola)** *Angop* The **Supremo Tribunal Militar** (supreme military court) will try national police commissioner **Francisco Massota** and six other police officers on July 18, over accusations of abuse of power, misconduct and fraud;

12 Jun 2019 **Luanda (Angola)** *Angop* Angola is elected to lead the **Conference of Constitutional Jurisdictions of Africa (CJCA)** for a two-year term, taking over from **South Africa**.