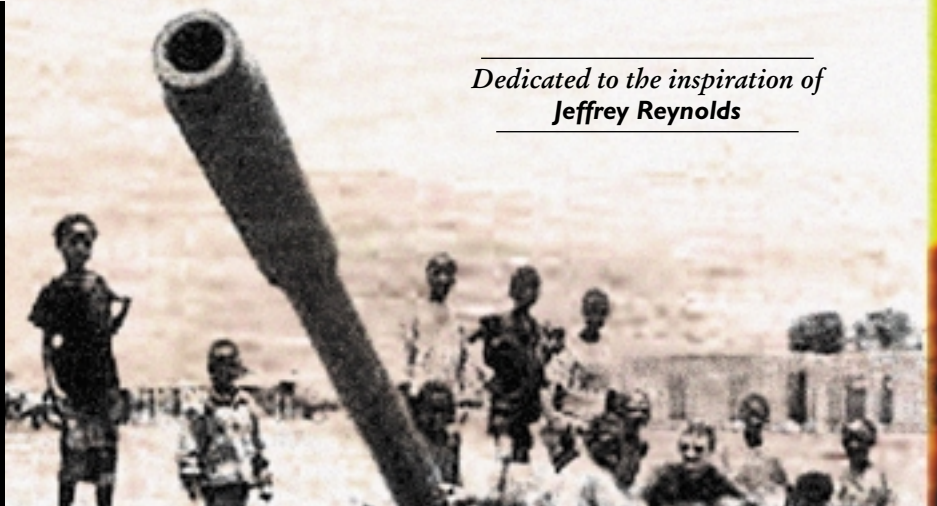




*Dedicated to the inspiration of
Jeffrey Reynolds*



a crude awakening

The Role of the Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets



global witness

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a crude awakening

The Role of the Oil and Banking Industries in Angola's Civil War and the Plunder of State Assets

"Most observers, in and out of Angola, would agree that corruption, and the perception of corruption, has been a critical impediment to economic development in Angola. The full extent of corruption is unknown, but the combination of high military expenditures, economic mismanagement, and corruption have ensured that spending on social services and development is far less than is required to pull the people of Angola out of widespread poverty..."

Our best hope to ensure the efficient and transparent use of oil revenues is for the government to embrace a comprehensive program of economic reform. We have and will continue to encourage the Angolan Government to move in this direction..."

SECRETARY OF STATE, MADELINE ALBRIGHT, SUBCOMMITTEE ON FOREIGN OPERATIONS, SENATE COMMITTEE ON APPROPRIATIONS, JUNE 16 1998.

"There should be full transparency. The oil companies who work in Angola, like BP—Amoco, Elf, Total and Exxon and the diamond traders like de Beers, should be open with the international community and the international financial institutions so that it is clear these revenues are not syphoned off but are invested in the country. I want the oil companies and the governments of Britain, the USA and France to cooperate together, not seek a competitive advantage: full transparency is in our joint interests because it will help to create a more peaceful, stable Angola and a more peaceful, stable Africa too."

SPEECH BY FCO MINISTER OF STATE, PETER HAIN, TO THE ACTION FOR SOUTHERN AFRICA (ACTSA) ANNUAL CONFERENCE, SCHOOL OF ORIENTAL AND AFRICAN STUDIES, LONDON, 20 NOVEMBER 1999.



SOCIAL INDICATORS

Angola Social Indicators

Population 11.7 million
Life expectancy 42 years
Angola National Budget 1999 US\$5.1 billion

Children

Percentage of population under 18 53.8%
Infant Mortality rate at births 170 per 1,000
Infant Mortality rate for children under 5 292 per 1,000
Enrollment rate of school-age children 40% (42% in 1992)
Children under 5 years suffering malnutrition 16.7% (3.5% severe state)

Underweight children 41.6%
Child malnutrition is at its highest level in 25 years

Poverty Statistics

Population living in absolute and relative poverty 82.5%
Maternal mortality rate during 1996 1,854 per 100,000
Population without access to drinking water 59%
Population without access to adequate sanitation 60%
Population without access to healthcare 76%
People requiring Food Aid 3.2 million
Estimated rate of severe malnutrition 13%
Internally Displaced Persons estimated 1.7 million
Confirmed number of Internally Displaced Persons since January 1998 1,046,563
Unemployment rate 80%
Adult Literacy Rate 66%

Landmines

Disabled land mine victims 86,000
One mine incident for every 430 people

SUMMARY

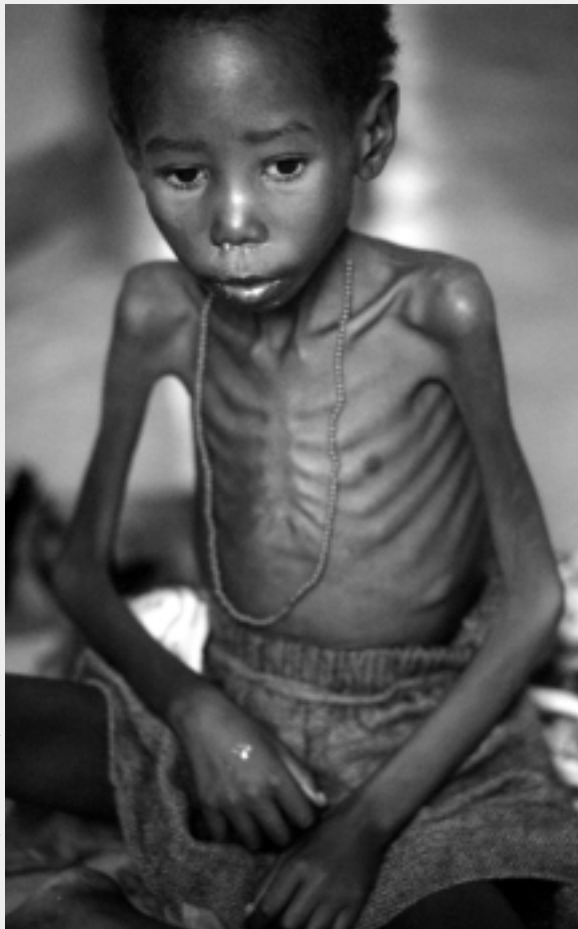
A significant portion of Angola's oil derived wealth is being subverted for personal gain and to support the aspirations of elite individuals, at the centre of power around the Presidency. The war is generating vast profits for top level generals within the Angolan armed forces (FAA), as well as for international arms dealers, not to mention enormous suffering for the Angolan people. Rather than contributing to Angola's development, Angola's oil revenue is directly contributing to further decline. Considerable effort has been made by the government to stifle all opposition and the press has been effectively muzzled. There is no accountability of government.¹

In effect, international oil companies are paying vast sums (the future development potential of Angola) into a black hole. As one commentator states, **"This is like paying gangsters for a particular service. The rulers of Angola participate in 'legal theft'. Just because the oil revenues are being paid into structures set up by the leaders, which makes them technically legal, does not make them morally defensible".**²

Given this scenario, the international oil companies must accept that they are playing with the politics and lives of Angola's people.

In Angola the international oil industry together with lending banks, and certain government export credit insurance departments, have pursued profit and vested interests first. As the main generators of revenue to the government of Angola, the international oil industry and financial world must accept their complicity in the current situation. As such it is imperative that these companies change the way they conduct their affairs, creating new levels of transparency. The international oil industry and the finance companies that have provided oil backed loans, must play this leading role.

Victim of war and corruption



© Chris Hondros (Hondros@aol.com)

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Glossary

- BERMUDA TRIANGLE** The National Bank of Angola, Sonangol and Futungo de Belas.
- BNA** National Bank of Angola.
- BPD** Barrels per day.
- COST OIL** The contractor may take up to 50% of the crude oil produced each year in order to recover all allowable exploration, development and operating costs and expenses.
- ESCROW ACCOUNT** Used in offshore transactions—involves money deposited with a neutral third party to be delivered when certain conditions have been fulfilled.
- FAA** Angolan Armed Forces.
- FUTUNGO DE BELAS** Private residence and political court of the President of Angola.
- IFI** International Financial Institution.
- IMF** International Monetary Fund.
- JV** Oil contract only used in Cabinda's offshore Block 0.
- LIBOR** London inter-bank offered rate : is the rate at which banks are prepared to lend to each other for specified maturities in the market in London. It is fixed daily for reference purposes, and is an internationally accepted benchmark.
- MPLA** Popular Movement for the Liberation of Angola.
- OECD** Organisation for Economic Cooperation and Development.
- OIL COLLATORISED LOAN** Large sum of money delivered by consortiums of financiers at high rates of interests for future oil production.
- OPEC** Organisation of Petroleum Exporting Countries.
- OPIC** Overseas Private Investment Corporation.
- PROFIT OIL** Profit Oil split is based on cumulative production. On the first 25 million barrels, the government receives 55%; up to 50 million barrels 70%, up to 100 million barrels 80% and over 100 million barrels 90%.
- PSA** Production Sharing Agreement; oil contract used for deep-water oil fields.
- SIGNATURE BONUS** Multimillion dollar 'sweetener' payments awarded by oil companies to encourage favorable decisions in the awarding of lucrative operating licences for oil blocks from governments.
- UNITA** National Union for the Total Independence of Angola.
- UNSC** United Nations Security Council.
- UPSTREAM** Those activities of the oil industry that involve extraction and refining.

RECOMMENDATIONS

Oil companies involved in Angola should:

- Ensure that, in Angola and in other countries with similar problems of lack of transparency and government accountability, a policy of 'full transparency' is adopted (see section – 'The Case for Full Transparency').
- Establish a formal coalition, which should support IMF attempts to forge transparency and accountability for Angolan Government revenue and expenditure. Specifically, such a coalition should:
 1. Immediately undertake a full independent audit of the entire Angolan oil sector, making this a precondition of further investment.
 2. The results of the audit must be published, and publicised, in Angola and internationally.
 3. Immediately arrange talks with the IMF, the World Bank, UN agencies, members of the Angolan Government and representatives of civil society in Angola, the international community and international NGO's to form a broad alliance for transparency.
 4. Demand proof from Sonangol that it is not breaking the terms of concession agreements for Cabinda and elsewhere. The burden should be on Sonangol to prove it is complying with Angolan law, by opening its accounts to public scrutiny.
 5. Publicly support the development of Angolan civil society, and insist that the Angolan Government respects its obligations as a signatory to international conventions, such as the Universal Declaration of Human Rights, and the International Covenant on Civil and Political Rights.
- Declare their relationship with equity partner companies. The oil companies should refuse to work with companies involved in the arms trade.
- Ensure that oil company social programmes should be independently audited for both financial and social performance, and the results should be published in Angola and internationally.
- Immediately declare all payments, such as those deployed for dubious projects such as house reconstruction, scholarships etc.
- International oil companies and oil refineries, buying Angolan oil cargoes should insist on audited progress in national transparency, as defined by the IMF.

International finance institutions either involved in existing loan arrangements, or planning future loans to Angola should:

- Fully publish all loan arrangements which have been made with Angola, declaring beneficiaries, amounts, terms of payment and interest payable, in Angola and internationally.
- The provision of all new loan arrangements for Angola, should be made subject to radical changes to Angola's financial management, including the creation of transparency and accountability for government income and expenditure.
- All future loans should be made subject to a full independent audit of all military budgets and expenditures.
- Ensure that any future loans are payable through one appropriately audited government channel, rather than the current situation with a multitude of parallel channels, such as the Presidency and Sonangol.
- International Banks, which handle Angolan funds, or large deposits which are likely to have come from Angola, should make such information public; specifically:
 1. Lloyd's Bank in London, which runs the Cabinda Trust⁶¹, and other international banks which are responsible for the management of Angola's revenue should return the responsibility for the management of such funds to the appropriate competent and audited Angolan authorities. The transfer and the value of such funds should be made public in Angola and internationally.
 2. Banks which hold large private deposits belonging to individuals within, or close to the Angolan Presidency, should publicise such assets and freeze them, until audited control structures for repatriation of stolen assets are established.

The Angolan Government should:

- Immediately implement a policy of 'full transparency' for government income and its expenditure. The government should fully clarify all revenues that are controlled by the Presidency.
- Immediately end the practice whereby the Presidency controls large parts of budgetary deployment, with no transparency and accountability.
- Immediately ensure that the Tribunal de Contas' and the 'Alta autoridade contra a corrupcao' are able to fully operate. The results of their work should be published in Angola, and their recommendations should be acted upon.
- Publicly clarify the role of the key individuals, arms traders and companies which are highlighted in this report. Such clarification should include details of payments which have been made, and contracts which have been entered into.
- Ensure that the vested interests of elite individuals, which are driving the war, and which severely limit the incentive to look for peace, are removed. Those individuals who have been profiting out of the continuing conflict in Angola, should be removed from positions of influence and their assets should be confiscated. Of particular concern is the role of FAA generals in Angola's war economy.
- Immediately ensure that Angola's constitution is fully adhered to, and that Angola is not in breach of its obligations as a signatory to international conventions, such as the Universal Declaration of Human Rights, and the International Covenant on Civil and Political Rights.

The International Community should:

- Ensure that the current UN efforts, focused on the issue UNITA's war effort, should be extended to take into account the issue of lack of transparency and accountability of Government.
- Take up a proactive common position, together with the IMF and the World Bank, to insist on transparency and accountability of government in Angola. The international community should ensure that respective national oil companies and Banks proactively support this common position.
- Publicly support the development of Angolan civil society, and insist that the Angolan Government respects its obligations as a signatory to international conventions, such as the Universal Declaration of Human Rights, and the International Covenant on Civil and Political Rights.
- The Proposed US 'Money Laundering Act of 1999' should focus on the banking activities of individuals within and close to the Angolan Presidency as a test case.
- Insist that the oil industry and financial world change their practices to ensure that these companies practice a policy of 'Full Transparency'. National Governments should meet with their respective oil majors and demand that the companies adopt a forceful common position in favour of transparency in Angola. This is particularly important with regard to the development of an ethical foreign policy.
- Join together with the IMF, the World Bank and the oil company coalition, to create a broad alliance and a proactive campaign for transparency and accountability of Government in Angola.
- National Governments, and particularly aid donors to Angola, should investigate the whereabouts of all secret accounts held by Angola's elite politicians and power brokers. The provenance of such funds should be determined – where fund sources cannot be justified, accounts should be frozen, with assets returnable to Angola through appropriate, audited channels. Such work has already been undertaken, for example in Nigeria, Indonesia and for the assets of former-Zaire's President Mobutu.
- Ensure that there is workable and effective international anti-graft legislation. US companies can be prosecuted for paying graft, but there does not appear to be effective European anti-graft legislation.
- Conduct a review of the implementation of past peace initiatives in Angola, to ensure that clear errors of judgement are not repeated. Such a review should examine similar issues in other conflict countries, such as Cambodia, where initiatives were not undertaken, that could have led to earlier peace.

INTRODUCTION

Angola is sub-Saharan Africa's second largest oil producer after Nigeria, with recent discoveries suggesting it could soon become the largest; this at a time when the 1999 UN Human Development Index (HDI) places Angola at 160 out of 174 countries, according to social indicators. Whilst Angola should be a country with a thriving economy, instead it is a country still at war, where a massive proportion of national wealth is unaccounted for, and where the well-being of the population appears no longer to be a matter of priority for Government.

Global Witness is a British not-for-profit organisation, which focuses on the role of natural resources in the funding of conflict. Global Witness' work on Angola to date has been part of a broader campaign to tackle the role of natural resources in conflict, with a particular focus on the role of diamonds in funding rebel forces. This campaign has sought to develop workable solutions to ensure that diamonds from such conflicts do not enter trade. In December 1998, Global Witness published the document 'A Rough Trade'³, which was intended to focus debate on the role of the international diamond trade and key countries in the facilitation of conflict; specifically UNITA's civil war in Angola.

However, the international diamond trade and UNITA represent only part of the problem. In Angola, the other key factor is the corrupt and un-transparent use of growing oil revenues by the Angolan Government. This has created a lack of accountability of government and a situation where over-priced arms deals and banking loans have been arranged, more on the basis of cronyism, than on value for the state. Transparency within government, particularly within the oil accounts and loan arrangements is urgently required.

The international oil and banking industries are the key factor in this equation of corruption and opacity. This is because the oil companies provide the vast majority of Government revenue and the banking sector provides short-term, high interest loans, severely exacerbating the negative effects of low oil prices on Angolan Government income. For a number of years, the IMF has pushed for fiscal transparency from the Angolan Government. Both the provision of short-term loans and the lack of comment from the oil sector has severely undermined this effort.

Global Witness is advocating an urgent rethink on the issue of corporate accountability in countries



Flaring gas, Cabinda

that are either emerging from, or are in conflict, and where structures of government accountability and transparency are at best fragile, and at worst non-existent. Such accountability requires an extra level of transparency over and beyond that which companies are normally required to demonstrate in their home countries of operation. Global Witness is calling on the international community to ensure that business, especially the oil sector and other extractive industries, radically changes the way it conducts its affairs, so that companies might finally behave like responsible global citizens.

The international community has failed the people of Angola. There was inadequate international support for peace, especially around the time of the 1992 elections and it was not until mid-1998 that the UN started to address the sources of funding for the war. It is hoped that the 1999 initiatives of the UN Sanctions Committee, headed by Canada's UN Ambassador Fowler, will result in a radical improvement of the UN's sanctions implementation record.

The resumption of war in December 1998 occurred for a variety

of reasons, including inadequate investment in the peace process. However, the wealth generation of certain key individuals who control real power and influence in Luanda now also plays a key role. In Angola today, it is clear that for some of these individuals, the war is the end game and a clear conflict of interest prevails. In other words, if the war continues, this is not a problem because war is lucrative. It goes without saying that such a situation provides little or no incentive for these individuals to look for a real peace initiative.

Press censorship and the suppression of Angola's nascent civil society makes it extremely difficult for Angolans to call their government to account for misallocation of funds and for the state of the economy. This document, therefore, attempts to provide an analysis of the contribution of the oil industry to Angola's national budget from 1994, through to the present day, and then to provide a forecast of what this sector should be worth over the coming five years to Angola's economy. The potential scale of future revenue adds further weight to the urgency for reform in the financial management of state assets.

OVERVIEW OF THE ANGOLAN OIL INDUSTRY 1955-1999

Angola produced 770,000 barrels per day (bpd)⁴ in the latter half of 1999 and is a significant non-OPEC oil producer. Angola was the sixth largest supplier of imported crude oil to the United States in 1998 providing 7% of US oil imports.⁵

The petroleum industry in Angola began in 1955 when oil was discovered in the onshore Kwanza valley by Petrofina, which together with the Angolan colonial administration established the jointly owned company, Fina Petróleos de Angola (Petroangol) and constructed a refinery in Luanda to process the oil. The main expansion of the country's upstream oil industry came in the late 1960s when the Cabinda Gulf Oil Company (CABCOG), which became a subsidiary of Chevron in 1984, discovered oil off the Angolan coastal enclave of Cabinda. In 1973, oil became Angola's principal export and numerous subsequent discoveries have been made in the Cabinda area. In 1976 the Government set up a national oil company, the Sociedade Nacional de Combustíveis (Sonangol), and enacted a petroleum law (law 13/78) in 1978. Under this law, Sonangol was established as the exclusive concessionaire for oil exploration and development while being permitted to enter into associations with foreign companies to obtain the resources needed for oil exploration, development and production. More importantly, under this law and the Constitution, the country's petroleum resources are defined as the property of the Angolan people, in the form of state ownership;⁶ a fact systematically ignored virtually from day one.

Law No 13/78 of 26th August 1978, **"establishes that all deposits of liquid and gaseous hydrocarbons which exist underground or on the continental shelf within the national territory, up to the limit of the jurisdictional waters of the People's Republic of Angola, or within any territory domain over which Angola exercises sovereignty, as established by international conventions, belongs to the Angolan People, in the form of state property."**

Following a seismic survey of the continental shelf in 1978 and 1979, the entire shallow-water offshore area, apart from Cabinda, was divided into 13 blocks. The next stage in development was the exploitation of the deepwater deposits. The Government created 17 new blocks in water depths of 150-600 metres; blocks 14-30. In May 1999, the Government awarded the first three 'ultra-deepwater' blocks 31-33. In October 1999, block 34 was awarded to a consortium consisting of Norsk Hydro, Chevron, Shell and Sonangol.⁷

Law no 13/78 and subsequent laws, established the organisational structure for the oil industry in Angola. Within government, it is the responsibility of the Ministry of Petroleum to oversee the oil industry. It approves exploration and development activities, regulates field production levels and gas flaring, sets tax reference levels, and, jointly with the Ministry of Finance and the National Bank

of Angola (BNA), it supervises the operations and investments of the state owned oil company, Sonangol.

Sonangol in turn holds the exclusive concession for the exploration, development, production, storage, transportation, distribution and marketing of oil products in Angola. To conduct these operations it is allowed to enter into either Joint Ventures (JVs) in which Sonangol and its partners split investment costs and production according to their shareholding; or Production Sharing Agreements (PSAs) with foreign oil companies by which foreign companies serve as contractors to Sonangol, bear the full cost of exploration and development but recoup their investment through 'cost oil' and 'profit oil'. Sonangol supervises the companies and has the power to collect taxes and revenues on behalf of the State. At present there are more than 30 companies participating in such arrangements with Sonangol.

The 1979 PSAs have provided the basis for all licences awarded by Sonangol. The only exception to this is the Cabinda concession. Under these arrangements, the participating companies, one of which normally assumes the responsibilities of principal operator of the project, bear the

full cost of exploration and development, even if no oil is produced. PSAs have proven to be very attractive for both Sonangol and the oil companies. For Sonangol they require few or no up-front investment outlays, and there is a potentially large payoff from long production runs. The main advantage for oil companies is that it limits their risks by allowing a faster depreciation of their investment and reducing their tax liability.

Most of the oil-producing areas have been immune to the destruction of the war, largely because of the inaccessibility of offshore locations. However, in early 1993, the area around Soyo at the mouth of the Zaire River was overrun by Unita forces. The subsequent battle, and repossession by government forces, led to heavy damage to the onshore fields there, and at the Quinfunquena onshore terminal.

As of November 1999 seven companies operate production in Angola. The sector is dominated by the US company, Chevron and the French company Elf, which together operate 85% of current production. This is forecast to rise to 93% by 2003.⁴ Eleven companies, including Sonangol, hold significant reserves in the deepwater blocks.⁴

Joint Ventures—JVs

The older oil contracts under which most Angolan oil is currently produced are in the form of joint venture agreements, with each company taking a percentage share in the licence. A company with a 10% stake in the joint venture will have to pay 10% of the costs associated with it. It will then pay a series of taxes and royalties to the government, and the profit that remains is then divided up among the participants in the licence. Under joint venture agreements, Sonangol has to provide money up front, and this has produced some of the complex financing structures. The most important producing joint venture in Angola is Block 0 (Cabinda): Sonangol 41%, Chevron 39.2% (operator), Elf 10%, Agip 9.8%.

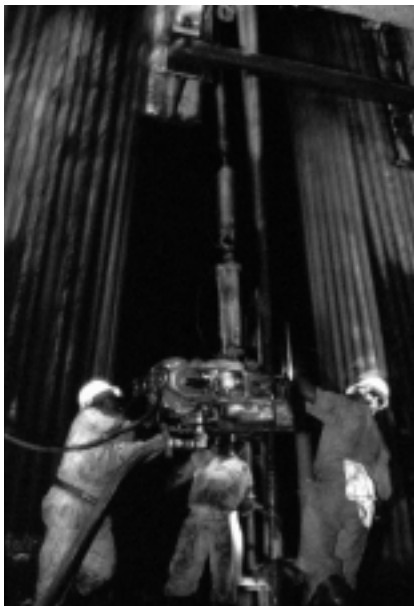
Production Sharing Agreements—PSAs

A more modern type of agreement is the production sharing contract. Under a PSA, the contractor group has to pay for the investment, taking on all of the risks. The costs of Sonangol are typically 'carried' or paid for by the other participants at this stage. When production starts, the oil is divided up into different sections. First, royalty oil accrues to the government. Second, 'cost oil' is received by the members of the contractor group, and is earmarked to pay for their investments. This can be up to 50% of the oil that is produced. The remainder is known as 'profit oil' and is divided between the foreign oil companies, Sonangol and the government according to a complex tax structure. Oil-backed financing does not depend on having a joint venture agreement, but is also available for PSA's, under which all the future deep-water fields are being operated.

Sonangol headquarters, Luanda



Below: Cabinda, drilling for oil



THE 'DUTCH DISEASE'

One of the serious side effects of having an economy dominated by one major resource is a phenomena known as the 'Dutch Disease'; in which the majority of investment is allocated to that one sector, resulting in a failure to diversify the economy, severely limiting the broadening of the tax base. This condition often leads to high inflation and high debt, due to high levels of borrowing; the latter due to a perception of greater wealth than actually exists.

According to Terry Lynn Karl, author of 'The Paradox of Plenty':

"The Dutch Disease is not automatic. The extent to which it takes effect is the result largely of decision-making in the public realm."⁸

The expression appeared in the 1970s to refer to the stagnatory effects of oil resources on the development of other sectors of the economy; in particular, the failure to invest in traditional

export sectors. Angola is a particular victim, because oil accounts for such a large slice of exports (92% in 1997).

Persistent Dutch Disease provokes a rapid, even distorted, growth of services and transportation, while simultaneously discouraging industrialisation and agriculture; a dynamic that policymakers around the world have struggled to counteract. The Dutch Disease is especially negative when combined with other barriers to long-term productive

activity characterised by the exploitation of exhaustible resources, including corruption and war. The Angolan version of the Dutch Disease has for years put local businesses at an even greater disadvantage to importers with access to cheap dollars through the central bank. This situation was stopped in May, with the liberalisation of the exchange rates, though the danger of a reversion to dual exchange rates, at the behest of powerful importers and others, remains a real one.

THE CONTRIBUTION OF THE OIL INDUSTRY TO THE ANGOLAN ECONOMY

Direct Angolan state income from the oil sector was in the range, US\$1.8-3.0 billion per year for the period 1990-1999.⁴ Analysts forecast a gradual increase in government income from oil to US\$2.9-3.2 billion per year during the years 2003-2010.⁴ Reports indicate that the international oil industry is planning to invest over US\$ 18 billion over the next four years in Angola.⁹

The oil sector is the largest contributor to the Angolan state budget, representing as much as 90% of government revenues and, therefore, it plays a pivotal role in funding the war economy. Apart from this fiscal link, the oil industry of Angola runs completely independently of the general economy and appears to make little or no contribution to the welfare of the general population. A recent Economist Intelligence Unit report stated that **"the government has ring-fenced the oil sector against the inefficiencies of the rest of the economy and relations with the oil companies are generally good"**.¹⁰ For the purposes of this section, a conservative oil barrel price of US\$12-18 was used, in order not to overestimate average return.

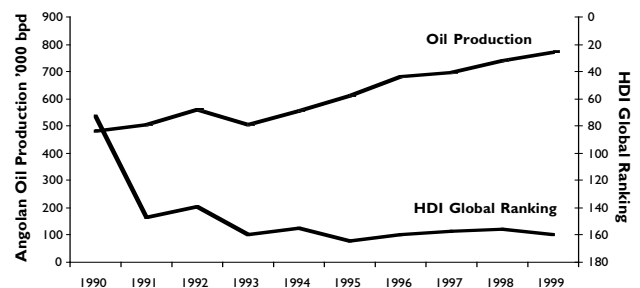
As Angola's oil industry is primarily based offshore, the international companies can effectively isolate themselves from the protracted civil war. The oil sector employs less than 10,000 Angolans, more than half of whom work for Sonangol. International contractors are used to provide services to the oil consortia, largely because of a dearth of competent Angolan firms.

Offshore investment averaged US\$400 million per year between 1989-94.¹⁰ This accelerated rapidly in the second half of the 1990s. Exploration continues to grow and new field developments mean that production will continue to rise. Some of the new oil fields are at a water depth of 1,500m or more and up to 150 km from shore. If the exploration in the ultra-deep offshore blocks proves successful, some observers believe that Angola could become the largest oil-producing country in Africa, overtaking Nigeria.

Oil production has exacerbated social inequalities in Angola, basically benefiting only a very small elite and sustaining the war effort. The international oil companies need to realise that they have a role to play in assessing the social impact of their activities and in ensuring that oil production has some positive benefits on the well-being of the operating country. To date, these companies have stood back from getting involved in the destination of oil revenues, once they are handed over to the Angolan government.

Angolan Oil Production Rises as HDI Global Ranking Falls

Source: Wood Mackenzie, BNA, UNDP



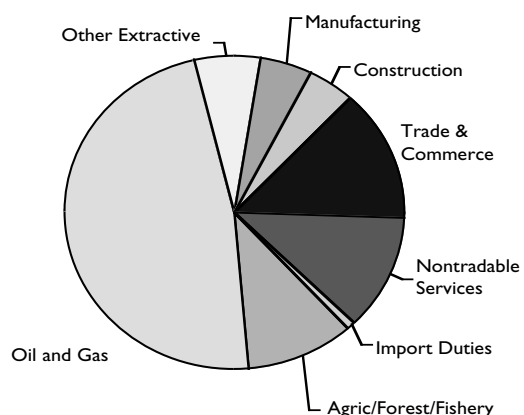
Significance of the Oil Industry to the Angolan Economy

The lack of consistent up-to-date macroeconomic information on Angola makes the task of analysing the contribution of the oil industry more difficult and adds to the lack of transparency. National account statistics are unreliable and their publication is belated. Disruption from the war, poor training and technical assistance for the responsible statisticians, an overvalued currency and multiple exchange rates are just some of the factors that have contributed to the problem. In its reports on the Angolan economy, the IMF has used national account statistics that, for many of the key macro variables, differ significantly from those published by the National Bank of Angola (BNA), using the official agency data.

Oil and natural gas are expected to account for almost 48% of Angolan GDP in 1999

Source: BNA Website

Percentage Breakdown of GDP, 1999 estimates



Adequate and timely statistical information is a necessary first step to formulate economic policy and to continue to monitor policy impacts.

Keeping these caveats in mind, an analysis of the existing statistics reveals the importance of the oil sector for the Angolan economy, and as a source of government revenue. It also confirms the lack of government expenditure on social and economic sectors that could benefit the bulk of the Angolan population. The oil industry accounts for almost 50% of all recorded economic activity in Angola, and is the only sector that has continued to grow as the rest of the economy has suffered from the depressive effects of tight monetary and fiscal policy.

Breakdown of Angolan GDP by sector (%)

	1994	1995	1996	1997	1998	1999
Agriculture, forestry & fishing	6.6%	7.7%	7.3%	9.6%	12.6%	10.2%
Oil & gas	56.6%	55.8%	58.0%	48.5%	38.5%	47.7%
Diamonds	2.0%	2.7%	3.3%	3.8%	6.4%	6.3%
Manufacturing	4.9%	4.0%	3.4%	4.4%	5.9%	4.9%
Electricity & water	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Construction	3.4%	3.4%	3.1%	4.1%	5.5%	4.5%
Trade & commerce	18.1%	17.6%	14.8%	16.3%	18.2%	13.6%
Non-tradeable services	6.5%	7.3%	8.1%	11.4%	11.3%	12.1%
Import duties	1.8%	1.4%	1.9%	1.9%	1.5%	0.8%
	100%	100%	100%	100%	100%	100%

Source: BNA

Though the percentage of the total government revenue coming from this sector varies year to year as international oil prices fluctuate, it can be seen that the oil sector accounts for between 70% and 90% of total recorded Angolan government receipts.

Estimated Government Revenues, 1995-1998, (US\$ million)

	1995	1996	1997	1998
Tax revenue	1,467	2,930	2,756	1,796
From oil	989	2,626	2,294	1,371
Non-oil	478	304	463	425
Non-tax revenue	15	15	39	41
Total government revenue	1,482	2,944	2,795	1,836
Govt revenue sourced from oil industry	67%	89%	82%	75%
Oil production (m barrels)	222	248	254	270
Oil price (US\$/barrel)	16.6	20.4	18.6	12.0

Source: BNA, converted to US\$ using official exchange rate.

There are no publicly available official records of the oil account. The IMF has repeatedly demanded, with little response, a proper audit of the country's oil income before it implements a three-year emergency programme of \$75m. For this reason, it is virtually impossible to get a clear understanding of the revenue flows; a further example of the urgent need for transparency in the operations of all oil companies operating in Angola.

The Angolan government sources money from the oil industry through four different routes: income tax, payments to Sonangol, signature bonuses and other payments. Oil companies pay Sonangol a percentage of revenue from profit oil based on cumulative production in shallower waters, and on a sliding scale based on the internal rate of return for the deeper blocks. It is not known whether Sonangol has any liability for company taxation. There is no information on where this money goes. Sonangol is reported to be increasingly insisting that foreign oil companies pay for its share of the exploration and other expenditure in joint ventures.¹¹

Substantial one-off non-recoverable down payments are required from the oil companies in order to secure exploration and extraction rights from the offshore blocks. Historically, these payments have been of the order of

US\$100 million. More recently, it is reported that BP-Amoco, Elf and Exxon made signature bonuses of approximately US\$870 million, in order to obtain the drilling licences for ultra-deep blocks 31-33. These licences involve operating at water depths in excess of 2,000 metres, which test the limits of present technology. Much of this money was used for arms procurement, although we do not suggest that these companies were aware this would happen.^{1,12}

Almost all creditors have severed credit lines to the Angolan government as it has repeatedly failed to service its debts. In recent years, the government has funded its overspending by securing new loans at very high interest rates from private creditors willing to accept repayment in the form of future oil production (see section 'An Oil Mortgaged Future').

Projected Government Revenues from the Oil Industry

This section provides an estimate of the future value of Angola's oil production to the government. The potential scale of future revenue adds further weight to the urgency for reform in the financial management of state assets.

It is not easy to carry out an accurate appraisal of the Angolan economy and the value of the country's oil industry to the Angolan government. This makes the task of forecasting the likely evolution of government revenues from the oil industry a difficult one. In attempting to forecast the likely receipts from the oil industry, we have necessarily made a number of simplifying assumptions in the following analysis.

Oil industry consultants, Wood Mackenzie, forecast that Angolan oil production will rise to almost 1.2 million bpd by 2003.⁴ Taking a range of oil price forecasts from US\$12-18 per barrel, the Angolan oil industry will be worth between US\$3billion and US\$7.8billion each year, over the next six years.

In forecasting, the government's receipts as a percentage of total oil revenues have been estimated at 35%, though historically this percentage has ranged between 30-60% of total oil industry revenues. This more conservative estimate reflects the fact that the newer deep-water licences have higher costs and the profit oil split is more favourable to the oil companies in these new blocks (based on rates of return rather than cumulative production). In addition, Sonangol's share in the deep-water blocks is smaller than in the shallower water blocks.

Forecast Government Receipts from Oil Industry, 2000-2005, (millions US\$)

	2000	2001	2002	2003	2004	2005
Oil Production ('000 bpd)	897	1,063	1,167	1,190	1,070	957
US\$ million						
Gross oil revenues at \$12/bbl	3,928	4,654	5,113	5,210	4,686	4,192
Gross oil revenues at \$18/bbl	5,891	6,981	7,670	7,816	7,029	6,287
Estimated Govt Receipts at \$12/bbl	1,375	1,629	1,790	1,824	1,640	1,467
Estimated Govt Receipts at \$18/bbl	2,062	2,443	2,684	2,735	2,460	2,201

Note: Calculation based on assumption that government receipts will average 35% of gross oil industry revenues over the next six years

Based on this simple calculation, it can be seen that the Angolan government will receive somewhere between US\$1.4 billion and US\$2.7 billion per year in the next six years from the oil industry, not including any signature bonuses or other one-off payments.

Government Expenditures

There is a high level of oil mortgaging contracted by the government to secure credit lines with international investment banks, which has been used largely to finance military spending.¹ Therefore, a substantial portion of the

government revenues from the oil industry go directly to debt servicing rather than any type of social expenditure.

Government Expenditure by Function, 1994-1997, (%)				
	1994	1995	1996	1997
<i>(Percentage of total)</i>				
General Public Services	21.4	19.2	13.9	17.7
Defence and public order	33.7	31.4	35.0	36.3
<i>Of which recorded</i>	19.5	18.2	27.6	18.1
Peace process	0.1	0.5	0.8	0.6
Education	2.8	5.1	4.6	4.9
Health	3.8	5.7	3.0	3.1
Social security, welfare and housing	2.2	3.1	2.1	5.3
Economic affairs and services	2.5	6.6	8.5	8.7
Interest (commitment basis)	19.7	18.9	21.0	9.9
Other (residual)	13.7	9.4	11.0	13.5

Source: IMF Angola: Statistical Annex; April 1999.

Not surprisingly in this war-torn economy, the largest single item of expenditure is on defence and public order. The IMF statistics show separately the recorded expenditure of 18% of the budget in 1997, compared with a more realistic calculation of over 36% of total expenditure on military goods and services. A paltry 13.3% of the budget is

estimated to have been spent on education, health, social security welfare and housing in 1997.²⁴

The calculations of the IMF on Angolan government expenditure differ considerably from the published statistics of the BNA. In the 1998 budget, the BNA reported the following breakdown for expenditure: defence and policing 23%, education and culture 11%, health and sanitation 8% and social security 0.17%. The Government's medium term plan proposes an allocation of a greater proportion of oil revenues to social sectors: a target of 20% has been proposed, though it seems unlikely to be achieved in the foreseeable future.

Exchange Rate Policy

After 25 years of defending the artificially high value of the kwanza, the BNA was forced to allow it to float at the end of May 1999. The BNA had been holding the official rate at 700,000kzr/\$1, while the rate on the street was about 2.15mkzr/\$1. With such a discrepancy between the official and the market rate, individuals with access to dollars at the official rate from the National Bank were able to make a substantial amount of money as they could buy dollars at one-third the real price. The BNA was forced to float because foreign reserves were severely depleted and international creditors were no longer willing to lend.

CASE STUDY: THE STATE OF TRANSPARENCY TODAY

In response to the Asian economic crisis, the financial world was forced to wake up to the negative impacts of the lack of transparency and accountability within international financial institutions, multinationals and national governments.

As a result, national governments and regulatory bodies have recommended the strict enforcement of current legislation and the introduction of new acts and laws to combat bribery, fraud, corruption and increase accountability and transparency.

This global move towards a new paradigm of financial accountability appears to be out of step with the current actions and practices of the various corporate actors outlined in this report, as can be seen from the various recommendations outlined below:

The IMF Working Group (WG) on Transparency and Accountability stated in their report of October 8th 1998 that the private sector, national authorities, and international financial institutions are seriously out of line with current financial thinking and best practice:

"The decisions made by any one of these groups are affected by the decisions, or anticipated decisions, of the other two. And there is room

for significant improvement in the transparency and accountability of each of these groups."¹³

For each of the groups recommendations were made:

- The WG recommends that national standards for private sector disclosures reflect five basic elements; timeliness, completeness, consistency, risk management, and audit and control processes.
- The WG recommends that private firms adhere to national accounting standards and that national authorities remedy deficiencies in their enforcement.
- The WG recommends that the IASC give the highest priority to the completion of a core set of accounting standards and that IOSCO undertake a timely review of those standards.

Transparency and Accountability of International Financial Institutions (IFI)

- The WG recommends that, as a general principle, IFIs adopt a presumption in favour of the release of information, except where release might compromise confidentiality.
- The WG recommends that IFIs establish, publicly announce and periodically revisit an explicit, well-articulated definition of the areas in which confidentiality should apply and the criteria for applying it.

However the IMF are not the only financial body that is attempting to combat bribery and corruption and improve upon financial transparency and accountability. In December 1997 the Organisation for Economic Co-Operation and Development (OECD), introduced the 'Convention on Combating Bribery of Foreign Public Officials', which was signed by 34 states. However, two years later, full ratification by all countries has not been met. This convention attempts to introduce a level playing field for non-US companies who previously were not affected by the US Foreign Corrupt Practices Act. (FCPA)—which prohibits public and private US companies from making corrupt payments to foreign officials for the purpose of obtaining or retaining business.

More recently on the 10th November 1999, the US government announced 'The Money Laundering Act of 1999', which is intended to **"crack down on the private-banking departments of some major US banks"**,¹⁴ which are involved in business transactions involving money generated from criminal activities. Political corruption is high on the list of targets and the act is designed **"to extend the reach of federal law to discourage US banks from handling the proceeds of corruption worldwide"**.¹⁵

With the belated realisation that bribery and corruption are not in the best interests of responsible business it would be interesting to discover whether statements in audited accounts of oil companies, such as the following, still exist or have been amalgamated into less conspicuous areas:

Ernst & Young audited the accounts of Sonangol for the period ending 31st December 1993 and 1992. Under section 15, called 'Other Creditors and Liabilities', there is a line entitled 'Head of Government Bonus', which declares a balance as of 31st December 1993 of US\$415,000. It goes on to declare a balance on 31st December 1992 of US\$4.9 million.¹⁶

Are we to believe that President dos Santos received a 'bonus' of nearly US\$5 million in 1992, at a time when the country was in a deep economic crisis? It is hoped that new international accounting procedures, guidelines and laws will outlaw such payments. However, questions should be asked of the leading accounting companies regarding their obvious willingness to pass company accounts as a 'true and fair view of the state of a company', whilst simultaneously approving such payments.

CORPORATE RESPONSIBILITY & ACCOUNTABILITY, OR CORPORATE HYPOCRISY?

"We Angolans often think that perhaps oil is not good for our country."¹⁷

A great deal has been written about the new 'socially responsible corporates' and their business practices, especially with regard to the developing world. One of the leading proponents of this new 'corporate code' is the oil transnational BP-Amoco, which has recently established itself as a major player in Angola, as operator of blocks 18 and 31.

The central claim of these responsible companies is that through listening to the criticisms of individuals, governments and Non-governmental organisations (NGOs), they are actively seeking to conduct their business in an ethical, responsible and transparent manner. Numerous corporate brochures are produced documenting the financial contributions made to needy social projects and how employees no-longer accept bribes. BP-Amoco is a leading producer of such documents. However, the information in this report, clearly shows that individual attempts by companies will not yield urgently needed results on human development indicators.

The following is a summary of how BP-Amoco has been advertising its ideals to the public and what BP-Amoco thinks about its investment in Angola. In its 1998 Annual Report and Accounts, BP-Amoco state:

"We remain committed to act responsibly and ethically, fostering two-way relationships with local communities, customers, contractors, partners, governments and employees. We believe our business should be both competitively successful and be a force for good."¹⁸

These are honourable objectives. The current situation in Angola presents a real challenge for their implementation. A social impact assessment report of BP's business in Angola, was commissioned by BP from Environmental Resource Management (ERM) in November 1997; and **"in recognition of the company's long-term aspirations in Angola and the importance attached to understanding the social impact of its operation,"** it concluded that:

"The widespread perception amongst non-experts and experts is that little oil revenue is used for social and economic development. Various reasons are cited for this, predominantly military/security spending and corruption."¹⁹

In addition, **"Widespread concerns were expressed that oil revenue to government fails to benefit the wider society."¹⁹**

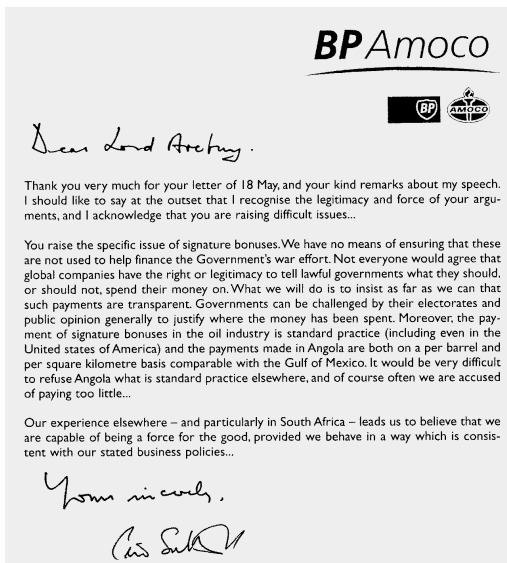
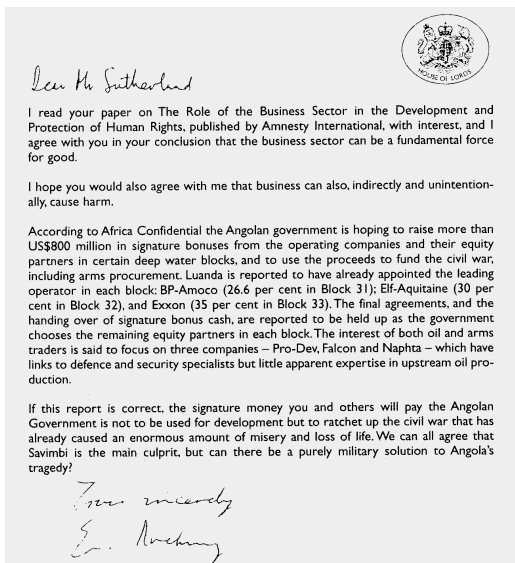
BP's analysis of the study notes that there are, **"risks to the reputation of BP/Statoil if the Government of Angola fails to live up to commitments made to increase democracy, accountability and transparency and if oil revenues continue to be the main source of income to the government, although anticipated increases in oil revenue could potentially finance investment in the human capital and infrastructure necessary for economic and social development."²⁰**

To date, the government has systematically failed to increase democracy, accountability or transparency. In September 1999, the IMF had to call off talks yet again, as the Angolan government failed to implement the necessary reforms regarding transparency and accountability stipulated by the IMF, and the World Bank suspended new loans to Angola for 1999 for similar reasons.

The concrete step that BP-Amoco now takes to address these specific issues will determine whether the company's stated commitments to address the impact of its activities on wider society are serious.

The BP analysis goes on to state: **"It is recommended that BP/Statoil set a benchmark for corporate transparency and accountability in Angola by regularly reporting on the financial, environmental and community development performance of the BP/Statoil alliance and by taking a lead in setting up consultative fora in Angola and the UK to explore ways of ensuring that the oil industry development has positive impacts and that operators in the offshore fields use and demonstrate best practice."²⁰**

Global Witness recommends that in the light of BP-Amoco's acknowledgement that leading oil companies must increase their involvement in the wider socio-economic, environmental and political dimensions of their activities, the company assumes an active leadership role in ensuring that oil revenues benefit the Angolan people. Global Witness recommends that BP-Amoco alliance sets a **"benchmark for corporate transparency and accountability"** by publishing their full set of Angolan accounts, both in Angola and internationally – not just the consolidated, audited, year-end accounts available in the annual reports. It is also recommended that they make available copies of all contracts signed with Sonangol and the Angolan government and make available any other documents relating to payments to either Sonangol or the BNA during their tenure in Angola. Another challenge is to see if BP-Amoco can become a leading light in the creation of an oil company formal coalition, helping to create transparency and Government accountability in Angola.



BP-Amoco's response (left) to letter of concern from Lord Avebury (far left). BP-Amoco's letter shows a clear lack of understanding of the level of accountability of government in Angola

National Sovereignty

BP-Amoco, Chevron, Elf and Exxon/Mobil may try to step round the obvious points of criticism which rise from such analysis. It has been said by some companies that they are **“not in the business of interfering in politics”**. They claim that there are issues of national sovereignty at stake. Comments such as **“should we tell a democratically elected government how to spend their money?”** are often made by senior company officials. However, national sovereignty cannot be used as an excuse to turn a blind eye to the gross and systematic violations of human rights of the Angolan people.

It is a fact that the international oil industry provides the vast majority of revenue to the Angolan government, which is being used without the minimal levels of transparency and accountability required by international financial institutions. The result is that the people of Angola are paying the price. The issues of national sovereignty and whether one should tell an elected government what to do, are fair comments—for a normal democratically elected government. However, are we talking about the sovereignty of the Angolan people, or the sovereignty of key elite individuals who are involved in the wholesale robbery of their country?

CASE STUDY: ELF AQUITAINE

elf exploration angola

A disgrace within the European Union?

More than any other oil company in Africa, France's Elf has for years played the game of African politics not only to win control over coveted oil licences, but as an arm of French diplomacy and intelligence. It has come to typify dubious multinational company activities in Africa – mixing politics with corporate gain. Oil has been the motive for many French policies in Africa, and it is no coincidence that France's diplomatic focus along this stretch of coastline is shifting quickly southwards from Gabon, where oil production is now declining, towards Angola, where Elf has made a set of huge oil discoveries. A visit by French president Jacques Chirac to Angola in June 1998 was prompted, above all, by Elf's efforts at the time to secure as good a position as possible in the recent attribution of ultra-deep licences 31-33. Elf was eventually awarded operatorship of block 32.

Investigations in France and Switzerland by examining magistrate Eva Joly into the financial affairs of Gabon President Omar Bongo, who is alleged to have channelled payments from the presidency through the accounts of senior Elf officials²¹, have uncovered some of the deep political channels that have connected Elf with its counterparts in African governments and with its mentors in Paris. In a recent interview in *Le Monde*²², Elf's ex-Africa supremo Andre Tarallo, who is under investigation by French authorities explained the system of bonuses handed out to African heads of state:

“In the petroleum field we talk of bonuses. There are official bonuses, which are anticipated in the contracts...; the petroleum company which wants an exploration permit agrees, for example, to finance the construction of a hospital, a school or a road, or to pay a sum of money, which may be a considerable amount if the interest in an area is justified.... This practice has always been used by Elf as well as numerous other companies.”

Elf is now a private company, but the old political channels still run deep, and the company continues to use its expertise in African politics to gain access to markets such as Angola's. The company is now merging with France's TotalFina, to form what will be the world's fourth largest oil giant. TotalFina, which has a strong presence in the Middle East and is widely regarded as a more efficient company than Elf, will effectively be the senior partner in the new company. It is also

likely that some of the cosy old political networks developed by Elf over the years, which are now regarded as liabilities and have trapped the company in embarrassing disputes with African governments, will be dismantled. At the instigation of the Green Party in France, the National Assembly is investigating oil companies and the recently deposed head of Elf, Philippe Jaffre has appeared before its committee. But though Elf has been privatised, the French government still retains a 'golden share' in the company, giving it an effective right of veto over possible takeovers and other management issues. It is certain that old habits will die hard.



Above: Elf Exploration Angola's head office, Luanda

Left & below: Further evidence of Elf mixing business with politics





THE ULTRA-DEEP-WATER BLOCKS 31-33: THE ROUTE FOR NEW ARMS SHIPMENTS TO ANGOLA?

The awarding of the ultra-deep water oil blocks raises serious questions about the role of international oil companies in perpetuating the war in Angola. This is of major concern, given the longevity of the war and the enormous level of civilian casualties. This concern is heightened by the inclusion of equity partners, more normally associated with arms dealing than oil exploration, for the operator companies of the blocks 32 and 33—Elf Aquitaine and Exxon respectively. Also of major concern is the reported fact that a high proportion of the US\$900 million signature bonus¹, possibly as high as US\$400-500 million, has found its way directly to the Presidency, bypassing the budget,² although we do not suggest that the companies were aware this would happen. The majority of this money, is likely to have been spent on weapons shipments, and a significant proportion of the remainder was probably also earmarked for weapons procurement, via the national budget.¹

Table of Operators and equity partners of Blocks 31-33²⁴:

Block	Operator	Equity Partners
31	BP-Amoco (26.7%)	Exxon (25%) Sonangol (20%) Statoil (13.33%) Marathon Oil (10%) Elf (5%)
32	Elf Aquitaine (30%)	Sonangol (20%) Prodev (15 or 20%)^{12,26} Exxon (15%) Marathon Oil (10%) Petrogal (5%)
33	Exxon (45%)	Sonangol (20%) Elf (15%) Falcon Oil (10%) Naptha (5%) Petrogal (5%)

Concern has been expressed about the companies, Prodev, Falcon Oil and Naptha, because they appear to have connections to the weapons supply chain which Luanda has been keen to tap into.¹

The origin of these equity partners is unclear. Global Witness is concerned that the Angolan Government may have demanded that the operators come to the table delivering companies that would be able to provide weapons. Or, alternatively, the Angolan Government came to the table, offering the operators a fait accompli as to their equity partners. It is notable that there are no such companies involved in Block 31.



Angolan war damage

Prodev—20% equity partner in Elf's Block 32

Having acquired a 20% stake in Block 32²⁶(though some reports suggest the stake is 15%)¹², reports in September 1999 suggested that Prodev was keen to off-load its equity stake.²⁷ Having just obtained this share in such a potentially rewarding block, it seems strange that the company would wish to off-load so quickly! It is suggested that the company received its share as 'payment' for weapons delivered, and that this 'payment in kind' took place because the Angolan Government did not possess the funds to pay with cash. Details about who is behind this 'Swiss' company are not clear, but it has been suggested that the company is owned by three Syrians: Investor Mohammed al-Dhabar and two further individuals named as Bezari and Doumen.²⁸

Falcon Oil & Gas—10% equity partner in Exxon's Block 33

Falcon Oil & Gas, based in West Virginia, is largely unknown to the upstream oil industry.³⁰ According to one report, President dos Santos has a personal interest in the company.²⁹ Falcon Oil also appears to be linked to two key individuals who are influential in Luanda. Pierre Falcone, who is Brazilian but operates from Paris, has been instrumental in a number of financing and arms supply deals for the Angolan Government. Antonio 'Mosquito' Mbakassi, who is also associated with the company, is better known for his Audi car import business and is involved in the diamond trade. It is possible that he conducts business with UNITA as well as with the government. Exxon, the main operator of Block 33 via its 'Esso Exploration and Production' company lists Falcon Oil Holding, as a Panamanian company.³⁰

Pierre Falcone

Pierre Falcone is active as an arms broker for the Angolan Armed Forces (FAA).³¹ Together with a Franco-Russian businessman, Arkadi Gaidamak, Falcone set up a supply line of arms from Eastern Europe for the Angolan company, Simportex,³¹ of which Falcone is a director. Simportex, formerly known as Ematec, is an Angolan company, better known for its near food and uniform monopoly to the FAA.³² The company also provides the Angolan air force with technical maintenance and support, through a joint venture that was established in October 1997 with the Portuguese company OGMA.³³

Simportex has been able to deliver because of Falcone's extraordinary connections, both in the international world of finance and arms companies and in the foreign intelligence services. From the Angolan side, Simportex's connections to Angola's chief arms buyer, General Manuel Helda Vieira Dias, better known as 'Kopelipa', have been essential. Simportex's connections to the Futungo de Belas Presidency are completed by their association with Angola's Intelligence Chief, Miala; also part of the elite Futungo entourage.²⁸

According to a French report, police searched the premises of both Falcone and Gaidamak, and French customs have fined Falcone millions of dollars, for an arms shipment that had originated in the Czech Republic, and which was destined for the Angolan government, via France.³⁴ These Czech-sourced weapons originated from the Osos Praha company. The Slovak joint stock company (ZTS), which specialises in T-72 model combat vehicles and tanks, was another supplier.³⁵ The weapons and ammunition were shipped in June 1997 to Simportex in Angola.³⁶ The financing of this East European weapons contract was reportedly arranged by Gaidamak and ran through Glencore, the Swiss oil-trading company of the notorious South Africa sanctions buster, Marc Rich,³⁷ together with the French bank, Paribas. The loans, worth an estimated US\$500 million, which were specifically arranged for the purchase of arms, were backed by future oil production in Angola.

Arkadi Gaidamak is reportedly linked to high-level politicians and strongmen in Russia and in France. In France, he was reported to have been linked to Elf's ousted 'Africa supremo', Andre Tarallo²²—see *Case study on Elf*.

Antonio 'Mosquito' Mbakassi

Antonio 'Mosquito' Mbakassi is an Angolan partner of Falcon Oil. The following discussion of his business dealings, provides an interesting insight into potential connections between Falcon Oil and the supply of arms to Angola. Mbakassi operates a series of companies under the banner 'Grupo Empresarial Mbakassi', which is a member of Fundação Luso-Americana.⁷¹ Within this grouping is the company 'Soci Trade Import & Export'. Soci Trade is involved in the diamond business, and reportedly also involved in projects for street children.^{1,38}

Soci Trade Import & Export is a Luanda based company which is both owned and managed by Mbakassi. In May 1999 'Global Explorations', a Vancouver listed company, announced that it had finalised arrangements for a joint venture with Soci Trade in Angola. According to the Global Exploration press release, Soci Trade **"has extensive experience in the business of mining and trading of diamonds, common minerals and other related products in Angola"**.³⁸

A third partner in the joint venture is the Vermont (USA) based company, 'Furmark Corporation', which is the managing entity of the joint venture project with Soci Trade and Global Resources. The owner of the Furmark Corporation is Roy Furmark, a New York-based businessman of, reportedly, Canadian origin. He was a key figure in the financial arrangements and weapons deals that were investigated during the Iran-Contra scandal. According to the US Senate Walsh Commission, which investigated the scandal, Furmark was a financial partner and associate of the Middle East weapons financier, Adnan Khasshoggi.³⁹ It was Furmark who introduced Khasshoggi as a weapons broker for 4,000 TOW missiles to Iran.⁴⁰

The Canadian-registered Global Explorations Corporation was delisted in June 1999 from the Vancouver Stock Exchange. According to Canadian financial newspapers, the identity of the main shareholder of the company, Rakesh Saxena, was the reason for the delisting.⁴¹ Saxena is wanted in Thailand for the embezzlement of US\$60 million from the Bangkok Bank of Commerce (BBC).⁴² More relevant for the Angolan situation, is that Saxena was the financier of a clandestine weapons shipment to Sierra Leone, that led to the so-called 'arms-to-Africa' scandal in the UK; a case that caused serious



The human cost

© Trygve Bekkedal/Panos Pictures

embarrassment to the British government⁴³ and the private military company, Sandline International. The weapons shipment, despite a UN arms embargo on Sierra Leone, was reportedly a barter deal, involving a diamond concession in Sierra Leone in return for weapons that were to be used in a counter-coup, to bring the ousted president of Sierra Leone back to power.⁴⁴

Naptha—5% equity partner in Exxon's Block 33

Naptha is part of what has been described as a 'complex web' of Israeli oil and investment companies, involving considerable cross-share holdings. For example Naptha is 96.2% owned by Jerusalem Oil Exploration Ltd, which is 43.4% owned by a company called Equital, which is further 42.3% owned by YHK, which is 74% owned by a company called United Kingsway Ltd. This last company is 100% owned by Haim Tsuff, who is the chair of the Houston (USA) based company, Isramco. Isramco itself is 49.9% owned by Naptha.⁴⁵

Sources indicate that there is a very close relationship between Naptha and a company called Levdan, whose senior manager is ex-Israeli army General Ze'ev Zahrine. It seems that Naptha have benefited from Levdan's services in Angola, as they did in Congo-Brazzaville. General Zahrine also supplies some of the security arrangements for President Eduardo dos Santos.^{1,45}

As for the other companies discussed in connection to Blocks 32 and 33, a further investigation of Levdan also makes interesting reading and sheds further light on the complex web of arms dealers and associated financiers who are intimately tied to the unaccountable expenditure of Futungo.

Levdan

Evidence suggests that the private military company Levdan, works in close cooperation with the Israeli defense and intelligence establishments. When Levdan trained the presidential guard of the Congo-Brazzaville government of president Pascal Lissouba, Israeli defence contractors benefited from the sales of US\$10 million of military equipment to Congo-Brazzaville.⁴⁶

Levdan's operations in Congo-Brazzaville included the training of the private 'Aubeville' or 'Zulu militia' which were later involved in the 1997 brutal civil war in Congo-Brazzaville. The entire operation, training and equipment which was manufactured by Israeli Defence Industries, were valued at some US\$50 million.⁴⁷ This operation trained up 650 Congolese in remote camps, who were to be consolidated into an elite unit, constituting the Presidential Guard.⁴⁸

The Levdan corporation recruits in Israel through its offices in Tel Aviv. It would seem that veterans from Lebanese operations of the Israeli Defense Force (IDF) and intelligence personnel with a past in the war, form the core of Levdan as a corporate military force, although Levdan's ultimate owner is General Moshe Levy, who lives in the United States.

Levdan's manager, retired IDF General Ze'ev Zahrine, was reportedly the Chief of Staff's Bureau Chief at a time when the 'Beirut Massacre' took place.⁴⁹

One report, in an Israeli daily⁴⁸, reports that Levdan played a vital role in Naptha's acquisition of its Congo-Brazzaville oil contract, but according to a confidential report, Levdan were offered an oil permit in Congo-Brazzaville, because the Congolese President could not pay the full amount due for the military services of the company.⁵⁰ As a consequence Levdan obtained a share in the Marine III oil field, which is a marine block on the Congolese coast. Marine III is operated by Naptha Israel Petroleum and US based Isramco, via a subsidiary Naptha Congo. In 1997, an online newsletter for the oil industry, reported that Levdan had a 50% participation interest in the Marine III permit.⁵¹ Naptha's CEO Yossie Levy, reportedly acknowledged the company payed Levdan about US\$300,000 because Levdan had 'brokered the oil contract.'⁵²



© Mercedes Spagnoles

President dos Santos clearly enjoying his FESA birthday celebration; Luanda 1999

THE CORRUPT KEY PLAYERS AND THEIR ROLE IN DRIVING THE WAR

Luanda's December 1998 resumption of war against UNITA has its roots in a variety of causes. The lack of political will to reach a peace settlement on both sides, mutual hatred and lack of trust, not to forget the incompetence of successive UN missions, which were almost destined to fail through lack of resources and the cover-up of UNITA's rearming process²³, were clearly key amongst them. There is also the issue of the Angolan Government's almost non-existent investment in the 'peace process', as evidenced by their average 0.5% of national budget allocation for the years 1994 through to 1997.²⁴ This compares unfavourably to the minimum average 34.1% estimated to have been earmarked for 'defence and public order' for the same time period.²⁴

But individuals, including FAA generals, have become involved in the defacto privatisation of the war as they benefit from the provision of military supplies. Whilst it is not being said that this is the key driving force for the war, it is evident that there is a significant conflict of interest, if those who are supposed to be pursuing efforts for peace, or who are involved in the conduct of the war are also making a profit from the continuation of the war. For example:







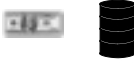


The Simportex company, involving Pierre Falcone and Antonio 'Mosquito' M'Bakassi, which in turn is connected to Angola's coordinating arms buyer, General 'Kopelipa' and Angola's Intelligence Chief, Fernando Miala.¹ This company and others connected to the award of Oil Blocks 31-33, are discussed in more detail in the section 'The Ultra-deep Water Blocks 31-33: The Route for New Arms Shipments to Angola?'

There are other examples of profiting from the war, which involve several companies which are servicing the Angolan Military with more mundane supplies. One example is the British Virgin Island registered CADA (Companhia Angolana de Distribuição Alimentar), which was reported to have been awarded a US\$ 720 million contract to feed the armed forces, for the next five years.²⁵ Reports suggest that this company is owned by Angolan Armed Forces (FAA) Generals.²⁵ However, reliable sources suggest that the involvement of 'Generals' is but a cover for dos Santos himself.⁷⁰ It does not seem to be a coincidence that dos Santos obtained control over CADA just prior to the resumption of war in December 1998. Clearly, the more the army consumes, the more those who are associated with these companies will profit.

THE UNTOUCHABLE OILIGARCHY

The table which follows, contains details of individuals who are key power brokers within the Angolan Presidency, or who are individuals involved in activities which do not lend themselves to the fostering of peace, or fiscal transparency and government accountability in Angola.

The following list is by no means exhaustive, but attempts to indicate who some of the key players are. Global Witness welcomes any comments and information regarding these and other key players.

<p>President Eduardo dos Santos As President, ultimate responsibility resides here</p> 	<p>Elisio Figueiredo Diplomat without portfolio: runs dos Santos' family businesses/ makes international investments; resides in Paris</p> 	<p>Fernando Miala State Security, involved with Simportex</p> 
<p>General Manuel Helder Vieira Dias (Aka 'Kopelipa') Angola's chief arms buyer, involved with Simportex; runs Angolan Intelligence services</p> 	<p>General José Maria 'Protects' General 'Kopelipa'</p> 	<p>Jose Leitao da Costa e Silva Involved in overseas investments, together with President & President's wife; possibly now sidelined</p> 
<p>Desiderio Costa, Vice-Minister of Petroleum 'Feared by oil companies'; runs FUNDANGA foundation for 'social contributions'</p> 	<p>Pierre Falcone Runs Simportex and Falcon Oil; facilitator of oil backed loans, and arms deals</p> 	<p>Antonio 'Mosquito' Mbkassi Runs Soci trade, Falcon Oil; also involved in Diamond trading and car imports</p> 

THE CASE FOR "FULL TRANSPARENCY" AND A MORE ETHICAL CORPORATE ROLE

If a company decides to conduct business in a country such as Angola, where there is little or no transparency or accountability of government, then it is vital that the company concerned adopts a level of transparency far in excess of that which it would be required to adopt in western democracies.

By a higher level of transparency, we are referring to what we call 'full transparency'. Full transparency does not infringe in genuine cases of commercial confidentiality, but companies that avoid taking action will further confirm their complicity in the current situation in Angola. Full transparency means that companies must clarify their exact relationship with government. This means that all payments must be published and made available in a easily understandable format to the Angolan population, and internationally. Such payments include those for dubious projects such as the up-grading of houses, bonus' and overseas scholarships. In addition, the full contractual payment schedule must be made public, such that it is possible to determine actual state oil revenue, at any point of the lifetime of an oil field, or well. Companies should also submit their social programmes, which are often tax deductible minimal contributions, and frequently little more than 'goodwill PR' exercises, to a full social and financial audit.

For several years, the IMF has been attempting to introduce the concept of transparency into Angolan Government financial management. The international oil industry and finance institutions that have provided oil-backed loans, have undermined this effort. It is therefore vital that these companies meet to establish a formal coalition operating transparently, with a common position on this issue, in support of the IMF, the World Bank and the international community, and which insists that the government fully and urgently moves to create full transparency in revenue and its deployment.

Given that Angola is the test case for oil companies' commitments to their much vaunted statements on ethical behaviour in areas that suffer from a lack of government accountability and transparency, it remains to be seen how well these companies will perform.

THE CORRUPTION OF THE ANGOLAN ECONOMY

The root causes of corruption in Angola are varied and complicated and a detailed discussion of the causal factors are beyond the scope of this report.

Corruption starts with the head of state, surrounded by a clique of politicians and business cronies, collectively known as Futungo, named after the Presidential Palace. This group control much of the opaque financial dealings of the State, including the deployment of significant parts of state revenue, outside the state budget – in effect a parallel system of state revenue deployment.

This group also control the allocation of power within ministries, leading to the situation where rank on paper does not necessarily indicate authority in decision making, such as, for example, the case of the Vice-Minister of Petroleum, Desidero Costa—see *The 'Untouchable Oligarchy' section*.¹

Corruption also manifests itself in all aspects of the business community. In effect, the merge between the political centre of power and business is so well developed that it is virtually impossible to establish a functioning business without resorting to bribery.^{1,53}

The massive devaluation of salaries in the civil sector during the 1990s has even further eroded the individual state employee's capacity to survive, adding to the pressure to seek alternative sources of revenue. For example, according to the UN, a minimum income of US\$1 per day per individual is sufficient income to remain just above the poverty level. In Angola, the average number of family members is eight, which means that an average family requires an income equivalent to US\$240 per month to stay above the poverty level. In October 1999, a secondary school teacher was paid 28 million Kwanzas per month—or US\$5. But for many, even this paltry sum has not been paid for months.^{1,2}

Angolan efforts to counter corruption are virtually non-existent. The Angolan government passed a law in 1996, establishing the *Tribunal de Contas*. This body retains powers to examine the state budget. It was also intended to provide information to the National Assembly, providing parliamentarians with information to enable Assembly debate about the annual national budget. The only problem with this organisation is that some of its key members have never been appointed and it has never met.^{2,54} A similar situation prevails with the *Alta Autoridade contra a Corrupcao*, which was created specifically to look into the corruption issue.^{2,55}

There is a significant merge between the party and government, which has confused the lines between what is a duty to party and what to government. This has reinforced the process of dubious business dealings and corrupt practices, and, due to a lack of transparency, there is a climate of impunity for those involved, further fostering the process of corruption. The lack of a truly independent judiciary, in part due to lack of capacity, is another factor that contributes to the impunity of those benefiting from corrupt practices. There is

Right: Government owned CAP bank— which has been used as a slush fund for Angola's elite players



an entrenchment of elite individuals who occupy positions of authority or who directly influence those in authority, primarily because of their connections rather than their ability to do the job.¹

Various 'esquema' (schemes) exist, whereby those with connections use the system to massively increase their wealth. One recently abolished system was to use the dual exchange rates, which for years served as a useful accounting mechanism for powerful vested interests to divert large flows of money. These interests have included Sonangol, the armed forces, and powerful importers. Effectively, those people powerful enough to have access to the official exchange rate were able to buy dollars cheaply.

Until exchange rates were liberalised on the 24th May 1999, the official market was used mainly for channelling oil export revenues towards imports. The BNA was not able to deliver the amount of foreign exchange demanded at its official rate, leading to a rationing of official reserves. From 1991-1998 on average, the parallel rate was 2.9 times higher than the official rate; allowing individuals with access to dollars at the official rate to effectively multiply their 'investment' by three on reversion at the parallel rate, offered by street money changers.²

Such corruption pervades all sectors of the Angolan system, from access to medicines, to the provision of school books. A current 'esquema' involves the selling of EDIMEL sourced school books at vastly inflated prices. In effect, EDIMEL, which is run by the Ministry of Education is responsible for the supply of all school books for the state education system. The vast majority of Angola's school books are currently produced in Portugal and imported, through the port of Luanda. The state subsidises these books through EDIMEL, where the state covers the cost of production and also transport to Angola. The cost of a school book to a student should reflect only the cost of port charges and EDIMEL's legitimate overheads, as the production and transport to Angola component have already been paid for by the state. This means that the average official cost for a school book should run to approximately US 50 cents per book. The reality is that families are being asked to pay nearer to US\$4.50–US\$5.0 per book.¹

Small quantities of school books are disbursed at the official prices, however, these are extremely hard to come by, and almost non-existent outside a few locations in Luanda. Of an estimated one million school books which EDIMEL imports into Angola each year, it is likely that at least 70-80% are sold at the inflated price. Because part of the mission of EDIMEL is to ensure that students receive subsidised school books, in effect whilst the Angolan state subsidises each book, Angola's school children are subsidising the profits of individuals within EDIMEL.¹

Political Opposition

The key power brokers within the Presidency have also undertaken a process of corrupting what opposition exists including, it seems, to an extent against the party itself. This has taken many forms, but includes the use of Ministry of Planning funds to finance opposition political parties, outright blackmail of opposition figures², corruption of the political party registration process and so on. Today, the opposition is largely co-opted and it is interesting to note the lack of new legislative ideas being put forward by opposition MPs.² As one journalist recently commented, **"What can you expect from an opposition who face arrest and whose purse strings are tied by the ruling party?"**⁵⁶

Civil Society and Press Freedom

There is a clear and growing civil society in Angola, which is strongly questioning the right of individuals within government to operate with impunity. However, the government is attempting to silence all dissent through strong press censorship, and Angola's civil society is fighting a battle against all the odds. This has manifested itself in the arrest of journalists such as William Tonet, Rafael Marques and journalists from Radio Ecclesia; Marques' incommunicado detention in October was a clear breach of Articles 32 and 35 of Angola's Constitution and placed Angola in breach of its international obligations under Article 19 of the Universal Declaration of Human Rights, and Article 19(2) and Articles 9(3) and 9(4) of the International Covenant on Civil & Political Rights (ICCPR), which Angola ratified in 1992.⁵⁷ It is clear that the Angolan Government is opposed to the development of an open, independent and questioning civil society.

ANGOLA'S BURDEN OF DEBT

This section considers the central importance of the international banking sector in the provision of high interest, short-term loans, which have played a major role in the exacerbation of oil price fluctuations for Angola's economy, and the country's expanding debt burden. The war, which provides a convenient excuse for Angola's leaders in explaining away the poverty among all the oil riches, should only be blamed in part for this situation. The banks, and the loans they provided, must also carry a large share of the blame

Angola's foreign debt, estimated today at \$11-12bn, plays an important part in the daily lives of all Angolans, partly because of the peculiar ways in which it has been built up. Precise estimates of foreign debt are hard to formulate because much of the debt to the former Soviet Union, and the new oil-backed loans that the country has been able to secure in the past 15 years or so, were often contracted amid great secrecy. As war continued during the 1980s, debt started to grow at an alarming rate, and the country continued to buy arms from the former Soviet Union and other Soviet-satellite states. Meanwhile, the country's creditworthiness in international markets began to wane quickly as Angola started to fall behind substantially with its repayments to foreign creditors.

Huge government deficits, year after year, could no longer be financed with foreign borrowing and the government started printing money, creating enormous inflation, with disastrous consequences for poor Angolans in particular. In the mid-1980s, in response to this crisis, Angola started taking out new types of loans, secured with future oil production. They have taken various forms, but have many points in common. Most importantly, lenders are well aware of Angola's poor repayment record on traditional types of borrowing, and demand more secure ways of repayment.

Under the various oil contracts signed with the foreign oil companies, a proportion of the money due to the Angolan state and Sonangol can be paid in crude oil. So a number of oil cargoes coming out of Angola are Sonangol's (or the Government's), while the rest accrue to foreign oil companies. Sonangol, on its own account or in its role as representative of the government, has been able to use a proportion of the country's oil output to arrange a set of deals through offshore 'escrow' accounts. The company that receives one of Sonangol's cargoes of oil, either to put it into a refinery or to sell it to somebody else, pays the money for the cargo directly into this offshore account, which is subject to strict international banking guarantees. Under the lending agreement, repayments for the loan come directly out of this account. This type of repayment system is relatively safe for the lender, because the money never finds its way into the perilous Angolan financial system, and it makes it extremely hard for Sonangol to renege on its commitments. Sonangol has a history of good adherence to its repayment terms and this credibility has translated into an increased willingness on the part of foreign bankers to lend to Angola under these types of secured financing arrangements.

However the security involved in these contracts is a double-edged sword; the fact that the money does not go through the Angolan financial system is extremely damaging for Angola. As far as Angolans are concerned, all the calculations involved in the offshore loans should, in theory, be processed through the central system of the state budget, which is responsible for earmarking spending on education, health and other matters. But because much of the money flowing from these oil-backed loans does not go through the BNA, and Sonangol discounts its repayments into these loans from the regular taxes it owes to the treasury, a set of parallel finances has emerged, where a large slice of Angola's



The National Bank of Angola (BNA)

budgetary management is effectively run offshore, through a set of foreign bank accounts. The notion that these monies should at least be registered in the national budget has fallen away, along with the notion of accountability. This has led some economists to describe the trio of Sonangol, the BNA and Futungo—where money can disappear without trace—as 'the Bermuda triangle'.

As mentioned earlier, a good example is provided by the group of oil companies which signed three production sharing agreements with Angola this year, for which they had to pay 'signature bonuses'¹² totalling around \$900m. But only \$400 million is recognised in the provisional budget document. This is one of the reasons why economists regularly describe Angolan budgets as 'documents of fiction'—and why the IMF has made a credible study or audit of the oil account, to include these opaque networks, a central pre-condition of signing any structural adjustment deal.

IMF statement, March, 1999:

"at a minimum, the study would aim at evaluating the current situation of the oil sector and developing a framework for systematically reporting data on crude reserves, output and exports of the petroleum sector and on tax and other oil sector payments to the treasury. It would be important that the authorities ensure that the BNA does not make payments on the government's behalf without payment orders (from the treasury). It would be desirable to initiate promptly an independent audit of the BNA and undertake a diagnostic study of the diamond sector as soon as the security situation in the diamond-producing region permits."²⁵⁸

The set of offshore parallel finances have rapidly become prey to various vested interests inside Angola, and the picture of who controls what money in these networks of different bank accounts has become fragmented, though a large measure of control over these finances is still exerted by the Presidential clique.

These loans have had extremely pernicious effects. The Angolan Government has repeatedly mortgaged as much of its future oil production as possible, to provide immediate maximum revenue.

This means that when oil prices are high Angola appears to win twice; not just because of the increased value of its oil exports, which are boosted further by the tax system, but also because a whole new set of loans becomes available. When oil prices are low, the economic situation deteriorates rapidly. First, most of the oil-backed loans are taken out for fixed periods of time, and although some are tied to oil contracts that are 'hedged'—or insured against lower oil prices—others are not, and when oil prices fall, Angola has to increase the quantity of crude oil delivered to ensure it keeps to its repayment terms. So it has to increase the

volumes of oil that are earmarked to repay creditors, leaving very little for government coffers. The result is even less money available for normal government operations than would have been the case just from a simple fall in the oil price. What is more, Angola no longer has access to new loans, because bankers do not want to lend to such an economically unstable country.

Because, at any given time, Angola has mortgaged most of its current revenues, there is very little coming into state coffers apart from a few taxes not eligible for oil financing and revenues from diamonds and a few other enterprises. So, to pay for its operations, the government needs new loans. Effectively, government finances blunder from loan to loan. This makes any effort to institute normal budgetary management, quite apart from the fact that much money is diverted from the budget anyway, impossible. In an era of low oil prices, when no new loans are available, the government has no alternative but to print more of the near worthless Kwanzas to pay its workers; in effect a way of stealing from the poor by devaluing the value of all the local currency held by everyone else in the country.

The severity of this situation from the perspective of the Angolan Government, can be seen from the following quote from the provisional budget document, 2nd April 1999:

“Angola’s access to external financing is almost at its limit... lines of credit from Portugal and Spain are blocked because there is no oil to service them for now, commercial lines of credit are over-saturated, which will prevent them from being used this year.”⁵⁹

Amid low oil prices, it was becoming clear that Angola was in danger of having to renege on some of its earlier oil contracts, because at such low prices it simply did not have enough oil to service the loans that it had taken out earlier. This was a matter of great strategic importance to Angola, because the problem was calling into question the future of its financing arrangements. The only oil-backed loans that could temporarily be suspended were relatively small ones that had been signed with close allies Portugal, Spain and Brazil, which agreed to a temporary suspension of payments for political reasons.

Commercial creditors were not so forgiving. Union Bank of Switzerland (UBS), in particular, which was responsible for a large amount of these pre-financing deals, decided to organise a new loan. This loan would do two things – firstly it would ‘re-finance’ an earlier oil contract (see below) in order to save Sonangol from defaulting, and secondly it would free up extra funds for the government at a time when it was facing an enormous military threat from UNITA. Nervous bankers and oil officials, well aware of the risk posed by UNITA to their large earlier investments, were relatively easily cajoled into joining the syndicate for this huge new loan. In the end it was oversubscribed by some \$75m.

It seems likely that UNITA was aware of the preparations for this loan, and tried to sabotage it. It is possibly no coincidence that a widely publicised but ultimately false report in April that the rebels had acquired MiG aircraft—capable of attacking the MPLA’s oilfields—emerged shortly before the loan was due to be released, thereby delaying its completion.

A loan of \$575m was eventually released in July 1999, with a four-year repayment term. This was probably the longest period of repayment to date for Angolan oil-backed debt that was not specifically linked to the finance of projects in the oil sector. What the ‘re-financing’ portion of the loan effectively did was to stretch out, over a longer time period, the repayment terms for Angola’s earlier debts.

An agreement in March 1999 by OPEC to cut world oil supplies by over 2 million bpd, set the stage for a huge

rebound in world oil prices, and Angola’s finances are now under far less strain. In addition, more money appears to be entering the country’s financial system as a result of a set of liberalising reforms that were implemented in May 1999, in an effort to secure an IMF agreement. As oil prices rose throughout 1999, efforts to implement all of the IMF’s suggested reforms became less of a necessity, hinting at a continuation of the Angolan Government’s lengthy game with the IMF.

Angolan government officials visited Washington in September 1999 and presented an analysis of the oil account, which is believed to have been an improvement on earlier efforts. It remains to be seen whether this will have proved to be transparent enough to convince the IMF to start a ‘staff-monitored programme’ (SMP). Such a programme would involve perhaps six months of close monitoring by the IMF which would then be followed, if all went well, by a full IMF structural adjustment agreement with IMF financing. This could set the stage for a re-scheduling of Angola’s old loans.

It must also be pointed out that by failing to provide correct information to the BNA, Sonangol appears to be acting illegally according to Angolan law, by breaking the terms of its concession agreement.

Under the terms of the foreign exchange regime in the contract for the Cabinda concession, for example, Sonangol’s obligations are as follows:

- Submit plans and budgets to the BNA
- Supply the BNA periodically with copies of the bank statements from all its accounts outside the country
- Supply the BNA with copies of all payments made
- Supply the BNA, at the end of each year, with copies of all fiscal declarations and reports on foreign exchange movements.

It has become clear that this is not happening. To quote an IMF document from December 1995:

“The fiscal implications of the absence of a mechanism ensuring the recording of accounts for government operations related to oil transactions, are perfectly clear in the data uncovered, which show that about 40 percent of estimated expenditure up till September was carried out bypassing the Treasury, largely financed by petroleum revenues that were also outside the Treasury’s purview and as such were likewise not reflected in the budget execution accounts. Besides the so-called petroleum transactions, there was also a high level of expenditures which did not follow the established procedures for executing State expenditures. The mission estimates that the total expenditure outside the normal procedures for Treasury operations amounts to about 64 percent of total expenditure up to September.”⁶⁰

This stance of the government has hardly changed since this statement was made, and another IMF document in 1997 also said that budgetary expenditures carried out outside the formal budgetary system accounted for over two thirds of the total. Another IMF document said in March 1999: ***“It would be important that the authorities ensure that the BNA does not make payments on the government’s behalf without payment orders”***⁶¹

It remains to be seen how thorough the latest audit presented to the IMF turns out to be, and though it is certain that new BNA governor Aguinaldo Jaime has successfully pushed through a number of economic reforms since May 1999, the long history of failed reforms in Angola this decade provokes a large measure of scepticism about the sustainability of such changes.



CREDIT ON TAP...

This section details the most significant loans which have been provided to Angola in recent years. This information suggests that at least US\$2.819 billion have been provided to Angola, much of which is repayable at higher interest rates than those which would be payable with an IMF agreement. It is clear that the companies involved in the loans represent a diverse set of international interests. Governments must move to ensure that future loans are not forthcoming without significant improvements in transparency in the Angolan economy. Given that these loans have played a key role in undermining IMF efforts for transparency in Angola, it is particularly disturbing to note the involvement of the US Ex-Im Bank.

Some, like those provided by the US' Ex-Im Bank, are specifically tied to financing capital expenditure in Cabinda, which produces almost two thirds of Angola's 770,000 bpd output. This is because Sonangol, which has a 41% stake in the joint venture contractor group in Cabinda's producing licence on Block 0, cannot (because of poor planning and management) come up with its share of the costs required of it for new developments under the new joint venture agreement. If there is new work to be done, and paid for, Sonangol insists that the contractor companies which bid for the work must also include a financing package for its 41% share. These loans are invariably paid back in oil. Because the loans that are contracted in this way are considered more secure than loans not tied to any specific project finance, the lenders are usually prepared to consider relatively long repayment terms; six, seven years or more.

Other loans, which are not tied to any particular capital expenditure, are paid through Sonangol directly to the government for its own use. Because they are not considered quite so secure as those tied directly to capital expenditure projects, companies are unlikely to agree to repayment terms of more than three years. The large majority of oil-backed lending to Angola has been in the form of these sorts of loans.

In addition to all the damaging effects of the loans, the interest rates that are charged are relatively high, typically two percentage points above the benchmark London interbank offered (Libor) rate. Though two percentage points does not appear to be particularly bad, it would cost Angola almost \$5m in extra interest on a three-year loan of \$100m, over and above the normal commercial interest that would be charged. These commercial rates in themselves are far above the concessional interest rates that would become

available on loans if Angola was able to institute correct budgetary management and secure an IMF agreement. Assuming an oil price of \$20 per barrel, it is likely that such loans are costing Angola \$50m a year.

The loan details overleaf (see *'An Oil-Mortgaged Future'*) are not exhaustive, and provide only a partial picture of Angola's oil-backed debt. The picture is also very murky, because while some loans involve large quantities of oil, to be repaid over long periods of time under often very complex contracts, some of Angola's oil is also contracted out under smaller, short-term 'forward sales' (whereby Angola receives money for smaller quantities of oil, sometimes on a per-cargo basis), that are going to be 'lifted' or delivered into cargo vessels at some time in the future. Because of the secrecy that appears to surround many such loans, much of this information has not been confirmed by the banks or companies involved. Global Witness criticises Japan's Nissho Iwai in particular for excessive secrecy. If any details in the following table are incorrect, we invite the companies or parties concerned to contact us with the correct information, or to publish it directly.

It is a closely guarded secret how much of Angola's oil is mortgaged into the future. But most oil-backed loans have repayment terms stretching out over three years or less. Though a few smaller loans, linked to financing projects in Cabinda and elsewhere, have repayment terms of up to eight or nine years, they constitute a relatively small part of the loans portfolio. So it appears unlikely that much more than three years' worth of oil is currently mortgaged against these loans. As new fields enter into production, more oil will become available, as will new loans. Bankers are already talking about a number of new oil-backed loans for Angola. Although no clear plans have been set, it is believed that Banque Paribas is at the early stages of trying to secure a new oil-backed loan through the Soyo-Palanca trust, and Nissho Iwai is also considering a new loan. The total value of these two planned loans is believed to be in the order of \$300-450m.² We invite both Paribas and Nissho Iwai to detail their plans for transparency in relation to the loan.

The most important trader involved in Angola is probably Glencore, which linked its contracts to lift Angolan oil with a series of oil-backed loans worth \$900m between mid-1997 and mid-1998. Much of the money from these loans was used to purchase weapons. Other traders active in Angola include: Addax, Attock Oil, Nissho Iwai, Vitol.



Against all the odds and lack of funds—a functioning Angolan school

AN OIL-MORTGAGED FUTURE

1995

● ING Barings—US\$80 million loan, for Nemba field development, Cabinda. Equipment provided by Daewoo Heavy Industries. Loan backed by export credit guarantee from Korea Export Insurance Corporation (KEIC). Loan paid back in oil cargoes.

1996

● Sonangol borrowed US\$310 million bank syndicate, organised by UBS. Repayments in 29 monthly instalments, with six-month grace period, linked to BP contract to lift oil. Interest rate at 2.00-2.15 percentage points above the benchmark 'Libor' rate; fourth UBS arranged loan since 1989.

—Syndicate includes: ABN-Amro, Bayerische Landesbank, Bayerische Vereinsbank, Credit Lyonnais, Credit Suisse, Dresdner Bank Luxembourg, Generale Bank/Belgolaise, HypoVereinsbank, Standard Chartered Bank, UBS, Afreximbank, Societe Generale, Arab Bank, Creditanstalt, Royal Bank of Canada, Sanwa bank. Guarantor is Banco Nacional de Angola (BNA).

1997

● Mid-year—US\$100 million bridge facility provided; wholly underwritten by UBS. To be repaid in oil cargoes.

● August—US\$400 million, again arranged by UBS. Three year repayment term, includes six-month grace period. Interest rate 1.75-1.90 percentage points over 'Libor' rate. Deal linked to an oil contract held by BP Oil international and guaranteed by the BNA. Loan includes hedging mechanisms.

—Syndicate includes: ABN Amro, Absa Bank, Afreximbank, Banco Central Hispanoamericano (BCH), Bayerische Hypotheken, Bayerische Landesbank, Hypo-Bank, Credit Lyonnais, CS First Boston, Dresdner bank Luxembourg, Erste Bank, Generale Bank, Greenwich Natwest, KBC Bank, Natexis Banque-BFCE, Royal Bank of Canada, Royal Bank of Scotland, SG, Standard Chartered, Sanwa, Sumitomo, Arab Bank, Natwest Markets.

● October—US\$75 million loan arranged, again by UBS. Loan is for BNA. Six months repayment, at 2.00 percentage points above 'Libor' rate.

● December—US\$320 million oil-backed financing, originated by Glencore. Involves: BNP, Societe Generale and UBS as co-arrangers.

1998

● Mid-February—US\$ 300 million oil-backed financing arranged by Glencore. Glencore and Sonangol mandated Banque Paribas to arrange the financing. Glencore is the oil offtaker. Sonangol to use the funds for various oilfield works and other activities.

● Early 1998—US\$79 million credit facility, arranged by ING Barings—for work by Daewoo Heavy Industries on production

platform for Cabinda. Export credit cover from KEIC.

—Other lenders in the group: Credit Lyonnais, Credit Agricole Indosuez, MeesPierson, Paribas.

● June—US Ex-Im Bank guarantees US\$87 million loan by SocGen-NY. For support of US\$200 million oil well completion, and remediation services for the Cabinda concession. The financing secured through oil sales, with repayment through offshore 'escrow' account. Funds drawn down through four, one-year periods, with eight-year repayment period for each loan.

● July—Over past year, Glencore has originated at least three loans, including the above-mentioned US\$320 million and US\$300 million loans, as well as a further US\$250 million loans, from Banque Paribas; total value is US\$900 million.



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Average repayment period for these loans is three years. Glencore 'lifts' the oil and pays into offshore 'escrow' accounts, directed to loan repayment. Security is derived from fixed sales term contracts with Sonangol, providing for fixed volumes of oil.

● November—US\$45 million facility arranged by ING Barings, 70% insured by KEIC, covering Sonangol's portion of costs for new water injection platform in Cabinda. Platform construction contract to Daewoo heavy industries. Fully underwritten by ING, Co-arranger Credit Lyonnais. Other lenders in Group: Credit Agricole Indosuez, MeesPierson. Repayment in crude oil over six years.

1999

● May—US\$575 million loan—disbursed in July. To be paid back in crude oil cargoes through the Cabinda Trust. Loan arranged by Warburg Dillon Read, the investment banking arm of UBS—this is UBS' sixth loan since 1989. Four-year repayment period, with interest rates 2.25 to 2.50 percentage points over the 'Libor' rate. A major portion of this loan was used to re-finance an earlier loan (the US\$400 million facility involving BP, August 1997), but some new funds were available, which were routed through Sonangol and the Presidency. The loan guaranteed by BNA.

—Syndicate includes: Paribas, Societe Generale, Erste Bank, Natexis Bank, Bayerische Landesbank, Credit Lyonnais, Standard Chartered, BHF Bank, Standard Bank, Royal Bank of Scotland, Bank Austria Creditanstalt, Bank of Scotland, Banque Cantonale Vaudoise, United Bank of Kuwait, Arab Bank plc, Bank fur Arbeit und Wirtschaft AG, Banco Africano de Investimentos (a private Angolan bank).

● 16th July—US Ex-Im Bank provides US\$64 million direct loan, supporting the sale of equipment and services by Solar Turbines, Inc., San Diego, CA; Halliburton Energy Services, TX; Brown and Root, Inc., TX, and more than 22 other US suppliers. The buyer of the equipment is Cabinda Gulf Oil Company. The borrower is Sonangol. The total price of the export sale is US\$146 million, and the loan is to pay for Sonangol's share. Repayment of financing is through oil sales, secured by Cabinda Trust.

● 24th September—MeesPierson arranges a loan worth US\$134 million: Lenders: JV IHC Calland and Sonangol. Borrowers: Bank of Tokyo Mitsubishi, ING bank, NIB, SE Banken, Bank of Scotland, Banque Artesia, NedShip Bank. This loan is not to be repaid in oil cargoes, but is a more traditional type of project finance. Repayment is to be made over five years. The borrower is a joint venture company, called Sonasing Kuito Ltd., set up especially for construction and involves Sonangol and IHC Calland, a specialist in the leasing of Floating Production, Storage and Offloading (FPSO) platforms. The joint venture company is financed partly through this debt, and partly through equity from the project sponsors. Nissho Iwai is providing equity funding for Sonangol, and in exchange they receive from Sonangol shares in the joint venture company.

In addition to these loans, there are various others that appear to have been contracted:

In 1998, Nissho Iwai provided a \$129m loan for Sonangol, to be paid back in 24 monthly crude oil repayment.

South Africa's Investec has lent the Angolan government \$50m, to be paid back in 13 half-yearly instalments.

HSBC Equator Bank: a \$65m revolving credit (renewable annually) for the Angolan government, to be paid back in oil cargoes.

Paribas also has a \$100m revolving credit facility, valid until 2000, to be paid back in oil cargoes.

Brazil's Petrobras, Spain's Sirecox, Portugal's Petrogal lifts about 20,000 bpd of Angolan oil to repay previous loans.

THE OIL TRUSTS

A significant portion of Angolan Government revenue derived from the oil industry is paid through two main oil trusts; the Cabinda Trust and the Soyo-Palanca Trust.

These trusts serve as offshore accounts; in effect, representing yet another route for Angolan Government revenue to bypass the BNA.

The most important is the Cabinda Trust, which is run by Lloyds Bank in London. This has access to oil from Cabinda's Block 0 concession, currently running at around 480,000 bpd, and repayments through the Cabinda Trust⁶¹ have priority over all other obligations from the Cabinda concession.

Sonangol earmarks the first cargo every quarter to the Cabinda Trust, in order to balance out any imbalances in the Trust. The Soyo-Palanca Trust (SPT) uses oil from other producing areas, most notably Elf's Block 3/85 and Texaco's block 2, which produce around 270,000 bpd between them. Oil from the Cabinda concession not earmarked to the Cabinda Trust can also be used by the SPT.

These trusts provide the benefit of vastly improved information to the potential lender. Though most loans use these trusts to build in extra security, Angola is sometimes able to borrow money against oil that is not earmarked to these trusts. Because of poor information, and the fact that the trusts have priority in repayment, it is risky to lend money backed by money outside of the trusts.

A European banker gave this assessment of the Cabinda Trust:

"The main reason why you do financing in the Cabinda Trust is that you know how far they are leveraged and how far they can be leveraged. If you are financing outside the trust, you need to have the answer to the big questions: how much oil is really available? We have an idea about this but you can never really tell—if you are crazy enough to do a deal outside the trust, and with limited information, you are asking for trouble."⁶²

EXPORT CREDIT GUARANTEES

Oil companies, as for any private business, have a duty to their shareholders to reduce the risk of any large-scale investments. For this reason, oil companies are keen to obtain national export credit cover for investment in Angola. It also follows that a major increase in transparency would be a better way to reduce this risk.

Export promotion departments of international governments provide both export credit cover and also direct overseas Embassy facilitation for companies wishing to do business. This assistance can be crucial, if companies are to obtain the correct business deal. Given this key role, it is clear that Embassies in Luanda should desist from providing business assistance to their national companies, unless these companies adopt a policy of 'full transparency'.

The UK does not currently provide export credit cover for Angola, though an application from a British consortium is currently being considered. Unlike the other countries that do provide cover for Angola, the UK's decision is influenced not only by the standard risks associated with Angola, but also by human rights considerations and assessments of government economic policies.

Companies wishing to do business in Angola face large risks, which translate into significant extra costs when financing is being sought for their investments. Oil companies by nature are risk-takers, and they are prepared to bear the political and other risks associated with operating in such difficult environments. They are prepared to provide significant financing from their own company balance sheets, often without recourse to external financing.

Some companies have the support of their country's respective export credit agencies, which effectively provide government risk insurance for the cover being provided. Export credit cover is currently available from the US Ex-Im Bank (since 1980), France's Coface export credit agency, South Korea's Korea Export Insurance Corp., and Italy's SACE. Almost all of this cover depends on 'secure financing arrangements', which means, in this case 'oil-backed loans'. Export credit cover might take the form of direct loans, which have periodically been provided by the Ex-Im bank, for example, or in the form of loan guarantees for commercial bank loans. Cover from, say Coface, would depend on a large proportion of the work being financed being carried out by French companies.

An everyday search for food in Luanda



THE ROLE OF THE OVERSEAS PRIVATE INVESTMENT CORPORATION (OPIC) IN ANGOLA'S OIL DEBT FIASCO

The US Overseas Private Investment Corporation (OPIC) was created by President Richard Nixon to promote business development in the third world rather than through traditional direct aid programmes. OPIC is an agency of the federal government, providing loans and political risk insurance backed by full faith and credit of the United States to American corporations for overseas investments. Political risk insurance covers expropriation, currency inconvertibility, and political violence. OPIC has a history of supporting environmentally destructive projects such as the Freeport McMoran mine

in Irian Jaya in the early 1990s and uncontrolled logging projects in Russia.⁶³

Currently there are no bilateral investment treaties between the United States and the Republic of Angola. Unsurprisingly, the pace of investment has increased dramatically in the last three years due to the giant offshore oil discoveries and Angola and the United States signed an OPIC Investment Guarantee Agreement in 1998. However, as this report has indicated there is considerable evidence that the terms and conditions needed for OPIC backing are currently not present in Angola, and once again it appears that corporate and national interests are being placed before the legally binding and declared terms of OPIC involvement.

“OPIC supports, insures and finances investment projects with substantial US participation that are financially sound, promise significant benefits to the

social and economic development of the host country and foster private initiative and competition. OPIC will not support projects that could result in the loss of US jobs, adversely affect the US economy or the host country's development or environment or contribute to violations of internationally recognized worker rights.”⁶⁴

Whilst one cannot disagree that there is significant US participation in Angola's oil industry, there is serious doubt as to whether the oil supported projects are 'financially sound'. Furthermore, it is certainly questionable whether these projects offer **“..significant benefits to the social and economic development of the host country..”**

The OPIC guidelines go on to state that they **“do not support projects that involve illicit payments. OPIC insurance and finance**

documentation requires representations and covenants from their investor regarding compliance with applicable corrupt practices laws.”

This investment ideal would seem to clash with an official statement (reached through a hyperlink on the OPIC website) of the investment climate in Angola by the Trade Information Centre of the US Government, where it states:

“...there are serious and continuing problems with corruption at all levels in Angola. Solicitation of bribes is common and blatant. Little has been done to curb such activity...Corruption also arises from a lack of transparency in the budget process, including poor accounting of petroleum income, off-budget inflows and outflows of funds and ministry procurement orders outside official channels.”⁶⁵

NORWAY: THE CASE FOR POSITIVE USE OF OIL WEALTH

Whilst it is not suggested that a policy of 'full transparency' will immediately deliver the same economic benefits that exist in Norway, there are aspects to Norway's deployment of its oil revenue which could be of great assistance for the reconstruction and future positive development of Angola. It therefore seems appropriate to briefly examine some of the key points in Norway's oil history:

In 1962 oil was discovered in the North Sea. Norway was immediately faced with a petrodollar bonanza and the government was able to implement its three main objectives of full employment, greater equality through redistribution of wealth, and expansion of the welfare state. It increased spending on social services, pensions, and public employment.⁶⁶ It also granted huge subsidies to agriculture⁶⁷ and industry, and real wages rose by about 25 percent from 1974 to 1977.⁶⁸

Probably the most enlightened accomplishment of Norway regarding its oil bonanza was the creation of a 'petroleum fund', which was set up to store wealth for when its oil starts to run out. This fund currently stands at US\$23.4 billion⁶⁹ and the government has mandated to use it on ethical and environmental projects. The creation of such a fund, at the behest of the oil multinationals and international financial institutions in Angola, and other oil-rich developing countries, would represent a considerable advancement for the promotion of good governance, transparency and accountability.



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CONCLUSION

Angola has suffered conflict for three decades. From the liberation struggle against the Portuguese colonial power, the war became another of the cold war's side-shows. Two efforts for peace have since failed and now the war has taken on an additional dimension—the pursuit of profit by those who really count in the political hierarchy; in essence a conflict of interest.

Since 1992, the international community has failed to adequately foster peace, which has resulted in the almost total destruction of Angola's infrastructure. A 'peace-on-the-cheap' approach has been used. On the one hand, efforts to pressure UNITA to the negotiating table were hindered through both ill-thought out sanctions regimes and their lack of deployment (both now finally improving), whilst international governments pursued the ever greater potential of Angola's vast oil reserves, ignoring an emerging clique of corrupt power brokers in Luanda.

All this has cost Angola and her people dearly. Angola could be one of the richest countries in Africa. Over the past 25 years, and especially during the 1990s, it has become a totally destroyed country with massive food problems. In Kuito, Malange and other cities, people have starved to death, with vast numbers suffering severe malnutrition.

Whilst it may be true that either the MPLA government, or UNITA might desire an overall victory, given that the war has lasted for so long, this seems unlikely. In the meantime, Angola's economy is being cynically managed for personal gain by those individuals and their shady businessmen entourage at the expense of the Angolan population.

What should be done about the situation? First, the international oil companies which are profiting from the Angolan people's main national resource, the international banks which have arranged short-term loans at exorbitant interest rates and the national governments which assist such business arrangements must accept their responsibility in actively seeking to address Angola's human development needs. If not, they must accept that they are complicit in this

situation. Collectively, they are the source of the vast disappearing revenues, which are the driving force behind the continuation of war.

It is time for a radical rethink in international business practice. The oil industry claims that it does not get involved in politics; its conduct is generally shrouded in secrecy, due to competition and 'corporate confidentiality'. Whilst these claims may have a modicum of merit, they are also an excuse to do nothing. The fact is that by conducting 'business as usual' in a country such as Angola, these companies are, whether they like it or not, already involved in politics.

As such, Global Witness is challenging the oil industry, lending banks and the national governments involved to change their policies. It is simply not good enough to continue in the same vein, so we are challenging the oil industry to adopt a policy of 'full transparency'. In addition, the oil industry needs to adopt a common strategy, together with the IMF, the World Bank and the international community (especially those governments with a history of promoting their oil interests), to insist that the Angolan Government becomes fully accountable to its people. Finally, international commercial banks which have provided vast loans that have been used to purchase weapons, often through mafia-style individuals and 'companies' and for kickbacks, should desist in providing further loans. Such a loan embargo should remain until such time as the Angolan Government adopts radical improvements in transparency.

If those involved fail to change their practices, then they may be seen to be complicit in the continuing war in Angola and the suffering of vast numbers of Angolans. Furthermore, it will clarify that in the case of Angola, both the Angolan people and the international tax payer through their contribution of emergency assistance to the Angolan people, are subsidising the profits of the international oil companies. In the western democracies, such a concept is politically untenable.

**Savimbi and
dos Santos
negotiate**



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