Angola’s Sonangol: dexterous right hand of the state

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1 Introduction

The Sociedade Nacional de Combustíveis de Angola, commonly known as Sonangol, is the dominant institution in Angola’s petroleum sector. It has guided the sector through the country’s decades-long civil war as well as during a post-conflict boom marked by massive new investments and production streams that have cemented Angola as one of the world’s most important oil centers. Growing up in the midst of a bloody and destructive contest for power and operating in a state characterized by low human capital and major physical impediments to production efficiency, Sonangol has developed into a singularly effective agent of the government’s interests. To a large degree, Sonangol’s evolution into a successful manager of state petroleum-sector policies has taken place in spite of these obstacles to a traditional national development path, as the company has had to deftly negotiate dangerous operational terrain and generate investment in an environment seen by most as extraordinarily risky. In another sense, though, Sonangol has reached the lofty position it occupies precisely because of these challenges, which have inexorably shaped the company’s outlook, competencies, and room to operate within the Angolan political system.

Since throughout most of its history the company devoted relatively little attention to field operation, its performance cannot be fully measured according to the most traditional metrics used to assess the performance of an oil company. However, I will argue that Sonangol should be viewed as a high-performing national oil company (NOC) because it is particularly skilled at providing what its political masters seek. The company’s primary responsibilities are fourfold. First, and most obviously, the state has given Sonangol primary responsibility for building a dynamic, dependable domestic oil sector. The company has achieved this primarily by establishing and managing contracts with international companies IOCs charged with the administration of technical operations and the mobilization of investments. Throughout its history, Sonangol has provided the conditions in which operational companies could make technical decisions with confidence that political interference would be minimal, which has encouraged foreign operators to make massive long-lived capital investments. This accomplishment is particularly impressive in light of the country’s broader political uncertainty. The company’s leadership in this realm was particularly crucial between its founding in 1976 and the end of the civil war in 2002. During this period, when most sophisticated economic activity in Angola was brought to a standstill by the conflict, hostility to non-oil investors, and destructive socialistic policies, Sonangol managed to protect the interests of its international partners and maintain a thriving enclave oil economy. The company’s stewardship role has evolved in the late-war and post-war periods, as it has granted concessions for and managed the operations of ever more complex deep water production.

Sonangol’s second core responsibility is closely connected to the first. Without upsetting the broadly investor-friendly conditions and commitment to high-level technical performance discussed above, the company is charged with maximizing the share of petroleum revenues accruing to the Angolan state. In the absence of a strong legislature or Ministry of Petroleum, Sonangol has taken primary responsibility for policymaking, and it has developed fiscal terms that deliver a sizable take to the government without proving so confiscatory as to discourage private investment. The company is also charged with minimizing the deductible costs of the partners’ operations (which serve to reduce taxable income), and the IOC officials consulted for this chapter indicate that Sonangol steers its partners’ activities with uncommon strictness as well as deft (and sometimes frustrating) political/administrative maneuvering.

The motivation for the company’s final two core duties extends beyond day-to-day revenue generation to the regime’s broader survival and state-centric economic management strategies. The third duty is using the oil sector as a tool for steering money and opportunity to the fledgling Angolan “private sector,” which is dominated by individuals with personal and business ties to the core of the ruling regime. (Angola has been ruled since independence in 1975 by the Popular Movement for the Liberation of Angola – Party of Labor, or
"MPLA," which survived the long war and has retained firm control over the oil-producing regions throughout Angola’s history. The party has continued to solidify its hold on power since the war’s end in 2002. Sonangol has established a huge web of subsidiaries and joint ventures, currently numbering more than thirty and covering both oil services and activities with much more tangential links to the oil industry, such as an airline and an insurance company. It also obliges international oil consortia to accept minority participation from well-connected Angolan companies and steers contracts during operations to non-Sonangol Angolan companies. This focus on “Angolanization” serves to reduce short-term revenue, as these companies are often more expensive or less efficient than comparable international firms. But the strategy serves as a patronage mechanism for the regime’s network of supporters and is a key to the government’s expanding-core economic strategy.

Fourth, as the most competent arm of the Angolan state, the company has been called upon to perform a variety of functions that most countries would traditionally assign to other government agencies. Most notably, Sonangol funded and managed armed arms purchases as the regime fought for survival during the civil war; it has used its superior debt rating to secure loans for the national government; it has formed strategic partnerships with Asian companies linking production rights to broader aid packages; and it has crafted an ambitious international investment strategy to manage the country’s growing wealth and expand Angola’s profile in international markets. The company has also performed roles that quite literally helped ensure the survival of the country’s elites, including paying their medical bills.

While these core priorities clearly give the company an expansive role within Angola’s economy, I argue that Sonangol is most noteworthy among the world’s most important NOCs primarily because its founders and subsequent leaders have steadfastly limited the scope of its activities. Sonangol’s oil-producing subsidiary (Sonangol Pesquisa & Produção) has in recent years sought to expand its operations capacity, but Sonangol has been careful to ensure that its own ambitions did not threaten the international partners who have been the backbone of investment in Angola’s oil sector. Amid the fervent international resource nationalism of the 1970s and the MPLA’s stated Marxist-Leninist ideology, Sonangol remained focused, recognizing its limitations and its dependence on the international companies for obtaining the maximum benefit of the company’s “principal” — that is, the country’s ruling elite. (Much of this chapter looks at how Sonangol, as an “agent,” behaves in ways that are consistent with the desires of its main “principal.” Many studies of corporate governance and regulation use this kind of framework to understand how the incentives that principals create influence the behavior of agents. For more on such theories see Chapter 3.) And though Sonangol has been responsible for carrying several subsidiaries that do not add to its core petroleum-development mission, the company has been able to avoid many other sorts of non-petroleum responsibilities that have strained the resources of other NOCs, such as social services and the provision of large-scale employment as a welfare mechanism.1

This limitation of role differentiates Sonangol from most of the large NOCs being analyzed in this volume, but not from its counterpart companies in other African countries, many of which have, in recognition of their limited access to finance and technology, adapted similar regulator/banker models, generally with far less success.2 In contrast with NNPC (see Chapter 16), Sonangol has become sub-Saharan Africa’s most successful NOC, by a wide margin, because of the following factors:

- **Geology.** Though not sufficient on their own to engender success, the country’s natural advantages cannot be discounted. During the early days of the Angolan industry, activity focused on the onshore and shallow water fields around the province of Cabinda, where a Gulf Oil/ Chevron subsidiary (CABGOC) was able to able to extract relatively “easy” oil despite broader political and economic uncertainty. In the mid 1990s, as new technologies made more complex offshore operations feasible, Angola witnessed the discovery and development of massive new deep water fields. Because Sonangol had demonstrated it was a competent and credible regulator of the earlier, simpler fields, private investors were much more willing to supply the massive capital needed to exploit the new, complex fields. Sonangol and Angola reaped the benefits of these endowments as new production came online during the high-price 2000s.

- **Trust and independence.** Sonangol’s leadership has been afforded high levels of latitude to set policy and make day-to-day management decisions, with limited interference from the legislature or the
formal manager of the sector, the Ministry of Petroleum, both of which lack technical skills and political clout. The company has been able to maintain this independence in large part because its CEOs have enjoyed direct communications and high levels of trust with Angola’s president, forged in the close-knit wartime decision-making hierarchy and their common place within a tiny ethnopolitical elite class. In combination with the factor discussed next, its independence has enabled Sonangol to act decisively and avoid the competitive interest-group politics that diminish the efficiency of other NOCs. The government determined that the country could optimize the development of its oil sector by concentrating its limited resources and building capacity within the company, rather than seeking to empower multiple bodies simultaneously. In this manner, Sonangol serves as a counterpoint to the conventional wisdom that NOCs function best when their activities are constrained by oversight from a strong independent regulator, with one important caveat. Sonangol has succeeded at governing the sector efficiently and implementing the wishes of its principal, but whether a stronger independent regulator or more open debate about sector management would have better promoted the long-term development needs of the Angolan populace remains a much-debated question (and one that is largely outside the boundaries of this chapter).

- **Training and competent management.** Independence on its own can prove disastrous when not accompanied by skill. From its first days, Sonangol pursued an ambitious learning agenda, identifying core needs and providing its personnel with high-quality international training to meet them. The company has also relied heavily on private international experts, hiring prominent firms to help design and enforce contracts, conduct audits, and implement management structures to international standards (Soares de Oliveira 2007a).

Given the weakness of the Ministry of Petroleum and Angola’s formal legal system, the state has relied mainly on informal mechanisms for controlling Sonangol through most of the company’s history. The most important checks on Sonangol’s behavior have been the obligatory cooperation with IOCs (which ensures some degree of technical capability and professional decision making) and the conduct of competitive auctions to allot operatorship (which provides the government with a powerful market signal about the value of concession rights and the health of the Angolan industry). The close relationship between the company’s leadership and the so-called “Futungo” political elite that controls the country could not be easily replicated in countries without Angola’s particular history and social composition, but it has served as a central ingredient in the synergy between principal desires and agent actions.

Sonangol has evolved dramatically in the postwar period. The company has gone international, making large-scale and high-profile investments elsewhere in Africa and throughout the world, and it is investing heavily in developing the operational capability of its exploration and production subsidiary. At the same time, Sonangol retains its primacy as the overseer of the domestic oil sector and the controller of all activities in Angola and off its shores. Having built up its capacity gradually over decades, Sonangol’s leadership is pushing the company toward a more mature phase of broader ambitions. In recent years the company and the government have announced several future plans that may serve to increase the independent controls on Sonangol, including an intention to list shares on public exchanges and the transfer of some of the company’s concessionary duties back to a beefed-up ministry. It remains to be seen whether these reforms and the widening of the company’s horizons will improve the company’s performance or disrupt the careful balance and limited focus that have enabled it to succeed.

This chapter will proceed in four additional sections. In section 2, I will lay out the context, detailing the company’s history and assessing the political, economic, and geological environment in which it operates. Section 3 elaborates upon my claim that the company should be deemed relatively successful, focusing on the strategies that Sonangol has adopted and on company performance measured by the overall health of the Angolan oil industry, the sizable government take, the company’s realization of stated goals, and its increasing skill and professionalism. Section 4 attempts to crystallize the independent variables that have shaped this success, looking specifically at government–company relations and arguing that the company’s independence, commitment to non-ideological partnerships, limited agenda, and focused capacity building have been the key determinants of its strategy and performance. Section 5 discusses some of the challenges
that the company will face in the future, as the regime's goals and Sonangol's focus continue to evolve.

Before proceeding, it is important to make two qualifying notes. First, Sonangol remains largely averse to information disclosure. A recent World Bank Survey of NOC public reporting indicated that Sonangol releases none of the more than thirty "key operating and performance measurements and ratios" typically used to assess company performance (World Bank 2008, Part A, figure 1). It publishes scant financial data and did not grant a formal interview or statement for this research. As such, my conclusions are based on a combination of not-fortribution interviews with two current Sonangol officials (one in Luanda and another in one of the company's overseas offices) and additional professionals who have worked for the company or the government in the past; interviews with IOC officials and others with direct experience working with the company; discussions with other Angolan and international experts on the Angolan industry and economy; the data that the company does publish about its activities; public information from other Angolan government agencies; and secondary-source review.

The second caveat is that, like the other case studies in this project, this chapter focuses on analyzing the success of Sonangol as an agent of the state's intentions and does not represent a normative evaluation of those intentions. Angola's history has been marked by tragedy and violence, and the "clientelistic" nature of the management of the economy by the state and its political elites has been a major determinant of government policy, both during the war and after its conclusion. This case study analyzes the role that the state's patronage-maintenance goals and its broader political strategy have played in determining the priorities for the company; I do not much delve into the already-rich academic treatment of how the government's priorities have impacted national development or human rights.  

2 History and context
Sonangol's structure and priorities have been inexorably shaped by the physical and political context in which the company has evolved. Of paramount importance were the civil war, which started nearly at the moment of independence and continued until 2002; the right control of the MPLA by a small inner circle of militaristic elites; and the nature of Angola's geological endowments.

2.1 The role of conflict and socio-ethnic identity
Sonangol was established in 1976, the year after the country had formally gained independence from Portugal. Independence did not correspond with nationalist unity; the violent movement against the Portuguese had been conducted on various fronts by three distinct Angolan factions – the Movimento Popular de Libertação de Angola (MPLA), União Nacional para a Independência Total de Angola (UNITA), and Frente Nacional para a Libertação de Angola (FNLA) – with competing visions of post-colonial power. A brokered power-sharing deal between the colonial administration and the three groups never gained traction, and the independence war quickly morphed into a civil war. Before the end of 1975, the MPLA exerted firm control over Luanda and the formal organs of governance, the FNLA had seen its capabilities decimated, and UNITA had returned to its bases of support in the rural periphery, from where it launched ongoing military operations. Notably, the MPLA also established control over the non-contiguous province of Cabinda, the capital of Angola's oil industry, despite continued resistance from the secessionist Frente de Libertação do Estado de Cabinda (FLEC) and other groups.

The MPLA's roots and the composition of its leadership played a central role in shaping its priorities and its behavior during the war and beyond. The Angolan ruling elite has its origins in the mid-twentieth-century marriage of two groups that David Birmingham dubs the "old creoles" and the "new creoles" (Birmingham 1995, pp. 91-92). The old creoles had their roots in the Mbundu-dominated kingdoms around the Luanda highlands and other coastal areas, which intermarried heavily with Portuguese and Dutch settlers beginning in the sixteenth century, creating an elite community that became increasingly influential in the region's politics and economy throughout the sixteenth and seventeenth centuries. These mixed-race families, most of whom carried European names like dos Santos, Dias, and Vanden Denen and came to speak Portuguese as their first language, became privileged, cosmopolitan elites that viewed themselves as the logical leaders of their more rural "indigenous" neighbors, many of whom
worked as slaves or wage-laborers on their plantations. These elites played a particularly important formal role during the colonial system of the late nineteenth and early twentieth century, when they occupied many important mid-level posts in the colonial administration. A shift in Portuguese policy in the early twentieth century removed the Angolan elites from their formal governing roles in favor of new migrants from Portugal, though the creole class largely maintained relatively prosperous living standards (Birmingham 1995; Green 1995; Hodges 2004; Newitt 2008).

The “new creole” class was composed primarily of mission-educated Angolans from the hinterlands outside Luanda and mixed race children of more recent Portuguese administrators. Like the old elites, these new creoles were frustrated by the artificial ceilings placed on them under Portuguese rule, and together the two groups began to build the MPLA in the late 1950s. The party was initially dominated by new creoles, but beginning in the late 1970s the old elites reclaimed their dominant position within the alliance (Birmingham 1995; Green 1995, p. 174).

Though it has been said that the Angolan civil war was not primarily an ethnic conflict, the key players used ethnicity as an organizing force, to varying degrees, throughout the conflict. UNITA leader Jonas Savimbi crafted his rebel movement as a struggle by the Ovimbundu group (the largest in Angola) against the MPLA, which was dominated by members of the Mbangulu ethnicity (Angola’s second-largest group). For its part, the MPLA did not explicitly tie its image to Mbundu supremacy, but the image it projected of a party-led Angolan nationality was inexorably linked not just to the Mbundu but to the creole elite that dominated its leadership. It is common to hear Angolans speak of the “hundred families” (or even the ten or eleven families) who have dominated all elements of political and economic decision making in the government since independence (Guimarães 1998, pp. 25–26; Hodges 2004, pp. 40–41). As Reginald Green notes, the dominant role played by descendents of the old creole elite through Angola’s post-independence history places the country in a unique position in African history: “[N]o other 1870/1910 Creole elite has regained power or now leads a government” (Green 1995, p. 174). As will be discussed below, this identity has played (among various other factors) a central role in the evolution of Sonangol, which has been a product of and a tool for the perpetuation of this elite domination.

2.2 Wartime, lack of capacity, and the pragmatist priority

The conflict between the MPLA and UNITA would continue in various forms from 1975 until 2002, when Savimbi’s lieutenants surrendered after he was killed by the loyalist army. Though the MPLA held onto Luanda and the formal organs of state power throughout the war, its leaders faced severe challenges, especially during the conflict’s early stages. Angola’s was one of the most significant proxy wars of the late Cold War. The MPLA received extensive financial and military support from the USSR and Cuba, while UNITA was supported by South Africa and the United States. As the conflict extended into the 1990s and international funding dissipated, UNITA was able to sustain its campaigns through the export of diamonds in violation of international sanctions and of other spoils, including ivory, timber, and coffee.

From independence, the MPLA’s leadership recognized the significance that oil could have as a source of income that could support its war efforts and provide the rents necessary to placate its network of clients and keep it in power. Oil had played a growing role in the colonial Angolan economy since the mid-1960s,4 with most production under the control of the Cabinda Gulf Oil Company (CABGOC), a subsidiary of Gulf Oil, and smaller fields operated by Texaco and Petrofina. As the Portuguese exited and the civil war began, these foreign companies, fearful of violence and instability, as well as the communist affiliations of the new MPLA-dominant government, briefly left the country (Soares de Oliveira 2007a).

Faced with a core decision about how to manage the sector at independence in 1975, the government established the National Commission for the Restructuring of the Petroleum Sector (CNRIP). The commission officially espoused a view of Angolan dominance over the oil sector that resonated with the formal ideological views of the MPLA as well as the resource nationalism that dominated discourse in oil states across the world. But CNRIP members, a small group organized by Percy Freudenthal, a white Angolan businessman with close ties to the political elite (who would become Sonangol’s first CEO), recognized that the lack of indigenous expertise meant that a total government takeover of oil operations (which already comprised onshore and offshore fields) could be disastrous for the country’s ability to extract oil and generate revenues. Their first order
of business was to negotiate the return of Gulf Oil, to ensure that any break in production would be short-lived. Given the domestic and geopolitical contention over the fate of Angola, these negotiations were politically delicate, but the commission’s representatives were able to convince the company’s representatives that their investment would be protected, both from the threat of expropriation and from violence (Costa 2005; Soares de Oliveira 2007a).

The decision to create an NOC was made in 1976. As described by one official who was involved with the CNRIP’s process, the goal was a company that would serve as “an instrument to control activities, and to craft [the state’s] own vision about the pace of the industry and how to influence the development of oil in the country.” The long-term viability of Angola’s reserves was far from certain at the time, and if there was no entity able to understand what was happening and recommend to the government a broad strategic approach, there was no guarantee that the industry would continue to develop. The [foreign] companies could make suggestions, but without an integrated vision. They all had interest in getting their benefits out of their individual blocks, but had no real incentive to look after the long-term health of the sector as a whole. (Interview with Mangueria 2008)

Rather than starting from scratch, the company was created out of the shell of the Portuguese oil company ANGOL, which the new Angolan regime had nationalized (Soares de Oliveira 2007a, pp. 599–600). The CNRIP, both in its early stages and as it fused into the leadership of the company, remained pragmatic about the company’s limited abilities and began to build Sonangol’s internal capacity as a sector manager and partner. The company hired the US-based consulting firm Arthur D. Little to advise on company and sector structure and strategy. Inspired by the success of NOCs elsewhere in the developing world – particularly Sonatrach and Petrobras – Sonangol sought to build relationships abroad. Beginning in the late 1970s, the company sought advice from these companies on a variety of high-level decisions and sent the first cadres of Angolan technicians to facilities run by Sonatrach and Italy’s Eni for training (Soares de Oliveira 2007a; Interview with Mangueria 2008). This began a tradition within the company that continues to today – investing in long-term internal capacity development while relying on outside expertise to ensure that the oil continues flowing. The company also began what would be a long-standing practice of funding overseas academic scholarships, which served both to begin to build a class of Angolan experts on oil issues and to strengthen the company’s (and the country’s) overseas ties.

At the same time that Sonangol was being organized, CNRIP also advised the Angolan government on the functioning of the National Petroleum Directorate, which morphed into the Ministry of Petroleum in 1979. This body was formally charged with oversight of the sector, but officials made a strategic decision early on to vest the bulk of the new capacity being developed (and the bulk of decision-making power) in the company, rather than the ministry. The level of human capacity and infrastructure in Angola during the early post-independence years was extremely low, and the MPLA decided to concentrate resources and authority in Sonangol rather than spread it to two administrative organs (Interview with Mangueria 2008). In the law and under formal decrees Sonangol was subject to the supervision of the Ministry of Petroleum,7 but in reality the ministry was given little ability to drive strategy or constrain Sonangol’s actions.8

2.3 Evolution of political needs and company goals

As the war progressed, the prerogatives of the ruling elite evolved, causing the government to call upon Sonangol to be flexible and provide a wide and varying range of services. I will go into detail about these services below, but it bears providing a bit of historical narrative here, both to lay the groundwork for what follows and to underscore the importance of the company’s broad vision for the sector in enabling it to flourish in an unpredictable setting. Some of the important shifts represented responses to international forces and the actions of UNITA. Others were designed to maintain the complex internal management of the MPLA’s patronage network, over which President José Eduardo dos Santos has been able to retain control since coming to power at the death of Agostinho Neto in 1979. The MPLA hewed closely to Soviet-model Marxism-Leninism for the first decade or so after independence, with state control of the economy and a dominant role in political decision making for the formal party apparatus. The party became particularly rigid in its
control of the state and its suppression of dissent after the quelling of a coup attempt in 1977. During these early years, first Neto and then dos Santos exercised high levels of control but did so within the MPLA structure and had to maneuver within the party to minimize the influence of rivals and officially link their policies to the vision dictated by the party's formal ideology (Hodges 2004, pp. 49–52; Messiant 2008a, pp. 93–95).

The dominant political paradigm began to shift during the second half of the 1980s, when the clear failure of Soviet-style economic policies and the increasing consolidation of power in the presidency fueled a diminished reliance on Marxist-Leninist ideology. The void was filled by an official commitment to market-oriented reforms that actually resulted in a more focused clientelism, whereby powerful politicians controlled access to virtually all economic opportunities and distributed them to maintain political support. Rents bypassed the formal strictures of the party apparatus and were distributed directly to key figures necessary to preserve the power of the ruling elite. The privatization of businesses, letting of military and public works contracts, and management of the oil sector were increasingly used to lubricate elite patronage networks and consolidate the power of dos Santos's inner circle, commonly identified in Angola as the Futungo elite, in reference to one of Angola's presidential palace complexes, the Futungo de Belas (Hodges 2004, pp. 52–57; Messiant 2008a, pp. 95–97). These developments coincided with the glasnost-era decline in official financial and geopolitical support from the USSR, heightening the need for Angola to further expand internal sources of revenues and rents.

This drive was accelerated in the early 1990s. An internationally brokered peace accord in 1991 led to hopes for multiparty democracy and the conduct of an election in 1992. The prospect that the MPLA might not win the election provided further incentive for the ruling elites to build up a more robust private sector network dominated by their allies. In the end, the MPLA prevailed in the poll, Savimbi refused to accept the result, and UNITA took up arms again. The period that followed was particularly bloody, as the rebels became increasingly isolated from the international community and each side sought to exert maximum suffering on the supporters of the other (Messiant 2008a, pp. 99–102). Subsequent peace deals in 1994 and 1997 brought temporary respites in the violence but ultimately failed to take hold, and intense military campaigns continued until Savimbi's death in 2002.

While remaining engaged with UNITA on the military front, the Futungo elite continued throughout this late-war period to consolidate its domination of the government and the economy and to minimize the influence of civil society, the independent media, and the non-Futungo private sector. The front lines of the war reached Luanda only on a couple of occasions, and challenges to the government's control over Cabinda and the ports necessary to access offshore oil production were similarly rare.

Since the end of the war, the MPLA and its ruling elite have sought to enhance their stature as the stewards of "one Angola," using booms in oil prices and production to fund massive reconstruction programs, repay national debt, and enact macroeconomic reform. Angola's growth rate has been one of the highest in the world – GDP expanded by 20.6% in 2005, 18.6% in 2006, 22.6% in 2007, and 13.8% in 2008 (IMF 2009a, 2009b, 2011). Core government clients have been able to expand their reach and their wealth as oil revenues have increased and new business opportunities in construction, service, and other sectors have appeared. UNITA, meanwhile, has failed to generate large-scale success in its attempts to reinvigorate itself as a political party, and independent checks on the ruling elite's power (including the legislature, judiciary, media, and civil society) remain weak (Vines et al. 2005). International perceptions of Angola's stability have improved significantly since the end of the war – the country's score for "Political Stability" in the World Bank's World Governance Indicators has climbed steadily from -1.41 in 2002 (11th percentile of all countries ranked) to -0.43 in 2008 (30th percentile) – and diplomats and investors in Luanda are almost uniformly confident about Angola's business prospects. The dominance of the MPLA and its core ruling elite was punctuated in September 2008, when the country's first elections since 1992 were conducted in relative peace and order and saw the MPLA gain more than 80 percent of the seats in parliament (BBC News 2008).

2.4 Geology and strategy

Angola's extremely favorable geology has played a central role in the company's success. The country's reserves – measured at 13.5 billion
extract. This combined with the heavy level of surveying that had been done before independence (and the concomitant confidence in the quality of likely discoveries) provided a crucial incentive for Gulf/ Chevron and the other operating partners to return to Angola and remain there (and accept Sonangol majority ownership) during the uncertain early independence period.

As the Angolan oil sector matured, exploration and production expanded further offshore, as technological improvements, promising finds, and increasing investor confidence expanded the country’s production horizons. The licensing of rights to shallow water blocks (up to 200 meters) all the way down the Angolan coast began in 1978 and was followed in the 1990s by another round that licensed a roughly parallel row of blocks in deeper waters (Novaes 2006). Interest in these deep water fields was heavy, but production projections truly exploded with the discovery by Elf (now part of Total) of the Girassol field, a 1,400 meter deep deposit in Block 17, about 150 km offshore, with production capacity of 250,000 bpd. Similarly promising finds were made in deep water blocks operated by ExxonMobil and BP. Subsequent licensing rounds have built on this success, attracting substantial interest and massive signature bonuses from major IOCs and NOCs for relinquishing portions of existing blocks and license areas that venture further offshore into ultra-deep waters of up to 2,500 meters (Offshore Technology 2005; EIA 2008).

The timing of the sector’s offshore expansion has aided the company’s development and the government’s ability to exercise its will. The gradual move into more technically challenging deep fields gave the company time to increase its capacity for the more complex oversight that such fields require. The large deep water discoveries of the mid to late 1990s stimulated a much-needed jolt of investment at a time when international weariness with the long war might otherwise have proliferated. And those deep water fields came online one by one beginning with Girassol in 2001, providing an infusion of revenue that fueled the MPLA’s consolidation and Sonangol’s expansion at the end of the war and the immediate postwar period. This production expansion coincided beginning in 2004 with a worldwide boom in oil prices, deepening its impact on government coffers and the company’s reach.

The fact that most of Angola’s large oil deposits are offshore also helped the government isolate the industry from violence within the

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Figure 19.1 Map of major oil and gas fields in Angola. (Source for oil and gas field data: Wood Mackenzie 2009b.)

proved barrels at the end of 2010 (with billions more in probable reserves) after decades of heavy production – are the second largest in sub-Saharan Africa (BP 2011). Most of Angola’s crude is relatively light and sweet, with API gravity from 32 to 40 and sulfur content from 0.12 to 0.14, and is appropriate for processing in major international refineries (IEA 2006b).

Beyond the sheer quantity and the quality of Angolan crude, the geographic sequencing of discovery and production has influenced Sonangol’s development. At the time that the company was founded, CAGBOC had already been operating in the areas in and off the coast of Cabinda for nearly twenty years, and heavy exploration had also been conducted in the Congo and Kwanza Basin offshore regions (Sonangol Universo 2006, p. 10). By far the most significant deposit in this area is what came to be known as Block 0, a huge collection of fields that has been operated by Gulf Oil and its successor Chevron since the 1950s, with production reaching more than 600,000 bpd in the 2000s (Wood Mackenzie 2002; Bermúdez-Lugo 2004). While not without their technical challenges, these highly endowed, onshore/shallow water fields presented relatively easy oil for the operators to
country (only once, in 1993, did UNITA occupy and destroy oil facilities) and limited visible health or environmental impacts on Angolan communities, which minimized the risk of the sort of widespread oil-inspired violence that has beset countries like Nigeria (Clarke 2000, p. 216; Hodges 2004, p. 151).11

3 Company strategy and performance

Sonangol has largely succeeded as an agent of the government's goals. It has provided strategic and financial oversight for technical operations led by experienced multinationals, presiding over a sector that has continually expanded amid a long war and various physical and monetary obstacles. In so doing, it has supplied the MPLA elite with the funding to win a war, manage complex patronage networks, and during the postwar oil boom fund large-scale reconstruction. It has served as a tool for international relations and has catalyzed the creation of a network of companies that dominates the Angolan economy.

Sonangol's macro-strategy can be summarized relatively simply. Throughout its history, the company has acted as a manager of the oil sector and a transmitter of the benefits of production from international partners to the state/ruling elite. Pragmatism has ruled from the company's founding: its leaders have focused on oversight and relationships, not on the brass ring of becoming a traditional integrated company. In a country characterized by poor infrastructure and violence, Sonangol has focused on developing and maintaining relationships of trust and mutual obligations, both between the government and international companies and within the Futungo patrimonial elite. In practice, Sonangol's strategy has focused on playing four roles—and it has succeeded in each.

3.1 Predictable partner for international operators

Once the CNRIP made the broad decision to let IOCs continue to play a dominant technical role in the Angolan sector, Sonangol was charged with generating the standards and predictability that would enable them to function in the country at a high level of productivity. This task was far from simple. As was noted above, Angola's was a communist regime with close ties to the Soviet Union, one whose government the United States was actively trying to unseat through its support of UNITA. Yet throughout the tensest episodes of Cold War geopolitical wrangling, Sonangol maintained close relationships and secured billions of dollars worth of investments in high-risk operations from major Western companies, including US giants Gulf, Chevron, and Texaco. That is why, despite Angola's shaky infrastructure, low administrative capacity, and endemic corruption, IOCs nonetheless have been able to mount highly complex operations at the frontier of deep water (Interview with Gazel 2008; Transparency International 2008).

As Figure 19.2 illustrates, Sonangol and its partners maintained Angolan production levels in the early years of independence despite the departure of Portugal and intra-MPLA shifts. Production expanded steadily throughout the violence-wrecked 1980s and then increased sharply in the 1990s, as the end of the war, the rise in price levels, and the coming on line of the massive deep water fields all coincided. Figure 19.3 illustrates that the sector was largely able to maintain booked reserve levels through most of the conflict and to increase them sharply with the deep water discoveries.

Sonangol has been able to facilitate this steady development by selecting qualified partners and insulating them from the instability...
exploration and production rights have commonly been awarded as favors to well-connected companies with no technical capabilities.

Beyond Angola’s obvious geological advantages, the major reason that Sonangol has been able to attract and hold the interest of capable partners is stability and predictability. The company has been the primary drafter and enforcer of Angola’s petroleum legal regime, which has provided predictable mechanisms for the planning of investments and operations, import of goods and equipment, sequencing of payments, conduct of audits, and distribution of physical oil cargos. As will be discussed below, the legal regime features several provisions that provide for a significant portion of the benefits from production to accrue to the government, and disputes over plans and costs are common. But IOC officials who have worked in Angola almost uniformly indicate that Sonangol respects the legal regime and bases arguments within its premises, and they cite the structure that it provides as one of the most important sources of the predictability necessary to make billion-dollar investments. Company officials also mentioned that as Angola prepared a wide-scale revision of the model Production Sharing Agreement and other laws in 2004, consultation with industry officials was frequent and substantive.\textsuperscript{13}

Sonangol and IOC officials indicate that the technical skill of top-level Sonangol officials (including board members, operating committee chairs, and the leaders of technical divisions like the Division of Production/DPRO and the Division of Exploration/DEX) is high, which improves the company’s ability to anticipate conflicts and manage investments. Although middle managers are sometimes less skilled in the ways of modern oil exploration and production, a young class of technocrats – trained in a variety of fields, with a heavy emphasis on geology, petroleum engineering, and economic and financial management – is rising rapidly within the company.

In effect, Sonangol provides operating companies with a sort of one-stop shop that has enabled them to bypass the dysfunction dominating the rest of the Angolan economy.\textsuperscript{14} This role includes not only initial facilitation of an investment but also an ongoing role in the operating committee that manages oil projects.\textsuperscript{15}

Though Angolan law formally empowers the Ministry of Petroleum (to make concession decisions and oversee operations), Ministry of Finance (to audit revenues and expenditures), and other government agencies, it is rare to hear international oil professionals discuss...
interactions with any public body other than Sonangol. This arrangement suits external investors well. The 2006 auctions attracted record signature bonuses in excess of $1 billion, and current operators generally express a willingness to pump additional tens of billions into development. As one Western diplomat notes, major world oil companies “are all dying to be here.” The enthusiasm derives from a combination of Angola’s promising geology and this special, reliable role of Sonangol as the government’s agent.

A brief comparison with Nigeria demonstrates the salience of the stable regime that Sonangol has established. Around the same time that Girassol and the other mega-fields were discovered in Angola’s deep water in the mid 1990s, discoveries of roughly similar sizes and technical specifications were made off the coast of Nigeria. In Nigeria, as would-be operators were tied up in legal disputes, local companies were unable to meet their technical obligations, and errors and security risks abounded, almost no oil had been produced by the mid 2000s. By contrast Angola, with expert partners and a stable, predictable industry, was able to bring production in its new deep water fields online by the early 2000s and was producing hundreds of thousands of barrels per day by 2005 (McLennan and Williams 2005).

3.2 Steward of the sector charged with maximum delivery of production revenues to the state/ruling elite

To say that Sonangol has created an atmosphere in which private companies have been able to thrive is not equivalent to saying that Angola has given IOCs free rein to allow their priorities to drive sector development. As regulator of Angola’s oil industry, Sonangol’s interests are different from those of outside investors; it aims to preserve a long production lifespan and ensure that the NOC’s key patrons can derive as large a share of the financial benefits as possible without undercutting the incentive for outsiders to invest. One official with extensive experience working closely with Sonangol decision makers describes Sonangol’s stewardship priorities as follows:

One thing that’s clear is that they are not a commercial company, and we shouldn’t expect them to make decisions like a commercial company. They are not there just to make money; they are there to manage the sector. Their key goals are both to maximize government revenues from the sector, which is not the same as maximizing the total amount of money it generates, and to use the oil industry as a driver for other industries that can work directly inside, work with, or work completely outside the oil sector.

Sonangol uses two distinct contractual regimes to deliver fiscal benefits to the state. The areas developed in the early stages of the emergence of Angola’s oil fields – of which Block 0 is the only significant active area today – are governed by tax-and-royalty concessions. In these fields, Sonangol is a joint venture partner. In Block 0, Sonangol owned 51 percent of the entity as of 1978, and its exploration and production subsidiary has controlled a 41 percent stake (the largest of any of the equity partners) since the concession was renewed in the early 2000s (Sonangol 2007b). In stakes in which it is an equity owner, Sonangol is responsible for meeting its share of costs (though Sonangol costs are commonly carried during exploration) and receives its share of declared dividends.

The second major contractual regime, the production-sharing agreement (PSA), governs all of Angola’s major fields except for Block 0 – including all of the deep water offshore blocks that are the frontier for Angola’s oil development. PSAs already generate a strong majority of production and of official government revenue from the sector. This share has been increasing in recent years and will represent a growing share of the total in the future as deep water production comes to represent a bigger and bigger portion of Angola’s total.

As in all PSA systems, the distinguishing feature of this regime is that most of the country’s compensation takes the form of oil that Sonangol receives and sells on international markets, primarily via its trading offices in London, Houston, and Singapore. Sales of this production share represented more than 60 percent of reported PSA revenues in 2008 and more than 70 percent in both 2007 and 2009. To calculate Sonangol’s share of oil, the parties first deduct “cost oil” that reimburses expenses incurred in exploration, development, and extraction. The remaining “profit oil” is divided between Sonangol and the operating group according to a progressive rate-of-return-based formula that gives Sonangol a higher share when profits rise. Sonangol’s share ranges from as low as 20% (for rates of return under 25%) to 85-90% (for rates of return above 40%) (IMF 2005, p. 9; Wood Mackenzie 2006). Wood Mackenzie asserted in 2006 that Angola’s production-
sharing formula is one of “the most progressive regimes in the world” and enables Sonangol and the government to capture a heavy share of the benefits in boom times without being confiscatory during periods of low prices or production (Wood Mackenzie 2006). Once the profit oil has been divided and the operating group has sold its share, it pays the government a 50 percent income tax.

As is the case with the tax-and-royalty system governing Block 0, the subsidiary Sonangol Pesquisa e Produção (Sonangol P&P) is an equity partner with 10–20 percent stakes in various PSA operating groups. Sonangol P&P legally owes the government income tax on the earnings it accrues in this role.

Table 19.1 lists the government receipts for recent years, broken down by revenue stream, as reported by the Angolan Ministry of Finance.

The mere existence of government-friendly contractual terms does not, on its own, protect the Angolan state from losing revenue to the profit-maximizing maneuvers of the international partners. Contracts must be monitored, and Sonangol is the lead authority for that activity as well. Although it generally has amicable relationships with its operating partners, several IOC officials indicate that Sonangol is tougher than its counterparts in other developing-world oil states. Because it has such a central influence on government take in both regimes—in determining the level of profit oil available for sharing under PSAs and in setting deduction levels for PTT and income tax under tax-and-royalty contracts—approval of operating costs is perhaps the most common source of disagreement at the Operating Committee level. Sonangol has to approve operator expenditures in excess of a relatively low threshold and frequently rejects operating group proposals on such issues as the techniques, equipment, or subcontractors selected for technical operations; the deductibility of certain administrative costs; the categorization of expenditures as capex (which favors Sonangol) or opeX (which allows operators to deduct more rapidly); and pooling vs. ring-fencing of development areas for cost-recovery purposes.

Beyond cost, Sonangol also sometimes overrides operating-group preference on broader strategic issues facing the sector. One important example of this sort of issue is reservoir management and pace of extraction. Sonangol has hardly been timid about bringing Angola’s reserves to production rapidly, but at the margins the company has pushed back on the desires of private partners to pump oil as

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rapidly as possible—especially in times of high prices—which reflects Sonangol’s longer time horizon. The company occasionally rejects plans that it believes would risk sacrificing field life or total production potential.26

Sonangol’s regulatory style is variable. When the company has a different perspective on a management issue than its partners, block chairmen sometimes reject a proposal outright or directly mandate a particular option. At other times, though, they engage in what one Angolan IOC employee calls “organized disorganization”—the strategic delaying of approvals and sending of contradictory signals that box operating partners into a corner and slow the process of operational development.27 Sonangol officials have also benefited from the fact that staffs at IOCs turn over frequently, while important Sonangol officials often remain in place for decades. “Sometimes, an informal arrangement that has held between Sonangol and a particular member of an IOC staff is dropped, either when that individual is replaced by someone else or even with that individual himself,” says an IOC employee. “All of a sudden they’ll take an arrangement that both parties know has been going on and say ‘where’s your letter of approval for that’ and they’ll no longer allow it. Everything is in writing, and where there is this informal room to maneuver, it will sometimes disappear as quickly as it arrived.”28 IOCs also believe that Sonangol exploits its sector-wide role by seeking to establish management precedents with whichever IOCs is perceived as weakest at a given moment and then apply them to relationships with all companies across the sector.29 In effect, it ratchets the behavior of the IOCs, which it treats as contractors, toward ever-higher yields for Angola.

One additional core component of Sonangol’s ability to deliver a sizable share of oil revenue to the Futungo elite, according to many industry participants and observers, is that the incidence of petty corruption within the company is relatively low, for reasons discussed in more detail in section 4.30 This contrasts sharply with the endemic problems of employee corruption in many NOCs—notably Nigeria’s NNPC.

3.3 Nexus of the ancillary oil economy

In addition to Sonangol’s role in managing the oil sector and channeling rents to the Angolan state and Futungo clients, the company is also the key catalyst for an indigenous class of private businesses. Through this “Angolanization” policy, Sonangol directs outside investors to funnel contracts into a vast network of Sonangol affiliates and private Angolan companies while also integrating Angolan professionals into the oil-industry workforce.

The priority accorded to Angolanization comes from two distinct—but-related goals. The first is the development of an indigenous private sector and technocratic class. The civil war and communist economic mismanagement prevented a strong Angolan private sector from developing in the post-independence era. Thus Angola is one of the world’s most oil-dependent economies, with oil accounting for approximately 50 percent of GDP and 90 percent of exports (Bellos 2008). The government seeks to use the oil industry, which other than diamonds has been one of the only attractive areas for outside investors, to give Angolan businesses access to capital and to give both businesses and individuals opportunities to gain valuable experience working on technically and managerially challenging projects alongside capable international partners. Aware that oil is a finite resource, the government seeks to use it as a mechanism to stimulate broader capacity building that, in time, could minimize the need for foreign contractors within the oil industry and create a stronger entrepreneurial and technical base for the expansion of the indigenous non-oil economy (Soares de Oliveira 2007a, pp. 603–606; Sonangol Universo 2007; Bellos 2008; Interview with Manguiera 2008).

The second commonly cited motivation behind the focus on local content is that it serves as a means of distributing oil rents among the key clients that the government must placate to keep its hold on power. This logic tracks closely with the analysis in Chapter 2, which explores how national goals arise, first and foremost, from leaders’ desires to stay in power. Access to valuable oil contracts and jobs can be tremendously lucrative, and the process for the selection of local partners is not nearly as competitive or transparent as the auctions to select international operators—because Sonangol, in particular, benefits from transparency and competition in its international transactions yet favors exactly the opposite when doling out benefits at home. Almost all of the partners and key officials within companies selected to work in the industry have close personal ties with important figures within Sonangol and the Futungo elite. The Angolan private sector is small and exclusive, which makes it easy for Sonangol to channel benefits that placate key political
Box 19.1 Some key Sonangol subsidiaries and joint ventures

Core oil development and marketing
Sonangol Pesquisa e Produção (P&P) – exploration and production
Sonangol Ltd., Sonusa, and Sonangol Asia – trading offices in London, Houston, and Singapore
Sonangol Distribuidora – downstream unit, including domestic gas stations
Sonamec and Petromar – construction of offshore platforms and other equipment
Sonagas – development and distribution of natural gas
Sonawest – seismic data survey and analysis

Non-core subsidiaries
Sonangol Logística, SONILS, Sonangol Shipping, Sonasurf, and Sonatide – logistical support and other technical services
ESSA – training for oil operations
Mercury Telcom – fixed-line and mobile telephone and internet
SonAir – domestic and international air transportation
AAA – insurance and risk management


The particular patronage strategies vary with circumstances. During the war, education and access to employment represented particularly important tools. “From 1997 to 2001, overseas scholarships (almost all of which were given to the children of politically connected families, and many of which were for engineering or other technical degrees involved in oil production) accounted, on average, for 18 percent of total government expenditure on education, more than was spent within the country on technical education (ensino médio) and higher education combined” (Hodges 2004, p. 46).32 After the war the strategies have included many other local components, with special attention devoted to elite-run Angolan oil companies being given rights to participate in operating groups and to contracting for goods and services.

One of Sonangol’s tools for managing the ancillary oil economy is its network of subsidiaries. Since 1991, Sonangol has been structured as a holding company in which subsidiaries exist as independent units whose managers “report directly” to the Sonangol Administrative Council (Sonangol 2008a). Sonangol has also entered into a number of joint ventures with foreign companies that supply technical or managerial know-how or access to capital. Sonangol states that its total number of subsidiaries and joint ventures reaches “more than thirty,” but the total number of joint ventures is not publicly available and “some estimates are as high as sixty” (Soares de Oliveira 2007a, pp. 603–604; Sonangol 2008b). As the most technically competent organization in the country, Sonangol is seen by the government as the most appropriate manager of these important companies.

Many of the subsidiaries and joint ventures perform services traditionally associated with the integrated oil industry. One of the most high profile of these is Sonangol Pesquisa e Produção (Sonangol P&P), the exploration and production subsidiary. P&P is the largest shareholder in Block 0 (though Chevron remains the operator), a minority equity shareholder in many other operating groups (as well as concessions in Gabon and Equatorial Guinea), and the operator of five onshore/shallow water blocks in Angola.33 Within Angolan fields, as an equity partner P&P participates in operating group meetings on such issues as planning, expenses, and operations – a role that company officials hope will help P&P build its ambitions to become a larger oil producer. Several other participants in the operating groups have indicated that P&P’s priorities in decision-making processes usually track with those of the other equity partners, which is consistent with its role as a profit-sharing participant in the venture. At times, however, conflicts arise between P&P and its parent company. Officials involved in the process say that whatever P&P representatives may say in closed-door contractor group meetings, they never offer firm challenges to the final directives issued by the block chairmen or other parent-company officials.34

Besides P&P, Sonangol subsidiaries that help manage Sonangol’s core goals include the overseas offices responsible for marketing the company’s share of Angolan crude; the supervisor of the country’s natural gas industry (Sonagas), which is managing an expanding portfolio of activities including the construction of a multi-billion dollar LNG
plant for associated gas (in partnership with Chevron, BP, Total, and Eni); the downstream body responsible for the company's domestic market sales (Sonangol Distribuidora); and various companies that provide such services to operating oil companies as platform construction (Sonamet, Petromar), logistical support (Sonangol Logistica), shipping (Sonangol Shipping), and seismic data analysis (Sonawest).

Still other subsidiaries drift from the core competency of an oil company, yet reflect Sonangol's broader political and economic roles in Angola. Sonair is a domestic airline and also operates the Houston Express, a direct Houston–Luanda flight (in collaboration with US-based World Airways), which has become the preferred means of travel to Angola for many US oil companies and diplomats. AAA is a risk management company that initially focused on insurance for the oil industry but has recently expanded to cover other financial sectors as well. Mercury Telecom is a telecommunications company that provides telephone and internet connections to the oil industry and throughout Angola. By most accounts these non-core subsidiaries remain at relatively early levels of development.

Beyond the companies formally incorporated under the umbrella of Sonangol holding, the company maintains a host of informal ties to other Angolan businesses that it helps nourish with opportunities. Most prominent are the Angolan oil companies that are minor equity partners in operating groups, many of which are led or advised by former Sonangol officials. Sonangol awards these shares through a concession process that it manages. Most of these companies are owned by important figures within the Angolan state. Falcon Oil, for example, which has a 10 percent stake in Block 6, and 5 percent holdings in various deep water blocks, is owned by Antonio “Mosquito” Mbakassi, an Angolan businessman believed to have close ties to the family of President dos Santos. Grupo Gema, with 5 percent ownership of Block 10/06, is run by several officials who have worked closely with the president, including the former secretary general of his office. The international NGO Global Witness reports that Sociiedade de Hidrocarbonetos de Angola, prequalified in late 2007 to bid in oil auctions, included among its shareholders individuals “with the same names” as Sonangol Chairman Vicente, then Minister of Finance Jose Pedro de Morais, and other top government officials. Other companies with ownership interests, including Initial Oil and Sonoil, are run by former Sonangol executives (Africa Energy Intelligence 2006; Global Witness 2009). In addition to the equity participation of Angolan oil companies, IOC officials suggest that Sonangol has also increasingly encouraged them to sign service contracts for a variety of technical, administrative, and equipment needs with particular Angolan providers. By awarding equity participation rights to these well-connected companies, Sonangol is able to bolster the state's patronage networks under the umbrella of local industry development.

Local content and local staffing are important goals of most NOCs that work with international partners, but most international officials who work in Angola indicate that Sonangol is tougher about local content and places more emphasis on it than counterpart companies in other countries. The Petroleum Activities Law dictates that operating groups must procure goods and services from Angolan providers if they are “of the same or approximately the same quality” as is available on international markets and “no more than ten percent” more expensive (Article 27). But in reality, the operating committees and other technical units of Sonangol push operating companies to contract locally at far higher thresholds. In the words of one IOC executive: “They will accept very significant overcosts to ensure the growth of these local contractors. They do it up to a limit that we as IOCs may think is too far. We are perfectly happy to go 10 percent over and even to go a little bit beyond that, but we don't plan on going 30 percent over. But Sonangol will push us to the limit.”

Some international partners view this insistence on local content and staffing as an example of Sonangol's inefficiency. In fact, these rules are the result of Sonangol's strategic effort to satisfy the will of its principal — the Angolan state and ruling families. Current and past Sonangol officials say that the government hopes that higher short-term costs for contracting groups (and, therefore, for the government, via cost recovery) will result in longer-term gains as local costs decline and as the economy diversifies. Private operating partners may never benefit from these improvements, which may accrue after they have departed Angola, but the MPLA, which expects to be in power for the long haul, might.

3.4 A state within the state: quasi-sovereign responsibilities

Sonangol's final central role lies in the provision of services that traditionally would be considered to fall under the ambit of the sovereign
government. As the most well-respected and best-organized unit in a war-torn country best known for violence, communist policies, and corruption, Sonangol has frequently stepped in at the state's behest. It is the agent for Angola (or its ruling elite) on issues extending far beyond the management of the oil industry, including sovereign debt negotiation and servicing, international relations, wealth management/investment, and various forms of extra-budgetary expenditure that advanced the war effort and the development agenda of President dos Santos and his inner circle. Sonangol's skill has been in performing these regime-stabilizing roles without letting them interfere with sectoral performance and the generation of revenue.

During the war, Sonangol directed money to the government not just through taxes, signature bonuses, and crude sales but by serving as the negotiator and servicer of oil-backed loans. The government's history of defaulting on credit and the perceived risks of theft and mismanagement within the public sector meant that the state faced severe difficulties in accessing credit from private banks, sovereign lenders, and international financial institutions (IFIs). Sonangol, on the other hand, has never defaulted on a loan, and, as a representative of one of the company's overseas trading offices put it, "that gives banks great comfort." Sonangol negotiated the loans (primarily with international banks), which were channeled to government accounts in Angola and abroad. Angola's oil deposits served as collateral, and Sonangol repaid the loans with the delivery of oil shipments to international trading companies that channeled the proceeds into offshore accounts - a routing designed to bolster confidence of the state's creditors. While their maturity was short in duration and the loans required a risk premium, these funds provided a source of large-scale cash infusions that enabled the government to use its long-term oil prospects to fuel short-term spending. Beyond the negotiation, Sonangol has been responsible for much of the day-to-day management of these loan accounts, primarily via its offshore trading subsidiaries (Hodges 2004, pp. 162–164; Reno 2000, p. 223).

Sonangol has served as a key actor in Angola's oil-based international diplomacy. The Angolan government has devoted particular attention over the course of its post-independence history to managing a complex web of commercial and political relationships with governments as varied as Cuba, Nigeria, and the United States. Heaviest attention has been paid in recent years to Angola's multifaceted relationship with China. Angola has fluctuated between being the biggest and third-biggest supplier of crude oil to China in the past few years. The Chinese government provided Angola with a massive line of credit (reportedly upwards of $11 billion) to finance infrastructure reconstruction. Chinese construction companies have arrived in Angola en masse, the respective governments have formed various official cooperation agreements, other economic ties between the countries have expanded significantly, and the number of Chinese nationals working in Angola has reached almost 50,000. Sonangol has performed several functions in the cultivation of this relationship. Much of the line of credit is oil-backed, so the company is responsible for servicing repayments to China Exim Bank and other entities, in the basic manner described above. Sonangol partnered with Chinese NOC Sinopec and investment company Beiya (now Dayuan) International Development Limited to form Sonangol Sinopec International (SSI), a joint venture that paid a record signature bonus of more than $1 billion for a non-operating 40 percent stake in relinquished areas of the deep water block 18/06 and also controls non-operating stakes ranging from 20 percent to 50 percent in four other Angolan blocks (Vines et al. 2009).

In its role as concessionaire, Sonangol was responsible for granting SSI these shares. Most of them were awarded in competitive auctions, though SSI received its 50 percent share in a BP-operated area of Block 18 when Sonangol stepped in to prevent a pending sale of the interest from the previous holder (Shell) to ONGC and directed that the sale be made to SSI instead. Sonangol and Sinopec also engaged in intense negotiations for the construction of a 240,000 bpd refinery in Lobito, a key national development priority, but talks ultimately collapsed (Esau 2006c; Vines et al. 2009).

Sonangol also plays an important role in Angola's outreach to other African countries, frequently serving as an advisor to current and would-be allies on the development of nascent petroleum sectors. Among other places, the company has activities in Sao Tome, Cape Verde, Nigeria, Gabon, and Tanzania (Vines et al. 2009). These African enterprises serve to bolster Angola's influence across the continent. The company's relationship with Chinese actors has contributed to this African oil diplomacy. In 2009, China Sonangol (30 percent owned by Sonangol, with Sonangol President Vicente on the board of directors) signed agreements for oil acreage with the embattled governments of Guinea and Zimbabwe, deals that were linked
to multibillion-dollar minerals-for-infrastructure contracts between these governments and China International Fund, a Hong Kong-based company that has been active in Angola and has close ties to the leadership of both Sonangol and Beija (Africa Energy Intelligence 2009a, 2009b, 2009c; Oster 2009; Vines et al. 2009). The partnership in these troubled African states suggests that Sonangol and its Chinese partners see a comparative advantage in combining expertise in oil management with a willingness to invest heavily in governments that lack broad international support.

Sonangol controls one of the biggest collections of financial assets of any Angolan public body, and with this decade’s oil boom it has become a significant investor in assets and companies, both in Angola and overseas. Many of the company’s major overseas investments are in the energy sector—it owns 33.4% of Portuguese oil company Galp Energia, a 20% stake in the Gulf LNG Energy of Mississippi, 25% of the interest of Cobalt International Energy in eleven deep water leases in the Gulf of Mexico, and 20% of the Abidjan refinery in Ivory Coast.

Sonangol has also become increasingly invested in banks, acquiring a 49 percent stake in the Angolan affiliate of Portugal’s largest listed bank, Millennium BCP in 2008. As of late 2008, the company was believed to be considering the acquisition of additional stakes within a Portuguese banking industry reeling from the global financial crisis, and it continues to seek to broaden its portfolio within the Angolan financial sector (Africa Energy Intelligence 2008; Vicente 2008). Sonangol’s investment strategy does not follow the same independent structure as a sovereign wealth fund; rather than simply building a pool of stable financial assets, the company’s investment decisions are clearly aimed at affecting the economic health of key Angolan economic sectors. Detailed tracking of the performance of the companies in which Sonangol is investing will be required over time in order to assess whether the company will be as successful in its portfolio strategy as it has been in its other activities.

Like many NOCs, Sonangol is also called upon by the government to provide fuel to domestic consumers at a significantly subsidized rate. This represents a major expenditure and an instance in which the company sacrifices its financial bottom line in order to satisfy political imperatives of the government. The costs of subsidies are growing as domestic consumption expands—a 2010 World Bank report indicates that they represent 4–5 percent of GDP (Hansen-Shino and Soares de Oliveira 2010).

Beyond all of these formal tasks undertaken on the state’s behalf, Sonangol has throughout its history served as a convenient vehicle by which the MPLA can avoid the scrutiny given to official government actions. This is particularly evident in the war effort and in the Sonangol-managed patronage scheme—both of which operate off the formal books. Arms purchases represented a recurring type of such activity. As a result of the so-called “Angolagate” scandal, several French government officials and prominent French businessmen (including the son of former French president François Mitterrand) were tried and convicted for their roles in supplying Angola with hundreds of millions of dollars worth of weaponry from 1993 to 1998, in violation of a UN embargo. Sonangol was a key player in the deal, allegedly servicing the “loan” via a steady stream of oil payments (Reno 2000, pp. 228–229; Roque 2008). When the negotiations for the deal began, a resurgent UNITA had occupied 70 percent of the Angolan territory, and the MPLA was desperate to get around international sanctions and replenish its war machine.

The Angolagate transactions do not appear to have been unique; Sonangol, it appears, supported other arms purchases via oil payments as well as by awarding concession stakes to companies with links to arms traders (Reno 2000, p. 228; Hodges 2004, p. 161). In 1999, Human Rights Watch quoted the Angolan foreign minister as stating publicly that signature bonus payments made by BP, Amoco, Elf, and Exxon were directly earmarked for the “war effort” (Human Rights Watch 1999).

The non-reported expenditures that Sonangol incurred on the government’s behalf—whether those for loan servicing, subsidies, arms payments, and other patronage-based activities—were estimated by KPMG’s Oil Diagnostics to total $2.1 billion in the year 2000 (Human Rights Watch 2004). A later analysis indicated that in 2005, the total amount of extra-budgetary spending (including debt relief) under the charge of the company was more than $3 billion (World Learning 2006, p. 11). This is not to say that there is no internal accounting of the expenditures that Sonangol undertakes on the government’s behalf. Since at least 2002, the company and the Ministry of Finance have engaged in informal arrangements whereby Sonangol deducts such expenditures from the taxes it owes to the government under
4 Driving factors of Sonangol's performance

There are several reasons why Sonangol has exceeded common expectations of what an NOC in a weak and war-torn country could accomplish, achieving most of the goals set out for it by the government – guiding the efficient expansion of the sector, funneling large shares of the revenue into government accounts, stimulating the ancillary oil economy, supporting the war effort, providing a ready and able tool for the maintenance of patronage systems, and earning the respect of its private partners and foreign governments alike. Angola's geology has played a central role, but four other factors have also been important.

4.1 State–company leadership solidarity

From its earliest days, the leaders of the company and the government leaders at Futungo have enjoyed a relationship of intense trust, forged in the wartime mentality of the early post-independence years and their strong ethno-familial ties.

Sonangol was born into a state of emergency, and its success in protecting and expanding the value of Angola's oil fields was seen as integral to the very survival of the MPLA regime against its domestic and international opponents. The key figures of the CNRP - which soon morphed into Sonangol itself - had strong identity-based affiliations with President Neto and other leaders; they shared a part-ideological, part-self-interested passion for the role that the MPLA elite should play in the new Angola (Soares de Oliveira 2007a, pp. 598–601). Political decisions were made with a wartime orientation; speed and decisiveness were prized, and consultation was restricted to a small group of trusted advisors. Once the decision was made to vest broad authority over the oil sector in the company, there became effectively no separation between the Sonangol vision and the broader strategy for sector and economic management that the government and ruling families espoused.

Sonangol's founders came from the same background as the presidential inner circle: "the exceedingly small, late colonial world of Luanda-based, mostly mixed-race educated Angolans" (Soares de Oliveira 2007a, p. 601). The company's first CEO – Percy Freudenthal – was white, but all three of the men who have led Sonangol after he stepped down (a move that Angola analyst Ricardo Soares de Oliveira suggests was precipitated by concerns about his race) have been from the Angolan creole class that dominates the political elite.

As Angolan history has progressed, the elite has used the oil industry to tighten its grip on power and intensify its domination of the economy. Between 1990 and 2000, for example, a study by the Angolan National Statistical Institute reported that the monthly expenditure of the wealthiest 10 percent of Angolans went from nine to twenty-seven times that of the poorest 10 percent. Many believe that the growth of this wealthiest decile is in fact driven by a tiny segment constituting the dominant creole families (Hodges 2004, p. 41). The fact that the in-group is so small also makes it easier to control and limits the risk of individualistic corruption that disrupts the collective purpose (Reno 2000, p. 225).

In contrast with some other NOCs in this book, Sonangol's leadership is stable. It has had just four CEOs in thirty-two years, which helps cement political and social ties between Sonangol and governmental elites. Most observers of the Angolan oil industry indicate that current CEO Manuel Vicente has a direct line of communication with the president and that the two consult frequently on a wide range of issues and share common interests and an intersecting vision for the industry. As one Angolan civil society representative put it, "I cannot imagine Sonangol as being different from the president or envision a scenario in which Sonangol could disagree with the president" (Interview with Calundungo 2006). In short, the company is managed by individuals who have a uniquely well-informed perspective on its principal's needs and who are steeped in its trust.

4.2 Regulatory structure: significant independence on technical and commercial decisions

The strongest evidence of the trust that Sonangol has built with its masters in the government is the wide degree of discretion the company has on technical and management issues. The head of Sonangol formally reports to the Ministry of Petroleum, but in reality Sonangol has always been given tremendous latitude to make all key decisions regarding the sector, including whom to partner with, how to divide
and develop fields, and how to promote local economic development (Clarke 2000, pp. 200–201). The international partners interact directly with Sonangol, not the ministry, and Sonangol executives often skip the ministry on their way straight to the presidency for discussions on key political issues.

By vesting Sonangol simultaneously with the roles of oil company and de facto regulator, Angola has gone against conventional international wisdom, which suggests that a strong independent regulator is necessary to maintain efficiency within an NOC. The fathers of the post-independence Angolan oil industry decided early on that the country’s physical and human-resource challenges meant it would be virtually impossible to simultaneously vest two bodies with the skills necessary to manage an industry effectively, so they elected to direct all capacity to Sonangol. Angola’s parliament was also extremely weak, and through most of the war period other government ministries lacked the knowledge or the political clout to challenge Sonangol’s positions on the sector. By bypassing formal bureaucratic control by political bodies and relying upon the informal control mechanisms of the Sonangol–Futungo social network, the state has been able to avoid battles about technical policy or budgeting and the pull of competing interest groups, and Sonangol has been able to act with one voice.

4.3 Commitment to education and capacity development

The level of independence given to company leaders might have had disastrous consequences for Sonangol were it not for the company’s substantial investment in human capital and professional management. The company’s founders recognized at independence that they lacked the skilled cadre of professionals necessary to oversee the industry effectively and immediately began sending wave after wave of Angola’s brightest students overseas to study the industry—at first with partners Eni, Sonatrach, and Petrobras; later in Western universities and among the full range of the government’s other IOC partners (Soares de Oliveira 2007a). Today, Sonangol still lacks the staff depth of the IOCs and cannot match the expertise of top-tier NOCs such as Petrobras or Statoil. However, it has invested in an ever-expanding pool of geologists, engineers, economists, and financial managers who enable it to engage in well-informed oversight of its international partners and to make long-range strategic plans and investment decisions.

4.4 Pragmatic reliance on international partners and insulation of operator selection from political patronage

Again, the special relationships between the company and the government have aided this effort to build a highly competent staff. Like many NOCs, Sonangol hires personnel outside of the confines of the formal civil service structure and is able to pay its employees significantly more than ordinary government workers. Sonangol has long recruited talented students from a young age, providing scholarships to those who score highest on standardized tests. These two factors, and the privileged position accorded to the company within the Angolan political system and economy, made Sonangol overwhelmingly the most appealing public sector body in Angola for years. (To be sure, some patronage is also involved in these positions—according to one company employee, for example, Sonangol is pressured to supply scholarships and jobs to the underqualified children of privileged elites.) Despite these challenges, the company’s partners say that the steady rise of the company’s skills has been undeniable. Alongside that higher competence has come a much higher level of assertiveness. In the words of one IOC official who had a stint in Angola in the 1990s before returning during the past few years, “Ten years ago, we almost never had a situation where Sonangol would disagree with something we proposed. Now, as their management is getting stronger, it’s become much more commonplace. Once you have been brave once in rejecting something, it is much easier to be brave a second time.”
Beyond its reliance on Western oil companies, Sonangol has also utilized a network of international consultants on legal, financial, and management matters, which have helped it build a state of the art institutional framework that promotes government interests while preserving profitability for private partners. As such, though Sonangol remains a proud NOC with a dominant role in a post-conflict society, its pragmatic approach to core business has enabled Angola to develop an oil sector into which actors with high international standards can easily adapt.

5 Conclusion: continued evolution and upcoming challenges

Though this chapter does not seek to predict the future or make recommendations about looming management decisions, it bears mentioning briefly that Sonangol continues to evolve, as does the environment in which it operates, and that principal and agent face various challenges as they seek to maintain the company’s role as a key vehicle for the government’s long-term plans.

Perhaps the most significant challenge lies in the historic volatility of the oil industry, as illustrated by sharp price declines that accompanied the global economic downturn of 2008 and 2009. The government’s postwar spending boom came during a time of record high oil prices, and a sustained period of low prices would force it to adjust its ambitious spending plans. Lower oil prices would magnify the financial pain for the Angolan state because not only would gross revenues be smaller but the progressive PSA system would result in a higher percentage of revenues being devoted to cost recovery and partner profits. This could result in additional pressures on Sonangol to deliver money to the state or key clients via other means, which could create pressures for policies that could scare foreign investors or undermine the long-term efficiency and development of the oil sector. Lower long-term oil prices would also change the economic attractiveness of deep water and ultra-deep water fields, which could make it harder for the company to attract sharply pro-government terms in its auctions for new blocks. As world oil prices fell in late 2008 and early 2009, the government’s revenue from the sector dropped significantly, from a reported total of $37 billion in 2008 to $17 billion in 2009 (Ministério das Finanças 2008, 2009). A scheduled bid round for ultra-deep water blocks was repeatedly delayed, amid complaints by some IOCs that the terms are not sufficiently appealing for private actors. Oil prices rebounded substantially in 2009 but did not approach the peaks seen before the onset of the global financial crisis, and the dip served as a stern reminder of the fragility of the Angolan economic boom.

A second challenge is Sonangol’s role within the ruling Futungo coalition, which may be shifting as other government agencies increase their capacity. Several industry observers and participants suggest that the Ministry of Finance began playing a particularly assertive role within the Futungo in the latter half of the first decade of the 2000s, as its leaders garnered praise inside and outside of Angola for improving the country’s macroeconomic standing and increasing the transparency of its finances (including through the publication of monthly oil receipts). Various IOCs indicate that the Ministry of Finance has begun questioning their costs much more vigorously as part of its verification of their tax payments — a role that was previously left almost exclusively to Sonangol. As one notes, “Sonangol used to be first among equals [within the government], but now MinFin is encroaching on what was Sonangol’s exclusive territory.” Other reports suggest that the ministry is pushing Sonangol to make more information about its operations and finances public (UNDP 2008, pp. 14–15).

The empowerment of other government bodies vis-à-vis the company will hardly be inexorable or total — a 2008 post-election cabinet shake-up, for example, left it uncertain whether the Ministry of Finance would continue to grow in influence or would begin to recede into the background. But as the postwar Angolan state continues to evolve and the government makes efforts to build capacity beyond the company, it may not enjoy the unparalleled internal power that has been the norm throughout its history. Various reports suggest that the government has a long-term plan to transfer many of Sonangol’s duties in the award of licenses back to a more competent and powerful Ministry of Petroleum and to have Sonangol focus on its “core activities” (including an ever-growing Sonangol P&P) and spin off its more distant subsidiaries. Few observers expect these changes to occur in the short term or for the company to cede all of its power over the granting of concessions or the monitoring of partner operations (UNDP 2008, pp. 15–16).
For its part, Sonangol plans to continue its long-term investment in becoming a modern company with broad exposure in international financial and energy markets. The company has announced plans to list some shares on the New York and Johannesburg stock exchanges, though the originally announced 2010 date (Vicente 2008) was not met. It is expected that Sonangol or some of its subsidiaries may be placed among the first businesses traded upon the long-anticipated opening of the Luanda stock exchange. This move toward diversifying the company and making it more open and internationally competitive is being pushed not only by some of its top executives but also by the young generation of technocrats, largely trained in Western universities and companies.47

Sonangol continues to seek to become a major player in global oil markets, with a massive increase in high-profile international projects at the end of the 2000s. Perhaps the most dramatic example has been the company's engagement in the effort to reinvigorate production in Iraq. In late 2009, Sonangol won an auction to develop two Iraqi fields, with a targeted total production of more than 200,000 bpd. The fields are located in some of Iraq's most violence-prone regions, suggesting that the company may see a comparative advantage in managing projects amid violence and political tension, where the company's experience of partnering successfully to develop oil amidst political uncertainty will be valuable. Details of the management of the Iraqi fields have not been publicized as of the writing of this chapter, but a statement by the company in early 2010 suggests that it will retain its pragmatic focus in Iraq, by “work[ing] in partnership with foreign companies to explore the reserves” (Sonangol Universo 2010, p. 33).

In addition to its activities in Iraq, the company was reported in late 2009 to be closing in on a deal to develop three oil blocks in Ecuador (Emery 2009) and to be close to a deal to become the leading shareholder in a Brazilian company that owns eleven oil blocks there (Africa Energy Intelligence 2010a). China Sonangol acquired a 4 percent stake in Indonesia's massive Cepu gas field in 2009 (Africa Energy Intelligence 2010b). The company also continues to expand its activity and influence throughout Africa, particularly in frontier states and areas of new activity, with recent investments reported in Guinea, Cote d'Ivoire, Zimbabwe, and the Democratic Republic of Congo, in addition to its long-standing interests elsewhere on the continent.

Sonangol's development into a diversified international company with interests on five continents is the most powerful indicator of the company's dramatic evolution from a tiny outfit in an ostracized state to a powerful global player. In light of the close relationship that the company has always enjoyed with the government, there is reason to believe that these developments represent just the latest step in Sonangol's development as an effective agent of a stronger postwar Angolan government. The company is moving beyond its original role as a closed, narrowly focused manager of the country's oil patrimony into a new life as a modern, market-oriented company that provides funds and security to the state in the context of a broader economic mission. But given that Sonangol's success to date has been based primarily on its tight solidarity with the ruling elite and its limited, pragmatic focus, such an evolution will introduce new challenges into the principal-agent relationship, and the government will have to continue to work to promote the regime's preferred balance of commercial, fiscal, and political concerns.

Notes

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Luanda and various international locations; multiple representatives from international diplomatic missions and international organizations, August 2006 and August 2008, Luanda; multiple representatives from Sonangol and current and former Angolan government officials, August 2006, March 2008, and August 2008, Luanda and international locations.

1 According to a 2008 statement by Sonangol CEO Manuel Vicente, the company employs approximately 8,200 people (Vicente 2008).

2 Though most African NOCs did not try to become fully integrated oil companies, many lacked Sonangol’s pragmatism and tried to bite off larger mandates than they could handle. Examples include Nigeria’s NNPC and Congo Hydro, which adopted wide swathes of responsibilities and were unable to develop capacity in a targeted way (Chapter 16; Soares de Oliveira 2007b).

3 Among the sources that offer more detailed assessments of the impact of Angolan government policies are Hodges (2004); Chabal and Vidal (2008); and Messiant (2008b).

4 Discussion of the independence movement and the civil war draws heavily from several sources, most notably Maier (1996); Guimarães (1998); Hodges (2004); Messiant (2008a); Soares de Oliveira (2007a).

5 China also supported UNITA during the 1980s and only established relations with the MPLA government in 1983.

6 According to the BP Statistical Review of World Energy June 2009 (BP 2009a), Angola’s oil production went from 13,000 barrels per day in 1965 to 103,000 bpd in 1970 to 173,000 bpd in 1975.

7 This remains true in the company’s formal structure today. The company’s Articles of Incorporation, last revised by Decree-Law Number 19/99 of 1999, dictate that “the guardianship of the activities of Sonangol ... accrues to the Ministry of Petroleum.”

8 Sonangol’s formal authority was further increased in 1978, when renegotiations with CABGOC and a broad reform of the country’s petroleum legal regime gave Sonangol a 51 percent ownership stake in the operating fields, vested it with the role of concessionaire in charge of the granting of rights over new acreage, and divided the Angolan continental shelf into thirteen blocks that would serve as the basis for the large-scale expansion of Sonangol’s reach and revenue in the years to come (Novais 2006).

9 Amid the global financial crisis and declines in oil price and production, GDP grew only 2.4 percent in 2009, a dramatic break from the postwar boom period (IMF 2011). The risks associated with Angola’s dependence on volatile oil revenues are discussed in section 5.

10 The plan initially announced was for the 2008 legislative elections to be followed the next year by a presidential poll, but as of the finalization of this chapter in 2011 these plans had been stalled and no presidential election was imminent.

11 Cabinda – the site of Angola’s only major onshore production and the operations center for companies extracting in Block 0 and other shallow water fields – has represented a meaningful exception to this general phenomenon. Frustrated by the province’s poverty (Cabindans argue that it ranks among the lowest of Angola’s provinces in various key human development issues) amid the wealth generated by its oil fields and by the environmental impact of the industry, FLEC fought a low-intensity secessionist war intermittently until a ceasefire in 2006.

12 Auctions that were conducted during the late 2000s (the procedures of which are dictated by the 2004 Petroleum Activities Law) corresponded with international best practice for competitiveness and transparency, as Sonangol has published clear evaluation terms in advance, divulged detailed information about the blocks via data packages and road shows, pre-qualified would-be operators to ensure technical capabilities, and announced bids and results in public (Esau 2006a, 2006b; Sonangol 2005a, 2005b, 2005c, 2006, 2007a). Oil company officials who participated in or witnessed an auction for deep water rights in 2006 commonly indicate that it was world class – one indicated that he felt like “history was being made in the room” (Interview with Koning 2006). The auctions have attracted massive interest from some of the world’s largest and most sophisticated IOCs and NOCs – among the companies currently working in Angola are Chevron, Texaco, Statoil, ExxonMobil, BP, Petrobras, Eni, Total, and Sinopec.

The auctions have been heavily criticized in some circles, however, not for the process of selection of operators but for the non-transparent identification of Angolan minority partners, many of which are considered “briefcase companies” that lack the technical or financial capacity to contribute to the development of oil operations but which have strong financial ties to members of the Angolan ruling elite. This strategy of obligating international operating groups to take on politically connected Angolan partners links to the company’s patronage maintenance strategy, discussed in detail below.

Several sources also reported that there is currently speculation in Angola that Sonangol may be moving away from competitive auctions in the award of future interests, and basing decisions increasingly on domestic and international political alliances (Vines et al. 2009).

13 Interviews with IOC officials: After the 2004 reforms, the most important legal documents governing the Angolan oil sector include the Petroleum Activities Law, Petroleum Tax Law, Petroleum Customs Law, and Foreign Exchange and Investment Law, as well as the individual
contracts (joint ventures and production-sharing agreements) between the government and individual operating groups.

14 Interviews with IOC officials: In addition to legal predictability, this role has a logistical element, as Sonangol’s influence and the skills of its personnel facilitate the importing of equipment, approval of personnel, minimization of delays from petty bureaucratic corruption, and interaction with Angolan subcontractors and service providers. It also has a political element, as IOCs have called on the company to advocate on their behalf at the highest level of the MPLA inner circle. In recent years, IOC officials suggest that they have called on Sonangol particularly to protect their interests against efforts by the Ministry of Finance to alter revenue-collection arrangements.

15 Interviews with IOC officials: Once work on a block is under way, the most frequent form of interaction between Sonangol and international operating companies comes as a result of the Operating Committee, in which representatives from the operator and from Sonangol (usually two from each side) meet regularly (usually weekly) to discuss work plans, budgets, cost approvals, subcontracting, and other central issues related to exploration and production. Committee decisions are ostensibly made collaboratively, but the committee chair is always a Sonangol representative and has the tiebreaking vote, so operators need Sonangol approval in order to get key decisions through. Sonangol’s committee members are advised by a group of technicians with expertise on geology, data interpretation, finance, drilling, reservoir management, legal structures, and a host of other issues. IOC officials indicate that their most important technical interactions are usually conducted with their counterparts in Sonangol’s Production (DPRO) and Exploration (DEX) divisions, which make the formal recommendations that usually form the basis of the Operating Committee decisions. The technicians in these units tend to be well trained and technically sophisticated, and they make decisions both by reviewing proposals made by the operator and by generating their own analysis, depending on the issue.

16 Interview with Western diplomat.

17 As is true in any oil-producing state, there may be instances in which increased government take serves to marginally discourage investment, which may decrease the total revenue generated by the sector at the same time as it increases government take. The goal of increased long-term state control over the sector may also result in a lower total revenue generation than a totally private sector-dominated strategy.

18 Interview with IOC official.

19 Block 0 delivers revenue to the government via four direct streams. The first three are to be paid by the JV directly into a treasury account at the National Bank: a 20 percent per-barrel royalty; a petroleum transaction tax (PTT) of 70 percent of revenue; less operating expenses, amortization of exploration equipment, a per-barrel production premium that differs from block to block, and a 50 percent investment uplift; and a petroleum income tax of 65.75 percent of income (Republic of Angola 2004, Art. 6; IMF 2005, p. 8; Wood Mackenzie 2006). The last item formally should be paid directly by Sonangol: income tax on the company’s own share of dividends. The company has not delivered this tax consistently.

20 By the author’s calculations based on the Ministry of Finance’s figures, the share of production and revenue generated by the traditional tax and royalty concessions declined from 2007 to 2009, representing the following totals (the rest is generated by PSAs) (Ministério das Finanças 2007, 2008, and 2009; my own calculations):

- 2007: 31% of production, 22% of revenue;
- 2008: 18% of production, 17% of revenue;
- 2009: 17% of production, 16% of revenue.


22 Most Angolan PSAs have strict rules on which expenses are reimbursable and they cap the percentage of total oil that is recoverable as cost oil in a given year at 50 percent. (Costs not recovered in a given year can be carried forward to subsequent years: IMF 2005, p. 9.)

23 Sonangol played a major role in developing and negotiating this PSA legal regime. Wood Mackenzie examined one of Angola’s PSAs in detail (for the Greater Plutonio field) and found it projected higher revenues for the government than in nine of the fourteen other comparison deep water contracts they studied; moreover, the take from the tax- and royalty contracts has also been substantial (Kellas 2006).

24 Interviews with IOC officials and one former Angolan government/IOC official.

25 Interviews with IOC officials and one former Angolan government/IOC official.

26 Interviews with former Sonangol official Antonio Mangueira and with IOC officials.

27 Interview with IOC official: It is not uncommon for one set of Sonangol officials (DPRO, for example) to indicate approval of a plan or cost, only to have another (say, DEX) make an opposite determination, or for Sonangol officials to say that they plan to make a certain decision, only to reverse course at the last possible second, contesting that some other
government office has obligated them to reconsider. Some operating group officials view this as inefficient behavior that limits the productivity of operations. Others, though, recognize it as a tool that Sonangol uses to take advantage of the fact that its value drivers are significantly less time dependent than those of the international operators. "Time matters very much to the international companies," notes the IOC official. "We base all of our calculations on the time value of money, so any delay or disruption of our schedule is very costly. The time value of money doesn't matter to Sonangol - they see delays as just deferring the revenues or the patrimony that will ultimately be theirs no matter what happens ... The company doesn't give you a final decision until the last possible minute before a decision has to be made. That way we [the IOC] don't have time to argue or try to wiggle, and we've got to accept their direction." Several IOC officials also confirmed that the intensified time pressure obligates operating companies to pick their battles and to accept Sonangol standards on issues that they deem non-critical.

28 Interview with IOC official.
29 Interviews with IOC officials.
30 Interview with Western diplomat; interviews with IOC officials.
31 The interpersonal connections between Sonangol officials and the direct beneficiaries of Angolanization do pose certain challenges to the company, as officials seek to balance their personal financial interests with those of the state. In most cases these interests have been in harmony, and as is noted elsewhere in this chapter individual corruption has not posed a major problem for the company, but the risk of conflict of interest remains and as the company and the structure of the state continue to grow more sophisticated it could prove risky in the future.

32 This elite domination unquestionably spurs resentment on the part of the vast majority of the Angolan population that has lacked access to the spoils of the Futungo system, but to date this resentment has not, in the postwar period, manifested itself in large-scale opposition to MPLA leadership, as the dividends of peace and high growth rates have bought the regime support. This was most dramatically evidenced in the 2008 legislative elections. In the event that the economy takes a serious downturn, it is conceivable that the resentment could have political consequences for the regime.

33 A P&P web page last updated in 2006 states that the production of fields it operates stood at around 82,000 bpd and that it sought to raise its production to approximately 150,000 bpd (Sonangol P&P 2008). Both subsidiary and parent have expansive goals for the company, seeking to deepen its expertise as a field developer and manager and thereby enhance Sonangol's ability to run more of its production on its own, both within Angola and abroad.

34 Interviews with IOC officials.
35 Interviews with IOC officials.
36 Interview with IOC official.
37 Mauzigue, interview with current Sonangol official.
38 The use of oil-backed loans became prominent during the 1990s.
39 Interview with Sonangol official.
40 It may also, it bears noting, serve as a mechanism for the company to increase its independence from the state, by giving Sonangol access to sources of capital not as tightly controlled - or understood - by the rest of the Angolan ruling elite as the domestic oil sector. The issue of possible shifts in the heretofore-close relationship between the company and the rest of the government is discussed in section 5.

41 In addition to arms purchases, Sonangol is widely thought to have served during the war as a ready source of cash for the MPLA to distribute to its key political allies within Angola, for two reasons. First, the company had more direct access to money than any other government agency. Second, in the words of one international organization official with experience in Angola, when there was "something fishy going on, it's easy to do it through Sonangol rather than through the formal channels of government, where things are harder to obscure."

42 Though the lack of an independent regulator has not impeded Sonangol's ability to serve as an effective agent of the ruling regime's interests, some would argue that the presence of a strong regulator might have necessitated more transparency or accountability, and thereby improved the degree to which Angola's oil revenues were used for the benefit of the country's citizenry.

43 Interview with Sonangol official.
44 Interview with IOC official: These scholarships have provided the company with access to the best talent, though some officials within the company also express frustration with the scholarships, arguing that the subjects and courses covered have not provided the best value to the company and that some scholarship recipients have simply used them to live off grants abroad with no strong interest in graduating or developing their skills.

45 Interviews with international analysts and Western diplomats.
46 This is not to suggest that all decisions about the award of operating stakes have been entirely devoid of corruption. A former Elf Aquitaine executive testified in 1990 that the company had paid President dos Santos out of a multimillion dollar slush fund in return for privileged access to Angolan oil. My point here is that even if and when the short-
term desire to enhance patronage networks has played a role in operator selection, Sonangol has limited the universe of potential operating companies to those with significant financial and technical capabilities.

47 Interview with IOC official.
48 Interviews with IOC officials and international organization official.
49 Interview with Sonangol official.

Conclusions and implications