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After the Boom:
Angola's Recurring Oil Challenges in a New Context

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Lucy Corkin, Rand Merchant Bank

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Executive Summary

Angola is one of Africa's most established petro-states, with initial forays into the country's oil acreage predating national independence. A failure to diversify the economy significantly away from the now well-established oil industry proved disastrous during the global financial crisis of 2008-9: the plunge in oil prices by nearly two thirds from a high of USD147 forced the Angolan government to consider revising the oil benchmark figure in its 2009 budget to below break-even levels. Despite a recovery in the intervening years, Angola is in much the same plight barely a decade later, albeit that this time the low oil price environment is looking more and more likely to be 'the new normal', rather than a sudden, dramatic shock. Oil remains the source of approximately 98 per cent of the country's foreign exchange and 75 per cent of government revenue. As such, it is likely that this time around there will be far more wide-ranging consequences for Angola, its oil industry, and the country's major foreign investors, the international oil major (IOCs). This is particularly because the country's two constants, which have represented political and economic stability, namely President Eduardo dos Santos and the ubiquitous role of Sonangol in the economy are about to change.

The Development of Angola's Oil Sector

Angola's oil industry was born at the turn of the twentieth century while the country was still under Portuguese colonial rule. According to current estimates, Angola has around 9.9 billion barrels of remaining proved (P1) crude reserves, with conservative estimates attributing to Angola some 0.8 per cent of OPEC proved reserves and 0.65 per cent of global proved reserves. However, Angola's pre-salt blocs are considered to hold some of the world's most promising oil deposits and estimates of Angola's probable commercially recoverable reserves sit at 10.7 billion barrels. Combined with additional technically recoverable reserves of 2.8 – 3.5 billion barrels, Angola's total probable (P2) reserves are estimated to be in a range of 13.5 – 14.2 billion barrels.

Impact on the Oil Majors

The low oil price has caused the IOCs to shift their focus to cutting costs and preserving cash flow. A number of projects have been delayed or put on hold, even though a final investment decision (FID) has been made. Furthermore, the lack of foreign currency liquidity has resulted in almost complete halt in the oil services industry: routine repair and maintenance work on the rigs has stopped as oil companies cannot access their dollar funds to pay for such services. Of further concern is the financial vulnerability of Sonangol, the Angolan national oil company, which is of crucial systemic importance to the functioning of the oil industry.

Role of Sonangol

Sonangol has played an integral role in Angola's political economy and is without question one of the country's most important commercial actors, with a network of subsidiaries and related companies that encompasses almost every sector of Angola's economy. In the face of Sonangol's deteriorating financial position, the Angolan government has implemented a series of wide-ranging reforms which redefine the company's role in the sector. One of these has raised a considerable question mark, namely the appointment of the President's daughter, Isabel dos Santos, to chair of the board. Given her political connections, lack of petroleum industry experience and extensive business empire, her interests are somewhat opaque, and this will make IOC compliance with international anti-corruption legislation harder.

Political Context and Risks

From the perspective of the IOCs, the need for policy continuity and predictability in the business environment is of far more importance than social and political stability. Almost since Angola's independence, the country has been ruled by the same president, José Eduardo dos Santos, around whom considerable executive power has amassed. In March 2016, after 38 years in power, dos

Santos announced that he would be retiring from office in 2018, and nominated Minister of Defence General (retired) João Manuel Gonçalves Lourenço to succeed him. At this juncture, the appointment is considered a sound one, as it ensures political continuity. However the impending elections and the implications of a new of head of state, particularly in Angola's current troubled economic situation, increase the perceived risk for oil investors.

1. Introduction

Angola is one of Africa's most established petro-states, with initial forays into the country's oil acreage predating national independence. Although it has been at war for most of the years since independence, Angola has until recently provided a relatively stable operating environment for the International Oil Companies (IOCs). This has been helped, in no small part, by the country's formidable regime continuity, embodied by President Eduardo dos Santos, who has been head of state since 1979. A second, equally critical aspect, has been the central role that Sonangol, the state-owned national oil company, has played in the industry, making up in ubiquity what it lacks in transparency. Sonangol, in its previous incarnation, was, for all its faults, a well-known entity in Angola's oil world.

Angola is now facing a moment of momentous change, in that it is shortly to be stripped of both of these constants. Sonangol, its role within the oil industry, and its relationship with the Angolan government and international investors, is undergoing a thorough overhaul. In addition, the President, after 38 years of rule, has (considerably more credibly this time) announced his intention to step down from his position in government. As Angola's situation can attest to, the key elements for international investors, including oil companies, which far outweigh transparency or a country's socio-economic stability, are policy predictability, its effective implementation and operational continuity. Changes to Sonangol and the country's political regime present the most fundamental changes Angola's oil industry has seen to date. Given the transformative overhaul to the oil industry's regulatory model, there is a large question mark over what the industry will look like going forward.

This paper briefly outlines the origins of Angola's oil industry and the impact of the current low oil price environment on the IOCs before examining the central role played by Sonangol and how this is changing, as well as the potential risks that political change poses to the oil industry and its most important investors.

2. The Development of Angola's Oil Industry

Historical Overview

Angola's oil industry saw its inception at the turn of the twentieth century. In 1910, the Portuguese colonial administration of the day granted a concession of 114,000 km^2 in the Kwanza and Congo Basins to *Companhia Canha e Formigal*, and drilling began five years later. Following several decades of tepid activity, the Belgian oil company Petrofina made the first commercial discovery in 1955 (Benfica II well, south of Luanda[1]) and partnered with the Portuguese colonial government to establish *Fina Petróleos de Angola* (Petrangol) and to construct the Luanda refinery.[2] This attracted the interest of several other IOCs, notably Chevron.

The industry received a boost in 1962, when the Cabinda Gulf Oil Company (CABGOC) conducted seismic activity off the coast of Cabinda and was rewarded in the September of that year with its first discovery. Subsequently, CABGOC struck the Malongo oil field in 1968.[3] Chevron, to whom the Portuguese government had awarded operating rights for Block 0 off the coast of Cabinda in 1955, subsequently acquired a significant share in CABGOC[4], which remains a major player in Angola's oil

[1] Koning, Tako (2012) "Milestones in Angola's Oil History", *GeoExpro*, Vol 9, Number 3: http://www.geoexpro.com/articles/2012/10/milestones-in-angola-s-oil-history (accessed 10 January 2017)

[2] Hughes, John (2004) "Angola: Economy", in *Africa South of the Sahara 2004*, 33rd edition, London: Europa Publications, pp. 51.

[3] Koning, Tako, (2014) "Angola's Oil Industry - A Century of Progress in Exploration and Production", presentation at the AAPG International Conference & Exhibition, Istanbul, Turkey, September 14-17.

[4] Chevron's current share in CABGOC is 39.2 per cent; see Koning, Tako (2012) Milestones in Angola's Oil History, *GeoExpro*, Vol. 9, Number 3: http://www.geoexpro.com/articles/2012/10/milestones-in-angola-s-oil-history (accessed 10 January 2017). CABGOC's remaining shareholders are Sonangol (41 per cent); Total (10 per cent) and Agip (9.8 per cent)

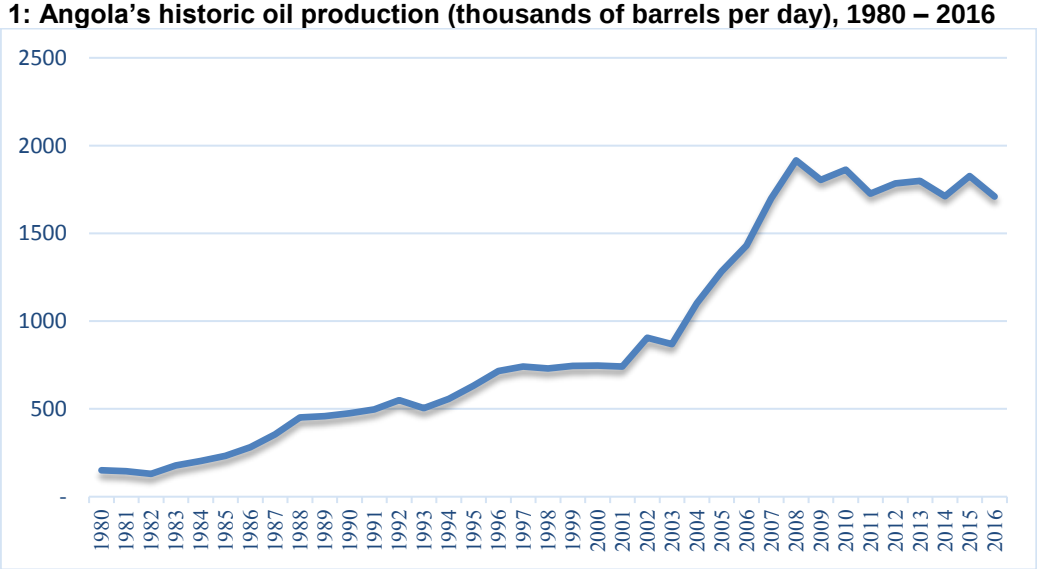
industry and was responsible until as recently as ten years ago for two thirds of Angola's production via the Malongo oil field[5].

Once a significant exporter of agricultural products, in particular coffee, by 1973, Angola's largest export by value was crude oil and this situation has endured for more than four decades. Angolan oil production hit a peak of almost two million barrels per day (bpd) in 2010 and has averaged around 1.85 million bpd since 2012, allowing the country to vie with Nigeria to be Sub-Saharan Africa's largest crude producer.

The oil industry has always been inextricably bound to the country's politics, acting as a life line to the ruling party MPLA's finances and war expenses throughout the civil war which followed independence in 1975. The geographic positioning of Angola's offshore oil resources facilitated oil exploration and production throughout Angola's civil war, as it was much easier to shield the oil installations and infrastructure from overt threat or sabotage from opponents. The MPLA was thus sustained during the civil war by oil revenues, which were exploited by US corporate interests via CABGOC, despite the fact that Washington officially supported the opposition movement UNITA. It is one of the most bizarrely striking ideological ironies of the Cold War that during one of its hottest proxy battles, the US-operated rigs exploited oil in collusion with the Soviet-supported MPLA, who were in turn guarded by Cuban troops against US-funded guerrillas and with oil revenues used to purchase Russian weaponry.[6]

Although oil production continued practically uninterrupted throughout the civil war, the end to internecine conflict in 2002 was a boon to the oil industry. As can be observed from Figure 1 below, Angola's production increased by an effective 15 per cent year-on-year between 2002, when civil war ended in Angola, and 2008, peaking at almost two million bpd before the oil price crisis of 2008/2009[7]. Sonangol had attempted to set a target to resume production at the two million bpd level by 2016, but production has continuously fallen short of ramp-up targets, hampered by technical issues and the decline of production at older deep-water fields. Oil remains the source of approximately 98 per cent of the country's foreign exchange and 75 per cent of government revenue.

Figure 1: Angola's historic oil production (thousands of barrels per day), 1980 – 2016



Source: BP, and the United States Energy Information Administration (EIA)

[5] Hughes, John (2004) "Angola: Economy", in *Africa South of the Sahara 2004*, 33rd edition, London: Europa Publications, pp. 51.
[6] Shaxson, Nicholas (2007) *Poisoned Wells: The Dirty Politics of African Oil*. New York: Palgrave Macmillan, pp. 49.
[7] See http://www.tradingeconomics.com/angola/crude-oil-production (accessed 12 February 2017).

Angola's current reserves

The oil-rich continental shelf off the coast of Angola is divided into 35 'blocks' (See Appendix). The offshore fields off the coast of Cabinda province - blocks 0-4 - account for the majority of Angola's oil, with the richest sources being located off the northern-most province of Cabinda in Block 0. Whereas Angola does possess some on-shore oil blocks, at least 70 per cent of Angola's production comes from blocks located off the coast of the enclave Cabinda province.[8] Angola's oil production has thus traditionally centered on Cabinda province, which has become an oil enclave economy, with participation from the world's largest oil majors, including Total, BP, Maersk and ENI. Exploration along the entire coastline has resulted in further substantial discoveries and Angola's producing oil acreage now extends along the country's entire Atlantic Ocean coastline. Block 15, operated by ExxonMobil via its subsidiary Esso exploration Angola, contains the giant Kizomba oil field, with recoverable reserves estimated at two billion barrels[9] and the site of one of West Africa's largest deep-water offshore development projects.[10] Girasol oil field, located in Block 17 and operated by Total, has proven reserves of 700 million barrels.

According to current estimates, Angola has around 9.9 billion barrels of remaining proved (P1) crude reserves, with conservative estimates attributing to Angola some 0.8 per cent of OPEC proved reserves and 0.65 per cent of global proved reserves.[11] However, Angola's pre-salt blocks are considered to hold some of the world's most promising oil deposits and estimates of Angola's probable commercially recoverable reserves sit at 10.7 billion barrels. Combined with additional technically recoverable reserves of 2.8 – 3.5 billion barrels, Angola's total probable (P2) reserves are estimated to be in a range of 13.5 – 14.2 billion barrels.

Current Context

A failure to convincingly diversify the economy away from the now well-established oil industry proved disastrous during the global financial crisis of 2008-9. The plunge in oil market prices from a high of USD 147 to nearly a third of this figure forced the Angolan government to consider revising its 2009 budget's oil benchmark to below break-even levels. Despite a recovery in the intervening years, barely a decade later Angola is in much the same plight, albeit this time the low oil price environment is looking more and more likely to be 'the new normal', rather than a sudden, dramatic shock. As such, it is likely that this time there will be far more wide-ranging consequences for Angola, its oil industry and the country's major foreign investors, the international oil majors.

Most of Angola's exploration activity is conducted at offshore depths of more than 1200 meters. Given the downward trend in the oil price in recent years, Angola's challenge is that almost all of the country's potential for new oil discoveries lie in the ultra-deep and offshore pre-salt layers. These opportunities are increasingly expensive to develop and exploit, and have amongst the highest break-even costs in the oil industry, after oil sands extraction[12]. The lower trend and volatility of the oil price is thus likely to dampen the IOC's appetite for ambitious exploration activities.

Angola has ten offshore and deep water projects scheduled to come on stream within the next five years (see Table 1 below), of which six have surpassed the final investment decision (FID), which makes them unlikely to be cancelled, despite the current oil price environment, as procurement and construction has already begun. Collectively these projects could potentially add a further 500,000

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[8] Luxner, Larry (2004) "Enormous investments planned for Angolan oil industry", *The Washington Diplomat*, December: http://www.luxner.com/cgi-bin/view_article.cgi?articleID=1281 accessed 13 February 2017)

[9] Reeckmann, S.A., Wilkin, D.K.S. & Flannery, J. (2001) "Kizomba, Deepwater Giant Field Angola," presented at AAPG Annual Meeting, 3-6 June: http://www.searchanddiscovery.com/pdfz/documents/halbouty03/images/0652.PDF.html (accessed 16 February 2017)

[10] Luxner, Larry (2004) "Enormous investments planned for Angolan oil industry", *The Washington Diplomat*, December: http://www.luxner.com/cgi-bin/view_article.cgi?articleID=1281 accessed 13 February 2017)

[11] See http://www.opec.org/opec_web/en/data_graphs/330.htm (accessed 12 February2017).

[12] *The Oil and Gas Year* (2016) "Head above water in Angola", 17 February: http://www.theoilandgasyear.com/interviews/head-above-angolan-water/ (accessed 13 February 2017)

bpd to Angola's production. However, they are more likely to sustain rather than boost production, as the projects are likely to be delayed, during which time production is likely to decline in the country's more mature fields.

Table 1: Major Upstream Projects, 2012-2024

Field name	Block	Operator	Start Year	Size (thousand b/d)
Kizomba Satellites Phase 1	15	ExxonMobil	2012	100
Soyo LNG Project		Chevron/Sonangol	2013	50
Plutao, Saturno, Venus and Marte (PSVM)	31	BP	2013	150
Soyo LNG Project		Chevron/Sonangol	2013	10
Cravo, Lirio, Orquidea and Violeta (CLOV)	17	Total	2014	160
West Hub (Sangos; Mpungi; Cinguvu)	42901	Eni	2014	100
Greater Plutonio Phase 3	18	BP	2015	22
Kizomba Satellite Phase 2	15	ExxonMobil	2015	59
Lianzi (Congo-Brazzaville joint zone)	14 (Angola)	Chevron	2015	40
Dalia Phase 1A	17	Total	2015	30
Mafumeira Sul	0A	Chevron	2016	70
Mafumeira Sul (LPG)	0A	Chevron	2016	10
Kaombo Phase 1	32	Total	2017	115
East Hub (Cabaca)	42901	Eni	2017	80
Dalia Phase 2	17	Total	2017	30
Cameia	21	Cobalt	2020	80
Platina, Chumbo & Cesio	18 W	BP	2021	70
Negage	14	Chevron	2024	75
Palas, Astraea, Juno (PAJ)	31 SE	BP	2024	125
Mafumeira Sul Phase 2	0	Chevron	2020	80
Kaombo Phase 2	32	Total	2019	115
Malange	14	Chevron	2019	50

Source: Energy Aspects

Downstream Development

Refinária de Luanda (Sonarel), which was built prior to Angolan independence, remains Angola's only operational refinery. With a processing capacity of approximately 57,000 bpd, it is woefully inadequate for Angola's own domestic needs, fulfilling only around one fifth of domestic demand, much less being able to manage processing for export. The result is that one of Sub-Saharan Africa's largest oil producers is a net importer of refined fuel, spending around USD 5 billion annually to ensure that the country's requirements for refined oil products are met[13]. The Angolan government's beleaguered plans to address this shortcoming with a refinery planned for the port city of Lobito have been much delayed due to failed negotiations with a series of appointed contractors. A pipe dream since the mid-nineties, construction on the Lobito refinery, designed to have a final processing capacity of 200,000 bpd began in early 2012. Work on the USD 8 billion project, as yet incomplete, was halted in mid-

[13] *Universo* (2015) "Angola: So refined", December, Issue 48: pp. 10.

2016 due to the government's funding crisis in the wake of the fall in oil prices[14]. A second, more modest refining facility, is being constructed in the northern province of Soyo. This started in June 2015 and is being undertaken by Chinese contractor China Tianchen Engineering Corporation. The refinery, slated for completion in 2017, will have a refining capacity of 110,000 bpd.[15]

Angola's Liquid Natural Gas Plant (ALNG) in Soyo

Angola's Liquid Natural Gas (LNG) plant is a USD 10 billion joint-venture investment project between the Angolan state via Sonangol (22.8 per cent) and several leading IOCs: Chevron (36.4 per cent), BP (13.6 per cent), Eni (13.6 per cent), and Total (13.6 per cent). The largest foreign investment project in Angola to date, the plant is a single-train facility designed to produce 5.2 million tonnes of LNG per year with a fleet of seven LNG tankers. After making its first LNG delivery in June 2013, the plant's operation was shut down in April 2014 after a pipe connection failure.[16] Chevron admitted that major design flaws were delaying the project from re-opening,[17] and although the plant announced its much anticipated re-opening in June 2016, the plant was shut down yet again a mere six months later (although this interruption was reportedly due to a "minor intervention" by engineers[18]). Angola's natural gas production is currently sourced solely from natural gas associated with oil production, although the operator of the Soyo plant Angola Liquid Natural Gas (ALNG) has indicated its intention to eventually develop existing non-oil associated fields.

Theoretically, the Soyo LNG plant has significant potential to boost revenue for the Angolan government, given the slump in government receipts from oil revenue, but both the export market and Angola's own domestic market potential remain severely constrained. In the medium term, it will be a challenge to support the viability of the project, despite the Angolan government's hopes that the commercial exploitation of the gas reserves will boost the flagging economy.

3. Impact on the Oil Majors

The lower oil price environment and the subsequent reduction in money supply, both local and foreign currency, have had a severe impact on Angola's economy. During previous crises, the oil industry and its major players enjoyed a certain level of immunity from currency volatility and other economic impacts, but the prolonged nature of the current low oil environment has begun to take its toll. In addition, since Law 2/12 was passed in January 2012 regarding foreign exchange regulation concerning the petroleum industry, oil majors have been required to open bank accounts domiciled in Angola for all payments, whether kwanza (AOA) or USD-related. The law was intended to increase liquidity in Angola's economy and to allow the domestic banking system to benefit from the growth that would follow the increased volume of money being injected into the system. However, this means of forcing the oil majors to become involved in Angola's onshore economy has resulted in their being impacted by the lack of liquidity in the market following the precipitous drop in the oil price.

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[14] *Macauhub* (2016) "Sonangol suspends works at the Lobito refinery in Angola", 22 August: http://www.macauhub.com.mo/en/2016/08/22/sonangol-suspends-works-at-the-lobito-refinery-in-angola/ (accessed 9 January 2017)

[15] *Macauhub* (2015) "Soyo Refinery in Angola will process 110,000 barrels of oil per day", 5 June: http://www.macauhub.com.mo/en/2015/06/05/soyo-refinery-in-angola-will-process-110000-barrels-of-oil-per-day/ (accessed 10 January 2017).

[16] *Angola LNG* (2014) "Press Release: Angola LNG Plant Status", 16 May: http://www.angolalng.com/en/news/press-releases/angola-lng-plant-status/ (accessed 9 January 2017)

[17] Vukmanovic, Oleg and Shrikesh Laxmidas (2014) "Reconstruction at Angolan plant chills liquefied gas project", *Reuters,* 22 September: http://www.dailymail.co.uk/wires/reuters/article-2765394/Reconstruction-Angolan-plant-chills-liquefied-gas-project.html#ixzz4VGZVjQ9c (accessed 9 January 2017)

[18] *LNGWorldNews* (2017) "Angola LNG back online", 4 January: http://www.lngworldnews.com/angola-lng-back-online/ (accessed 9 January 2017)

A number of developments in Angola's economy and its management have therefore had direct implications for the IOCs.[19]

Commercial Activity Paralysis

Angola depends almost exclusively on oil exports to access foreign currency. The severe lack of dollar liquidity, a function of the depressed oil price, has forced the government to impose a number of restrictions on the use of foreign exchange for trade. Officially dollars may only be used to for items classified as essential such as food, medicine and education transfers. The government has attempted to cushion the oil industry by including imports related to the oil and gas industry in this classification. However, the severely constrained supply of dollars has been insufficient to service the importation of even this limited basket of goods. The reliance of the oil and gas industry on dollar-denominated imports has thus led to a complete halt in the oil services industry, most of which is located onshore and provides one of the strongest links between the largely enclave oil industry and Angola's domestic economy. Oil companies cannot access the foreign exchange required to import component parts, and this has halted the routine maintenance and repair work required for oil installations. Effectively, Angolan banks do not have enough foreign exchange to cover their liabilities, so even if companies possess sufficient funds in their Angolan bank accounts to purchase imported goods, the banks cannot release the payments due to insufficient availability of cash. Foreign payments, on which much of the oil industry relies, take several months rather than a few weeks to clear, and this puts considerable strain on companies' ability to manage their cash flows. The consequent freeze in required maintenance, repair and operational work will have a lag effect on the ability of operational rigs to maintain peak production and may lead to technical failures going forward, further impacting production capacity.

Amendments to regulations governing the oil industry

The Ministry of Petroleum has revised key pieces of legislation in an attempt to revitalize the exploration and production activities of the IOCs in a depressed oil price environment. The reforms are designed to entice international investors, by focusing on an institutional and organizational overhaul as well as improving the fiscal incentives for potential investors. The most significant developments are detailed below:

Presidential Decree 211/15, enacted in December 2015 amends the terms of current oil licenses to explore all horizons without an expiration date, contrary to previous license conditions. The intention of the decree is to promote the development of new commercial discoveries within existing concession areas and to maximize production by assisting oil firms to recover their exploration costs more quickly, thus helping company cash flow in the difficult environment.[20] The decree has been expressly applied to Block 14[21] and Block 17[22], two of the country's more profitable blocks, and ones

[19] *Reuters* (2015) "Angola tightens foreign currency controls as oil price slides", 5 November: http://af.reuters.com/article/angolaNews/idAFL8N1305ST20151105 (accessed 12 February 2017).

[20] Under the new legislation, the percentages and time frames for cost recovery prior to a commercial discovery have been made more favourable. Once a commercial discovery has been attained, 50 per cent of the related exploration costs are recovered within six years of the required submission of the General Development Plan (GDP) to the Ministry of Petroleum. The balance of the exploration costs are recovered within six years of production commencement.

[21] The shareholding of Block 14 Chevron (operator – 31%); Sonangol (20%); Eni (20%); Total (20%) and Galp Energía (9%), according to the Concession Map accessed at http://www.sonangol.co.ao/English/AreasOfActivity/Concessionary/Pages/Concessions-Map.aspx (accessed 11 February 2017)

[22] The shareholding of Block 17 is Total (operator – 40%); Statoil (23.33%); Esso (20%); BP (16.67%), according to the Concession Map accessed at http://www.sonangol.co.ao/English/AreasOfActivity/Concessionary/Pages/Concessions-Map.aspx (accessed 11 February 2017)

in which include all of Angola's most important investors. Subject to Ministry of Petroleum approval, this framework may be extended to cover other development areas.[23]

Arguably of even more significance is Presidential Decree 2/16 of June 2016, which was passed following the authorization of the National Assembly, Law 4/16 of 17 May 2016.[24] This decree relates to the further development of marginal fields[25]. It includes the revision of certain aspects of the profit-sharing and cost-recovery mechanisms, as well as petroleum tax relief in order to incentivize the oil industry majors' development of reserves previously not considered sufficiently economically viable under the existing petroleum industry regime. The expectation is that with the introduction of a certain amount of flexibility in the legal framework, the reserves will be developed, thus stimulating production and, consequently, government revenue. Several other oil-producing countries have a framework that caters for contractual concessions as regards marginal reserves, but it was only in 2016 that Angola was willing to introduce this level of flexibility into the legal regime that governs the petroleum industry. This development has been welcomed by the IOCs, who see it as long overdue, given industry standards elsewhere, and a welcome relief, given the severe pressure in the industry.

However, there is a lack of internal harmony between government ministries regarding their treatment of oil majors during this economic crisis. While the Ministry of Petroleum is trying to create incentives, and provide corporate relief, the cash-strapped Ministry of Finance is intent on pursuing via government decree the immediate settlement of disputed outstanding tax obligations owed by the IOCs to the Treasury. For most the IOCs, the disputed amounts are in the order of USD 1 billion. This has increased the level of policy uncertainty faced by the oil majors, most of whom are adopting a 'wait and see' approach, despite the favourable regulatory reform.

Sonangol's indebtedness to the oil majors

Sonangol's financial issues have begun to have direct consequences for the oil majors and have severely impacted relations between the national oil company and the country's most important investors. Things came to a head when it was revealed that Sonangol was in arrears with its payments to external contractors and exploration associates. Angolan anti-corruption website *MakaAngola* highlighted in an exposé that Sonangol had been unable to repay USD 300 million in cash calls due to Chevron from July to October 2016, relating to Block 0.[26] The fact that Chevron is Sonangol's oldest partner in the industry and is a cornerstone in the operations of the country's oil sector, indicates the severity of the problems at Sonangol for them to allow this relationship to deteriorate to such an extent. While it was evidently in Chevron's interests to find a resolution to the dispute, negotiations with the Sonangol board had reportedly not been forthcoming. If Chevron had declared default, this would have triggered the oil major's ability to sell Sonangol's 40 per cent share in equity oil to recoup its losses. The company also threatened to pull out of Angola.[27] However, not only would this have potentially damaged relations with the NOC irreparably, it would have also served to further weaken Sonangol's financial position[28], and the stability of Angola's oil sector. The official recognition of a Sonangol default would have far reaching implications in terms of other partners' reactions, Sonangol's own credit rating and Angola's oil industry at large. Sonangol

[23] Roberts, Peter (2016) "Angola petroleum reforms signal improved investment opportunities", *African Business Review*, 19 October: http://www.africanbusinessreview.co.za/finance/2587/Angola-petroleum-reforms-signal-improved-investment-opportunities (accessed 3 February 2017)

[24] Silva, Ricardo and Frazão, Sara (2016) "Angola's Petroleum Regulatory Reform - The Dawn of a New Age?", *Miranda and Associados*, June, pp. 16.

[25] Marginal fields are defined in the decree as those reserves under 300 million barrels, in a water depth in excess of 800 meters, providing revenues for the Angolan government of less than USD 10.50 per barrel, revenues for IOCs of less than USD 21.00 per barrel, and an Internal Rate of Return (IRR) substantially lower than 10 per cent.

[26] Marques de Morais, Rafael (2016) "The Chevron ultimatum: Sonangol has one week to save itself", *MakaAngola*, 12 October : https://www.makaangola.org/2016/10/the-chevron-ultimatum-sonangol-has-one-week-to-save-itself/ (3 February 2016)

[27] Luedi, Jeremy (2016) "Under the Radar: Africa's richest woman could sink Angola's economy" *Global Insights*, 11 November: http://globalriskinsights.com/2016/11/africas-richest-woman-sink-angola/ (12 January 2016)

[28] Sonangol's ability to service most of its international creditors is predicated on its access to oil receipts generated by the sale of its equity oil. Loss of this income would drive Sonangol further into default.

responded with a rare press release issued in October 2016, that due to the low oil price environment, a thorough audit of expenses was underway, which had delayed the payments, and that arrangements had now been made to facilitate a payment of USD 200 million to Chevron.[29] As of November 2016, Sonangol was behind in deferred payments to Chevron, BP, ExxonMobil, Eni and Total. The company has reportedly requested a moratorium on payments until end December 2016.[30] While the issue does not seem to have been conclusively resolved, as of February 2017, a Chevron executive confirm that Chevron would remain invested in Angola's oil industry, both in the ALNG project and in the country's oil blocs. However, Chevron appears to be putting pressure on Sonangol to lighten the IOC's corporate tax burden, implying that subsequent new investments are conditional on the "…adoption of more competitive tax rates."[31]

Impact on exploration activities

A number of projects have been delayed or put on hold, even though a final investment decision (FID) has been made. The focus for the IOCs has shifted to cutting costs and cash flow preservation for existing projects. As a result, the depressed oil price environment is delaying future investments that have passed FID and will halt others altogether. In addition, operating costs have fallen by 15-20 per cent (mostly due to contract renegotiation) compared to a few years ago and capital expenditure investments have dropped by 30-40 per cent, as drilling has all but halted.

The slow stranglehold effect this has had on the oil industry since Angola began to suffer the effects of falling oil prices in early 2014 is observable in the drastic reduction in Angola's rig count, shown in Figure 2 below. Over a period of less than two years, operational rigs decreased by 86 per cent, from 14 in March 2014 to two as at December 2016.

Figure 2: Angola's rig count (monthly), June 2012 – December 2016

Source: Baker Hughes

[29] Sonangol (2016) "Comunicado de Imprensa: Sonangol esclarece pagamento de cash calls à Chevron": 14 October: http://www.sonangol.co.ao/English/News/Pages/NewsHome.aspx?NewsID=265 (accessed 9 February 2017).
[30] George, Libby (2016) "Exclusive: Sonangol delays payments as it battles to reform", *Reuters*, 23 November: http://www.reuters.com/article/us-angola-oil-exclusive-idUSKBN13I1EP (accessed 11 February 2017).
[31] *Macauhub* (2017) "Chevron Group will continue to invest in the Angola LNG project", 22 February: https://macauhub.com.mo/2017/02/22/chevron-group-will-continue-to-invest-in-the-angola-lng-project/ (accessed 18 May 2017)

In November 2014, Norwegian oil major Statoil cancelled its drilling contract with the Stena Carron rig two years before contractual completion, preferring to forfeit USD 350 million in exploration costs rather than see the contract through. The feasibility model for this exploration activity had been premised on an oil price of USD 100 per barrel. [32]

Cobalt International, the only IOC to have made a commercially viable pre-salt discovery (in the Cameia field in block 21/09), announced in August 2015 its intention to sell its 40 per cent interest in each of blocks 21/09 and 20/11 to Sonangol for USD 1.75 billion (rendering Sonangol's shareholding of these blocks respectively 100 per cent and 70 per cent). Cobalt was to remain the sub-contracted operator, as Sonangol lacked the technical ability to assume operational control, but Sonangol was tobear all future exploration costs. However, in August 2016, Cobalt announced that the sale was terminated as it could not secure Angolan government approval for the transaction.[33] Cobalt has since filed a USD 2 billion law suit against Sonangol with interest and costs. Cobalt claims that failed negotiations regarding license extensions for the two blocks in question rendered it impossible to find an alternative buyer for the stake.[34]

Although Sonangol is registered as the operator of seven onshore and shallow offshore blocks, the state-owned oil company lacks the technical capabilities to operate the deep and ultra-deep blocks where Angola's future reserve upside is located. This means that Angola is even more dependent on foreign expertise and appetite for risk to develop additional production capacity. It also points to increasing production costs as oil from deep and ultra-deep blocks is on average more than double Angola's average cost of oil extraction. It also points to heightened partnership risk should an IOC seek to withdraw from Angolan oil blocks. As in the case of Cobalt above, Sonangol may seek to frustrate such efforts as it signals a withdrawal of much-needed foreign expertise.

The lack of drilling success[35] thus far in the much-vaunted pre-salt Kwanza Basin, combined with the pressure of a lower oil price environment has thus allowed oil partners such as BP and Total to reportedly negotiate better commercial terms on Block 18 and Block 32 respectively.[36]

4. The Role of Sonangol

Sociedade Nacional de Combustiveis de Angola (Sonangol), Angola's national oil company, has played an integral role in Angola's political economy and is without question one of the country's most important commercial actors, with a network of subsidiaries and related companies that encompasses almost every sector of Angola's economy. Its origins can be traced to Angola's independence from Portugal in 1975, when the newly self-proclaimed MPLA government nationalized Angol (the erstwhile Angolan subsidiary of the Portuguese national oil company Petrogal) and set up a commission, the National Commission for the Restructuring of the Petroleum Sector (known by its Portuguese acronym CNRIP) to oversee the management of the country's petroleum industry.[37] This culminated in the establishment of Sonangol in 1976, to manage the Angolan government's interests in the production and distribution of the country's oil resources. Under the control of the Marxist MPLA, in 1978 Sonangol was authorized to assume control of 51 per cent of all foreign oil companies operating

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[32] Holter, Mikael (2014) "Statoil Spends $350 Million to Cancel Rig After Angola Bust", *Bloomberg*, 21 November: https://www.bloomberg.com/news/articles/2014-11-21/statoil-spends-350-million-to-cancel-rig-as-angola-disappoints (accessed 18 May 2017).

[33] Nair, Arathy (2016) "Cobalt International says Angola oil block stake sale terminated" *Bloomberg*, 23 August 2016: http://www.reuters.com/article/us-cobalt-intl-stakesale-sonangol-idUSKCN10Y0ZJ (accessed 18 May 2017)

[34] *Financial Tribune* (2017) "$2b Lawsuit Has Investors Worried About Angola", 15 May: https://financialtribune.com/articles/energy/64441/2b-lawsuit-has-investors-worried-about-angola (18 May 2017)

[35] See Economist Intelligence Unit (2014) "Angola's pre-salt blocs take a hit", 28 November: http://www.eiu.com/industry/article/842540468/angolas-pre-salt-oil-blocks-take-a-hit/2014-12-02 (accessed 12 February 2017).

[36] See Sonangol Press Release dated 21 December 2015: "Sonangol and Total sign agreements": www.sonangol.co.ao/.../Sonangol%20and%20Total%20sign%20agreement.pd (accessed 18 May 2017)

[37] Stephens, Sian (2016) "Sonangol: Angola's Charm Offensive", *Natural Resource Governance Institute*, pp. 2.

in Angola, although production management and operations remained the responsibility of the companies in question.[38]

However, with Angola plunged into civil war immediately after independence, the MPLA soon recognized the vital role that a functioning oil industry would play in financing the party's armed forces and political survival. The MPLA went to great lengths to normalize relations with foreign investors and to ensure that Sonangol, as the state's most important revenue generator, was shielded from the Marxist-Leninist doctrine applied to the rest of the economy.[39]

A landmark agreement concerning employee deployment between Sonangol and Petrogal, ensured that the new national oil company (NOC) had sufficient management and technical expertise in its crucial initial years.[40] Angola's oil acreage was divided into blocks, put out to tender for foreign participation, and contracts were managed through the negotiation of sophisticated production-sharing agreements (PSAs). Sonangol was the industry's sole concessionaire as well as a participant in oil exploitation rights. Almost without exception, foreign oil companies were required to partner with Sonangol in the exploration of Angolan oil blocks.

Sonangol and the international political economy

In 1983, Sonangol established a London-based subsidiary, Sonangol Limited, in order to market its oil directly on the international market. In 1991, the parent company was restructured to create a holding company Sonangol *Empresa Pública*, which would oversee a number of subsidiaries which branched into various aspects of the petroleum value chain. Among these was Sonangol P&P (*Pesquisa e Produção)*, signaling the entity's foray into operating oil blocks. Sonangol also established a network of overseas entities and operating companies in completely unrelated industries, leading to the development of Sonangol's monolithic presence in Angola's economy.

Sonangol is also one of the few African national oil companies to have a significant international presence. Much of the credit for this can be attributed to Manuel Vicente, CEO of Sonangol from 1999 until his appointment to government office in 2012, from which position he has continued to further Angola's policies of economic diplomacy.[41] It is evident that Sonangol is the key to Angola's oil industry and to the country's political economy at large. As such, any vulnerability that the entity faces would have implications for the IOC's participation in Angola's oil industry. Sonangol is not without its challenges, which have been a concern for the IOCs for some time. The most important aspects are highlighted below.

Industry Conflicts of Interest

The political connectedness of the Sonangol leadership is compounded by the organisation's privileged position in the political hierarchy: it wields far more power than the Ministry of Petroleum, despite nominally being under its jurisdiction. In the years following Angola's independence, oil sector expertise was originally concentrated within Sonangol, rather than the newly established Ministry of Petroleum, so as not to overextend the limited resources of the new government or duplicate efforts. Over time, this has ensured the marginalization of the Ministry of Petroleum, with all authority relating to the oil sector concentrated in Sonangol, which reports directly to the President. Sonangol has thus in many ways developed parallel and interrelated activities, which have often been cited as conflicts of

[38] Hughes, John (2004) "Angola: Economy", in *Africa South of the Sahara 2004*, 33rd edition, London: Europa Publications, pp. 51.
[39] Lwanda, George (2011) "Oiling economic growth and development: Sonangol and the governance of oil revenues in Angola", *Development Bank of Southern Africa*, Development Planning Division Working Paper Series No 21, pp. 6.
[40] Soares de Oliveira, Ricardo (2007) *Oil and Politics in the Gulf of Guinea*, London: Hurst and Company, pp. 192.
[41] Economist (2011) "China International Fund: the Queensway syndicate and its Africa trade, 13 April: http://www.economist.com/node/21525847 (accessed 11 January 2017)

interest. However, these have been tolerated as Sonangol was considered to be the most efficient government actor for international oil investors to deal with. [42]

Concentration Risk

Sonangol's previous expansion into non-oil sectors and services has 'crowded out' other entrepreneurs as Sonangol not only commands greater resources, but also demands that international firms form joint ventures with its own subsidiaries. This makes market entry and/or technological transfer opportunities for other fledging Angolan businesses without political influence much harder[43]. The implication for oil companies is the enormous dependence on Sonangol for the industry to function and the significant concentration risk should the entity falter as is increasingly looking to be the case.

Quasi-fiscal operations (QFO)

Sonangol, through its subsidiary Sonangol Finance which performs a treasury function for the national oil company, has had access to the international debt markets for more than two decades. Indeed, somewhat uniquely, Sonangol enjoys a higher credit rating[44] than the Angolan sovereign debt, the latter having only received an international credit rating in 2010.

In the normal course of business, it is assumed that the debt of state-owned entities enjoys a sovereign guarantee. However, in the case of Sonangol and the Angolan government it is highly unlikely that the Angolan government would be in a position to render the support necessary to ensure solvency and the repayment of the parastatal's debts, should Sonangol falter. In fact, it is quite the reverse, as Sonangol facilitates and stands behind Angolan sovereign debt. In several cases, Sonangol has raised and settled foreign debt on behalf of the Angolan government. While there is an economic rationale for doing so, given Sonangol's higher credit rating, the circumvention of the regular payment system reduces transparency as to the actual state of the company's finances. Furthermore, similar issues are encountered when the Angolan government mandates Sonangol to undertake certain spending projects on behalf of the central government, state enterprises or other ministries.[45] The term "quasi-fiscal operations" was coined by the IMF[46] to describe these incidences where Sonangol has acted as a pseudo state treasury. Continually being brought in by the state as a lender of last resort has placed pressure on Sonangol's finances; indeed the need to divest from non-core activities was stated as one of the primary imperatives of the organisation's restructuring[47], as discussed in more detail below.

Financial Strain

Rumours of Sonangol's technical insolvency in the wake of lower oil prices have circulated since 2015. In June 2015, Portuguese newspaper *Expresso* claimed to have access to an internal Sonangol report dated May 2015 in which Sonangol President Francisco de Lemos José Maria declared Sonangol's operating model to be weakening, with a risk of technical insolvency, adding that "… the only segment that is functioning is the upstream segment, operated by foreign oil majors, without any participation by Sonangol",[48] and citing an urgent need to reposition the concessionaire business and supporting subsidiaries. Appearing to support this, anti-corruption journalist Rui Verde claimed in an

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[42] Shaxson (2007) *Poisoned Wells: The Dirty Politics of African Oil*. New York: Palgrave Macmillan, pp. 183

[43] Soares de Oliveira, Ricardo (2007) *Oil and Politics in the Gulf of Guinea*, London: Hurst and Company, pp. 91.

[44] Whereas Sonangol's debt is priced at Libor plus a margin of around 3.5 per cent, the Angolan sovereign's bond is priced at a yield of 9.5 per cent.

[45] Corkin (2013) *Uncovering African Agency: Angola's management of China's credit lines*, Farnham: Ashgate Publishing, pp.134.

[46] IMF (2003) *Angola: Selected Issues and Statistical Appendix, IMF Country Report 03/292*, September, Washington, pp. 79.

[47] The latest example is the BNA announcing that it was bringing Sonangol in as a 35 per cent shareholder of Banco Económico S.A., the new bank that emerged from a rescue of Banco Espírito Santo Angola (BESA), the Angolan arm of failed Portuguese Bank Banco Espírito Santo (BES). Sonangol is expected to recapitalise the bank to the tune of US$ 252 million.

[48] Reported in *Esquerda.Net* (2015) "Sonangol; Risco de Falência", 20 June: http://www.esquerda.net/artigo/sonangol-risco-de-falencia/37453 (accessed 12 January 2016).

article dated November 2015[49] that Sonangol had fudged its accounts in 2013 (which received a qualified audit by Ernst & Young) by revaluing its assets and receiving a reduction in tax obligations, effectively a state subsidy. Francisco de Lemos José Maria later denied that Sonangol was approaching bankruptcy, although he did not comment on the existence of the internal report in question or the veracity of its alleged findings.

However Sonangol management has publicly stated the intention to cut USD 1 billion in costs going forward.[50] Service contracts have reportedly been reduced by 40 per cent. Sonangol has also begun extricating itself from downstream activities, divesting from Sonangalp, a fuel distribution JV with Portuguese oil company Galp Energía, and reducing its intended participation in a planned oil refinery in Soyo (in partnership with Chinese interests) to 20 per cent.[51]

Sonangol Restructuring

The Angolan government has known of the structural risks Sonangol poses to the oil industry for a number of years. Indications of petroleum sector reform were in evidence as early as 2011, with the approval of the National Energy Security Policy and Strategy (NESPS) by Presidential Decree 256/11 in September 2011. The intention was for a number of key initiatives to be enacted in the following years, including the segmentation of Sonangol's interrelated responsibilities. However, the buoyant oil price environment which followed appeared to dampen government enthusiasm for long-term, albeit necessary, restructuring. The slump in the oil price from 2014, combined with higher production costs and the dramatic decline of Sonangol's earnings served to reinforce industry reform as a national priority.

Despite IOC concerns regarding Sonangol's positioning, international investors prize stability and predictability above transparency. The wide-ranging changes to oil sector regulation that the Angolan government has since implemented have certainly disrupted the normal course of business and there is a high degree of uncertainty present in Angola's oil industry. IOCs have been wary of voicing their concerns publicly, for fear of retribution in an already complex political environment.

In May 2016, the so-called Model for Readjustment of the Petroleum Sector's Organization and the alteration of Sonangol's bylaws was approved via Presidential Decree 109/16 and 110/16 respectively. It entailed splitting the primary functions of Sonangol into the following entities:

Sonangol E.P. [Empresa Pública]: the entity that is currently the holding company is to be stripped of all prior responsibilities and authorities barring that of national concessionaire which entails the management and monitoring of the current petroleum contracts in force.

Petroleum Sector "Agency" (Agência para o Sector Petrolífero): this newly created entity is to undertake certain administrative duties on behalf of the state, including the negotiation of oil block licensing rounds, the granting of exploration rights, and acting as liaison between industry stakeholders.

Petroleum Sector "High Council" (Conselho Superior de Acompanhamento do Sector Petrolífero ("COSASP"): will report directly to the Executive (read President) and will be responsible for assisting the state with managing its shareholdings in various interests in the oil industry (previously held by Sonangol). These interests in affiliates and subsidiaries are to be spun off into holding companies directly owned by the state. Sonangol's shareholding in various systemically important companies, such as Portuguese GALP Energía and Millennium BCP bank are also included in this portfolio.

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[49] Rui Verde (2015) "How Sonangol is fabricating its profits", *MakaAngola*, 7 November: https://www.makaangola.org/2015/11/how-sonangol-is-fabricating-its-profits/ (12 January 2016).
[50] *Macauhub* (2015) "Chairman of Sonangol confirms soundness of the Angolan state company", 4 July: http://www.macauhub.com.mo/en/2015/07/14/chairman-of-sonangol-confirms-soundness-of-the-angolan-state-company/ (accessed 13 December2016).
[51] Reported in *Esquerda.Net* (2015) "Sonangol: Risco de Falência", 20 June: http://www.esquerda.net/artigo/sonangol-risco-de-falencia/37453 (accessed 12 January 2016).

Interestingly, Sonangol will reportedly exit from exploration, production and operation of oil blocks, spelling the demise of Sonangol P&P.

An oil executive confirmed that the IOCs had been consulted during the planning stages of the restructuring process, and were encouraged by the intention for the various functions of Sonangol (as concessionaire, regulator and national oil company) to be split up as per the Brazilian or Norwegian model. However those who had seen the proposed restructuring diagram called it "confusing", and there was doubt that much would be achieved before 2018, due to the "slow decision-making process".[52]

In June 2016 via Presidential Decree 119/16, the President relieved Sonangol's entire board of directors of duty and announced the appointment of Isabel dos Santos, who is also the President's eldest daughter, as the Chair of a newly constituted Board of eleven directors.[53] Whereas publicly IOC executives cautiously welcomed the move[54], this is likely to be for the sake of political expediency given the personalities involved. There is a considerable question mark over Isabel dos Santos' appointment, given her political connections, lack of petroleum industry experience and extensive business empire. Her interests are not transparent and it will make compliance with anti-corruption legislation (in the oil companies' domiciled countries, rather than Angola) harder. This is particularly pertinent given the recent precedent of Cobalt International.[55]

Some industry experts argue that her business acumen may be what is required. Furthermore, given the political hornet's nest that inevitably surrounds Sonangol's reform, it could be argued that only someone with her vast political and business networks would have the clout to execute what is required, provided this is not disrupted by changes to the political landscape.

By December 2016, it had come to light that Sonangol's financial situation was far worse than originally anticipated[56] and that reform in Angola's oil industry, particularly as regards Sonangol's role, was long overdue. The intention was clearly to remove conflicts of interest and inefficiency, and increase transparency while retaining investor confidence so as to promote the performance of the oil industry and ultimately secure better quality revenue streams for the Angolan government. Given the fiscal crisis faced by Sonangol and the Angolan government, is appears that economic circumstances forced the government's hand where political will had not been able to.

5. Political Context and Risks

Since the end of Angola's civil war in 2002, the country has enjoyed relative political stability. This was helped to large extent by a concurrent rise in oil prices which contributed to an expansion of the country's oil industry and an increase in Angolan oil production, on which so much of the economy is reliant. The government also embarked on an ambitious national reconstruction programme and the subsequent increase in government spending and private investment over the next decade led to an

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[52] Telephone interview, 14 May 2016.

[53] President of the Republic (2016) Decreto Presidencial Número 119/16, Diário da República, 1(89), 3 June: 2014.

[54] Angola Today (2016) "Multinacionais de petróleo elogiam restruturação da Sonangol", 14 June: http://www.angola-today.com/news/sonangol-restructuring (Accessed 10 January 2017).

[55] Houston-based Cobalt International Energy, at one time a key investor in Angola's pre-salt blocs, was the subject of a 2011 bribery probe instigated by the US Securities and Exchange Commission and the US Department of Justice, due to the political connections of their Angolan partner Nazaki Oil. Nazaki's shareholders included several prominent generals and Manuel Vicente. In August 2014, formal legal proceedings were opened against Cobalt, whose stock price on the New York Stock Exchange plunged at the news. Although the charges have since been dropped, Cobalt's contemporaries will be careful to learn from this example.

[56] According to a press release issued by the Sonangol board on 1 December 2016 Sonangol's net profits have been declining precipitously since 2013 (USD 3.1 billion), more than halving in 2014 to USD 1.4 billion and decreasing by a further 73 per cent in 2015 to USD 389 million with no profit expected in the 2016 financial year. Overstaffing, wasteful management and over expansion into non-core sectors were cited as key reasons for declining profitability, compounded by the low oil price environment.

era of relative prosperity and the physical transformation of Luanda, the country's capital, which is the seat of government and home to an estimated 70 per cent of the country's economy.[57]

The offshore geographic positioning of Angola's oil assets has allowed the IOCs to be somewhat buffered from the risks conventionally associated with political instability. For decades, the oil industry has been allowed to operate with minimal interference, given the importance of the oil industry for government revenue, and a remarkable level of continuity, at least until recently, in the political and parastatal leadership with which interaction is required.

From the perspective of the IOCs, policy continuity and the predictability of the business environment is far more important than social and political stability. Almost since Angola's independence, the country has been ruled by the same president, around whom considerable executive power has amassed. Originally considered a non-threatening compromise candidate when he first came to power in 1979, dos Santos has managed to enshrine his subsequent concentration of political power in legislation. Popular uprisings which have occurred sporadically since 2011, are dealt with brutally, although dos Santos' real efforts regarding political survival have been far more focussed on maintaining an internal power balance between party factions, allowing access to sufficient resources to ensure their loyalty[58]. As a result of these networks of patronage, political and economic power is concentrated into the hands of a select few. Dos Santos has assiduously rearranged his cabinet frequently over the years, favouring only those with no political ambitions. While crucial in retaining the upper hand in the politics of survival, it has not, until recently, permitted succession planning, which is critical for Angola's political and economic stability, and thus of major concern to oil majors and investors. In power for 38 years, dos Santos is no longer a young man, and rumours of his failing health have become more frequent.[59] The lack of any obvious successor had been posing some concern.

In March 2016, dos Santos announced that he would be retiring from office in 2018. This was initially met with some scepticism[60], as the President has made such pronouncements before, only to use them as a political ploy to root out potential political opponents. However, given his advancing age and rumoured ill health, this time it is unlikely to be a feint. The timing will allow dos Santos to oversee the transition of power to his hand-picked successor, following the national elections schedule for August 2017. It was at the MPLA Party Central Committee meeting in December 2016 that the Minister of Defence General (retired) João Manuel Gonçalves Lourenço was ratified as being the name at the top of the party list.[61] In Angola's system of indirect presidential elections, this lines up Lourenço, who has been Vice-President of the MPLA since August 2016[62], to be President of the country should the MPLA win a parliamentary majority.

João Manuel Gonçalves Lourenço, who served as the secretary general of the MPLA (1998–2003) and first vice president of the National Assembly (2003-2014), was appointed by Presidential decree to the post of Minister of Defence in April 2014. Educated in the former Soviet Union, with a strong military background, he is an MPLA stalwart and aligned to dos Santos, while having remained discrete in terms of public profile, a characteristic known to be prized by the current President.

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[57] Harper, Mary (2015) "Elite hoard Angola's new-found wealth", *BBC,* 27 March: http://www.bbc.com/news/world-africa-32067602 (accessed 12 February 2017).
[58] Clapham, Christopher (1996) *Africa and the International System: The Politics of Survival*. Cambridge: Cambridge University Press, pp. 197.
[59] Manners, Andrew (2016) "After the strong man, what's next for Angola?", Global Risk Insights, June: http://globalriskinsights.com/2016/06/after-strongman-whats-next-angola (accessed 1 February 2017).
[60] Manners, Andrew (2016) "After the strong man, what's next for Angola?", Global Risk Insights, June: http://globalriskinsights.com/2016/06/after-strongman-whats-next-angola (accessed 1 February 2017).
[61] *Jornal Económico* (2016) "Angola: José Eduardo dos Santos indica João Lourenço para lhe suceder", 2 December: http://www.jornaleconomico.sapo.pt/noticias/angolajoseeduardodossantosindicajoaolourencolhesuceder96140 (accessed 1 February 2017).
[62] Diário da Notícias (2016) "José Eduardo dos Santos não se recandidata e indica João Lourenço", 2 December: http://www.dn.pt/mundo/interior/jose-eduardo-dos-santos-nao-se-recandidata-e-indica-joao-lourenco-5531641.html (accessed 13 December 2016).

Lourenço enjoys wide support across the MPLA and the military. Crucially, he has remained out of the lime light and evaded allegations of corruption, a sensitive issue given the rising international concerns regarding anti-corruption and corporate compliance. Even more significantly, his wife Ana Afonso Dias Lourenço is a political force to be reckoned with. She served as Vice Minister (1997-1999) and Minister of Planning (1999-2012) and is currently an executive director on the Board of the World Bank Group. This renders the couple a power base with the right credentials to appease a wide variety of stakeholders and interest groups.

Notably, dos Santos appears as third on the party list[63], indicating that while he will concede the public office of the President of the Republic, he intends to remain very much involved in politics, despite pronouncements to the contrary. Significantly, he will remain President of the MPLA, although not the country, after the forthcoming elections. This is in all likelihood to ensure a smooth transition and to ensure that his anointed candidate is not sabotaged by party factionalism.

6. Conclusion

While most stakeholders recognize that the reform was both inevitable and necessary, the resultant uncertainty will render the oil majors highly cautious until the dust has settled and there is clarity as to how any changes will impact their operations going forward.

For oil majors with a presence in Angola, the most crucial aspects that will influence the decision to remain invested in the country are the actual implementation of the announced legal revisions; the level of co-ordination between the newly established bodies regulating the oil industry and the level of transparency in the oil industry regulations going forward. Of equal importance is the successful transition of power to dos Santos' anointed successor to ensure political continuity. It is unlikely that the IOCs will make rash decisions, given the extent of their investments in the country, but there may be instances of risk reduction such as the example of Statoil, noted previously. For those looking for stability and predictability in Angola's economic and political context, developments during the next few years will be critical.

[63] Anna, Cara (2017) "Angola's President Says He Won't Run in This Year's Election", *Associated Press*, 3 February: http://abcnews.go.com/International/wireStory/angolas-president-run-years-election-45241253 (accessed 10 February 2017).

Appendix: Angola concessions map