



Thirst for African Oil

Asian National Oil Companies in Nigeria and Angola

A Chatham House Report

Alex Vines, Lillian Wong, Markus Weimer and Indira Campos



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Charity Registration No. 208223

ISBN 978 1 86203 220 0
A catalogue record for this title is available from the British Library.

Designed and typeset by Soapbox Communications Limited
www.soapboxcommunications.co.uk

Printed and bound in Great Britain by Latimer Trend and Co Ltd

The material selected for the printing of this report is Elemental Chlorine Free and has been sourced from well-managed forests. It has been manufactured by an ISO 14001 certified mill under EMAS.



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Preface

Much has been written about China in Africa over recent years and an increasing literature is emerging about India. This Chatham House report is different in that it focused on rivalries among Asians for African oil in two countries. The report complements research already completed on Asian national oil companies (ANOCs) by Keun-Wook Paik, Valérie Marcel, Glada Lahn and John Mitchell of Chatham House's Energy, Environment and Development Programme.¹

This research is designed to mark the first stage of a wider project, looking at the impact of Asian oil efforts in Africa and the response of host governments and non-state actors, especially civil society.

The research on Nigeria (Part 1 of this report) was mostly conducted by Lillian Wong and draws largely on Nigerian government official documents (not in the public domain), library research and over sixty confidential interviews with a broad range of senior Nigerian government officials, including cabinet ministers past and present, presidential advisers, members of the National Assembly, oil industry personnel, domestic and foreign,

Nigerian civil society and local energy correspondents, and diplomatic missions in Abuja, both bilateral and multilateral. Most interviews were conducted in Nigeria in January, May and October 2008. Given the political and commercial sensitivity of this subject, all interviews were conducted under the Chatham House Rule of confidentiality. No interviewee is cited by name.

The fieldwork for research and writing on Angola (Part 2 of the report) was undertaken by Alex Vines with assistance from Markus Weimer and Indira Campos. The Angola research benefited from four trips to the country in September–October 2007, January 2008, May 2008 and March 2009. Representatives from a variety of organizations were interviewed, including Angolan officials, NGOs members, oil company personnel, business people and Chinese, Indian, Japanese and South Korean officials. Many interviews were conducted under the Chatham House Rule.

Research and publication were funded by a grant by the New York-based Revenue Watch Institute. Two Angola field trips were also assisted by small grants from the Rockefeller Foundation via the Center for Strategic and International Studies (CSIS) in Washington, DC in late 2007 and from USAID in 2009 to enable participation at a 'China in Africa' conference at the Catholic University in Luanda, in March 2009. CSIS published a working paper on Angola–China relations in March 2008 as part of this field research.²

The opinions cited in this report are not those of Chatham House, nor of the institutions of the interviewees. The contents of this report are the responsibility of the authors and any mistakes or omissions are entirely their own.

1 John Mitchell and Glada Lahn, *Oil for Asia*, Chatham House Briefing Paper, EEDP BP 07/01, March 2007; Glada Lahn, 'Trends in Asian NOC Investment Abroad: An Update', Chatham House Working Paper, November 2007.

2 See Indira Campos and Alex Vines, 'Angola and China: A Pragmatic Partnership', Working Paper presented at a CSIS conference on 'Prospects for Improving US–China–Africa Cooperation', 5 December 2007, published as a CSIS Working Paper, March 2008.

Abbreviations and Acronyms

AfDB	African Development Bank	GRN	Gabinete de Reconstrução Nacional – Office for National Reconstruction (Angola)
Ajex	Ajoco Exploration Co.	IMF	International Monetary Fund
Ajoco	Angola Japan Oil Co.	IOCs	International Oil Companies
ANOCs	Asian national oil companies	Japex	Japan Petroleum Exploration Co., Ltd
BP	British Petroleum	JNOC	Japan National Oil Corporation
CCB	China Construction Bank	Libor	London Interbank Offered Rate
CFM	Caminhos de Ferro de Moçamedes – Moçamedes Railways	METI	Japanese Ministry of Economy, Trade and Industry
CIF	China International Fund, Ltd.	Moeco	Mitsui Oil Exploration Co.
CMEC	China National Machinery Import and Export Corporation	MOFCOM	Chinese Ministry for Foreign and Commercial Affairs
CNOOC	China National Offshore Oil Corporation	MPDC	Mitsubishi Petroleum Development Co. Ltd
CNPC	China National Petroleum Corporation	MPLA	Movimento Popular de Libertação de Angola - The Popular Movement for the Liberation of Angola
CSIH	China Sonangol International Holding Ltd.	NGOs	Non-governmental organizations
CSIL	China Sonangol International Limited	NOCs	National oil companies
CSRC	China Securities Regulatory Commission	NPDC	Nigeria Development Petroleum Corporation
EITI	Extractive Industries Transparency Initiative	NORINCO	China North Industries Corporation
EU	European Union	ODA	Official Development Assistance
EximBank	Export-Import Bank	OECD	The Organisation for Economic Co-operation and Development
FDI	Foreign direct investment	OMEL	ONGG Mittal Energy Ltd
FNLA	Frente Nacional de Libertação de Angola – The National Front for the Liberation of Angola	ONGC	Oil and Natural Gas Corporation
GALP	Petróleos e Gás de Portugal SGPS, S.A	OPEC	Organization of the Petroleum Exporting Countries
GAT	Gabinete de apoio tecnico de gestão da linha de crédito da China – Technical Support Office for the Management of the Chinese Credit Line	OVL	ONGC Videsh Limited
		PSA	Production-sharing agreement
		RITES	Rail India Technical and Economic Consultancy Services Limited
		SGPS	Sociedade Gestora de Participações Sociais – Holding Company
		Sinopec	China Petrochemical Corporation
		SMP	Staff-Monitored Programme
		Sonangol EP	Sonangol Exploration & Production
		SSI	Sonangol Sinopec International Ltd.
		TAAG	Linhas Aéreas de Angola – Angola Airlines
		Unipex	China International Petroleum & Chemicals Co., Ltd
		UNITA	União Nacional para a Independência Total de Angola – National Union for the Total Independence of Angola

Executive Summary

This Chatham House report provides a comparative study of the impact of Asian companies on the two leading oil-producing countries in sub-Saharan Africa, Nigeria and Angola, and shows the very different fortunes of Asian oil companies in these countries.

The report shows that Asian companies that gained a foothold in the Nigerian oil sector in return for their commitments to invest in downstream and infrastructure projects failed to understand the political context of the time.

The report considers why, in contrast, the Chinese oil strategy has been so successful in Angola to the detriment of other Asian national oil companies (ANOCs) and international oil companies (IOCs); how Angola emerged as the second largest supplier of oil to China in 2008; how Chinese oil companies have negotiated deals; and what the benefits are for Angola. China's experience is compared with those of India, South Korea and Japan. Some of the less noted aspects of the Chinese–Angolan relationship are also highlighted, including issues of transparency and corruption, as well as Angolan strategies *vis-à-vis* Asian (and other) countries.

There are several lessons to be learned from this comparative study. Neither Nigeria nor Angola fits into the stereotype of weak African states being ruthlessly exploited by resource-hungry Asian tigers. The failure of the oil-for-infrastructure deals in Nigeria was due to the failure of

the Obasanjo government to manage the scheme, whereas Angola has been much more successful in managing its relationships with China and its oil companies, as well as the Angolan version of the oil-for-infrastructure scheme.

This is partly explained by politics: President José Eduardo dos Santos celebrates his thirtieth year as President of Angola in 2009; in stark contrast, Nigeria has had eight different leaders during those thirty years.

This is about more than predictable politics, however. For some years, Asia has sourced oil from Nigeria and Angola through various contracts or even on the spot market, but from 2004/05, Asian companies have begun to secure oil blocks in both countries. It is this new development that the report examines, especially the use of oil-for-infrastructure deals – ‘Angola mode’ as the World Bank calls it. The report maps Asian efforts in both countries in recent years. The introduction and overview looks at recent developments, especially in Nigeria where a change of government in mid-2007 has resulted in reappraisal of contracts awarded under the previous government and especially those awarded using the principle of Right of First Refusal during the 2005 bidding round. China's Sinopec may have drawn lessons from this experience; it has dug into its deep pockets, acquiring oil blocks by buying out Western IOCs, such as Addax and Devon Energy, or some of their assets, directly or through joint ventures in 2008 and 2009.

Understanding the intricacies of doing business in Nigeria and Angola, whether in the oil sector or beyond, is critical for the success or failure of any venture. India and Japan both also seem more risk-averse and more cautious about spending public money than China, and South Korea has been badly frustrated in Nigeria and has turned to the courts. The report highlights the need for more case-studies on the subject of Asian involvement in individual resource-rich African countries in order to better understand such nuances and the way African host governments respond.

Introduction and Overview

This Chatham House Report provides a comparative study of the impact of Asian oil companies on Nigeria and Angola, the two leading oil producers in sub-Saharan Africa. While there is an abundance of literature about the renewed interest by Asia in Africa's resources, individual case studies assessing Asian competition are scarce and comparisons even rarer. This report describes the Asian presence in the oil sector in Nigeria and Angola, sets the political contexts essential to understanding the relationships and assesses the outcomes in both countries. It also exposes the flaws in many general assumptions about Asian engagement with Africa.

Asian countries, like their Western counterparts, have been seeking to diversify their sources of oil to lessen their dependence on the volatile Middle East. For some years, Asia has sourced oil from Nigeria or Angola, either on government-to-government term supply contracts or through the intermediary of oil traders with lifting quotas, or even occasionally by buying on the spot market. In 2008, India imported just under 10% of its requirements from Nigeria, its sixth largest supplier of crude oil, while China imported around 16% of its oil imports from Angola, its second largest source of crude oil. But what is new and significant is that from 2004/05 some Asian oil companies began to secure oil blocks in both Nigeria and Angola. It was this development that caused domestic controversy in both countries and raised concern in Western

capitals. This report shows that the fortunes of Asian oil companies in Nigeria and Angola have been different. In Nigeria, President Olusegun Obasanjo (1999–2007) actively sought Asian players from China, India, South Korea and others to acquire oil blocks in Nigeria in return for their commitments to invest in downstream and infrastructure projects – overall projects valued at some US\$20 billion were promised. The Asians were offered preferential terms. They took the bait. 'We salivated in anticipation of what could be off the shores of Nigeria,' India's former Minister of Petroleum admitted.³ But the Asian companies that gained a foothold in the Nigerian oil sector under these terms failed to understand the political context of the time. And, crucially, there were no follow-up mechanisms to enforce the deals. These factors compromised the whole 'oil-for-infrastructure' scheme from the start and led to its ultimate failure. The estimated US\$7.22 billion acquisition in June 2009 of Addax by Sinopec may be a better strategy for Asian companies in Nigeria: to buy out existing producers rather than engaging in cumbersome and protracted oil-for-infrastructure deals.⁴ Out of the 137,000 barrels produced per day by the group in 2008, over 65,000 were pumped in Nigeria.

In Angola, by contrast, China has so far crowded out the other Asian would-be players for many reasons and despite having originally supported the current government's opponents during the country's long civil war. India, which established diplomatic relations with Angola in 1975, has yet to obtain a foothold in the country's oil industry. Japan, the world's second largest oil importer, has held Angolan oil equity since 1986 but it too has failed to increase its Angolan oil assets. The first major factor in the success of Chinese oil strategies in Angola is the interlinking of business and diplomacy. Business vehicles established by Hong Kong-based private business interests in partnership with the China Petroleum & Chemical Corporation (Sinopec), and the Angolan national oil company, Sonangol, have served the Chinese well in building up a portfolio of joint ventures with the Angolan leadership that have extended

³ Mani Shankar Aiyar, 'From Yesterday to Tomorrow', *Africa Quarterly*, vol. 48, no. 1, February–April 2008, p. 28.

⁴ An Angolan–Chinese joint venture involving Sinopec, China Sonangol (discussed at length in Part 2 of this report), also acquired Devon's share of ultra-deepwater Block OPL 256 in 2008.

beyond oil to construction, aviation and real estate across the world. Secondly, in contrast to the reluctance of Western donors to finance Angola's essential post-war reconstruction or support an international donors conference, China was quick to provide oil-backed loans for that purpose. By 2009, China had facilitated loans to Angola amounting to at least US\$13.4 billion (or, according to some estimates, up to US\$19.7 billion). President José Eduardo dos Santos visited Beijing twice in 2008, underlining the importance of this relationship for Angola. In return, China's Sinopec group initially obtained oil equity through the Sonangol Sinopec International (SSI) business vehicle in a valuable deepwater block, operated by BP, against Indian competition, and later obtained equity stakes in three further offshore blocks. The World Bank has called this the 'Angola mode'.

Recent developments

Since the fieldwork for the Nigeria study was completed in November 2008, there has been an important development. In December 2008, the Nigerian government revoked the allocation of two valuable offshore oil blocks that had been awarded in 2005 to South Korea's national oil company, KNOC, on the grounds that it had not paid the full signature bonus. This decision was made public in January 2009. KNOC's partner in the two blocks, Equator Exploration, remains unaffected – and it had paid its full share of the signature bonus. The Nigerian case-study had highlighted that the revocation of Asian oil blocks acquired under the 'oil-for-infrastructure' scheme was highly likely. An Ad Hoc Committee of Nigeria's House of Representatives had recommended in the autumn of 2008 that all oil blocks so awarded to Asian companies should be cancelled. It argued that the introduction of the principle of Right of First Refusal (RFR) a mere week before the 2005 bidding round took place compromised both the fairness and the transparency of the auction. The committee laid the blame for the last-minute introduction of this principle on President Obasanjo himself, who acted simultaneously – but contrary to the constitution – as Petroleum Minister. Subsequent and separate investigations by the successor government also concluded that the manner in which the blocks had been allocated in 2005, 2006

and 2007 had been irregular. The government of President Umaru Yar'Adua has since decided to abandon the RFR principle.

‘ This saga illustrates both how poorly Nigeria manages relations with its business partners and how political considerations interfere with commercial decisions in the vital oil industry ’

In any case, KNOC's position had been precarious for some time. Earlier in 2008, the government withdrew the blocks from KNOC but later changed its mind. It has since reverted and revoked the allocation of the blocks. In an extraordinary move Nigeria promptly offered the two blocks to India. Given the Yar'Adua government's oft-stated attachment to transparency and the rule of law, this seemed a curious decision. Logically it would have been more appropriate to put the two blocks back in the basket for a future bidding round. But in 2005 a powerful politician in Nigeria's ruling party had promoted the interest of India's national oil company, ONGC, in the two blocks against KNOC. Although ONGC had been expected to win the blocks, KNOC invoked its RFR under an oil-for-infrastructure deal with President Obasanjo, and was awarded them. Informed sources confirm that the same political figure has now wielded undue influence on the government's decisions with respect to the fate of the two blocks. Meanwhile KNOC has taken legal action. Lawyers for ONGC appeared in court in March 2009 as co-defendants with the Nigerian government against KNOC's challenge. The court ordered the government to temporarily postpone its decision until a full hearing is held. But in the interim, Nigeria's Attorney-General had instructed the Department of Petroleum Resources (DPR), which handles bidding rounds, to refund money paid on the two blocks. KNOC lawyers have argued that the revocation notice did not follow the due process of law, adding that 'the revocation of our licence is politically motivated'.⁵ It is unclear what the outcome

⁵ 'S. Korean company in court over Nigeria oil blocks', Reuters, 25 March 2009.

will be, although in August 2009 a Nigerian federal court ruled that the government had illegally revoked the offshore oil exploration rights from KNOC. This saga illustrates both how poorly Nigeria manages relations with its business partners and how political considerations interfere with commercial decisions in the vital oil industry.

While no Chinese or Indian oil blocks acquired in 2005 and 2006 on RFR terms have been similarly revoked to date, the threat remains because the Asian companies have not kept to their side of the bargain. None of the infrastructure projects linked to the acquisition of oil blocks have got off the ground. Nigeria's failure to put in place a formal mechanism to enforce these deals, combined with hidden political agendas, largely explains this outcome. Even where some follow-up work had been done, the new government has stepped in to cancel a number of contracts, often hastily awarded by the Obasanjo government, because they were deemed not to be in the national interest, or because the costs were discovered to be highly inflated. A Chinese contract for the Lagos–Kano railway is one of many examples of such cancellations cited in this report.

The contrast with the Chinese experience in Angola is dramatic. The Angolan government ensured that commitments were honoured. Politically, it wanted to demonstrate to the Angolan people that it could – in peacetime – deliver development, particularly ahead of the 2008 parliamentary elections. It did not waste the opportunity provided by the Chinese credits. The report lists a broad range of projects either completed or ongoing. China, in turn, was rewarded with equity in a number of oil blocks and is thirsty for more. Angola has managed its relations with China with due attention to detail, always remaining in the driving seat, and changing the parameters as necessary from its own strong negotiating position. Although allegations of diversion of some Chinese credits have surfaced, in general Angola has benefited from its partnership with China. Recent developments show Chinese national oil companies acquiring yet more acreage off Angola, with Marathon Oil selling 20% of its interest in Block 32 to CNOOC and Sinopec for US\$1.3 billion. This move is reminiscent of Sinopec's acquisition of Addax in Nigeria, and may signify a saturation of the Angolan market as it becomes viable to buy out existing players rather than nurture relationships from an uncertain baseline.

Lessons

There are several lessons to be learned from this comparative study.

- Neither Nigeria nor Angola has relations with Asian countries that fit the stereotype of weak African states being ruthlessly exploited by resource-hungry Asian tigers. In Nigeria's case, the Asian-tiger stereotype was turned on its head as a cash-hungry political class sought to profit from its Asian partners' thirst for oil. In Angola, by contrast, the relationship with China was nurtured with care and grew steadily in a pragmatic but disciplined way to the mutual advantage of both countries.
- It is not possible to generalize about the impact of Asian oil companies in Africa, but it is clear that vastly different political cultures and practices have a strong bearing on determining impact and outcomes. While Nigeria was playing politics with its Asian partners, Angola was driven by economic necessity to quickly access funds to finance its post-war recovery. Nigeria simply lacked the imperative. As a result, the oil-for-infrastructure concept worked in Angola but not in Nigeria.
- Many of the general assumptions about Asian involvement in Africa need to be revisited. The failure of the oil-for-infrastructure deals in Nigeria was not due to chicanery by the Asian oil companies but rather to the failure of the Obasanjo government to manage the scheme. By contrast, Angola has on the whole managed its relationship with China and its oil companies to its benefit in spite of occasional hiccups along the way. With less of a political agenda, Angola's version of the oil for infrastructure scheme has been much more successful for both sides.

In spite of fears expressed in Western capitals about an Asian takeover in the Nigerian and Angolan oil sector, the reality is different. These fears were highly exaggerated.

Asian companies are latecomers to Western Africa. Except for Japan, they only acquired equity participation in both countries in the last five years. More importantly, the oil majors remain the leading players in both countries. They dominate production and hold the majority of reserves. What is clear from this report is that there is a growing fatigue among Angolan officials about the West's fixation with China's engagement with Angola. There has been less anxious comment about the Asian entry into Nigeria's oil sector, partly because the international oil companies have never seen the Asians as a threat to their interests, given the small number of blocks awarded to them. Nevertheless, they have welcomed the removal of the RFR scheme which had been designed largely to benefit the Asian companies.

In some quarters, including in the NGO community, there has been a tendency to place too much emphasis on the size of signature bonuses paid by Asian players, particularly China, in African oil economies. While examples are given in this report of record signature bonus payments for securing oil blocks in both Angola and Nigeria, these sums are small in relation to the subsequent huge costs of exploration and development of an oil field.⁶

Of greater interest is the growing competition between China and India, or indeed between rival Chinese companies, in both Nigeria and Angola. China's deeper pockets have certainly put a brake on India's ambitions. But this report points out a qualifying factor – that India is both more risk-averse and more cautious about spending public money than China. In India's democracy the government is more accountable to its electorate than China's is to its people.

Understanding the intricacies of doing business in Nigeria and Angola, whether in the oil sector or beyond, is critical to the success or failure of any venture. It is generally recognized that both countries pose challenges for new players. In Nigeria, the Asian oil companies failed to understand the intricate politics or indeed the hidden political agendas that had first driven the Obasanjo government to seek an Asian presence in the oil sector. China found it easier to come to terms with the Angolan system, which is characterized by a strong, long-established and stable central government and a functional oil company, Sonangol, with which it could do business. The country has been ruled by the same political party since independence and had the same head of state for three decades, leading to a greater policy consistency. Nigeria's national oil company, the Nigeria National Petroleum Corporation (NNPC), by contrast, is dysfunctional and has been used by successive Nigerian leaders as little more than a 'cash cow'. Moreover, frequent changes between civilian and military rule in Nigeria have led to inconsistency, uncertainty and confusion. In addition, there is a marked contrast in the business environment between the two countries. In Nigeria, insecurity and instability from militant action against oil installations in the oil-producing region of the Niger Delta has frequently interrupted production, whereas in Angola oil continued to flow uninterrupted throughout the war. A South Korean official summed up this contrast well: 'In Nigeria we found that a change of government results in a change of business partners. Angola's President dos Santos has been in power for almost 30 years and so change is very slow. It's more difficult to get a foothold in Angola, but we now believe safer and more profitable in the long term.'⁷

⁶ And at least both Nigeria and Angola now publish details of signature bonuses as a small step towards transparency in the oil sector.

⁷ Interview with South Korean official, Seoul, 5 September 2008.

Part 1

Asian National Oil Companies in Nigeria

Lillian Wong

1.1 Introduction

The recent entry of a number of Asian national oil companies (ANOCs) into Nigeria has proved to be controversial, but not for the usual reasons. It is not their entry *per se* which has caused concern but the manner in which it was achieved. The former head of state, President Olusegun Obasanjo, came up with an initiative to entice NOCs from China, Taiwan, India and South Korea to acquire oil blocks for the first time in Nigeria. But the arrangement was clumsy. The ANOCs were given the Right of First Refusal (RFR), and discounted signature bonuses on a number of oil blocks in return for their commitment to invest in downstream and infrastructure projects. The concept of the 'oil-for-infrastructure' deal was novel but its introduction compromised the much-proclaimed transparency of the oil licensing rounds of 2005, 2006 and 2007.

The international oil companies (IOCs) that were Nigeria's traditional partners expressed their concern about the scheme, arguing that it tilted the playing field against them. Indigenous players also grumbled, as did local oil industry professionals. Bureaucrats responsible for implementing this new policy were sceptical from the start that the deals could be enforced. Western countries, worried about Asia's heightened search for oil and other minerals in Africa, concluded that the ANOCs' entry into Nigeria was a further example of this trend. But that view missed the point. The initiative came entirely from Nigeria, and from President Obasanjo himself, not from Asia. Nigeria defended the deals, arguing that they would bring a 'development dividend'. Asian governments were quick to see the value of this novel arrangement. Not only

would they acquire oil blocks to enhance their energy security, but their companies would win large contracts into the bargain. Both sides believed this was a 'win-win' situation.

President Obasanjo left office in May 2007 on the expiry of his two-term limit. His successor, President Umaru Yar'Adua, spent his first 18 months in office taking stock. In the course of this, many decisions of the Obasanjo era were reversed or cancelled, either because they were deemed not to be in the national interest or because of the discovery of large-scale corruption in the execution – or often the non-execution – of projects.

One of the subjects still under review is the 'oil-for-infrastructure' deals made with the ANOCs. It is clear that three years down the line, there is still nothing on the ground to show for the generous treatment given to the ANOCs. At the very least, all projects are on hold. There is a strong possibility that the deals will be cancelled in their entirety and the allocation of oil blocks revoked. This would be a clumsy solution to a messy problem, with diplomatic and political consequences. But the Yar'Adua government has concluded that the whole arrangement was compromised from the start by the absence of transparency and due process, compounded by corruption.

There is a widespread perception in Nigeria that the timing of the deals had a strong political undertone. This adds an important dimension to the story. The unspoken need to generate funds for President Obasanjo's (ultimately unsuccessful) bid to change the constitution to allow him to run for a third term is seen as the key to the unravelling of the deals. There are credible reports of large sums paid to President Obasanjo to support an extension of his tenure by certain beneficiaries of the 'oil-for-infrastructure' deals. It is also believed that officials who negotiated the deals compromised the arrangement by putting personal profit above the national interest.

Even if the deals are not entirely cancelled, it is certain that the Nigerian government will abandon this approach in future bidding rounds. Instead, the ANOCs will have to compete on equal terms and in a transparent process with all other bidders for oil blocks. And,

according to Asian diplomatic sources, that is what they would prefer. The ANOCs got unwittingly caught up in a classic Nigerian web of political intrigue and corruption. Now they

may have to pay the price for their naivety. Two major projects linked to the oil-for-infrastructure deals were cancelled in May and June 2008. The whole scheme started to fall apart.

1.2 Nigeria's Attractiveness for the Asian National Oil Companies

Given Nigeria's important position in the global oil market, and Asia's thirst for oil, it may seem surprising that the ANOCs did not show an earlier active interest in acquiring oil blocks in Nigeria. After all, Nigeria has been an oil producer for fifty years, and a producer of gas, exported as liquefied natural gas (LNG) since 1999. The statistics speak for themselves. In 2006, Nigeria produced 3% of the world's crude at an average of 2.4 mbpd, making it the twelfth largest oil producer, and the seventh largest oil exporter.⁸ Within Africa, it has long been the top producer. Its known reserves, standing at 36.2 billion barrels in 2006, placed it in ninth position worldwide. The high quality of Nigerian crude – light, sweet with a low sulphur content – makes it a prized commodity for refineries in the Atlantic Basin – and in Asia.

Until 2005/06, Asian countries preferred to access Nigerian crude either through oil-lifting contracts or through buying it on the spot market rather than through direct investment. India, for example, still imports 12% of its oil from Nigeria on a long-term supply contract. The amount was raised from 44,000

bpd to 60,000 bpd in a new supply contract signed during the visit of Indian Prime Minister Manmohan Singh to Nigeria in October 2007.⁹ The main client is the state-owned Indian Oil Corporation which owns and operates 10 of India's 19 refineries, and until recently was the monopoly importer of crude. For China, Sinopec performs the same function as an oil trader and the country's leading refiner. Until the recent sharp downturn in Nigeria's production owing to militant activity, Sinopec has had annual contracts with the Nigeria National Petroleum Corporation (NNPC) to supply 100,000 bpd while PetroChina has had annual contracts worth some 30,000 bpd.¹⁰

The Asian presence in Nigeria

Although Asian countries are latecomers to the oil sector in Nigeria, several have long had a significant commercial presence there. In the wider economic context, therefore, Nigeria is not virgin territory for them. South Korea, India and China, the three countries which have recently acquired oil blocks, have long penetrated the Nigerian market, the largest in Africa, with the diplomatic, political and financial support of their governments.

South Korea

Nigeria is now South Korea's third largest trading partner and the largest market in Africa for Korean construction companies. As of January 2006, Korean companies were involved in 60 projects valued at US\$4.6 billion. This represented 75% of all construction contracts won by South Korea in the entire African continent.¹¹ In March 2008, Hyundai won a contract, valued at some US\$1.6 billion, for the construction of a massive FPSO (floating, production storage and offloading) vessel for Total's Usan oilfield in the eastern part of the deepwater Niger Delta.¹²

8 *BP Statistical Review of World Energy, 2007.*

9 *The Economic Times (India), 7 November 2007.*

10 *APS Review, Oil Market Trends, 13 August 2007.*

11 *Korean Overseas Information Service, March 2006.*

12 *Business Day (Nigeria), 4 March 2008.*

High-level visits have ensured a deepening of the relationship. President Obasanjo paid an early state visit to South Korea in July 2000; President Roh Moo-hyun paid a reciprocal visit in March 2006, and the Nigerian President visited Seoul again in November 2006.

India

India, as a fellow Commonwealth country, has long enjoyed strong links with Nigeria. Nigeria is India's largest trading partner in Africa – bilateral trade was valued at nearly US\$8 billion in 2006/07. Oil constituted some 95% of Indian imports from Nigeria. A host of Indian companies have sizeable investments (the first dating from 1923) in textiles, chemicals, electrical equipment and many other areas. Nigeria is the largest African destination for Indian manufactured goods and it imports more pharmaceuticals from India than any other African country. The Indian community in Nigeria is some 30,000 strong.¹³

Official visits have reinforced the strong commercial relationship. President Obasanjo paid a state visit to India in January 2000 and a working visit in November 2004, while Prime Minister Singh paid a reciprocal state visit in October 2007. There is an active Nigeria–India Joint Commission that meets every two years.

China

China has long enjoyed a healthy commercial relationship with Nigeria. Some 50,000 Chinese citizens now live and work in Nigeria. There has been an exponential growth in trade in the last decade – rising from a mere US\$384 million in 1998 to over US\$3 billion by 2006. China sees Nigeria, which has the largest population in Africa, as a key market for its cheap goods. Over 30 Chinese companies have constructed factories in Nigeria. And some very large contracts have been awarded to Chinese firms – including one agreement with the Lagos state government to build a mega-million-dollar free trade zone in the city, and the main contracts for the infrastructure for the African Games held in Nigeria in 2003.¹⁴ As a clue to China's ambitions to further increase

its presence in Nigeria, its export credit agency, Sinosure, announced in April 2008 that it would guarantee up to US\$50 billion worth of Chinese investment.¹⁵

High-level visits in both directions in recent years have cemented this relationship. President Obasanjo paid several visits to China – in 2001, 2005 and 2007 – and Chinese presidents visited Nigeria in 2002 and 2006. During the latter visit, Nigeria became the first African country to sign a strategic partnership with China. President Yar'Adua paid his first visit to China in March 2008.

Asia's thirst for oil and the latecomers' dilemma

In spite of the well-established commercial presence of these countries in Nigeria, there are several reasons for the ANOCs' previous reluctance to invest directly in Nigeria's oil fields. Decades of military government raised concerns that the contracts would not be honoured. There was also a perception that dealing with Nigeria was the exclusive domain of the IOCs, leaving little room for outsiders. In the last decade or so, the real dilemma flowed from the increasingly hostile operating environment in the oil-producing region of the Niger Delta. Foreign companies working there have been increasingly targeted by militants. This was a major disincentive to the risk-averse ANOCs. Nigeria's reputation for fraud and corruption added to the political risk. So, in spite of Nigeria's important place in the global oil market, it was very low down in the list of target countries for direct investment by the ANOCs. In any case, only in the last decade have China and India had the capital and the capacity to invest overseas.

The key reason, however, is that the heightened demand from Asia for oil has only exploded in the last decade. This has increasingly meant that oil availability in the Pacific rim has become insufficient to meet the growing demand from the rapidly industrializing countries in the region. Their economies have high growth rates: China at 11% and India at 9%, with both projected to continue at that

13 Interview with the Indian High Commission, Abuja, May 2008.

14 Website of the Chinese Embassy, Abuja.

15 *Financial Times*, 2 April 2008.

rate over the next twenty years. China is already the second largest consumer of crude petroleum in the world after the United States while India, now the fourth largest economy in the world, will have to import over 90% of its oil requirements by 2020. South Korea is the eleventh largest economy in the world and the seventh largest petroleum consumer. With no domestic supply, it is the world's fifth largest importer of oil.¹⁶

Since 1996, oil consumption in the Asia-Pacific region as a whole has risen by 30% and is growing. China has led the way with a 100% increase in its consumption in the decade 1996–2006. And some projections suggest that China's oil imports could quadruple from 3.5 mbpd in 2006 to 13.1 mbpd by 2030.¹⁷ Currently, China imports 50% of its requirements. That is set to increase to 80%. India too has experienced a 50% increase in oil consumption in the decade since 1996, and currently imports 70% of its needs. Other Asian industrial giants, such as Japan and South Korea, have no domestic supply and rely on imports. Only Malaysia and Indonesia are self-sufficient.

For these reasons the ANOCs have been seeking to buy into oil fields round the world. Asian countries share the same objectives as Western countries in seeking energy security and diversity of supplies to lessen their dependence on the Middle East. The driver is economic need. Resource-rich African countries have attracted particular attention in this respect in the last few years.

High-level Asian diplomacy has underlined this. China, India and South Korea have each held summits with African leaders. In November 2006, China invited 50 African states to a Beijing summit where it spelled out its vision for a 'new strategic partnership' with Africa. Later in the same month South Korea held its first ever Africa–Korea Forum, where the emphasis was placed on the exchange of technology for resources. And in April 2008, India hosted its first ever India–Africa Summit during which it unveiled a new strategy of 'resource diplomacy' At all three summits, energy security was at the top of the agenda.

But the ANOCs are not just interested in Africa. A recent study has shown that they are now active in 40 countries, ranging from Kazakhstan to Iran, from Colombia to Sakhalin.¹⁸ The overseas arm of India's NOC, Oil and Natural Gas Corporation–Videsh Ltd (ONGC-VL), operates in 15 countries, and South Korea's Korean National Oil Corporation (KNOC) also in 15, while China National Petroleum Corporation (CNPC), which includes PetroChina, has projects in 23 countries. Another Chinese company, China National Offshore Oil Corporation (CNOOC), is fairly new to the business of buying into foreign oil fields. All four are now present in Nigeria.

Although the Gulf of Guinea became one of the new oil exploration frontiers at the turn of the century, and Nigeria holds over 60% of the known reserves in the region, the ANOCs shunned Nigeria for the reasons given above. It took high-level lobbying by President Obasanjo from the middle of 2004 to entice some ANOCs into Nigeria for the first time. His proposition was hard to resist – he would guarantee oil blocks, at discounted rates or with signature bonus waivers, in return for their investment in downstream/infrastructure projects. Asian companies would get lucrative contracts while Asian national oil companies would be granted preferential access to oil blocks.

In spite of earlier hesitations, Asian governments reacted with enthusiasm to this unexpected opening. The South Korean government said of the deal, 'this is a win-win project where South Korea's technology and Nigeria's resources are swapped'.¹⁹ The Indian Prime Minister, in his address to a Joint Session of Nigeria's National Assembly in October 2007, said, 'It is a partnership for energy security. Nigeria's rich natural resources provide the base for our mutually beneficial cooperation'.²⁰ The Chinese President, when signing a number of oil-linked infrastructure agreements, spoke warmly of the new 'strategic partnership' with Nigeria.

16 *BP Statistical Review of World Energy, 2007.*

17 *IEA World Energy Outlook, 2007.*

18 John Mitchell and Glada Lahn, *Oil for Asia*, Chatham House Briefing Paper, EEDP BP 07/01, March 2007.

19 *International Herald Tribune*, 6 November 2006.

20 For the full text of Prime Minister's Singh's speech, see the Ministry of External Affairs website – meaindia.nic.in/speech/2007/10/15.

1.3 Nigeria's Oil Policy

These developments happened against the background of Nigeria's evolving oil policy. The Nigeria National Petroleum Corporation was set up in 1977. Unlike many national oil companies round the world, including the Middle East, the NNPC has always welcomed foreign equity participation. This has made Nigeria an attractive theatre for the IOCs which operate under joint venture arrangements (JVs). The IOCs have always dominated the industry and continue to do so. They hold 98% of Nigeria's oil reserves. Smaller independent and indigenous companies tend to operate under a different arrangement, the production-sharing contract (PSC), to which new entrants such as the ANOCs sign up.

With the return to civilian rule in 1999, following 16 years of military rule, President Obasanjo – who took the unorthodox step of doubling up as his own Minister of Petroleum – set two key objectives for growth in the oil sector. These were to raise reserves to 40 billion barrels and to raise production capacity from the existing 2.5 mbpd to 4 mbpd, both by 2010.²¹ When Obasanjo came to power in 1999, reserves stood at 29.9 billion barrels while production capacity had stagnated at around 2.3 mbpd. While a number of offshore oilfields have come on-stream in the past two years, moving Nigeria nearer its target, there is still a long way to go.

A key problem in this context has always been that, despite its resource endowment, the Nigerian oil sector has perennially suffered from under-investment. This has

a variety of causes, not least the NNPC's inability to pay its share of investment funding in exploration and development under the terms of the JVs. To meet the declared targets, Nigeria would have to attract large-scale new investment and new players. And it would have to offer up new acreage. However, the targets remained elusive in spite of four licensing rounds held in the Obasanjo years – in 2000, 2005, 2006 and 2007.

In the absence of essential reforms to the NNPC, which would have given a strong and transparent underpinning to the policy, the targets were not met in the Obasanjo era. It has been left to President Yar'Adua's government to tackle the critical issue of oil-sector reform. The absence of transparency in the sector for decades has hampered its growth, while the opaque nature of the NNPC has encouraged large-scale corruption. Nigerian leaders, whether military or civilian, have treated the oil sector – which accounts for 90% of Nigeria's foreign exchange earnings – as little more than a 'cash cow'. The Yar'Adua government has committed to the same oil production targets as Obasanjo,²² but it is unlikely to hold a new licensing round until the reforms are in place and the problems associated with the earlier rounds – some linked to the 'oil-for-infrastructure' deals made by President Obasanjo with the ANOCs – have been sorted out.

The 2000 licensing round

The first licensing round held under the new civilian government was intended to put some order into how oil blocks would be awarded. President Obasanjo decided to abandon the long-standing discretionary approach favoured by the military rulers and replace it with a more transparent system. Past governments had given out oil blocks to their associates, friends and cronies without due process at give-away prices. The beneficiaries, in turn, were able to hawk their blocks to foreign oil companies and walk away with huge profits. Indeed, some of the awards of blocks by the outgoing military rulers were immediately revoked by Obasanjo, including those to the family and cronies of former ruler General Sani Abacha.

21 Economist Intelligence Unit (EIU), *Nigeria Country Profile 2007*.

22 *Business Day*, 11 February 2008.

On offer in the 2000 round were 33 blocks: 22 offshore blocks, half of them located in deep waters; a further seven in shallow waters; and four onshore. Around the same time, Nigeria unveiled a Marginal Fields Policy – designed to develop local expertise in the oil business. Under this policy, small concessions released by the IOCs because they were no longer considered profitable enough were farmed out to local players. Five state governments and 26 indigenous companies benefited from this exercise.²³

In the event only eight blocks were taken up. Bids were assessed behind closed doors by the NNPC on a number of criteria – financial, technical and capability – after which the successful ones were made public. But final approval for the awards rested with the President (and Oil Minister) who sometimes overrode the marking system for political reasons. One of the eight blocks went to an indigenous company, Orandi, linked to Peter Odili, the Governor of Rivers State, whose business relationship with President Obasanjo has been much rumoured. Overall, a mere US\$190 million was taken in signature bonuses, which dripped in bit by bit over a four-year period for lack of clear timelines.²⁴

From the perspective of Asian engagement with Nigeria, the important point is that the ANOCs showed no interest at all in the 2000 round.

The 2005 licensing round

The 2005 round was better organized, and there were significant new elements. Most importantly, months of prior negotiations with some Asian countries brought the ANOCs into the frame for the first time. The 2005 round was Nigeria's first ever open auction, with bids recorded simultaneously on an electronic screen for all to see. A huge amount of acreage was on offer – but only 44 of the 77 blocks were awarded. Of those nearly half fell away because the winners defaulted on payments. The round raised over US\$1 billion in signature

bonuses, though this was far less than had been anticipated. To ensure the transparency of the process, Nigeria had unusually invited observers from Norway, the United Kingdom, America and Brazil to monitor the proceedings.²⁵ But many of Nigeria's traditional partners, such as Shell, did not take part in the bidding while bids from Chevron and ExxonMobil were disqualified because the bids were 'incomplete'.

Two innovations had caused the IOCs to hold fire in this round.²⁶ The first was the introduction of the Local Content Vehicle (LCV). Under this, an operator would be obliged to offer up to 10% equity in any block to an indigenous company. This produced a rash of shell or paper companies, causing bidders serious difficulty with

‘From the perspective of Asian engagement with Nigeria, the important point is that the ANOCs showed no interest at all in the 2000 round’

due diligence. Of the 100-plus LCVs which pre-qualified, only 10% had previous experience in oil exploration and development.²⁷ The ANOCs, new to Nigeria, would have had particular difficulty choosing the mandatory LCVs. President Obasanjo argued that the LCV scheme would develop local expertise in the oil business. Its critics pointed to the success of the existing Marginal Fields policy, which did precisely that. Many therefore dismissed the LCV scheme as a mechanism to reward cronies with a slice of the action. The evidence points in that direction. The outcome suggests that the ANOCs were steered in their choice of LCV. For instance, NJ Exploration Services, owned by Emmanuel Ojie (a well-known and close business associate of President Obasanjo) was the approved LCV on one of the Korean blocks awarded.

23 EIU, *Nigeria Country Profile 2007*.

24 Based on data provided by the Department of Petroleum Resources, April 2008.

25 Willy H. Olsen, *The Nigerian bidding round 2005: An observer's reflections on the transparency issues*, Chatham House presentation, http://www.chathamhouse.org.uk/files/6393_ggolsen.pdf, 21–23 September 2005.

26 Guidelines for the 2005 Licensing Round, Department of Petroleum Resources, April 2008.

27 Interviews with Nigerian government officials, Abuja, May 2008.

Another LCV, Southland, which teamed up with KNOC, is owned by Andy Uba, then the President's closest adviser and gatekeeper. (In the 2006 round – see below – another of Ojie's companies, Emo Oil, was the approved LCV for the two blocks awarded to India. Another, Shore Beach Exploration, owned jointly by Ojie and Emeka Offor, a key financier of the ruling party, was the approved LCV for blocks awarded to China in 2006.²⁸)

The second innovation that upset the IOCs was the introduction of the Right of First Refusal (RFR), which favoured Asian bidders. Prior to the auction, President Obasanjo had entered into strategic deals with South Korea, Taiwan, China, India and most recently Malaysia, offering them lucrative blocks in return for the promise of strategic investments (see Table 1).

Table 1: Summary of strategic deals with the ANOCs

South Korea	Gas pipeline from Ajaokuta to Kano via Abuja with spur to Katsina 2 integrated gas power stations at Abuja and Kaduna Construction of the Port Harcourt–Maiduguri railway
China	Core investor in the Kaduna refinery Construction of the double-track, standard-gauge Lagos–Kano railway Construction of a hydroelectric complex at Mambilla (3 Gorges Project)
India	Construction of a greenfield refinery 180,000 bd capacity Construction of a 2000 MW independent power plant Feasibility study for a new east–west railway from Lagos to Delta
Taiwan	Core investment in Port Harcourt refinery Unspecified IPP (independent power plant)
Malaysia	2.5m tonnes p.a. petrochemicals project in Delta State with the creation of 7,000 jobs

Source: Compiled from data from the Department of Petroleum Resources, April 2008

But this innovation compromised the very transparency of the process that Obasanjo had claimed to seek. It is unlikely that the full implications of this decision were brought to his attention or even discussed. As noted above,

the President also acted as his own Petroleum Minister. Oil matters were never discussed in cabinet.²⁹ All decisions on this key sector emanated from the presidency alone. The NNPC and the Department of Petroleum Resources (DPR), which was responsible for organizing licensing rounds, acted on instructions from the presidency. Line ministries that would later have to implement the projects agreed under the strategic deals were not consulted at the time as to whether the projects were appropriate. This peculiar set-up inevitably left confusion in its wake.

By early 2008, President Obasanjo was reportedly 'fed up with the Shells and Exxons'³⁰ that had repeatedly declined to build new refineries, on grounds of cost, or to otherwise invest in job-creating projects outside their core business. There was a growing sense that the IOCs came only to exploit Nigeria and gave little back in return. The country's infrastructure was decrepit and in dire need of modernization. In several visits to Asian capitals, Obasanjo saw the possibility of tapping Asian expertise for Nigeria's benefit. He could achieve a 'development dividend' from the ANOCs that Nigeria had failed to get from the IOCs. Many recall that at the time the official defence of the scheme emphasized that relationships between countries do not follow the same cycle as oil rounds, and that if in the middle of planning a round Nigeria felt it wanted to have good economic relations with another country that promised to undertake major infrastructure projects, it had the 'sovereign right to do a package'.³¹

The President was planning at this period to have the constitution changed to extend the presidential tenure beyond the prescribed two four-year terms. Such an enterprise would require significant funds to persuade the political class to support the plan, and big infrastructure contracts would provide such an opportunity. The Nigerian press did not miss the point, then or since.³² In the wider context, Nigeria also needed the support of key Asian countries for its bid for one of the two proposed permanent seats for Africa on the United Nations Security Council. In this Nigeria faces competition from countries

28 *Africa Energy Intelligence*, 7 November 2007, and interviews with government officials, Abuja, May 2008.

29 Confirmed by several Cabinet Ministers of the Obasanjo government in interviews in Abuja, October 2008. See also Sahara Reporters, 9 January 2007, quoting the former Vice-President.

30 *Africa Confidential*, 1 February 2008.

31 Interviews with journalists of *This Day*, Lagos, April 2008 and *Leadership*, Abuja, May 2008.

32 *Business Day*, 27 December 2007, reports that bribe money sought from bidders 'went partly into funding the failed third term bid', a point made in numerous interviews with leading members of the ruling party in Lagos and Abuja during January, April, May and October 2008.

including South Africa, Egypt, Kenya and Senegal. It has openly supported India's bid for one of the proposed Asian seats and hopes for reciprocal support.

Against this background, Nigeria's offer both of oil blocks and of big construction contracts proved to be compelling. The ANOCs rose to the bait. Companies from China, India, Korea and Taiwan planned to bid for oil blocks. But the 2005 round did not quite go to plan for them. The Chinese misunderstood the process, believed that they had secured blocks in the course of the earlier talks, and so failed to bid at the auction. India's ONGC-VL was the favourite to acquire the two best deep offshore blocks on offer. Its confidence was based on six months of discussions with Nigerian officials. But on the day of auction, the two blocks in question (OPLs³³ 321 and 323) went to South Korea's KNOC, in partnership with Equator Exploration, a controversial company listed on the AIM (London's Alternative Investment Market) but with no assets in the oil business. Curiously, ONGC was initially partnered with the same Equator. It seems that Nigeria had played India against South Korea to achieve the best deal on downstream projects. The structure of their bids was different. For this round, ONGC bid as an upstream company with no strings attached. By contrast, KNOC led a consortium, which meant it was better prepared as an infrastructure provider. (As will be shown below, India learned its lesson for the next round in 2006.) In addition, although ONGC was prepared to pay the same signature bonus as KNOC, it appears that the Indian cabinet's delay in agreeing the bid price contributed to ONGC's losing out. Although India tends to be more cautious about spending public money in foreign acquisitions than, say, the Chinese, in this case prior discussions with Nigeria had led India to believe that these blocks were in the bag. The Indian government was so displeased at the outcome that it complained directly to President Obasanjo about what it described as 'unfair treatment meted out to the oil major'.³⁴

At the end of the 2005 round, therefore, the only ANOCs to be awarded blocks were from Taiwan and South Korea, with China and India missing out for different reasons. But Nigeria's overall strategy – to attract non-traditional players, especially from Asia, into the Delta and Deep Offshore – had not been achieved. Dealings with Taiwan

went wrong too. Taiwan's Chinese Petroleum Corporation-Taiwan (CPC) set up a partnership with a local company, Chrome Oil, for the 2005 round. Chrome Oil is owned by Emeka Ofor, a controversial Igbo businessman and an ally of President Obasanjo. CPC/Chrome was awarded two blocks (OPL 274 and 275). However, it failed to pay the signature bonuses, and the award was therefore not finalized. As with all the ANOCs, Nigeria had concluded a deal in advance of the auction. In the case of CPC it was to have the RFR on these blocks in return for its agreement to take a 51% stake in the ailing Port Harcourt refinery. That commitment fell away with the default.

KNOC was therefore the last Asian standing in the 2005 round. It had been promised the RFR on the blocks (OPLs 321 and 323) on the basis of its pre-negotiated strategic commitments. These were to build a gas pipeline from the Delta to Abuja, with two integrated gas power stations en route, and to rebuild the decrepit Port Harcourt-Maiduguri railway line. In total, the Koreans had promised an investment of some US\$6 billion in exchange for oil blocks. The 'development dividend' looked promising.

But there was a curious twist to this. Both KNOC and its rival, India's ONGC, had offered a signature bonus of US\$485 million for the two blocks. The deadline for paying the bonuses was set at the end of January 2006, nearly six months after the bidding round in August 2005. KNOC and its partners missed the deadline. In fact, nothing at all had been paid by the deadline – indeed, payments did not start to roll in until after the official visit to Nigeria of South Korean President Roh Moo-hyun on 9–12 March 2006. And in fact the production-sharing contract between KNOC and the NNPC was not signed until this visit, after which the signature bonus was paid. According to DPR records, KNOC did not pay its share – US\$92.3million by bank draft together with a Letter of Credit to the Ministry of Finance for \$231 million – until June 2006, although its partner in the blocks, Equator Exploration, paid its share earlier – some \$162.7million in four bank drafts between 13 and 26 March 2006.³⁵

But the Yar'Adua government has since discovered that the full amount was not paid. This would be grounds for revoking the award of the blocks. It is likely that

33 OPL is oil prospecting licence; OML is oil mining licence. When oil is found in a block, the OPL is converted to an OML.

34 Sushant K. Singh, *India and West Africa: A Burgeoning Relationship*, Chatham House Briefing Paper, AFP/ASP BP 07/01, April 2007.

35 Extracted from data supplied by the Department of Petroleum Resources, April 2008.

President Obasanjo gave KNOC a discount – probably in order to keep the Koreans on-side in the oil-for-infrastructure deal. Although DPR records show that the full amount was paid, a large chunk was in the form of an undated Letter of Credit. This is an unlikely instrument for the purpose – signature bonuses are always paid by bank draft or wire transfer. Was this written off or never collected? Apparently, there is no formal record of any discount and Obasanjo has not provided any clarification of what transpired.

The 2006 mini-round

Given the failure of the 2005 round to seal the oil-for-infrastructure deals with any of the ANOCs except KNOC, Nigeria decided to hold a mini-round the following year. It was designed specifically to fulfil promises of blocks made to China, India and Taiwan. As the guidelines made clear, the mini-round was ‘open to serious downstream investors only’, the RFR was attached to each block, and given the lax payment schedule from 2005, this round specified that 25% of the signature bonus had to be paid on the spot, with the balance on or before the date of PSC signing.³⁶

Only 19 blocks were on offer, for which there were 11 bidding consortia. Apart from the ANOCs, the bidding list included indigenous consortia with little or no experience in the oil business, such as Transcorp, in which President Obasanjo is known to have had shares, Cleanwaters (Rivers State investors) and INC Nat Res, owned by the then Governor of Jigawa state (who was a vocal supporter of the third-term idea). All three claimed to promise downstream investments. But their inclusion as preferred bidders raised suspicion that all was not well. Apart from BG, which teamed up with the indigenous company Sahara (also linked indirectly to the Obasanjo family), none of the oil majors took part in the round, largely because of the strict requirement for linked strategic downstream investments.

But this round was the ANOCs’ show. India, China and Taiwan were all given RFR on pre-assigned blocks in return for promises of infrastructure investment. The first was India’s NOC, ONGC, by then teamed up with Mittal Steel in a new company known as OMEL.³⁷ This new public-private partnership proved to be a more successful vehicle for India’s entry. It strengthened India’s bid as an infrastructure provider, allowing it to compete more successfully with the Koreans and Chinese. OMEL was pre-assigned three blocks (OPL 279, 285 and 216). In return it committed to an investment of some US\$6 billion to include the construction of an 180,000 bd refinery, a 2000 MW power plant, and a feasibility study for a new east–west railway line from Lagos across the delta to Port Harcourt. ONGC in its own right was offered two blocks, 217 and 218, as compensation for losing out to KNOC in the 2005 round.

Secondly, China’s CNPC was offered four blocks – two in the Niger Delta (OPLs 471 and 298, formerly OML 65) and two in the frontier Chad Basin (OPLs 732 and 721). These were essentially the blocks CNPC had failed to bid for in the 2005 round. In return, CNPC committed to investing some US\$2 billion in the ailing Kaduna refinery.

A late entrant to the round was Taiwan’s CPC, partnered with a controversial and hitherto unknown local company, Starcrest Nigeria Energy, which was pre-assigned one block (OPL 219, renumbered 294) in return for an unspecified independent power plant (IPP).

The round was held in May 2006, and the outcome was not unexpected. Eight blocks went to ANOCs – of which China’s CNPC won four, India’s OMEL two (it did not bid on the third on offer), and Taiwan’s CPC also two blocks. In the event, ONGC did not bid at all. The local consortium, Transcorp, was also successful, although it later transpired that it had failed to pay the full signature bonus.

However, for some unexplained reason, Taiwan’s CPC, in a joint venture with Starcrest Nigeria Energy, asked on the floor of the bidding conference to swap the blocks it had been awarded (OPLs 292 and 226) for OPL 291 –

³⁶ Guidelines for the 2006 Mini-Round, Department of Petroleum Resources, April 2008.

³⁷ An MOU was signed in July 2005 between the overseas arm of India’s national oil company, ONGC-VL, and privately owned Mittal Steel to synergize their respective strengths in order to promote energy security for India. This resulted in an innovative public-private partnership with the establishment of a joint venture company, ONGC Mittal Energy Ltd (OMEL for short), in October 2005. OMEL’s first overseas success was in Nigeria in 2006, but it aims to replicate this success elsewhere.

an arrangement that the Nigerian Extractive Industries Transparency Initiative (NEITI) pronounced acceptable.³⁸ Then, even more curiously, CPC withdrew altogether and later sold its share of block 291 to a Western independent, Addax, in October 2006. Addax retained Starcrest as its partner in the block. This raised suspicions about the deal and it became a *cause célèbre* in the Nigerian press.³⁹

Due-diligence investigation showed that Starcrest was owned by Nigerian businessman Emeka Offor, while the LCV on the block was given to Shorebeach Nigeria – a company owned jointly by Offor and Emmanuel Ojie, both close associates of President Obasanjo (see above). Rumours that Offor had paid out US\$25 million to unnamed individuals after Addax had paid the signature bonuses complicated matters.⁴⁰ NEITI officials confirmed that there were serious irregularities about this deal. Starcrest was only registered just before the round; it had no history and no credibility as an oil company. Informed opinion suggested that the CPC/Starcrest bid was little more than a vehicle for raising funds for the third term. The withdrawal of Taiwan's CPC from this murky arrangement may be understandable in this light.

In the meantime, the political context had changed. On 6 May 2006, in a dramatic vote, the Nigerian Senate threw out a raft of constitutional amendments before it, including the proposal for a third term for President Obasanjo. In spite of vast sums of money reportedly paid out by the presidency to National Assembly members to ensure the safe passage of the third-term amendment, the Senate killed it. By this stage, strong rumours were circulating that some of the beneficiaries of oil blocks in 2005/06, including the ANOCs, had made significant contributions to the fighting fund for the third term.⁴¹ There is no paper trail to that effect but it is plausible. If this were to be proven, it would add a new dimension to the oil-for-infrastructure deals.

The 2007 licensing round

In 2005 and 2006, a few ANOCs had established a toehold in Nigeria. And, in return, they had each promised large-scale downstream/infrastructure investments. With the third term lost, a new election imminent in April 2007 and the handover to a new president set for the end of May 2007, it seemed unlikely that another bidding round would take place. On the contrary, however, President Obasanjo was determined to farm out more acreage before he left office. The targets were still in place – to raise reserves to 40 billion barrels, and production capacity to 4 mbd by 2010.

But the political game had changed, from raising third-term funds to raising funds for the ruling party for the 2007 election and rewarding cronies in a last-minute fire sale. In the industry, the 2007 round – held a mere two weeks before the presidency handover – was perceived 'as a last chance for Mr Obasanjo to dispense patronage to key backers before the end of his eight-year tenure'.⁴² There were other last-minute decisions too, including the sale of the Kaduna and Port Harcourt refineries to a local consortium headed by Aliko Dangote, Nigeria's wealthiest businessman and an ally of Obasanjo.

The 2007 round was characterized by – and indeed compromised by – the same oil-for-infrastructure philosophy. The round was open to 'promoters showing seriousness in order to qualify for Right of First Refusal'; it introduced a new condition that 'projects must commence within 18 months of entering into the agreements' and a non-refundable deposit of 50% of the offered signature bonus had to be paid on the spot.⁴³

A total of 45 blocks were on offer but 24 had been pre-assigned on RFR terms to 12 companies/consortia. A number of ANOCs had so pre-qualified. These were: Petronas (Malaysia), pre-assigned one block in return for the promise of a 2.5mt petrochemical project in Delta State; CNOOC (China), four blocks in return for a US\$2.5 billion Chinese EximBank loan for the Lagos/Kano

38 Interview with officials of the Nigerian Extractive Industry Transparency Initiative, Abuja, May 2008. See also Nicholas Shaxson, *Nigeria's Extractive Industries Transparency Initiative* (London: Chatham House, forthcoming 2009).

39 *Business Day*, 20 December 2007.

40 Menas Associates, *Nigeria Focus*, October 2006, www.menas.co.uk.

41 Interviews with leading politicians of the ruling party, Abuja, May 2008.

42 *Financial Times*, 18 June 2008.

43 Guidelines for the 2007 Bidding Round, Department of Petroleum Resources, April 2008.

railway upgrade and for the construction of a hydroelectric power project at Mambilla; CNPC, one block as core investor in the Kaduna refinery; ONGC/Mittal (OMEL), one block in return for the feasibility study of a new railway between Lagos and Aba; and KNOC, four blocks in return for a US\$2 billion loan for the Port Harcourt–Maiduguri railway. Between them the ANOCs had been offered preferential access to 11 blocks.

In the event, and in spite of the generous number of blocks assigned to them, the ANOCs stayed away. They did not bid at all. Given the round's timing, there were justifiable fears that the paperwork would not be completed in time before the change of presidency, and concerns that the new government might not uphold any deals. The political risk was too high. The round was largely a flop as a result. Although a total of 45 blocks had been on offer (including those with RFR rights), only 17 were taken up. The successful bidders were a variety of small independents, some indigenous players and a few little-known private investors (e.g. from India, Essar E&P and Sterling Global Resources).

Total Asian acquisitions through the bidding rounds

So, at the end of three bidding rounds, in 2005, 2006 and 2007, the Asian footprint in Nigeria's oil sector was still very small. KNOC had two blocks from 2005; ONGC/Mittal two blocks from 2006 and a third (awarded by

Obasanjo on a discretionary basis) which is *sub judice* (see below); and CNPC four blocks, also from 2006, of which two have been abandoned owing to low prospectivity. Taiwan's CPC ended with none following its withdrawal from Nigeria after being unwittingly caught up in political intrigue.

But the ANOCs had been offered the Right of First Refusal on no fewer than 26 blocks during the three rounds. This was over three times the number they actually bid for and acquired – a mere eight (see Table 2). In the event, their caution was to prove wise.

Table 2: Blocks offered to the ANOCs on RFR terms, 2005–07

ANOC	Blocks with RFR	Round	Taken up
	2	2005	2
KNOC	1	2006	None
	4	2007	None
ONGC-VL	2	2006	None
	3	2006	2
OMEL	1	2007	None
	4	2006	4
CNPC	1	2007	None
CNOOC	4	2007	None
	2	2005	None
CPC	1	2006	None
Petronas	1	2007	None
Total	26		8

Source: Compiled from data from the Department of Petroleum Resources, April 2008

1.4 Additional Assets of Asian National Oil Companies

State-owned assets

Outside the bidding rounds, Indian and Chinese NOCs have acquired a few additional assets. None were tied to downstream projects. First, following the 2004 licensing round on the Nigeria-São Tomé Joint Development Zone (JDZ),⁴⁴ India's ONGC was finally awarded a 9% share in a consortium for Block 2 in May 2005. In March 2006, China's Sinopec was approved as the operator of Block 2 as the biggest shareholder with its 28.67% stake.

ONGC, with its controversial partner Equator Exploration (with a 6% stake), had hoped to secure the operatorship but lost out to Sinopec. Drilling by Chevron on Block 1 of the JDZ has proved disappointing. It remains to be seen, therefore, whether the Asian investment in the JDZ will pay off.

Secondly, in early 2006, CNOOC bought contractor rights through a private sale in a lucrative block, OML 130, in the Akpo field. It is estimated to have recoverable reserves of 600–1,000m barrels. In a complex transaction, CNOOC paid a massive US\$2.3 billion to acquire these

rights. ONGC had also tried to buy into this block. But in December 2005 the Indian Cabinet Committee on Economic Affairs, which was responsible for sanctioning the deal, refused to sign off the finance, citing concerns about valuation and political risk.⁴⁵ This was in fact China's first acquisition in Nigeria, preceding the CNPC gains from the 2006 mini-round. Significantly, financial support from China's Exim Bank – a 10-year low-interest loan of US\$1.6 billion – was extended to CNOOC to help it develop the field.⁴⁶

But OML 130 has a controversial history. The original block, known as OPL 246, was 60%-owned by an indigenous company, Sapetro, headed by a former defence minister, General T.Y. Danjuma. The whole block had been originally awarded to Danjuma in 1998 by Nigeria's then ruler, General Abacha. President Obasanjo, who had fallen out with Danjuma over the latter's public criticism of his style of government and of the third-term agenda, tried unsuccessfully to reduce Sapetro's ownership of the block to 10% by invoking 'back-in' rights.

A second issue then arose. When oil was discovered in it, the block was split into two under existing regulations. One part was sold to CNOOC as OML 130 while the remainder (OPL 297) reverted to the NNPC.⁴⁷ The NNPC confirmed the CNOOC deal in April 2006. But Sapetro took the NNPC to Court over the 'relinquished' part of the concession, arguing that OPL 246's expiry date had not yet been reached. In late 2007, the Court of Appeal upheld the NNPC's case that it had acted under the rules. But Sapetro has since taken the matter to the Supreme Court, where it rests.⁴⁸

Meanwhile President Obasanjo had privately awarded the new OPL 297, on a discretionary basis, to ONGC-Mittal (OMEL). This would have given OMEL a third block (in addition to the two it won in 2006). But the whole case remains *sub judice* and Sapetro won a court injunction to restrain any activity on the block. Whatever the outcome of the Supreme Court case, it is unclear whether the government of Yar'Adua – who proclaimed at his inauguration his dedica-

44 The JDZ, the Joint Nigeria-São Tomé Development Zone, was established by treaty in 2001 in an attempt to resolve a long-standing maritime boundary dispute between the two countries. The JDZ lies 200 km off the Nigerian coast. It is subdivided into six blocks for oil exploration. Under the terms of the treaty, the revenues are to be shared 60:40 between Nigeria and São Tomé. The headquarters of the Joint Development Authority is in Abuja, Nigeria.

45 Singh, *India and West Africa*.

46 Erica Downs, 'The fact and fiction of Sino-African Energy Relations', *China Security*, vol. 3, no. 3, Summer 2007.

47 When blocks are subdivided, new numbers are given. In this case, the old OPL 246 became OML 130 and OPL 297.

48 Interview with Sapetro, Abuja, May 2008.

tion to the rule of law – would uphold any discretionary awards handed out by the previous government.⁴⁹

CNOOC made a second acquisition, again through a private sale, again outside the bidding process and without any linkage to downstream commitments. In March 2006, it paid US\$60 million for a 35% working interest in OPL 229. This block was wholly owned by two indigenous companies, Emerald Energy Resources and Amni International Petroleum Devt Co, which had acquired it in the late 1990s. Emerald is owned by Emmanuel Egbogah, an oil industry specialist, who was appointed in 2007 as Special Adviser on Oil Matters to President Yar'Adua; and Amni is owned by Tunde Afolabi, a petroleum geologist. CNOOC intends to pump an initial US\$1.5 billion into the development of the field. Its funding was guaranteed by China's Export Credit Agency, Sinosure.⁵⁰

Non-state-owned Asian assets

To complete the picture, a small number of non-state-owned Asian companies have also acquired oil blocks in Nigeria. In September 2006, President Obasanjo made a discretionary award (OPL 277) to a little-known Indian company, Sterling Global Resources, which is linked to the Indorama PetroChemicals Group based in Indonesia.⁵¹ Nigeria had earlier sold its Eleme Petrochemical Plant to Indorama under the privatization programme. Given that Sterling had no history of oil exploration and development and was only set up in March 2006, it has been suggested that Sterling may have been a front company for a highly placed Nigerian or that it was a vehicle for fundraising for the ruling party ahead of the forthcoming elections in 2007.⁵² As noted above, Sterling subsequently won two onshore blocks (OPLs 2005 and 2006) in the 2007 round. The award of all three blocks has since been revoked. The other independent Indian company, Essar E&P Ltd, which won one block (OPL 226) in the 2007 round, has similarly suspect credentials, and the award of its block has also been revoked.

The total Asian presence

Overall, the Asian footprint in Nigeria's oil sector is unlikely to expand quickly. In the four bidding rounds between 2000 and 2007, over 170 blocks were offered. Fewer than 90 were awarded and some subsequently fell through because of payment default. Of the total number of awards made to the ANOCs over this period, the ANOCs have a presence in only twelve blocks: eight awarded through strategic deals in 2005/06 rounds, two through private sales in 2006, plus shares in the JDZ. As noted above, the thirteenth, a discretionary award, remains *sub judice* (see Table 3). Small independent Asian companies awarded a further four blocks in 2006/07 have since lost all of them. Indeed, the blocks gained by the ANOCs in the 2005 and 2006 licensing rounds are also under threat of revocation because of non-performance on the ANOCs' strategic commitments. Small though the Asian footprint is, it could become even smaller in coming months. The only safe blocks would appear to be those acquired by private sales. Those acquired through the oil-for-infrastructure deals are all at risk.

Table 3: Total assets of the ANOCs, in chronological order

ANOC	Date	Blocks	Comment
ONGC	May-05	JDZ Block 2	9% share/Equator 6% –15%
Sinopec	May-05	JDZ Block 2	28%; operator wef Mar 06
KNOC	2005 Round	OPLs 321 & 323	Strategic deal
CNOOC	Jan-06	OML 130	Bought contractor rights for US\$2.3bn
CNOOC	Mar-06	OPL 229	Bought 35%
CNPC	2006 Round	OPLs 471, 298, 732, 721	Strategic deal
OMEL (ONGC/Mittal)	2006 Round	OPLs 279 & 285	Strategic deal
OMEL (ONGC/Mittal)	Sep-06	OPL 297	Discretionary award still <i>sub judice</i>

Source: Department of Petroleum Resources, April 2008

49 When he came to power, President Obasanjo had denounced discretionary awards but later used the device when certain political circumstances arose. DPR records indicate that OMEL paid a signature bonus of US\$25 million for OPL 297 in September 2006. Given the high prospectivity of the block, the very low price suggests that a discount may have been given.

50 Downs, 'The fact and fiction of Sino-African Energy Relations'.

51 Menas, *Nigeria Focus*, March 2007.

52 Interviews with politicians from the ruling party and key opposition groups, Abuja, May 2008.

The fate of the strategic deals

By 2009 there is still nothing to show on the ground for the oil-for-infrastructure deals with the ANOCs. President Yar'Adua, who took office on 29 May 2007, almost immediately instigated an investigation into the 2007 bidding round following a number of complaints about its conduct. The investigative committee's report concluded that there had been serious irregularities and that some of the declared winners should not even have pre-qualified.⁵³ Sterling and Essar were singled out for their lack of exploration and production experience (having only been registered in March 2006 and January 2007, respectively). The investigating committee recommended that the award of OPL 226 to Essar be revoked and that the award of OPLs 2005 and 2006 to Sterling be withheld until it could demonstrate capability in exploration and production activities. Similarly, the committee found fault with blocks awarded to indigenous companies.

Although it only addressed the 2007 licensing round, the committee expressed a strong view on the oil-for-infrastructure scheme, noting that while the RFR option might have seemed a good one, in its view 'many companies took advantage of it to have access to concessions with high potential without fulfilling their commitments to government by initiating downstream/infrastructure projects of strategic national importance which formed the basis of the philosophy'. As a result, the committee recommended that the 2005 and 2006 rounds should also be revisited. That was to place the ANOCs in the line of fire for the non-delivery of projects two to three years after oil blocks had been awarded to them.

Key industry officials have since confirmed that the oil-for-infrastructure concept will be abandoned.⁵⁴ The scheme's lack of transparency and the non-performance on the downstream commitments, together with strong suspicions that the real motives for the deals were personal and political and not developmental, are likely to ensure that it will never be repeated.

In addition, there has long been a perception among Nigeria's media, civil society, political class, civil service and oil sector professionals that the ANOCs lacked seriousness about early delivery on the commitments made in exchange for preferential access to oil blocks. Many believe that the Asians were only interested in the blocks and that their linked promises were hollow. They were seen as difficult and insincere partners. From the start, there was concern in the national federal government that there was no formal mechanism to enforce the deals, that the downstream promises were little more than promises in principle, and that the Memoranda of Understanding (MoUs) signed were little more than expressions of intent.

‘There has long been a perception among Nigeria's media, civil society, political class, civil service and oil sector professionals that the ANOCs lacked seriousness about early delivery on the commitments made in exchange for preferential access to oil blocks’

But few critics of the scheme noted the important small print. For example, when OMEL signed an MoU with the Nigerian government in November 2005 for infrastructure investments in exchange for drilling rights (later acquired in the 2006 mini-round), the MoU was valid for 25 years. At the time of signing, the Chairman of ONGC made it clear that the investment would be proportional to the scale of oil discoveries, suggesting that no action would be taken on the downstream promises for many years: 'The investment in infrastructure will depend on the joint venture's returns from the blocks.'⁵⁵ Moreover, Mittal had made it clear that it wanted two billion barrels of reserves

⁵³ Report of the Special Investigative Committee on 2007 Licensing Round (unpublished), August 2007.

⁵⁴ Interviews with Nigerian government officials, Lagos, April 2008 and Abuja, May 2008.

⁵⁵ *International Business Times*, 15 July 2006.

before signing up to the implementation of any downstream investment.⁵⁶ This largely explains why, in India's case at least, no progress has been made on the ground on any of the commitments. In any case, given the scale of the promised projects they would have had very long lead times. Progress would have depended on inputs from the Nigerian side, such as arranging land access rights with local communities, always a tricky matter.

Indeed, for their part, the Asians have struggled with Nigeria's slow, labyrinthine and corruption-laden bureaucracy, as well as its complex politics and the absence of monitoring mechanisms, all of which would have added to the timescale of any project.

Looking at the oil-for-infrastructure deals as a whole, the projects were vague and lacking in technical or financial detail. Subsequent negotiations were slow. Repeated visits by Nigerian officials to Asian capitals produced little clarity or progress and no timetables for delivery were ever announced. The projects chosen by Nigeria for Asian investment were high-cost and high-value, and offered the opportunity for high commission payments, but they were not properly considered in the context of wider national economic planning. The political context also exposed the weakness of the arrangements. In retrospect, this was an ill-thought-out, half-baked ad hoc exercise dressed up in fine words.

KNOC wins and loses

There was one exception. KNOC had made some progress. It had put together a consortium⁵⁷ to build a 600km gas pipeline from Ajaokuta to Kano, together with two gas-fired power plants sited at Abuja and Kaduna. Spurs to Katsina and other northern cities were to be considered. The total cost was estimated at US\$5 billion. KNOC had laid out a timetable of eight years, from the feasibility stage in 2006 to completion in 2014. South Korea had even proposed to dismantle one of its steel mills and rebuild it in Nigeria to manufacture the pipeline. A Joint Working Committee, KNOC/NNPC, had been established to follow

through on the engineering and design and to carry out the required environmental impact assessment.⁵⁸ The financial arrangements had not been agreed, however, and negotiations with relevant IOCs to secure the gas supply were far from finalized.

However, this project seemed solid and robust. By early May 2008, the KNOC project seemed likely to proceed. It had been included in the new government's Master Plan for Gas issued in February 2008. Indeed, the KNOC consortium had revised the alignment of the proposed gas pipeline to fit in with the Master Plan. KNOC was confident that the project would go ahead and the Yar'Adua government had reportedly asked KNOC to fast-track it.

By late May 2008, however, a serious problem arose that put the project in jeopardy. It was discovered that KNOC had not paid the full signature bonus on its blocks acquired in 2005. While KNOC has since argued that it had been given a discount by President Obasanjo, there was no record of this in NNPC, DPR or presidency files. The discount given to KNOC, probably orally during the South Korean President's visit, is a good example of Obasanjo's idiosyncratic style of government.⁵⁹

But there have been consequences. The discount issue has given the new government grounds to cancel the contract for the gas pipeline project, with the added threat of revoking the award of the oil blocks into the bargain. Negotiations are ongoing with the South Korean government and KNOC. The problem with the oil-for-infrastructure deals was that the new government found itself locked into contracts which had not gone out to international open tender. This meant that on pricing there was no benchmark against which to judge a proposal such as that from the KNOC consortium. Thus in effect Nigeria did not know whether it was getting value for money. For all these reasons, the KNOC gas pipeline project was cancelled in May 2008.⁶⁰

56 Menas, *Nigeria Focus*, February 2007.

57 The consortium comprised KEPCO 15%, KNOC 15%, POSCO E&C 15%, Nigerian Government 20%, gas supplier yet to be identified 15% (source: KNOC, Lagos office).

58 Interview with KNOC, Lagos, April 2008.

59 Interviews in Nigeria in April 2008 and in Seoul in September 2008.

60 Telephone conversation with the resident correspondent of the *Financial Times*, June 2008.

Railways on track and off track

The railway projects tied to oil block allocation have also been put on hold or cancelled by the Yar'Adua administration. The Obasanjo government had an ambitious plan to upgrade its rail system. The then Chairman of Nigerian Railways, the late Mohammed Waziri (who also spearheaded the campaign to fund the third-term project) had lobbied for funds to renew and expand the railway system. The overall cost was high at an estimated US\$35 billion. Seeking funding from Asia to kick-start the plan seemed a smart option given Western donor resistance to funding large infrastructure projects. So, in return for guaranteed access to oil blocks, the ANOCs committed to building three separate railway lines: China promised to construct a new line between Lagos and Kano; South Korea pledged to rebuild the decrepit Port Harcourt–Maiduguri line; while India committed to undertake a feasibility study for a new east–west railway linking Lagos with the Niger Delta.

Preliminary MoUs on these undertakings were duly signed – with India's OMEL in November 2005, with the government of China in April 2006 during the visit to Nigeria of the Chinese President, and with South Korea in November 2006. The latter, signed by Nigeria's Minister of State for Petroleum, Edmund Daukoru, and South Korea's Minister of Energy, Chung Sye-kun, provided for long-term, low-interest loans to help Nigeria cover part of the estimated US\$10 billion necessary to rebuild the 930 mile-long railway. Following negotiations with South Korea, the provisional proposal was for an initial loan package of US\$2 billion at 3% interest with the mark-up to prevailing commercial lending rates for bridging loans. But significantly, acting on instructions from the presidency, this loan was predicated on the allocation of four oil blocks to Korea, with a signature bonus waiver, at the next bidding round in 2007.⁶¹ Since the Koreans did not take part in the 2007 bidding round, the whole proposal fell away.

There had been some progress, however, on the Chinese pledge over the Lagos–Kano line. The Obasanjo government had opted to replace the existing single-track, narrow-

gauge line with a double-track, standard-gauge one. A Chinese contractor, China Civil Engineering Construction Corporation (CCECC), was appointed, bypassing the normal open tendering process. The initial price quoted for the job was astronomical, at US\$15.4 billion. After intense negotiations and some amendments to the design, the final price agreed was US\$8.3 billion and the work was to take four years. But, according to the World Bank, this was still double the cost it should have been.⁶² Although the Due Process Unit in the presidency reviewing the CCECC proposal had reservations, it was passed because of political pressure. The contractor was allocated a mobilization fee of US\$250 million, a sum taken from the excess crude account in January 2007. Some argue that this was illegal because the project had not taken off, the government had not agreed the financing package for the railway, and there was no provision for it in the 2007 budget. As of December 2007 the mobilization fee itself had not been appropriated by the National Assembly.⁶³ In any case, no work was started.

Earlier, in November 2006, Nigeria had signed a loan facility agreement with China for US\$2.5 billion – of which US\$1.3 billion was to be dedicated to the first phase of the new Lagos–Kano railway. The loan comprised two facilities. The first was valued at US\$500 million provided through the Chinese EximBank on concessionary terms with an interest rate of 3%, a repayment period of 20 years including a grace period of five years; and the second, for US\$2 billion, was to be provided directly by EximBank on the same terms. However, the most significant condition of the loan facility was that it was linked directly to the lifting of crude oil by Chinese companies and the allocation of four oil blocks (one of which had to be producing) in the upcoming 2007 licensing round. And as with the Korean loan, China was to benefit from a signature bonus waiver under this arrangement. But, crucially, the MoU required to confirm the terms of the loan facility agreement had not been signed by the time President Obasanjo left office, nor has it been since.⁶⁴ The signature of such an MoU had been an imperative for drawing on this

61 Interviews with Nigerian government officials, Abuja, May 2008.

62 Interview with the World Bank Office, Abuja, May 2008.

63 *Business Day*, 5 December 2007.

64 Interview with the Chinese Embassy, Abuja, May 2008.

facility. In any case, the IMF did not support this facility on the grounds that the terms of the Chinese loan did not meet the required conditions defined by the Policy Support Instrument (PSI).⁶⁵

A subsequent investigation by the Yar'Adua administration showed that the contract price was hugely inflated, and that neither a feasibility study nor a front end design had been undertaken before the contract was awarded; and in any case there was no provision in the 2008 budget for Nigeria's co-financing element. As a result, the president cancelled the contract in June 2008.

The new administration was not keen on the ambitious and costly railway projects it had inherited. According to government officials, Yar'Adua's economic team preferred the simple refurbishment of the two existing north-south lines, retaining the original single-track, narrow-gauge structure. The east-west line, which would have been new, is no longer regarded as a priority. The government is hoping to attract foreign investment for the refurbishment. Another option being considered is to offer concessions on all the lines. The government has been encouraged in this thinking by the discovery that, before the oil-for infrastructure deals closed all options, the Bureau of Public Enterprises (BPE) had received expressions of interest on the railway concessions from 21 companies.⁶⁶ The government hopes to be able to revive that interest.

Power on and off

President Obasanjo was impressed with the Three Gorges project in China, and decided to replicate it in Nigeria. He persuaded the Chinese to build a hydroelectric power project at Mambilla in Taraba State under the strategic deal scheme. This commitment was linked to CNOOC's acquisition of oil blocks in the 2007 round. The deal was agreed on the margins of the China-Africa Summit in November 2006. But a disagreement arose over the interest payments Nigeria would make on a loan facility of some US\$2.5 billion offered by China for the purpose. Two Chinese companies put in cost estimates for the civil works and

hydraulic steel structures, with prices up to US\$2 billion. However, before the loan facility could be sorted out, President Obasanjo went ahead and awarded the contract for the first phase (valued at US\$1.46 billion) to a Chinese company, China Gezhouba Group Corporation (CGGC), just a few weeks before the handover of the presidency. This impetuous decision was typical of Obasanjo's style, and left his successor to pick up the pieces. A subsequent investigation into the power sector by the House of Representatives in March 2008 discovered that the German firm acting as consultants on the project had not even done a feasibility study although they had been allocated a mobilization fee of US\$3 million from the excess crude account.⁶⁷ No work has been done on the site to date. In view of the boycott of the 2007 round by the ANOCS, including CNOOC, the status of the Chinese contract is now in doubt. In fact, the new government suspended the project in October 2007 while it sought alternative sources of funding.

Refineries pending

On the rest of the Asian commitments, there have been regular announcements that both China and India would build new refineries in Nigeria. One of OMEL's commitments in return for oil blocks was to build a green-field 180,000 bpd capacity refinery. While negotiations were reported to have started in January 2008 and have continued into 2009, the site for the proposed refinery is not yet decided. Both Lagos and the Niger Delta are possible options.⁶⁸ In any case, the Obasanjo administration changed its mind several times about the fate of the existing refineries. China had originally pledged to invest US\$2 billion in the ailing Kaduna refinery, while Taiwan had offered to buy into the equally ailing Port Harcourt refinery. Neither development happened. To confuse matters further, on the eve of his departure from office President Obasanjo sold both refineries to a local business consortium. The Yar'Adua administration has since reversed these sales. It remains to be seen whether the Indian and Chinese promises to build new refineries are translated into reality.

65 The Policy Support Instrument (PSI) is a new instrument introduced by the IMF in 2005 to provide support and endorsement of a country's home-grown reform policies (in Nigeria's case the NEEDS programme) by a twice-yearly review. It is a non-financial instrument.

66 *Punch* (Nigeria), 15 June 2008.

67 *Business Day*, 26 December 2007.

68 See, for example, *Business Day*, 5 January 2008 and *The Guardian* (Nigeria), 24 April 2008.

The dénouement

When the strategic deals with the ANOCs were first announced, the press – both domestic and international – hailed this development as a massive shift to the East for Nigeria’s oil industry. But the hype was not justified. In reality, the ANOCs secured little more than a handful of blocks out of several hundred awarded over the last fifty years to the IOCs and Western independents. The magnitude of their gains was overstated, as was the importance of the shift. And the grand promises of infrastructure projects have not been honoured.

‘In reality, the ANOCs secured little more than a handful of blocks out of several hundred awarded over the last fifty years to the IOCs and Western independents.’

By the summer of 2008, the irregular nature of the strategic deals had become apparent following a number of official government investigations. Further details emerged during hearings of the House of Representatives’ Ad Hoc Committee set up to enquire into the NNPC and its subsidiaries for the period 1999–2007 (i.e. the Obasanjo years). First, it was confirmed that KNOC had not paid its full signature bonus for the two blocks it had been awarded in 2005. As noted above, KNOC claimed that it had been given an unannounced discount. Secondly, the true nature of the OMEL deal was exposed when Mittal’s representative admitted in a closed session to the Ad Hoc Committee that Obasanjo had agreed that Mittal would not have to fulfil any of the promised downstream obligations until the two blocks awarded in 2006 yielded 650,000 bpd. That is not only an implausible target but practically impossible to achieve short of a major oil field discovery on OMEL’s concessions. Obasanjo later made a discretionary award of a third block to help OMEL reach its production target. Mittal

also revealed that the original agreement to invest in three projects (see Table 1) had been later changed by mutual agreement, so that Mittal would invest in only one. China’s CNPC also found itself in a controversial position over one of the four blocks it acquired in 2006. In a bizarre move, a producing block known as OML 65 belonging to the NNPC’s exploratory wing, NPDC (Nigeria Petroleum Development Corporation), was taken from it. The block was allocated a prospecting licence (OPL 298) that was duly awarded to CNPC. It appears that Obasanjo had promised China at least one operational bloc. The legal department of the NNPC described this arrangement as highly anomalous. It is rare for a block with a mining licence to revert to a prospecting licence. But the problem for CNPC arose when it tried to take control of the block. In spite of having signed the PSC a month before Obasanjo left office, the NNPC has since stalled on the follow-up paperwork. The new government was angered over the manner in which OML 65 had been given away outside normal procedures and for an insignificant signature bonus.

As a result of its findings, the Ad Hoc Committee recommended the cancellation of the oil blocks awarded to KNOC, OMEL and CNPC in 2005 and 2006.⁶⁹ This followed the government’s earlier cancellation of two major project proposals linked to the deals (a gas pipeline promised by South Korea and the Lagos–Kano railway promised by China). At the same time, all other infrastructure proposals linked to the acquisition of oil blocks were put on ice. In any case, most had not been elaborated. The government was provoked to make this decision after discovering that the deals were opaque, that the financial arrangements were unsatisfactory and that due process had not been followed. However, some presidential advisers have urged caution, arguing for renegotiation of the deals rather than revocation, to avoid the inevitable political fallout with the Asian countries concerned. This group sees revocation as a clumsy response to a messy problem. So encouraged, the ANOCs under threat have since opened negotiations with the government to try to rescue their oil assets.

⁶⁹ Interviews with Nigerian government officials, Abuja, October 2008.

In the meantime, the government has revised the guidelines for the allocation of oil blocks. One of the most important changes is its decision to abolish the controversial Right of First Refusal that had so compromised the bidding rounds of 2005, 2006 and 2007, and that had been designed to favour the ANOCs. The issue of the Local Content Vehicle is also to be discouraged given that it was used to reward cronies rather than to encourage genuine local participation in the industry. The timetable for the payment of signature bonuses has also been tightened up: automatic revocation is cited as the penalty for non-payment of 50% within 90 days of the award. Licensing rounds, which had become an annual affair during Obasanjo's second term, will in the future be less frequent and based on economic need rather than political considerations.⁷⁰

The ANOCs' experience in Nigeria has been difficult and frustrating so far. Oil-for-infrastructure deals have been successful elsewhere in Africa, notably in Angola and

Sudan. This suggests that the concept per se is not at fault. But in Nigeria the scheme went wrong because it was not properly conceived and there were no inbuilt guarantees. While historically it has been common practice in Nigeria for an incoming government to investigate the contracts entered into by its predecessor, the oil-for-infrastructure deals were of a different order. The absence on the ground of promised infrastructure projects some three years after the oil blocks were awarded was sufficient to provoke an investigation. It was then discovered that arrangements for compliance were shoddy or non-existent, that due process and transparency were lacking, and that the existence of secret clauses and unannounced discounts on signature bonuses had combined to make a mockery of the bidding process and the concept itself. These serious shortcomings, together with the hidden political agenda, ensured that the scheme was doomed to failure. The dénouement was predictable.

⁷⁰ Ibid.

1.5 Conclusion: Things Fall Apart⁷¹

President Obasanjo's stated grand design to achieve a 'development dividend' through the oil-for-infrastructure scheme with ANOCs has fallen apart – and with it went the impact that it might have made on the Nigerian landscape. Following the cancellation of the Korean gas pipeline project and the Lagos–Kano railway contract with China, it now appears that in total some US\$20 billion of investment promised by the ANOCs in 2005/06 is at risk. The direction of travel is clear.

For all the grandstanding announcements, the devil is in the detail. The financial arrangements were not favourable to Nigeria. Both China and South Korea had offered to only partly fund the projects with government-to-government loans. But the terms were not satisfactory. For all the projects, Nigeria would have to find the balance of the funding itself. That would have imposed a burden over time. India's proposals were different. Its commitments were to be funded by direct investment and the projects undertaken on a build, operate, manage and ownership basis.⁷² The downside of the Indian approach was that the projects would not start until the oil blocks were in production – which can entail 3–5 years of prospecting. The absence of a detailed assessment by the Obasanjo government of the ultimate value – and cost – to Nigeria of the oil-for-infrastructure scheme was partly responsible for its demise.

From its actions since it was elected in mid-2007, the Yar'Adua government has made its position very clear. Its policies will be guided by the rule of law, due process and

transparency. The oil-for-infrastructure scheme, which compromised the transparency of the oil licensing rounds, will not be repeated. The introduction of both the RFR and the LCV was abused for political purposes.

The new government has acted decisively over a number of the dubious deals made by the previous government. It cancelled the last-minute sale of the refineries, arguing that it had been contrary to the national interest and that due process had not been followed. It cancelled the sale of the Ajaokuta Steel Complex for a token sum to an Indian steelmaker. It has approved investigations by government panels or the National Assembly into the power, transport, aviation, and other sectors. These investigations have all exposed evidence of massive fraud and corruption in the allocation of government contracts. The scale of the corruption, mismanagement and non-execution of projects in the Obasanjo years has sent shock waves through Nigeria. For example, the investigation by the House of Representatives into the power sector discovered that despite expenditure of some US\$16 billion between 1999 and 2007, power generation has fallen dramatically, from 3500 MW in 1999 to 1200 MW in 2007.

In what has turned out to be a long season of probes into the activities of the Obasanjo administration, the oil sector has not been spared. The investigation of the 2007 licensing round led to a review of the 2005 and 2006 rounds. And in May 2008, the National Assembly set up an Ad Hoc Committee to look into the activities and performance of the NNPC/DPR for the period 1999–2007. (See the Introduction and Overview section above for an update.)

The tragedy is that the deals were not what they seemed. Unspoken political agendas from the Nigerian side and opportunistic agendas from the Asian side undermined what might have been a mutually beneficial arrangement. Although the initiative came from Nigeria in the first place, once the blocks had been awarded to the ANOCs the initiative passed into their hands. Nigeria was thereafter trapped by a set of expensive promises with no mechanism to force the ANOCs to deliver on them. There were no legally binding agreements that would have tied the development of oil blocks to the simultaneous delivery

⁷¹ The title of a novel by Chinua Achebe.

⁷² Interview with the Indian High Commission, Abuja, May 2008.

of the infrastructure. This was the key weakness of the whole concept.

Nigeria is in dire need of a functioning infrastructure, whether railways or gas pipelines, to serve the domestic market. The Yar'Adua government expects that it will get a better deal by putting at least some of these projects out to international tender, or by setting up public-private partnerships. It believes that the few Asian projects that got as far as the drawing board were neither competitively priced nor properly designed. The inflated contract prices would have allowed much room for corruption and left Nigeria with unacceptable levels of new debt.

This case study does not share general concerns about Asian behaviour in Africa. The ANOCs' entry into the murky world of Nigerian oil has proved both difficult and controversial. This has not been a case of the aggressive Asian pursuit of oil. After years of reluctance, the ANOCs accepted the invitation to play. Nor has this been a case of ANOCs paying over the odds to get into the market. On the contrary, they were offered either discounts or signature bonus waivers to entice them in. This was a wholly Nigerian initiative. The novel concept of swapping oil blocks for investment in infrastructure was inspired by President Obasanjo. His intentions were good but officials failed to spell out the full implications of the scheme. And many used the scheme for private profit. It might have seemed a good idea on paper but the spirit was breached in the implementation. In spite of the acreage awarded to the ANOCs, they have not yet added to the reserves, and there has been no measurable benefit from the strategic deals.⁷³

Even if the oil blocks awarded to the ANOCs stand, their footprint in Nigeria is very small. They pose no threat to the IOCs, a conclusion the latter have confirmed.⁷⁴ The IOCs are more concerned about the impact of the

Yar'Adua government's proposed reforms on the NNPC, as well as the perennial problem of insecurity in the Niger Delta. According to diplomatic sources, the IOCs see the proposed reform to the JVs as 'nationalization through the back door'.⁷⁵ While this is an alarmist view, there is no doubt that the reforms will affect their profitability.

The impact of the ANOCs in Nigeria has turned out to be unexpected. The manner in which they came has generated controversy. Not a single barrel of oil has yet been produced by them. Not a single barrel has been added to Nigeria's reserves. Not a single downstream commitment has been started. There has been no impact on the Nigerian economy. There has been no tangible benefit. The ANOCs have had a baptism of fire in Nigeria. More than anything else, their experience has exposed the idiosyncratic style of government in the Obasanjo years. It is time for the ANOCs to get their relationship with Nigeria sorted out and put on a more sound footing for the future. Otherwise, they might lose the small toehold they already have. Revocation is in the air. If it happens, there are bound to be diplomatic, political and possibly legal consequences. When the ANOCs begin to compete on a level playing field in a transparent process, following market forces rather than under-the-table deals, their presence and impact in Nigeria are likely to be beneficial and long-lasting.

The oil-for-infrastructure concept has succeeded elsewhere in Africa. But in Nigeria it was poorly conceived and poorly implemented – and above all, it was distorted by political considerations. What should have been a 'win-win' situation turned into a 'lose-lose' situation. Historians are likely to judge the Nigerian case as an aberration, as a product of its time, in a very particular political context.

⁷³ Interviews with Nigerian government officials, Abuja, May 2008 and October 2008.

⁷⁴ Interviews with Shell and Chevron, London, March 2008.

⁷⁵ Interview with the British High Commission, Abuja, May 2008.

Part 2

Asian National Oil Companies in Angola

Alex Vines, Markus Weimer
and Indira Campos

2.1 Introduction

Speaking on 20 June 2006, Angola's President José Eduardo dos Santos declared: 'We appreciate the cooperation between China-Sonangol, Sinopec and Unipet and the efforts our two countries are making to rehabilitate basic facilities destroyed during the war in Angola.' The interrelation between business and diplomatic ties is a major factor in the success of Chinese oil strategies in Angola *vis-à-vis* those of other Asian countries. Japan and South Korea were slow in establishing diplomatic relations with Angola although the former had a head start over its rivals, accessing equity oil

since 1986. Since an initial US\$2 billion oil-backed loan in 2004 directed towards infrastructure development, Chinese development assistance has evolved to the extent that loans are no longer exclusively oil-backed. President dos Santos summed this up in November 2007 when he stated that 'China needs natural resources and Angola wants development'.⁷⁶ China has been more successful than other Asian countries in meeting Angolan needs for post-conflict reconstruction. Despite India's rapid expansion in the country, China remains firmly at the top of the trade ranking, leading in the amount of Angolan crude that is imported into Asia while increasing its investments and exports to Angola. In sharp contrast, India, Japan and South Korea have only played a marginal role in the Angolan oil sector. The extent to which South Korean and Japanese oil companies can compete with their Indian and Chinese counterparts will be tested as further oil licensing takes place. In the race between the top two, India is clearly surpassed by China. The best hope for future concessions for Indian and other Asian companies lies in the possibility that Angola's preference for diversity in its international relations will trump China's deep pockets.

⁷⁶ 'Angolan leader addresses OPEC summit in Saudi Arabia', *Angop*, 19 November 2007.

2.2 The Context of the Angola–Asia Relationship

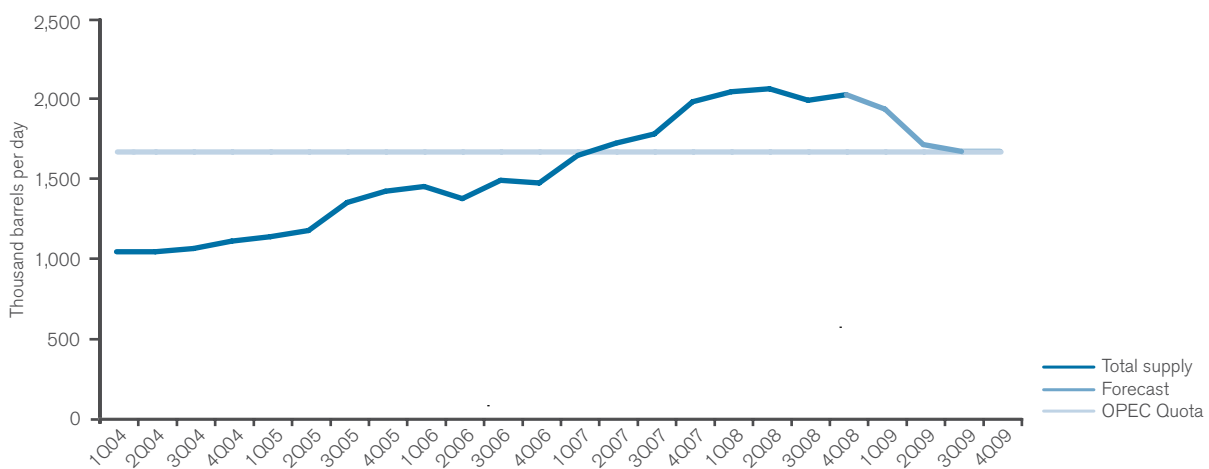
Since April 2002, Angola has enjoyed a period of sustained peace. In September 2008 it held parliamentary elections, the first since 1992, which provided the ruling Movimento Popular de Libertação de Angola (MPLA) with a resounding victory and cemented its political hegemony with 191 seats in the 220-seat National Assembly. From being the theatre of one of the most protracted conflicts in Africa, Angola has, since 2004, experienced high rates of economic growth, sustained by high government spending and a rapid increase in oil exports. It is today a key player in Africa's oil industry

as a major producer and exporter (see Figure 1). Between 2004 and 2007 it posted the highest increase in oil output (ahead of Russia, Azerbaijan, Brazil, Libya and Kazakhstan, among others). In 2008, Angola also surpassed Nigeria as the leading sub-Saharan oil producer.

Angola is a strategic oil supplier to the world's first and third largest oil consumers: in 2008 it was the fifth largest exporter to the United States and the second to China.⁷⁷ On 1 January 2007, oil-importing partners and many oil companies operating in the country were caught by surprise when OPEC admitted Angola as its twelfth member. In 2009, it took over the presidency of the oil cartel and began implementing OPEC production cuts. Since September 2008 the OPEC ceiling has been lowered three times. To comply with OPEC cuts, Manuel Vicente, president of the national oil company Sonangol, stated that Angolan output would be lowered in 2009 from the 2008 level of around 2 million barrels per day (b/d) to 1.656 million b/d.⁷⁸

Angola has pursued a policy of diversification in its energy partnerships since production from shallow waters started off the coast of the Province of Cabinda in 1968. Subsequently, its continental shelf was divided into a total of 35 blocks, most of which have been offered to international oil companies, which bid for the rights to develop extraction activities in partnership with Sonangol. Four

Figure 1: Total Angolan oil supply



Sources: US Energy Administration; OPEC

77 Although in the first five months of 2009 Angolan oil exports to China declined by 35.6%, year on year. Angola now ranks third after Saudi Arabia and Iran.

78 <http://www.moneybiz.co.za/africa/africa.asp?story=00d439d1-ec92-4b35-b54a-22a8dc9aad38>.

of the five Western major IOCs (Shell being the exception) are building up substantial investments in Angola. Total's Block 17 and ExxonMobil's Block 15 are driving the expansion in production. ExxonMobil is currently the largest operator in Angola's oil sector. So far, these companies have not faced serious competition from Asian companies for management of the complex deepwater fields.

All the deepwater fields are governed by production-sharing contracts, which means that projects should not be hampered by project-financing issues (as has occurred in Nigeria). This makes production more reliable and has been increasingly attractive for ANOCs. At approximately 2m b/d, Angola's oil reserves are projected to last twenty years.⁷⁹

Box 1: Sonangol

'During Angola's long civil war of 1976–2000, Sonangol emerged as Angola's only competent state institution, as most others imploded through attrition and mismanagement', says Ricardo Soares de Oliveira from Oxford University.^a Sonangol kept the economy alive with capital infusions and used oil revenues as collateral for weapons purchases, which enabled the MPLA to prosecute its war against the US- and Chinese-backed UNITA rebels. Sonangol kept America's Chevron as an investor in the oil industry despite the MPLA's reliance on Soviet and Cuban support in 1976–92. Sonangol's status, in turn, allowed it to attract Angola's best talent. It still regards itself as a cut above the central bank and finance ministry, which, according to analysts, are getting stronger but still lack control over Sonangol's financial flows.^b

Sonangol has always been a highly opaque organization. It has been instrumental in managing funds for a variety of Angolan projects and purchases, and was never plagued by the bureaucracy and red tape that characterized the Angolan state apparatus under whose ultimate control it supposedly falls. To this day Sonangol enjoys the political backing of the presidency. Some observers argue that the company was, and is, acting as an informal (and off-budget) sovereign wealth fund, reinvesting oil wealth for the country – for example in the Portuguese banking sector, but also in the region (Gabon, DR Congo, Côte d'Ivoire, Guinea-Bissau, Cape Verde, São Tomé and others).

a Ricardo Soares de Oliveira, 'Business success, Angola style: post colonial politics and the rise of Sonangol', *The Journal of Modern African Studies*, vol. 45, no. 4, December 2007.

b 'Angola: Sonangol's Strong Hand', *Energy Compass*, 12 September 2008.

Oil and reconstruction after the war: the contribution of Asian countries

After the war rapid reconstruction became the Angolan government's top priority. Asian countries and companies have contributed to this reconstruction. China, which established diplomatic relations with Angola in 1983, has played a particularly important role in assisting these efforts. Chinese financial and technical assistance has kick-started some 120 projects since 2004 in the areas of energy, water, health, education, telecommunications, fisheries and public works. On the occasion of Chinese Prime Minister Wen Jibao's visit to Angola in June 2006, President dos Santos described bilateral relations as being 'mutually advantageous', and partnerships as being 'pragmatic', with no 'political preconditions'.⁸⁰

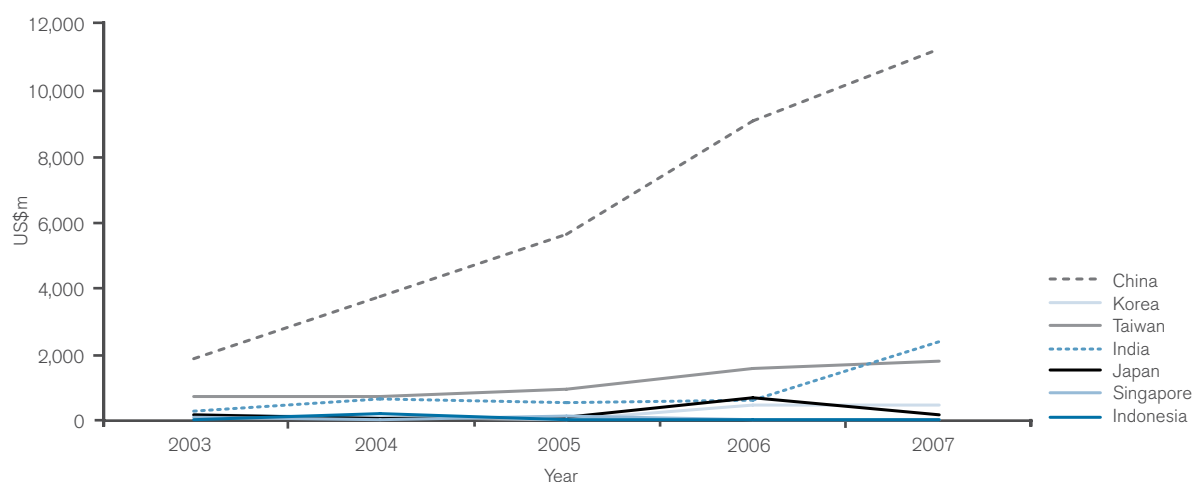
A key driver for China, as for other Asian countries such as India, South Korea and Japan, is accessing Angola's natural resources, particularly oil, in exchange for goods and services. Growing oil demand in Asian countries is not matched by domestic supply and since 2003 ANOCs have tried rapidly to acquire stakes in exploration and production projects in Angola. They have also bought up more Angolan oil on the spot market. In early 2004, Sonangol opened its Sonasia office in Singapore, aimed at promoting the trade of Angolan crude oil to Asia. As illustrated in Figure 2, China (and Taiwan) and India are growing importers in this sector. Cabinda crude has been particularly popular in the Far East, notably in China.

Since 2004, China has obtained equity partnerships in Angolan deepwater oil blocks through Sinopec's majority in Sonangol Sinopec International Limited (SSI) and in shallow-water blocks through the China Sonangol International Holding Limited (CSIH), a joint venture between Sonangol and Hong Kong-based private business interests. SSI was awarded equity in deepwater Block 18 in 2004 and CSIH was awarded equity in Blocks 3(05) and 3(05A) in 2005. This was, however, turned over to SSI by 2007. SSI was awarded further equity in Blocks 15(06), 17(06) and 18(06)

79 Reserves according to *Oil and Gas Journal* (OGJ).

80 'PR defende cooperação constitutiva com a China', *Jornal de Angola*, 21 June 2006.

Figure 2: Asian destinations of Angolan crude oil



Source: Ministério dos Petróleos – MINPET; Banco Nacional de Angola – BNA / Departamento de Estudos e Estatísticas – DEE

(with Agip-ENI, Total and Petrobras being the respective operatorship winners) in the May 2006 oil licensing awards (although this was subsequently handed over to CSHH to hold, before being returned to SSI eventually – see below).⁸¹

Sonangol appeared determined to avoid a repeat of Nigeria's shambolic auction in 2005, as mentioned above in Part 1. Sonangol has limited the number of blocks on offer and has kept indigenous participation on a tight rein, allowing only ten well-connected players to take part. Foreign players were also kept on a short leash; Sonangol pre-qualified 29 companies to bid as operators and 22 firms, including locals, as non-operators.⁸²

Angola promised a high level of transparency for this licensing round, built on new laws that went into effect at the end of 2004. The licensing round yielded unprecedented signature bonuses worth more than US\$3 billion, far in excess of those paid in 1999 and 2000 for the ultra-deep Blocks 31, 32, 33 and 34. The winning bid of \$902 million by AGIP-Eni for the operatorship of Block 15(06), provoked by strong Chinese competition, broke the world record set in a licensing round in Venezuela in 1996 and

resulted in the SSI world record offer of \$2.2 billion for non-operator stakes in Blocks 17(06) and 18(06). Sonangol announced the signature bonus payments offered in this 2006 licensing effort, avoiding some of the opacity seen in Nigeria's licensing rounds.

In the (postponed) 2007/08 round, 81 companies pre-qualified to bid for licences for seven offshore and three onshore blocks. Of these, 43 will be bidding for operating licences and 38 for non-operating licences. In February 2009 Sonangol's President Manuel Vicente confirmed that the bidding round could only be held after the national presidential elections (to be held in late 2009 at the earliest). In June 2009, a Sonangol board member mentioned that an oil licensing round in 2009 is unlikely owing to low oil prices.⁸³ Nevertheless, several Asian oil companies have pre-qualified for operatorship, including Sinopec, ONGC Videsh (OVL) and India's Essar E&P, Pakistan's Oil & Gas Development and the Tokyo-based Inpex. SSI pre-qualified as a non-operator. South Korean companies were noticeably absent.

Before China's growing interest and presence in Angola is addressed in more detail, relations between Angola and its three other major Asian partners –

81 In Block 18(06), Brazil's Petrobras was awarded the operatorship of the block with a smaller share than its main equity partner on the block, SSI, which secured a 40% stake.

82 Non-operator is defined as 'the working interest owner or owners other than the one designated as operator of the property; a "silent" working-interest owner'. (<http://dictionary.babylon.com/NONOPERATOR>).

83 'Angola unlikely to open new oil licence tender', Reuters, 29 June 2009, <http://in.reuters.com/article/oilRpt/idINJAT00430920090629>.

Japan, South Korea and India – are considered below. All three are having a hard time gaining a foothold in Angola. While Japan's slowness may be attributed to the decline of the Japanese economy and distaste for certain types of financing instruments (i.e. assigned commodity receipts – oil-backed loans), and India's lacklustre engagement may be attributed to a diversification of its refining capacity to rely less on the Angolan sweet crude, it remains the case that other Asian countries are crowded out by the dominant presence of China in Angolan oil concessions.

Japan

Japan was the second largest consumer of oil in the world in 2008, and remains very reliant on Middle Eastern oil. Its oil imports from Angola (mainly petroleum products) reached US\$808.3 million (see Figure 2) but their volume collapsed by 94% between 2007 and 2008.

Although diplomatic relations were established in 1976, Japan only opened its embassy in Luanda in 2005. This was in response to growing trade ties and only after Angola had opened its own embassy in Tokyo in 2000. The Japanese community in Angola is tiny, with only 25 registered nationals in 2007. Japan's exports to Angola in 2006 – mainly cars, machinery and steel products – amounted to around US\$375.8 million.

President dos Santos paid a five-day visit to Japan in 2001, which included meetings with Prime Minister Yoshiro Mori and Emperor Akihito. In 2008, he was once again invited to visit Japan by a Japanese parliamentary group for 'friendship between Africa and Japan'. That same year a commission was created for cooperation between the two countries.

In November 2007 Japan hinted that it might provide long-term, low-interest credit lines to Angola. This was reiterated a year later by the chief of the financial division of the Japanese Ministry of Foreign Affairs, Takashi Miyahara, during a visit to Angola in November 2008. Sonangol had already invited Japan to invest in Angola's oil sector during an event organized

by the Angolan embassy in Tokyo in February 2008. As noted above, one Japanese oil company, Inpex, pre-qualified as an operator during the 2007/08 oil licensing round.

Subsidiaries and affiliates of the Mitsubishi Corporation have been engaged with Angolan oil production since 1986 and several have offices in Luanda.⁸⁴ On 7 April 1986 Mobil Oil and Mitsubishi Petroleum Development (MPDC) announced that it had bought a 25% share of Mobil's interest in Block 3(80) (offshore Angola) for US\$255 million.⁸⁵ In order to promote and carry out its purchase, MPDC established a new joint venture company, Angola Japan Oil (Ajoco) and its affiliates, Ajoco Exploration (Ajex) and Ajoco'91 Exploration. These were both traditional Japanese overseas oil subsidiaries, with the then Japanese state-owned Japan National Oil Corporation (JNOC) taking a leading share in each.⁸⁶ In 2009 Ajoco continued to hold a 20% stake in Blocks 3(05) and 3(05A) (it had been able to acquire these already in 2004 – before Total's interests in Block 3(80) officially expired on 30 June 2005). In addition to Block 3, Ajex was also a participant in an offshore Block 7 exploration licence but has relinquished this role.

Japan abolished its national oil company, JNOC, in 2005 and developed a new strategy: encouraging upstream companies to merge and seek new acreage and equity oil.

The result of this new strategy was a privatization of Ajoco and its affiliates by the piecemeal sale of its assets to other Japanese upstream companies, but with Japan's Ministry of Economy, Trade and Industry (METI) maintaining a minority holding. The active METI encouragement for the merger of small, privately listed Japanese upstream companies was intended to increase their competitive edge against Asian rivals. The 2005 merger of Inpex with Teikoku Oil is a case in point. In September 1992 Teikoku Oil had obtained a 25% equity stake in the onshore Cabinda North Block. Its subsidiary, Teikoku

84 In 2009, Mitsubishi Corporation Exploration announced that, 'with a view to expand and strengthen our activities, a Representative Office is to be established in Luanda'. Mitsubishi Corporation Exploration, 'Our Business', www.mcxploration.com/en/business/index.html.

85 'Mitsubishi Petroleum Co. Ltd Purchases 25 percent of Mobil Exploration Inc's Share of Interest in Block 3 Offshore Angola', PR Newswire, 7 April 1986.

86 In Ajoco, MPDC was a minority shareholder, along with the Inpex Corp., Mitsui Oil Exploration Co. (Moeco), Japan Petroleum Exploration Co., Ltd (Japex) and Taiyo Oil Co., Ltd, and in Ajex, with Inpex and Taiyo.

Oil (Cabinda) retains a 17% stake in the block following renegotiation with Sonangol in 2006. As mentioned above, Inpex, Taiyo Oil, Ajoco and Ajoco'91 pre-qualified for operatorship in the 2006 oil block licensing round but in the end were unsuccessful.

Japan has also been an important bilateral donor to Angola (see Figure 3). Japanese official development assistance (ODA) consists of grant aid and technical assistance that do not require repayment. Japan finances aid programmes that support de-mining, health and education projects but also NGO activities in grassroots and human security projects and agricultural projects.

South Korea

Angola and South Korea established diplomatic relations in 1992 but South Korea only opened its embassy in Luanda in 2007 and Angola its Seoul embassy in 2008 (an expansion of its four-year-old trade liaison office). Its decision to open an embassy was not just for economic reasons but also for political ones, given the regional importance of Angola.⁸⁷ In 2007 South Korea was a major supplier of engineering for offshore oil production and became the third largest source of Angolan imports (9.6%), although it imported no oil from Angola in 2008. Trade between Korea and Angola surpassed US\$1.2 billion as of the end of 2008.

Table 1: Angolan imports from South Korea (c.i.f., % of total)

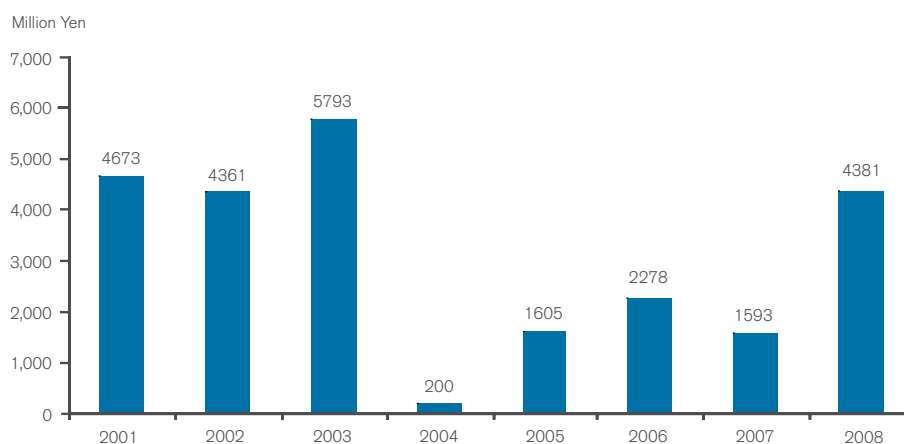
	2003	2004	2005	2006	2007
South Korea	0.6	28.4	20.3	10	9.6

Source: ANIP – National Private Investment Agency of Angola

South Korea and Angola signed an MoU in October 2006 to allow South Korean companies to develop both land and offshore oil and gas fields. At the time South Korea's Ministry of Commerce, Industry and Energy said it expected companies such as Korean Petroleum Development and Daewoo to win rights to one or two oil fields in Angola in 2007.⁸⁸ The Sonangol website shows Daewoo as a joint-venture partner,⁸⁹ and Korea's Samsung was originally to be involved with Sinopec in a now collapsed deal to build a new oil refinery in Lobito, Sonaref. In March 2008 the South Korean government expressed interest in Angola's biofuels industry and in November 2008 it signed two project implementation development accords for US\$179 million.

As of 2009, some 47 South Korean companies are investing in Angola. For example, in November 2007, Namkwang Engineering & Construction won a US\$241.4

Figure 3: Grants from Japan to Angola, 2001–08



Source: Japanese Embassy, Luanda

87 Interviews with Korean officials and businesses, Luanda, May 2008 and Seoul, September 2008.

88 'S. Korea to develop oil, gas in Angola', Xinhua, 12 October 2006.

89 <http://www.sonangol.co.ao/>.

million order from Angola's Riverstone Oaks to build villas and other facilities. Between 1991 and 2007, South Korea provided a total of \$36 million in grants and loans to Angola. The South Korea EximBank has also granted a \$130 million credit line for project finance.

Developing this relationship with Angola is in line with President Lee Myung-bak's energy diplomacy. Angola supplies crude to South Korea (see Figure 2) and President Lee has been invited for an official visit to Angola.⁹⁰ President Lee met President dos Santos at the G-8 summit in Italy in July 2009 and discussed an upcoming meeting of the Angola – South Korea Joint Bilateral Commission. This bilateral commission first met in Luanda in May 2004 to discuss bilateral cooperation. A second meeting of this commission was held in Seoul in August 2009 with Korean Minister of Trade Kim Jong-Hoon and Angolan Minister of Public Works Higinio Carneiro leading their respective delegations.

South Korea arrived late in Angola and its companies have not yet succeeded in obtaining oil concessions at the date of writing. Companies such as Hyundai, Samsung and Daewoo are involved more in shipping and design than in oil exploration. Bilateral trade fluctuates a lot. In 2006 it was worth over US\$1 billion as a result of oil rig construction work. South Korea wants to invest in Angola but finds it a hard market to penetrate, especially owing to the language barrier and restrictive regulatory regimes.

India

Although India was one of the first countries to recognize the MPLA government in 1975, in line with its support of nationalist movements against Portuguese colonialism, its footprint in the country is tiny compared with China's.

India set up its resident mission in Luanda in 1986 and Angola its embassy in Delhi in 1992. Despite this, bilateral visits were initially infrequent. Prime Minister Rajiv Gandhi's visit in May 1986 led to the signing of a bilateral trade agreement in October 1986 in New Delhi. President dos Santos visited India in April 1987 and a number of Angolan officials have visited the country since. Visits became more regular after 2004 when oil and diamond diplomacy took

off as part of the global commodities boom. João Miranda, Angola's then foreign minister, visited India in May 2006 and met Minister of State for External Affairs Anand Sharma, Minister of Commerce and Industry Kamal Nath and Minister for Petroleum and Natural Gas Murli Deora. He also met a cross-section of businessmen at a meeting arranged by the Confederation of Indian Industry. In June 2007, External Affairs Minister Sharma visited Luanda to discuss cooperation in the fields of oil, geology and mining, agriculture, health, education and tourism. Sonangol sends some 30–35 students each year from its subsidiary Sonaship for training as sailors in Madras. President dos Santos met with Indian Prime Minister Manmohan Singh at the G-8 summit at L'Aquila in Italy in July 2009.

Trade with India has been small, mainly in meat, pharmaceuticals, dairy products and machinery. Indian companies such as Tata, Mahindra & Mahindra and others (in pharmaceutical, paper, plastics and steel) have had business interests in Angola for some years. The Indian community in Angola is still relatively small, numbering some 1,000.⁹¹ India's main import from Angola is crude oil (as Figures 2 and 4 show) and its state-run oil refiner Indian Oil (IOC) estimates that for the financial year starting April 2009 it will buy 60,000 b/d (compared with 30,000 b/d in FY 2008/09).⁹²

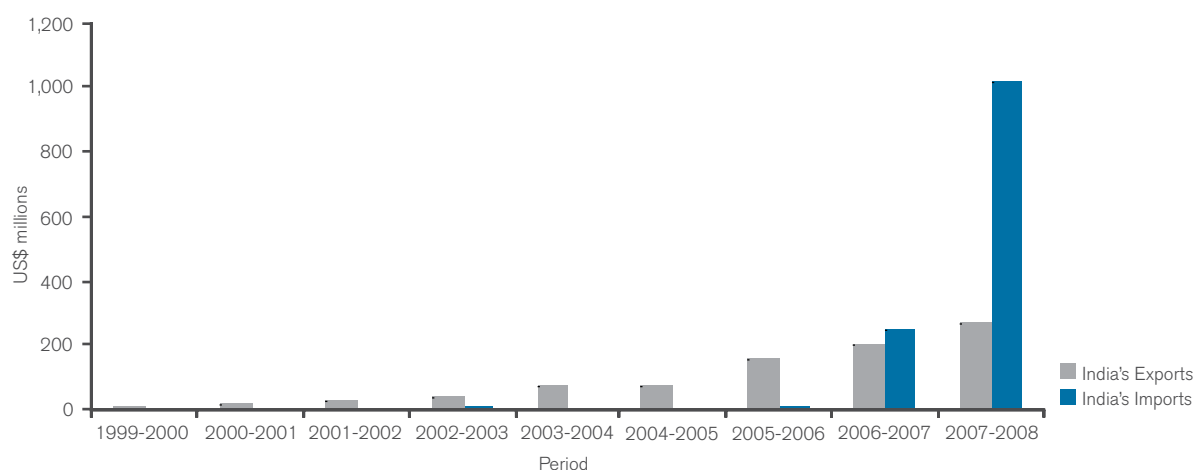
As part of India's oil diplomacy, in August 2004 its Export Ministry extended a US\$40 million loan to the Angolan government for the Moçamedes Railway (CFM) Rehabilitation Project. Rail India Technical and Economic Consultancy Services (RITES, an Indian government enterprise) started the project in 2005 and handed it over at completion in August 2007. India's EximBank then extended three credit lines of US\$5 million, \$10 million and \$13 million for agricultural equipment and Indian tractors. The State Bank of India, which opened offices in Luanda in 2005, has subsequently also extended commercial lines of credit for more tractors and the import of capital equipment from India. But these increased efforts are still tiny in comparison with the \$2 billion loans offered by China's EximBank during the same period.

90 'Biz Encouraged to Invest in Angolan Natural Resources', *The Korean Times*, 22 February 2009. President dos Santos had visited South Korea in 2001.

91 Interview with Indian Embassy, Luanda, May 2008.

92 'Crude import plan of Indian state-refiners for 09/10', Reuters, 28 March 2009.

Figure 4: India–Angola trade (US\$m)



Source: Indian Embassy, Luanda

India's oil diplomacy in Angola

India has tried to get oil acreage in Angola. ONGC Videsh Limited – OVL, the flagship subsidiary for overseas ventures of India's state-owned Oil and Natural Gas Corporation (ONGC), had hoped to buy Shell's 50% share in Block 18 and cut a deal with Shell in April 2004, but Sonangol blocked it by exercising its pre-emption right. Indian Petroleum Minister Mani Shanker Aiyar admitted in September 2004 that 'our approach earlier was to get Sonangol to waive its pre-emption right. But we now understand that Angolan firm will go ahead and exercise its right to buy a Shell stake.'⁹³ A senior Angolan official put it more bluntly: 'They made a big mistake by not consulting Sonangol early on but talking directly [and] negotiating with Shell – they completely misunderstood Angolan politics.' India's offer of US\$310 million for infrastructure development could not compete with \$725 million from China, and the Sinopec Sonangol International joint venture (SSI) took over the concession.⁹⁴

OVL also signalled in late 2005 that it might participate in the Sonaref Lobito oil refinery project as part of its bid in the 2005/06 licensing round to secure equity participation in Blocks 15(06), 17(06) and 18(06).⁹⁵ A subsidiary of OVL, Mangalore Refinery and Petrochemicals, would have been involved. On a visit to Luanda in March

2007 following the collapse of the Sonangol and Sinopec consortium agreement for the construction of Sonaref, India's Trade Minister Jairam Ramesh indicated that his government still considered participating with a 30% stake in Sonaref. In May 2007 when External Affairs Minister Sharma visited Luanda, President dos Santos offered India a 30% stake in the Lobito oil refinery. India replied that OVL had been designated the company to deal with all oil issues in Angola.

During a visit to Angola from 28 March to 1 April 2008, Minister of State Commerce Ramesh signalled at a meeting with Angola's Petroleum Minister Desidério da Costa that 'India has again expressed its interest in participating in the refinery and we will expedite the process.'⁹⁶ The Indian minister also took up OVL's case again as it had made a US\$1 billion offer to develop the three offshore blocks that SSI has indicated it wants to relinquish. He also announced that India and Angola would set up a Joint Economic Commission to enhance bilateral relations, particularly in oil, natural resources and infrastructure. The first meeting was to have been held in October 2008 but was delayed because of the Angolan and Indian elections in 2008 and 2009 respectively.

India also plans to start talks with Angola for a 300 MW gas-based power project, and it has offered

93 'Angola blocks OVL's deal to buy Shell stake', *Indian Express*, 18 September 2004.

94 'Sinopec beats ONGC, gets Angola block', *The Financial Express*, 14 July 2006.

95 'Angola Country Report', Economist Intelligence Unit, December 2005.

96 'Indian Oil companies make \$1B offer for three blocks in Angola', *African Oil Journal.com*, 4 February 2008.

to set up a Centre of Excellence in petroleum technology, refining and marketing.⁹⁷ A delegation from the Confederation of Indian Industry visited Luanda in January 2009. Hindustan Petroleum and Mumbai and Mittal Investments visited Angola in 2008 to explore cooperation in the oil and gas sector.⁹⁸

India considered cooperating with Chinese competitors to get a foothold in the Angolan oil and gas sector. Petroleum Minister Deora announced in August 2007 that 'ONGC and CNPC are jointly pursuing opportunities to secure oil equities in Angola.'⁹⁹ The chances of such a deal succeeding have taken a battering as relations between the two countries have deteriorated. In November 2007 a strategic partnership agreement was signed in New Delhi with the Portuguese oil and gas company GALP for global opportunities, including in Angola.¹⁰⁰

In March 2008, Deora announced that 'Angola is the next country where we are going to concentrate',¹⁰¹ admitting that in the 2004 licensing round, 'we lost because our bid

wasn't good enough. We have learned from this.' As noted above, OVL and Essar E&P pre-qualified for operatorships for the postponed 2007/08 oil licensing round and India hopes to do better in any future round. OVL issued a statement on 5 July 2008 that: 'OVL has been short-listed for the deepwater blocks by the Angolan Authorities' and that Deora had proposed OVL and Sonangol 'should form a joint venture to participate in the next round of offer on exploration blocks in Angola'.¹⁰²

India is trying to copy China by seeking a joint venture with Sonangol. OVL also bid for a 20% stake in Angola's offshore Block 32, which US energy firm Marathon Oil announced it was selling in 2008, but lost out to tough competition from the Chinese. Indian officials admit they have an uphill struggle in getting access to Angolan oil concessions and that their advantage is in finance, IT, accountancy, shipping and diamonds, not in construction.¹⁰³ India hopes to step in where the Chinese are weak, such as in training and skills transfer in some of these sectors.¹⁰⁴

97 'OVL makes \$1 billion offer for three blocks in Angola', *Press Trust of India*, 1 April 2008.

98 In July 2005, Mittal and ONGC had signed a joint-venture agreement to explore market possibilities in ten countries including Angola through ONGC Mittal Energy Ltd (OMEL).

99 'OVL and CNPC set off on joint oil hunt in Angola', *African Oil Journal*, 4 September 2007.

100 'Galp assina parceria estratégica com Indiana ONGC', *Diário Digital/Lusa*, 1 December 2007.

101 'India Turns to Angola for Oil After Losing in Energy Auctions', *Bloomberg*, 30 March 2008.

102 'OVL Shortlisted to Bid as Operator for Deepwater Blocks in Angola', ONGC Videsh Limited, 5 July 2008.

103 India's diamond diplomacy seems more successful. The Angolan state diamond company, Endiama, has agreed to do business directly with the large Indian diamond industry, while India is looking at opening an institute for jewellery manufacturing in Luanda. India seeks direct links with supplier countries, cutting out the middlemen.

104 Interview with Indian Embassy, Luanda, May 2008.

2.3 China's Growing Interest

The relationship between China and Angola has come a long way in the last quarter-century. The Chinese initially refused to recognize Angola's independence owing to their support for the FNLA (and UNITA) during the war of independence, and formal diplomatic relations between Beijing and the MPLA government in Luanda were only established in 1983. The first trade agreement was signed in 1984. A Joint Economic and Trade Commission was created in October 1988, but its first meeting was held only in December 1999, with a second in May 2001.¹⁰⁵ Relations improved gradually in the 1990s, and Angola became China's second largest trading partner in Africa (after South Africa) by the end of the decade, mostly because of defence cooperation.¹⁰⁶

Following the end of the conflict in 2002, relations between China and Angola shifted quickly from a defence and security basis to an economic one. They reached an even higher level on 2 March 2004, when China's EximBank pledged an initial US\$2 billion oil-backed loan to Angola to fund the rebuilding of shattered infrastructure throughout the country. Since then, frequent bilateral visits of important state officials have contributed to the normalization of bilateral relations and have resulted in the signing of various political, diplomatic, economic, cultural and social agreements.

Since 1993, Angola has maintained an embassy in Beijing. In April 2007 increasing investments in Hong Kong

led Angola to open a consulate there, and in November 2007 an Angolan consulate was also opened in the former Portuguese colony of Macau. President dos Santos paid official visits to China in 1988, in 1998 and twice in 2008 (July and December). In 2008 Angola's TAAG Airlines and Air China began regular flights between the two countries. In March 2009 the Joint Commission met for the fourth time¹⁰⁷ to assess the progress of cooperation in general and of the credit lines in particular.

Bilateral trade

During the 1990s, bilateral trade ranged between US\$150 million and \$700 million per year. In 2000, it exceeded \$1.8 billion, and by the end of 2005 it had increased fourfold to \$6.9 billion. Within a year it had nearly doubled to \$12 billion, making Angola China's largest trading partner in Africa (with South Africa now second). The vast bulk of bilateral trade has been made up of oil exports, while official Chinese imports remain smaller, consisting mostly of food products and consumer goods. Angola's trade with China expanded at its fastest ever rate in 2008, with total bilateral trade reaching an estimated \$25.3 billion. This represented a 79% increase on the level of total trade in 2007 and was primarily driven by high oil prices. In 2008 Angola was the second largest source of crude oil to China (after Saudi Arabia), providing 28.89 million mt (594,533 b/d) – although in 2009 there has been a decline in the imports of Angolan oil to China.

Over the past eight years there has been a 35-fold increase in the value of Sino-Angolan trade, with especially strong growth since 2004 following the award of US\$4.5 billion in Chinese loans and credit lines to finance infrastructure development, much of it in return for increased exports of Angolan crude (see Figures 5 and 6). In 2009, according to Chinese officials, over 100 Chinese firms are operating in Angola (over 50 of them of significant size).¹⁰⁸

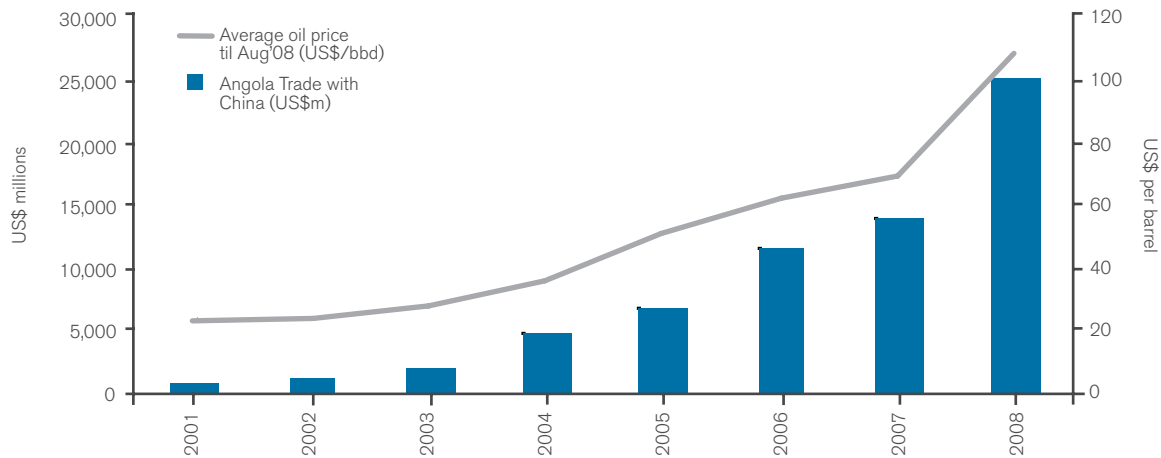
¹⁰⁵ In August 1998 an agreement between the Communist Party of China and the MPLA, and a cultural agreement, were also signed.

¹⁰⁶ It has been alleged that during the civil war after the 1992 elections, UNITA troops were a major recipient of Chinese military hardware. This is, however, denied by the Chinese.

¹⁰⁷ The third meeting occurred in March 2007 to review the progress of the bilateral relationship.

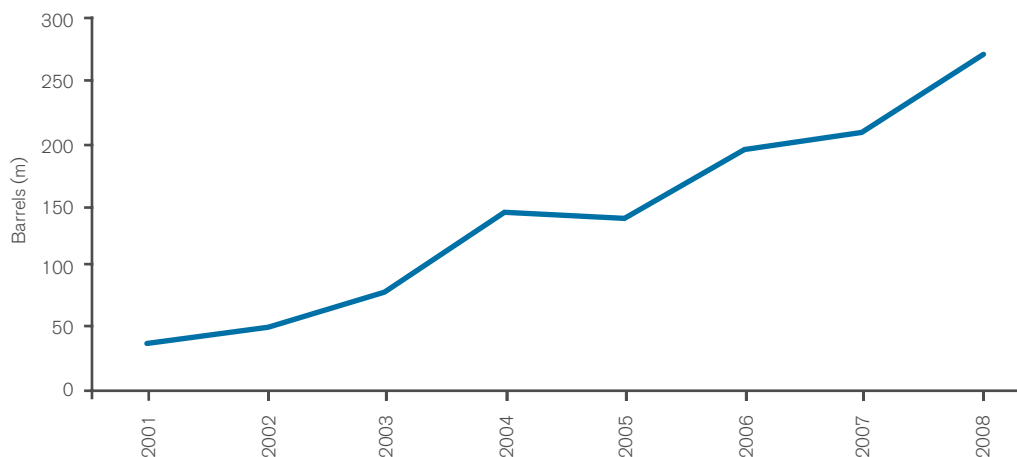
¹⁰⁸ 'China, Angola relations excellent – ambassador', Angop, 26 March 2009.

Figure 5: Angola's trade with China



Sources: China General Administration of Customs, US Energy Administration (2007)

Figure 6: Angola's trade with China – crude volume equivalent at year average crude price



Sources: China General Administration of Customs, US Energy Administration (2007)

Many of these companies use mainly a Chinese workforce in Angola; some 40,000, according to Chinese officials, work on official infrastructure projects.

Accessing Angolan oil

Angola has been a major oil supplier to China for some time: by 2004 it was already its third largest supplier, only marginally behind Saudi Arabia and Oman. Chinese

demand for Angolan crude partly reflects the fact that Chinese refineries were configured for domestic crude, which tends to be low in sulphur – making Angolan sweet crude more attractive but also more expensive than the sourer Middle Eastern crude. Crude oil represents over 95% of all Angolan exports and it is also China's main Angolan import. Until 2007, China was the second-largest importer of oil from Angola after the United States. In 2007 the US was the destination of 28.7% of all Angolan oil exports.¹⁰⁹ Since 2002 Angolan oil exports to China have increased sevenfold, a rate twice that of exports

¹⁰⁹ Data provided by US Energy Information Administration (EIA).

to the US.¹¹⁰ In 2007 China overtook America as the largest importer of Angolan oil. It extended that lead further in 2008, when Angolan crude represented over 18% of China's total oil imports (but under 5% of US total oil imports).¹¹¹

Box 2: Chinese migration

The number of Chinese residing in Angola has grown significantly over recent years, although reports of a flood of poorly skilled Chinese workers there are overstated. Until 2005, the Portuguese were the principal foreign labour force in Angola, but in 2006, the number of Chinese – nearly 15,000 residing in Angola with work visas – surpassed them. In 2007 there were over 22,000, and by 2008 this Chinese community had grown to almost 50,000, according to Chinese officials (and according to Angola's Service of Migration and Foreigners, 40,000 of these were working on the official bilateral infrastructure projects).^a

Most of these Chinese are low-skilled migrant workers who enter the country under the ambit of the Chinese credit line. They usually come on one-year or two-year contracts and then return to China. They live in closed compounds, often at the site of the actual construction. There have been few reports of serious social problems as these workers barely have any contact with local Angolans and the language remains a serious challenge for them. According to an independent Chinese entrepreneur in Angola, these workers earn a very low salary and lack the financial expertise, language skills and contacts to establish their own business in Angola – a cost he estimated to be at least US\$400,000.

For comparison, a reported 10,400 Angolans applied for visas in 2008 to visit China, according to the Chinese embassy in Luanda in early 2009.

a 'China, Angola relations excellent – ambassador', *Angop*, 26 March 2009; 'Quarenta mil Chineses em Angola', *O Apostolado*, 16 April 2009.

Sinopec's first steps: SSI and the Block 18 'ground-breaking' deal

As a sign of China's growing importance to Angola's economic development, following the opening of China's first credit line to Angola in March 2004, Sinopec acquired its first stake in Angola's oil industry in July of the same year – 50% of the BP-operated Block 18. Sonangol Sinopec International (SSI) was created to explore the stake on the block.¹¹² It is a joint venture majority-owned by Sinopec (55% stake) with Beiya (now Dayuan) International Development Ltd., and China Sonangol International Holding Ltd. (CSIH) holding 31.5% and 13.5% of SSI respectively.¹¹³

Block 18 is an interesting model as it is jointly shared by BP and SSI. BP officials talk of this experience having become a positive partnership with Chinese colleagues. The funding structure was also new: China started to cooperate with Western banks on a project-finance deal. The project initially attracted little participation but later involved a range of Western and Chinese banks, and the political risks of operating in Angola were seen to have been mitigated by the size of the Chinese participation.¹¹⁴

The deal was signed on 12 May 2006. It was a US\$1.4 billion upstream borrowing-based facility to SSI for the refinancing of development costs of Block 18. Calyon Corporate & Investment Bank was the lead arranger, with Standard Chartered as financial adviser.¹¹⁵ They brought in US\$700 million of international bank money from eight banks and the rest from five Chinese banks on a club basis.¹¹⁶ Although initially reluctant, Western banks warmed to the deal. The loan documentation was not split between Sonangol and Sinopec and there has been only

110 'Angola exporta 29.9 bilioes de dolares em petroleo', *Portugal News*, 8 August 2007.

111 Source: US EIA.

112 According to the *Diário da República (State Gazette)*, no. 22, series 1, 21 February 2005, Oil Minister Desidério da Graça Veríssimo da Costa authorized the termination of the contract with Shell Development Angola BV for 50% participation in the exploration of Block 18, and authorized the same type of contract for Sonangol EP and Sinopec International through SSI. SSI would be responsible for the timetable of amortizations, reporting of damages and accountability of recovery costs.

113 According to the Chinese version of the CSIH website, SSI is responsible for the part of the business related to oil blocks in Angola. (<http://www.chinasonangol.com/chi/business.asp> - last accessed, 19 August 2009)

114 'Extending Chinese interests: Sonangol Sinopec', *Trade Finance*, 10, 2 March 2007.

115 Calyon is a French investment bank, formed out of a merger between Crédit Agricole and Crédit Lyonnais.

116 Calyon and Standard Chartered were the financial advisers for this loan; Norton Rose was the legal counsel for the lenders and Jones Day for the borrowers.

The final group of lenders comprised the China Development Bank, the Export-Import Bank of China, China Construction Bank, BNP Paribas S.A., ING Bank NV, Natexis Banques Populaires, Agricultural Bank of China, Bayern LB, Calyon, KBC Finance Ireland, Standard Chartered Bank, Bank of China and Société Générale.

one tranche, both of these factors simplifying the process significantly.¹¹⁷ The arrangement was deemed Africa Oil and Gas Deal of the Year for 2006 by *Project Finance* magazine.

BNP Paribas calls the deal 'ground-breaking' as it is Sinopec's first overseas upstream project financing. Sonangol had for some time been arranging receivables-backed financing through Western banks but this was the first time that both companies had sought joint project finance. SSI obtained a seven-year loan that is covered by a pre-completion guarantee from Sinopec during construction. Once this is released, the deal is non-recourse, i.e. a loan that is secured only by the asset, and its equity. The offtaker is the crude trader China International United Petroleum & Chemicals (Unipecc), which is part of Sinopec.¹¹⁸

Sonangol had prepared the way for this deal with a previous US\$3 billion corporate deal signed in September 2005, sold in the Hong Kong market under Hong Kong law through Calyon.¹¹⁹ This was the largest pre-export finance facility ever and Trade & Forfeiting Review called it 2005's Deal of the Year. It came about because of contractual restrictions on Sonangol at the time for seeking new credit. The deal also marked a new structure, with funds provided directly to China Sonangol International Holding (CSIH) rather than a special purpose vehicle (SPV). CSIH was able to raise the funds on the back of the long-term offtake agreement with Unipecc for oil destined for the Chinese market. Under Sonangol's 2004 deal, the borrowing entity was free to trade with a basket of offtakers on a spot-market basis. This was the first Sonangol deal to involve a Chinese offtaker; it amounted to a US\$3 billion loan that was to be paid back over a seven-year period by the delivery of Angolan crude to Unipecc (at a rate of 40,000 b/d for the first three years).¹²⁰ Once this loan was syndicated, CSIH participated in the SSI project finance facility through its 31.5% equity stake of Dayuan International Development. This arrangement suits Sinopec well, enabling it to benefit from major technology transfer from the Western

companies leading the operations while still being granted a large share of the oil from these licences.

BP Angola (the operator) and SSI announced that production from the Greater Plutonio development area in Block 18, offshore Angola, started on 1 October 2007. It consists of five distinct fields discovered in 1999–2001 in water depths of up to 1,450 metres and is the first BP-operated asset in Angola.¹²¹ SSI continues to benefit from Plutonio's production and loaded two oil cargoes in April 2008 (compared with 22 for Sonangol).¹²² Greater Plutonio produced an average of 181,380 b/d in 2008.¹²³

Box 3: How much oil does Sinopec get through SSI?

SSI holds a 40% share in Block 18(06). SSI is split between Sinopec (55%), Dayuan (31.5%) and CSIH (13.5%). This therefore gives Sinopec 22% of equity oil from SSI, Dayuan 12.6% and CSIH 5.4%. CSIH's share is further divided among New Bright International Development Ltd. (New Bright) and Sonangol EP. Their respective shares of Block 18(06) equity oil are 3.78% and 1.62%. Owing to her 30% stake in New Bright, 1.134% of Block 18(06) equity oil accrues directly to Ms Lo – who, among other positions, is the director of New Bright, SSI and Dayuan, as well as the vice chairperson of CSIH.

Total Sinopec oil equity through SSI is: 11% of Block 15(06), 15.125% of Block 17(06), 22% of Block 18(06), 13.75% of Blocks 3(05) and 3(05A), and 27.5% of Block 18.

According to the Angolan Ministry of Petroleum Report on Petroleum Sector Activity in 2007, SSI only started producing in 2007 (3.9m barrels worth US\$340m). CSIL had already produced oil the preceding year (1.97m barrels in 2006 and 2.96m barrels in 2007).^a

It is appropriate to question whether SSI and, in particular, CSIH can really be considered 'Asian' or 'national' oil companies.

a <http://www.minpet.gov.ao/PublicacoesD.aspx?Codigo=477> – last accessed 6 July 2009.

117 Ibid.

118 Interview with BNP Paribas official, Paris, 10 March 2009.

119 This was over-subscribed as 40 banks replied.

120 'Establishing new patterns of trade', *Trade Finance*, 1 December 2005.

121 'Production Begins at Greater Plutonio', BP press release, 2 October 2007.

122 Angola's cargoes typically range in size from 875,000 barrels to 1 million barrels apiece.

123 Energy Intelligence, *International Crude Oil Market Handbook 2009*, July 2009, www.energyintel.com.

In January 2009 BP shut crude production from the Greater Plutonio fields for 'operational reasons'. It appears BP invoked *force majeure*.¹²⁴ There was speculation that this was the result of Sonangol telling oil companies operating in Angola to reduce their output in order to meet the OPEC production targets that were agreed in December 2008.¹²⁵ In practice the OPEC caps mean that operators will operate below capacity and be unable to boost production. Owing to lower oil prices (at the time of writing and for the foreseeable future) and planned increase of output (increased Angolan output was supposed to offset global shortfalls, not only for BP), these OPEC targets are hurting oil companies and their shareholders.¹²⁶

Sinopec's growth in Angola

In March 2005, during Chinese Vice-Premier Zeng Peiyang's visit to Angola, nine cooperation agreements were signed, mostly related to energy. Sonangol also entered a long-term uplift agreement to supply oil to Unipet, which *Africa Energy Intelligence* estimated could result in Sinopec (as the parent company) lifting up to 100,000 b/d.¹²⁷ Additionally, the two parties signed an MoU to jointly study plans for the exploration of the shallow offshore blocks 3(05) and 3(05A) (previously known as Block 3(80) – see above) that had been withdrawn from Total in late 2004.¹²⁸ Later that year, Sonangol agreed that CSIH would acquire the 25% stake.¹²⁹ CSIH does not have any Sinopec participation but the CSIH stake was handed over to SSI (where Sinopec holds a 55% interest) in 2007.

In April and May 2006 Sonangol announced the winners of exploration licences for seven shallow and deep-water concessions that had been put out to tender in November 2005. A total of 29 companies pre-qualified in the bidding for shallow-water Blocks 1, 5 and 6, deepwater Block 26,

Table 2: China's E&P assets in Angola

Block(s)	Company	Year acquired	Share (%)	Partners (%)
15(06)	SSI	2006	20	ENI Angola EXPL. [OP] (35) Sonangol E&P (15) TOTAL (15) Falcon Oil (5) STATOILHYDRO (5) Petrobas (5)
17(06)	SSI	2006	27.5	TOTAL [OP] (30) Sonangol EP (30) Falcon Oil (5) ACR (5) Partex Oil & Gas (2,5)
18(06)	SSI	2006	40	Petrobas [OP] (30) Sonangol EP (20) Falcon Oil (5) Grupo Gema (5)
3(05) and 3(05A)	CSIH (SSI from 2007)	2005	25	Sonangol EP [OP] (25) Ajoco (20) ENI Angola EXPL (12) SOMOIL (10) NAFTGAS (4) Ina-naftaplin (4)
18	SSI	2004	50	BP [OP] (50)

Partner companies countries of origin:

Italy (ENI); Angola (Sonangol EP, ACR, Grupo Gema, SOMOIL, Falcon Oil; Holding Angola AS); France (TOTAL), Brazil (Petrobas); Croatia (Ina-Naftaplin, NAFTGAS); UK (BP)
Norway (STATOIL); Japan (Ajoco); Portugal (Partex).

Source: Sonangol, 2008

and the re-licensing of relinquished acreages in deepwater Blocks 15, 17 and 18.¹³⁰

SSI acquired three new Angolan offshore oil blocks. It offered US\$750 million for 20% of ENI-operated Block 15 after failing to win the operatorship. SSI also made a record US\$2.2 billion signature bonus payment (\$1.1 billion for each block) for the relinquished offshore Blocks

124 *Force majeure* is a legal disclaimer, providing protection for a company if it realizes it will not be able to deliver the agreed volume of cargo or services.

125 'Angola Requests Oil Cos Cut Output to Meet OPEC Quota – BP', Dow Jones, CNNMoney.com, 7 January 2009; see also <http://jutiagroup.com/2009/01/08/oil-prices-could-be-ready-to-rally-if-history-is-any-indication/>.

126 Other operators such as Total, ExxonMobil and Chevron were also affected by OPEC quotas and associated production cuts by Sonangol.

127 'The Angola-China Connection', *Africa Energy Intelligence*, 27 July 2005.

128 When Total's PSA expired on 30 June 2005 it was not renewed.

129 Manuel Vicente, President of Sonangol, signed the agreement in Beijing in mid-2005.

130 Some were old licences that had expired, while Blocks 15(06), 17(06) and 18(06) were new areas carved out of existing deepwater licences following the contractual relinquishment of parts of old licences by their operators.

17(06) (27.5%) and 18(06) (40%). This signature bonus payment is a record for Angola and suggests that Sinopec felt it needed to pay over the odds to secure this acreage despite the ongoing Chinese loans to the Angolan government. From these Angolan acquisitions SSI hoped to add approximately one billion barrels of equity oil from production over the next five years. Sinopec believed that Blocks 15(06), 17(06) and 18(06) have proven reserves of 1.5 billion, 1 billion and 700 million barrels of oil respectively.¹³¹ Although the Sinopec Group has indicated that overseas operations will be transferred to its publicly listed subsidiary (Sinopec Corporation), it has not added its Angolan equity production numbers to the latter's disclosures. Interestingly, in Angola's *Ministry of Petroleum Report on Petroleum Sector Activity in 2007* (published 11 June 2009), SSI (and CSIL) is referred to as a 'national, privately owned oil company'.¹³²

The Lobito (Sonaref) oil refinery and inter-Chinese rivalry

In addition to the bids for the rights to prospect for oil, the Chinese–Angolan joint venture earmarked US\$200 million for social projects. Sinopec and Sonangol also agreed to jointly study plans for a new \$3 billion oil refinery in Lobito (Sonaref) with an eventual capacity of 240,000 b/d.¹³³ On 16 March 2006 Sonangol EP, a subsidiary of Sonangol Group, signed a consortium agreement with Sinopec to develop Sonaref. The Angolan government had tried for years to get the project off the ground and had even required companies bidding for Blocks 17 and 18 in the last licensing round to include major investment in the project. Under the deal, Sonangol was expected to take a 70% share and Sinopec 30%. Construction was scheduled for the end of 2007, to be carried out in various phases.

‘The joint operating agreement was never concluded and the Sonaref negotiations collapsed in early 2007 with Sonangol declaring it would manage the project on its own’

Under a previous agreement signed in 2000, South Korea's Samsung was to have assisted construction. However, the joint operating agreement was never concluded and the Sonaref negotiations collapsed in early 2007 with Sonangol declaring it would manage the project on its own.¹³⁴ In November 2008, Sonangol announced that it had hired US engineering giant KBR to design the plant at Lobito and that the now much more costly US\$8 billion refinery would be funded solely by Sonangol.

In 2007 SSI offered to voluntarily renounce its stake in Blocks 15(06), 17(06) and 18(06), its three newly acquired concessions. This raised speculations about tension in Sino-Angolan relations, and Portuguese media reported that Galp Energia SGPS of Portugal was to replace Sinopec's stake on the blocks, under the instructions of Sonangol.¹³⁵ However, Francisco de Lemos, Finance Director of Sonangol Holdings, denied these claims, stating that genuine commercial factors had led SSI to consider renouncing its participation. As he explained, 'many oil companies have expressed interest in the blocks, but Sonangol has yet to make a decision on who's to replace SSI'.¹³⁶ As it turns out, CSIH has replaced SSI during an interim period, taking on the blocks until a permanent equity partner was found. These are now SSI Fifteen Ltd., SSI Seventeen Ltd. and SSI Eighteen Ltd. for Blocks 15, 17, and 18 respectively.

131 'China's Sinopec wins bid for stakes in Angola oil blocks', *Shanghai Securities News*, 13 June 2006.

132 <http://www.minpet.gov.ao/PublicacoesD.aspx?Codigo=477> – last accessed 6 July 2009.

133 'Sonangol rubrica acordo para desenvolvimento da refinaria do Lobito', *Angop*, 16 March 2006.

134 Sonangol President Manuel Vicente criticized the Chinese in the Angolan media, claiming that 'we can't construct a refinery just to make products for China'. This would suggest some resistance on the strategy of locking in supplies through long-term contracts, which China has applied elsewhere. However, according to Chang Hexi, the Chinese Economic Counsellor in Luanda, the negotiations over the refinery were deliberately obstructed by the Chinese negotiators because they were not genuinely interested in the deal. Centre for Chinese Studies, 'China's Engagement of Africa: Preliminary Scoping of Africa Case Studies' (University of Stellenbosch, September 2007).

135 'Galp Declines Comment on Reports of JV with Sonangol, Petrobras, ONGC', AFX News Ltd, 30 November 2007.

136 Interview, Luanda, 28 January 2008.

Sinopec has not lost its appetite for Angolan oil and Sinopec Corporation's Director and Chairman of the third session of its Board of Directors, Dr Su Shulin, visited Luanda in April 2008. On 17 July 2009, it was announced that Marathon International Petroleum Angola Block 32 Ltd., a subsidiary of Marathon Oil, had entered into a definitive agreement with CNOOC and SINOPEC. Both companies will purchase undivided 20% participating interest in the production-sharing contract and joint operating agreement in Block 32 for US\$1.3 billion, effective from 1 January 2009. Marathon Oil retains a 10% working interest. The companies expect to close the transaction by year-end 2009, subject to government and regulatory approvals.¹³⁷ Unusually, China's CNPC also made a separate bid.

For the first time Chinese companies are openly competing among themselves for Angolan concessions. CNPC has tried to get a foothold in Angola since 1997 when it signed a letter of intent for a joint venture with Sonangol to build the Sonaref oil refinery in Lobito.¹³⁸ In April 2004, CNPC also signed a 'strategic partnership' agreement for 12 months with Toronto-listed Enagengem to assist in getting business opportunities in a number of African countries including Angola. According to India's Petroleum Minister, in 2007 CNPC and ONGC of India were 'jointly pursuing opportunities for securing oil equity in Angola'.¹³⁹ A delegation from Zhen Hua Oil (an affiliate of NORINCO) was also in Luanda in March 2008 to sign an MoU with Sonangol.¹⁴⁰

'Angola mode': oil-backed loans for infrastructure

In addition to providing equity to Chinese oil companies, since 2004 Angola has agreed to at least two oil-backed loans for Chinese financial assistance for key public investment projects in infrastructure, telecommunications and agribusinesses under the National Reconstruction Programme.

Oil-backed borrowing by Angola is not new. It started in the late 1980s when it needed financing for Sonangol's share of developments off Cabinda. Over time Angola established a track record, allowing it to borrow increasing amounts not just for Sonangol but also for general government use. Oil-backed borrowing became an increasingly effective tool by which the Angolan presidency could secure spending priorities, bypassing the inefficiencies of the traditional financial system. It has become central to the exercise of power.

Until 2002, several older commercial oil-backed loans were repaid at a fixed barrels-per-day rate. Rising oil prices would therefore lead not to more income but to accelerated repayment of the loans. These loans were expensive, typically commanding two or three percentage points above the benchmark Libor rate, plus the costs of hedging. For a while a significant proportion of the government's share of oil production was tied to loan repayment.

Angola has used its oil to secure credit lines from Portugal, Brazil, Spain and, most recently, China. For example, for years Brazil has enjoyed a credit arrangement, backed by the production of 20,000 b/d, under which Banco do Brasil provides payment guarantees for major construction projects.

The Chinese loans mark a dramatic expansion of Angola's use of such arrangements, partly because of their size but also because the terms are more concessional in terms of the grace and repayment periods: less Angolan oil is needed as collateral and repayment periods are longer. These loans are also all fresh money, not refinancing like the commercial loans.

China's EximBank is increasingly making use of this deal structure – known by the World Bank as the 'Angola mode' or 'resources for infrastructure' – whereby repayment of the loan for infrastructure development is made in natural resources.¹⁴¹ This approach follows a long history of resource-based transactions in the oil industry. In the case of the China EximBank, the arrangement is used for countries that cannot provide adequate financial guarantees and allows

137 [http://www.streetinsider.com/Corporate+News/Marathon+Oil+\(MRO\)+to+Sell+Interest+in+Block+32+Offshore+angola+for+\\$1.3+Billion/4800732.html](http://www.streetinsider.com/Corporate+News/Marathon+Oil+(MRO)+to+Sell+Interest+in+Block+32+Offshore+angola+for+$1.3+Billion/4800732.html), last accessed 30 July 2009.

138 Erica Downs, *China's Quest for Energy Security* (Santa Barbara: RAND, 2000), pp. 21–23.

139 'OVL and CNPC set off on joint oil hunt in Angola', *African Oil Journal*, 4 September 2007.

140 *Africa Energy Intelligence*, 18 June 2008.

141 Vivien Foster et al., 'Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa', World Bank and Public-Private Infrastructure Advisory Facility, July 2008.

them to package together natural resource exploitation and infrastructure development. As illustrated below, terms and conditions are agreed on a bilateral basis with the degree of concessionality depending on the project. According to the World Bank these loans offer on average an interest rate of 3.6%, a grace period of four years and a maturity of twelve years. The only unique thing about the 'Angola mode' is that Chinese engagement has been quick and the loans have been large. Angolans argue that over time, China's investment in the Democratic Republic of Congo will probably become more significant than its investment in Angola.

The China Construction Bank (CCB) and EximBank provided the first funding for Angolan infrastructure development in 2002. The Angolan Ministry of Finance had little input into these arrangements since funding was provided directly to Chinese firms. Financial relations between China and Angola grew further in November 2003 when a 'framework agreement' for new cooperation was formally signed by the two governments. On 21 March 2004, the first US\$2 billion financing package for public investment projects was approved. The loan is payable over 12 years at a deeply concessional interest rate, Libor plus a spread of 1.5%, with a grace period of up to three years.¹⁴² It was divided into two phases of US\$1 billion.¹⁴³ The first tranche of the loan was released in December 2004, and by the end of 2007 nearly \$837 million had been utilized. In March 2007, the second half of the loan was made available, but the majority of this is as yet unused. By December 2007, only \$237 million of the second phase had been disbursed.¹⁴⁴ According to the World Bank, drawing on information provided by the Angolan Ministry of Finance, this loan was oil-backed. Details are scarce although this loan will be guaranteed by Angolan National Bank assets such as revenue from an oil sales contract equal to 10,000 b/d of crude at the spot price.¹⁴⁵

The first phase of this credit line involved 31 contracts on energy, water, health, education, communication and public works, for fifty projects across the whole country, valued at US\$1.1 billion. Seven Chinese firms are engaged in this initial phase, and the largest project is the rehabilitation of 371 km of road between Luanda and Uíge. In the health sector, the priority has been the rehabilitation and enlargement of provincial and municipal hospitals and district health centres. In the education sector, the focus is on rehabilitation of secondary schools and polytechnics. In agriculture, US\$149 million permitted the acquisition of new agricultural machinery as well as the rehabilitation of irrigation systems in the localities of Luena, Caxito, Gandjelas and Waco-Kungo.

The second phase of the loan will fund implementation of 17 contracts, involving over 52 projects, some of them unfinished from the first phase. Although education remains a priority, the second phase also supports fisheries and telecommunication projects.

In May 2007, an extension of US\$500 million was negotiated with EximBank to finance 'complementary actions' to first-phase projects that had not been budgeted for. Under this new financial facility some priority projects include water and energy networks for newly built institutes and schools, and the construction of new telecommunications lines and water treatment plants.

In September 2007, a further oil-backed loan of US\$2 billion was signed in Luanda. This new credit line will finance an additional 100 projects approved by the Council of Ministers in November 2007.¹⁴⁶ According to then Finance Minister José Pedro de Morais, the government intended to continue to prioritize health and education by carrying on the construction of schools and hospitals throughout the country as well as investing in the energy

142 The African Development Bank and OECD, drawing on a March 2006 presentation by Renato Aguilar to the OECD on 'Asian Drivers in Angola', reported that the terms of this loan include repayment over 17 years, a period of grace of up to five years and a 1.5% interest rate per annum. This comes from 'Angola: Major Chinese loan marks "turn towards the east"', *Jornal de Angola*, 9 March 2004, which draws on a Voice of America report, 'Viragem ao oriente vale 2 biliões de dólares Angola', 8 March 2004. See also the Angola section in *African Economic Outlook*, AfDB/OECD 2006, p. 116, <http://www.oecd.org/dataoecd/37/35/36734978.pdf>.

143 The terms of the loan are Libor plus a spread of 1.5%, with a grace period of up to three years.

144 Angolan Ministry of Finance (2008).

145 The World Bank reported that the information provided by the Angolan Ministry of Finance showed that the 2004 China EximBank loan was priced at Libor plus 1.5%, included 0.3% commission and was oil-backed.

146 'Aprovado acordo de crédito com EximBank', *Jornal de Angola*, 29 November 2007.

and water sectors.¹⁴⁷ (See Annex C for further details on the various phases.)

In this new financial agreement, the repayment terms were increased to fifteen years and the rate of interest was revised downwards.¹⁴⁸ Conditions attached to Chinese exports were relaxed, but the local content rules for reconstruction were tightened to ensure greater local participation. Under the first loan deals, the limited local content obligations had increasingly been an issue of dispute among Angolans. In January 2005, this was highlighted by Angolan economist José Cerqueira: ‘There is a condition in the loan that 30% will be subcontracted to Angolan firms, but that still leaves 70% which will not. Angolan businessmen are very worried by this, because they don’t get the business, and the construction sector is one in which Angolans hope they can find work.’¹⁴⁹ In August that year an independent newspaper, *Semanário Angolense*, reported that several Angolan leaders were ‘disgusted’ that Chinese companies excluded Angolan companies, such as Sécil Marítima.¹⁵⁰

Although pressure on Chinese firms has resulted in an increase in the use of Angolan labour, the issue of lack of local content and lack of liquidity contributed to some stoppages in Chinese construction projects in late 2007 and in 2008 linked to the China International Fund (CIF, see below). For example, the Benguela railway line project was subject to a series of contractual revisions that followed the discovery by the Angolan authorities of ‘irregularities’ by Chinese firms. As a result the Angolan government decided to let the Chinese companies continue to lay the railway, but to invite other competitors to tender for complementary projects.¹⁵¹

French journalist Michel Serge visited Alto Catumbela, the site of one of the Chinese base camps, in November 2007 and was told by a former watchman: ‘The Chinese spent months getting the camp together and bringing in brand-new bulldozers. Then instead of beginning to repair the line, they dismantled it all, ate their dogs

and left.’ The assistant director of the Benguela Railway Company confirmed that sixteen Chinese camps had been dismantled and revealed that the contract had been cancelled. ‘I don’t know anything else about it: the negotiations are taking place at a very high level,’ he told Serge.¹⁵²

The advent of a post-oil dimension?

Project proposals identified as priorities by the respective Angolan ministries are put forward to the Grupo de Trabalho Conjunto, a joint committee of the Ministry of Finance and the Chinese Ministry for Foreign and Commercial Affairs (MOFCOM). MOFCOM has in the past suggested further areas of development where it feels China can provide important know-how, such as in telecommunications and fisheries which were not included in the first phase.

For each project put to tender, the Chinese government proposes three or four Chinese companies. All projects are inspected by third parties not funded by the credit line. A multi-sectoral technical group, GAT (Gabinete de apoio tecnico de gestão da linha de crédito da China) oversees the implementation of projects financed by the EximBank credit line, and is tasked with ensuring a fast and efficient completion of the projects. Sectoral ministries are in charge of managing these public works and making certain that sufficient staff (nurses, teachers, etc.) are trained.

The loan operates like a current account. When ordered by the Angolan Ministry of Finance, disbursements are made by EximBank directly into the accounts of the contractors. Repayment starts as soon as a project is completed. If a project is not undertaken, no repayment is made. Revenue from oil sold under this arrangement is deposited into an escrow account from which the exact amounts are then deducted to service the debt. The government of Angola is free to use the remainder at its own discretion.

147 ‘Presidente da República aborda cooperação com EximBank’, *Jornal de Angola*, 29 September 2007.

148 Libor plus a spread of 1.25%, with a grace period of up to three years.

149 ‘Angola’s Cautious Optimism for 2005’, United Nations Office for the Coordination of Humanitarian Affairs, New York, 14 January 2005.

150 EIU, *Angola Country Report*, September 2006, p. 16.

151 EIU, *Angola Monthly Report*, April 2008.

152 Michel Serge, ‘When China met Africa’, *Foreign Policy*, 166, May–June 2008.

According to a statement by the Ministry of Finance in January 2009, the second phase of disbursements under the existing second US\$2.5 billion credit line of China's EximBank has started, with a total of \$1.6 billion in funds available for projects in infrastructure, transport and agriculture. The largest projects worth US\$480m are for reconstruction of the Caxito–Nzeto road in Bengo province and road reconstruction projects in Zaire (\$400m), Malange (\$245m) and Cabinda (\$237m) provinces. The largest component of the \$560m in transport funding will be the \$440m purchase of 5,500 buses for public transport systems in Luanda, Benguela, Huambo, Uíge and Malange.

In January 2009, the Angolan government also announced a package of investments worth US\$1 billion in preparation for the 2010 African Cup of Nations, which will take place in Angola. Four new stadiums in Benguela, Lubango, Cabinda and Luanda will be constructed by China's Shanghai Urban Construction Group. The China National Machinery Import and Export Corporation (CMEC), funded by the Angolan government, will also rehabilitate electricity grids in several provinces in 2009.

Given the oil production quotas imposed by its OPEC membership, Angola is unable to respond to falling oil prices by boosting oil production. This is one way in which the global economic downturn is beginning to impact more seriously on Angola. Not yet cash-strapped, but nevertheless somewhat concerned, President dos Santos visited China in December 2008 to seek guarantees that it would honour its Angolan loans and beef up its bilateral cooperation in the energy, infrastructure and agriculture sectors by extending new loans.

Angolan officials admit that falling oil prices have forced them to cut back on some of their US\$42 billion infrastructure plans for 2009. On 17 December 2008 Li Ruogu, the chairman and president of China EximBank, announced: 'We are planning to expand our cooperation with the Angolan Ministry of Finance.'¹⁵³

China's commerce minister, Chen Deming, paid a two-day visit to Angola in January 2009 and reiterated that China planned to increase its cooperation with Angola, especially on agriculture, education and health.

The China Development Bank has also agreed to extend an additional loan to Angola. 'We are ready to grant a credit line of over US\$1 billion, but we think that this amount is not enough and may be increased to respond to the concrete needs of Angola in the domains of agriculture, grain production and agriculture processing,' Chen Yuan, President of the China Development Bank, announced on 12 March 2009, following a meeting with President dos Santos.¹⁵⁴ An initial agreement was signed in August 2008 and negotiations concerning the implementation of the agreement have continued into 2009. This deal includes construction of social housing, agriculture, transport and telecommunications. The former vice-prime minister of Angola, Aguinaldo Jaime, confirmed in September 2008 that this loan would not be oil-backed.¹⁵⁵ He also told the Chinese media in January 2009 that President dos Santos had 'already received the President of the China-Africa Development Fund twice, clear proof of the degree to which Angola values its alliance with China.'¹⁵⁶ More loans from the Chinese EximBank are likely.

China's ambassador to Angola, Zhang Bolun, met President dos Santos on 17 February 2009, after which he signalled that China was considering further financial assistance for infrastructure that would be 'properly implemented and protected from the world crisis'.¹⁵⁷ It is clear that since the legislative elections in 2008 the Angolan government has new priorities. Rapid post-conflict infrastructural development is less pressing, and delivering on some of the MPLA's election promises such as diversification of the economy away from its dependence on oil and providing better services in health and education is higher up the agenda. The global economic downturn has also introduced cost-cutting and a focus on greater efficiency in government agencies.

153 'China eyes more loans for cash-tight Angola', Reuters, 19 December 2008.

154 'China, Angola discuss China's new credit line of over \$1bn', Xinhua, 12 March 2009.

155 'Govt, China Development Bank Analyse Cooperation', Angop, 24 September 2008.

156 'Mutual Growth Marks Sino-Angolan Partnership', *China Daily*, 22 January 2009. Gou Jiang is also vice-chair of the China Development Bank.

157 'Head of State, Chinese Ambassador Discuss Cooperation', Angop, 17 February 2009.

The importance of these issues became even more apparent at the fourth session of the bilateral Angola–China Commission in March 2009, at which officials¹⁵⁸ committed themselves to increased financial cooperation by agreeing to put in place an investment guarantee scheme (emulating an earlier US agreement to the same effect). At the meeting China also offered a ‘non-reimbursable credit’ (i.e. a grant) worth US\$34.15 million. China is clearly seeking to secure more oil concessions but it is also under pressure to provide better local content provisions in contracts for its companies.¹⁵⁹ Chinese government officials believe that oil-backed loans are the most beneficial arrangement as they offer the greatest security, and have regularly indicated this preference to their Angolan counterparts. The Angolans, however, seem to continue to want to move away from the ‘Angola mode’ approach; but as Angolan oil minister José Maria Boltelho de Vasconcelos acknowledged during his July 2009 visit to Beijing, China has played an important role in the development of Angola’s oil, construction and agricultural sectors.¹⁶⁰

The China International Fund

In 2005, China International Fund Ltd (CIF), a private Hong Kong-based institution, extended at least US\$2.9 billion to assist Angola’s post-war reconstruction effort. This credit facility is managed by Angola’s Reconstruction Office (Gabinete de Reconstrução Nacional, GRN), which is exclusively accountable to the Angolan presidency.

Chinese walls: Beiya, Dayuan, New Bright and China-Sonangol

Chinese officials have denied any link between CIF and the Chinese government but acknowledge that the company

has contributed to the development of Angola.¹⁶¹ Indeed CIF’s brand new skyscraper head office, the 25-floor CIF Tower, dwarfs Angola’s nearby National Assembly building in central Luanda. CIF was created in 2003 and appears to be the construction arm of Beiya International Development Ltd, a parent company of China Angola Oil Stock Holding Ltd, which trades Angolan oil and is linked to CSIH. Hong Kong-based Xu Jinghua was the board chairman of Beiya International Development, which was renamed as Dayuan International Development Limited in May 2006.¹⁶² CIF has its headquarters at a Hong Kong address that also hosts a portfolio of other business ventures tied to Angola, including Sonangol Sinopec International (SSI), China Sonangol International Limited (CSIL) and China Beiya Escom International Limited. CSIL is incorporated under the laws of Hong Kong and is principally engaged in the exploration, development, production and sale of crude oil, property, hotel investment and investment holdings. It is 70% beneficially owned by New Bright International Development Limited and 30% by Sonangol EP.¹⁶³ Ms Lo Fong Hung, Ms Fung Yuen Kwan, Wu Yang and Manuel Vicente, the President of Sonangol, are the directors of CSIL. CSIH has subsidiary offices in Beijing, Singapore and elsewhere.¹⁶⁴ (See Annex D for a diagram analysing these connections.)

Ms Lo Fong Hung’s business portfolio illustrates how connected these companies are. In addition to being the chairperson of the CIF, she is vice chairperson of CSIH, CSIL and Endiama China International Holding Ltd.¹⁶⁵ She is also a director of SSI, Dayuan International Development Limited, New Bright International Development Limited and China Sonangol Asset Management Limited, and Managing and Executive Director of China Sonangol Resources Enterprise

158 The Angolan Vice-Minister for External Relations, Exalgina Gâmbôa, and Chinese Vice-Minister for Commerce, Jiang Zengwei.

159 Interview with Chinese official, Luanda, 4 March 2009.

160 ‘China plays “predominant role” in Angola’s economic development, says minister’, BBC Monitoring Africa, 4 July 2009.

161 ‘Dan Yinmu speaks for the first time; Chinese embassy in Angola is not familiar with CIF background’, *First Finance Daily*, 29 March 2007.

162 Dayuan International Development Limited is listed in Hong Kong and its shareholders are three individual Chinese investors (two from Hong Kong and one from mainland China).

163 Dayuan International Development Limited’s 70% ownership of CSIL appears to have been taken over in 2008 by New Bright International Ltd, which is also based at the same Hong Kong address; Ms Lo Fong Hung remains its director.

164 It was reported in ‘Angola: China takes over’, *Energy Compass*, 23 June 2006, that other limited liability companies registered in Hong Kong included China Sonangol Asia, China Sonangol Engineering and Construction, China Sonangol Exploration and Production, China Sonangol Natural Resources, China Sonangol Finance, China Sonangol Gas, China Sonangol International Investment. The CSIH office in Beijing shares the same address as CIF. For an extensive list of the companies at the Queensway address, see also Lee Levkowitz, Marta McLellan Ross and J.R. Warner, *The 88 Queensway Group: A Case Study in Chinese Investors’ Operations in Angola and Beyond*, US–China Economic & Security Review Commission, July 2009, www.uscc.gov/The_88_Queensway_Group.pdf.

165 This was set up in December 2004, and lists as its directors Ms Lo Fong Hung, Mr Zheng Gang, Mr António de Jesus Matias and Manuel Arnaldo Sousa Calado.

‘Chinese government officials believe that oil-backed loans are the most beneficial arrangement as they offer the greatest security, and have regularly indicated this preference to their Angolan counterparts’

Ltd.¹⁶⁶ Since 2004 Ms Lo has served as chairperson of China Beiya Escom International Limited.

Her husband, Wang Xiangfei, has been vice chief financial officer of SSI since February 2005 and, since CSIH’s creation in September 2004, deputy chief financial officer and financial consultant to CSIH. He is also director of New Bright International Development Limited and has been the director of China Beiya Escom International Limited since August 2003.¹⁶⁷

The director of CIF is Xu Jinghua (Samo Hui) and the CIF country director for Angola is Ju Lizhao. CIF seems to have successfully positioned itself between the Chinese and the Angolan governments (and between Sonangol and Sinopec) and controls access to Angolan resources. This is even the case for Angolan oil contracts for Sinopec – they are controlled by CIF.¹⁶⁸

CIF was able to get into this position by initially organizing a team of four well-connected business people who were close to some Chinese government agencies. Through their connections the contracts kept coming, and CIF’s position as the bridge to Angola became virtually unassailable. The web includes some illustrious personalities who are no strangers to doing business in Angola at the highest level. For instance,

Lev Leviev, Helder Bataglia, Arcady Gaydamak (aka Ari Barlev) and Pierre Falcone are just some of the names coming up in the connections of the companies surrounding CIF and CSIH. The web reaches into the highest echelons of the Angolan presidency. Nevertheless, it appears that the volume of contracts is too high for CIF and that it is unable to complete all the signed projects in the contractually agreed timeframe. In the Chinese media there are also allegations of non-payment of subcontractors and lack of planning on the part of CIF.¹⁶⁹

The public perception that these contracts between the two countries are actually controlled by CIF, coupled with CIF’s poor delivery record, raise important questions about the transparency of CIF projects, quality assurance and long-term sustainability of this business model.

Recent reports show that CIF is no longer only focusing on Angola. CIF reportedly has a US\$1.6 billion investment plan for Guinea. Target areas are the development of water and electricity infrastructure, urban housing development, mining, transport, tourism, as well as aqua- and agriculture. Other projects relate to the creation of a joint venture for exploration in Guinea in partnership with Sonangol, the creation of an airline company, and the restoration of the airport, among others. The CIF delegation to Guinea included Manuel Vicente, the President of Sonangol.¹⁷⁰

[The reach of CSIH: Argentina, Indonesia, Singapore, Tanzania, Mozambique, Nigeria and North Korea](#)

According to Sonangol, CSIH is a joint venture that ‘was established in mid-2004 and has its HQ in Hong Kong’. Its business activity is ‘exploration and production of oil and gas’. The CSIH website states that the company engages in crude oil trading and has oil blocks in Angola, Argentina and ‘the ultra-deep waters off Nigeria’, and that its partner-

166 Ms Lo Fong Hung is also director of World Pro Development Limited, World Noble Holdings Limited, CSG Automobile Limited. For a number of other companies in which Ms Lo Fong Hung holds positions, see Levkowitz, McLellan Ross and Warner, *The Queensway Group*.

167 China Beiya Escom International is a joint venture between Beiya and the Portuguese Espírito Santo Commerce Bank, which has been active in oil and infrastructure efforts via CSIH since late 2004 in Argentina.

168 CIF maintains an Oil Department in Shanghai, where it holds regular training workshops.

169 For instance, the case of Hangxiao Steel Co. – see: <http://finance.sina.com.cn/stock/y/20070323/23213436267.shtml>, or the case of Sea Success Maritime, Inc., a company which has sued CIF in a New York court. See [http://dockets.justia.com/docket/court-nysdce/case_no-1:2009cv05089/case_id-34666-/,](http://dockets.justia.com/docket/court-nysdce/case_no-1:2009cv05089/case_id-34666-/) last accessed 30 July 2009

170 Conseil des Ministres, ‘Compte rendu de la session extraordinaire du Conseil des ministres, du vendredi 19 Juin 2009’.

ships are with Agip/ENI, BP and Unipet.¹⁷¹ According to the Hong Kong registry of companies, CSIH was set up in September 2004 and is 70% beneficially owned by Beiya International Development Limited and 30% by Sonangol EP. New Bright appears to have taken over the share of Beiya, which, as noted, has since renamed itself Dayuan.

In 2007 CSIH purchased three Airbus corporate jet aircraft and two Embraer Legacy 600 executive jets that it has registered in China.¹⁷² It also lined up in 2007 the CNPC Sichuan Petroleum Geophysical Prospecting Bureau (of CNPC) to carry out seismic work on two blocks in North Korea. In October 2007, CSIH also signed a US\$252 million contract with the China National Chemical Engineering Corporation for two cement clinker production lines for Mozambique and Tanzania. CSIH sparked off controversy in Tanzania following its signing in 2008 of a non-binding MoU worth US\$21 million for a 49% equity stake in Air Tanzania. This was without public disclosure, and allegations that the Tanzania Petroleum Development Corporation offered CSIH the right of exploration in western Tanzania outside the normal tendering process have appeared in the Tanzanian press.¹⁷³ In Nigeria, CSIH acquired Devon's share of ultra-deep water Block OPL 256 in 2008, which it now shares with Sonangol and NPDC.¹⁷⁴ CSIH appears to have been in competition with CNOOC to acquire Devon's share in OPL 256, another example of inter-Chinese rivalry.

In November 2008, Africa-Israel USA, the New York-based arm of the global real estate firm controlled by diamond magnate Lev Leviev, sold a US\$750 million stake in its New York City assets to CSIL.¹⁷⁵ CSIH continues to expand in 2009

and in January paid US\$200 million for a stake in Indonesia's giant Cepu oil block in return for equity crude. In April OKP Holdings Limited of Singapore – an infrastructure and civil engineering company – announced that it had entered into an agreement to allot and issue 15 million ordinary shares to China Sonangol International (S) Pte. Ltd, a Singapore-based subsidiary of CSIH. Chinese officials have distanced themselves from the company at various points. A spokesperson from the Chinese embassy in Angola said, 'We are not familiar with [CIF's] background, but all their projects have been built in Angola are not good,'¹⁷⁶ and a commercial counsellor from the Chinese embassy in Angola said, 'We are not the direct department in charge of Chinese–Angolan economic cooperative efforts, but we never saw [CIF] merge in any of the public exercises and meetings between the Chinese government and the Angolan government.'¹⁷⁷

Similar rebukes against other companies in the network but controlled by the same people have come from China's Foreign Minister Li Zhao Zing, who discouraged an agreement between China Beiya Escom and former Argentinian President Kirchner, stating that the group consisting of Lo Fong Hung, Helder Bataglia, Sam Pa and Manuel Vicente did not represent the state of China and that 'they should bring [the projects] back to square one.'¹⁷⁸ Despite these comments, it seems that at some level there exists a relationship between the group and the Chinese government, as Levkowitz, McLellan Ross & Warner try to show in their report.¹⁷⁹

CIF and GRN

GRN was set up in 2005 to manage large investment projects and ensure rapid infrastructural reconstruction

171 See www.sonangol.com and www.chinasonangol.com, which post an archive of 'CIF News'.

172 Sonair, a subsidiary of Sonangol, entered into a service agreement with CSIH and CIF in August 2007 for two Airbus corporate jet aircraft: 'Empresa Sonair rubrica acordo com a China Sonangol International', *Angop*, 19 August 2007. The registration of the aircraft are VP-BEX, and VP-BEY. They were used by the Angolan Presidency for various official visits, including to China, France and Portugal. An additional aircraft of the same model is registered under VP-BED. CIF, in conjunction with China South Airlines and Hong Kong-based Guotai Airline, agreed in early 2007 to start regular flights from Guangzhou and Hong Kong to Luanda.

173 'Chinese firm "gifted" oil licences', *The East African*, 30 January 2009.

174 'China Sonangol's Secret License', *Africa Energy Intelligence*, 8–21 July 2009.

175 French national Pierre Falcone is linked to the 'Angolagate' judicial enquiry in France, but is now based in Beijing and is providing consultancy work through Pierson Capital Asia to CSIH. See 'Is Sonangol Africa's First Sovereign Fund?', *Africa Energy Intelligence*, 26 November 2008.

176 Zong Xinjian and Lu Yuan, 'Dan Yinmu shou du kai kou: Zhongguo zhu an shi guan bu liao jie Zhong ji bei jing' ('Dan Yinmu speaks for the first time; Chinese embassy in Angola is not familiar with CIF background'), *First Finance Daily Newspaper*, 29 March 2007 [USCC staff translation], <http://finance.sina.com.cn/g/20070329/02383450690.shtml>, in Levkowitz, McLellan Ross and Warner, *The 88 Queensway Group*, p. 23.

177 *Ibid.*

178 Mario Obarrio, 'De aquel "megaanuncio" quedó muy poco', *La Nación*, 1 June 2005, http://www.lanacion.com.ar/nota.asp?nota_id=709097 [USCC staff translation]. in Levkowitz, McLellan Ross and Warner, *The 88 Queensway Group*, p. 26.

179 Levkowitz, McLellan Ross and Warner, *The 88 Queensway Group*, p. 34.

prior to national elections. Headed by a military adviser to the president, General Helder Vieira Dias 'Kopelipa', GRN was designed to provide work for the demobilized military in order to bring new dynamism to the reconstruction effort. It was also created on the assumption that the ministries would not have the organizational and technical capacity to manage the large inflows of money directed to the National Reconstruction Programme. GRN was designed to kick-start major prestige projects such as three railways, including the Caminhos de Ferro de Luanda railway project, drainage systems in Luanda, studies on a new city near Luanda, social housing, administration, and the construction of a new Luanda International Airport at Bom Jesus.

CIF was meant to provide the funds to undertake these projects. According to a senior government official close to the presidency, GRN projects are valued at somewhere around US\$10 billion. In April 2007 the World Bank published an Angolan Ministry of Finance estimate of the loan as being \$9.8 billion at Libor plus 1.5%.¹⁸⁰ The US Department of State 2008 Investment Climate Statement on Angola estimates the CIF loan figure at between \$2.9 billion and \$9 billion.¹⁸¹ How these funds were to have been allocated across projects, however, remains unclear.

As with China's EximBank credit line, disbursements are paid on a project-by-project basis to Chinese contractors and suppliers. Financial flows of the GRN officially pass through the account of the Finance Ministry; however, day-to-day management of projects does not.

In late 2007 the Angolan government downgraded by two-thirds its estimates of the line of credit CIF was thought to have provided.¹⁸² In the run-up to the 2009 budget, on 29 October 2008 the Ministry of Finance released figures of public investment spending, which also provide a breakdown of GRN spending.¹⁸³ According to these the GRN is fed by credit lines worth around US\$157 million (around 75% of the GRN total). The bulk of this (\$99.4

million) is allocated to the construction of 215,500 homes throughout the country.¹⁸⁴ In the final General State Budget (OGE) for 2009 (released 11 June 2009), the total amount for the GRN (including treasury funds) is only \$125 million (maintaining the same proportion of funds from credit lines to treasury funds – approximately 75:25). This signifies a 40% reduction of funding for the GRN, which could be the result of adjustments due to the effects of the global financial and economic crisis (including low oil prices), or lack of progress in the work undertaken by the GRN (or both). In any case, the figures used in the 2009 budget exercise are dramatically lower than the billions mentioned in the media and by the World Bank. So, if there is any truth in the higher figures, either the projects have been drastically cut back because CIF was unable to raise the capital it had promised even before the 40% reduction from 2008 to 2009, or a large part of the GRN expenditure is off-budget, adding further opacity over the use of funds from credit lines.

In fairness, throughout 2007 and for much of 2008 many GRN projects came to a standstill, provoking a lot of media speculation. Although it was reported that CIF had some difficulties in raising funds to complete the projects, a GRN technician admitted that a lack of planning on the part of the GRN also contributed towards the failure of many construction projects even to start. As he explained: 'We went ahead with projects pressured by strict time deadline and did not take into account the forward planning that is required in a country like ours We overlooked crucial elements such as the fact that our ports would not be able to cope with the increased amount of material being imported for these projects.'¹⁸⁵ Chinese construction firms also complained about CIF cajoling contractors into taking part in projects in Angola, routinely delaying payment for completed work and keeping rates as low as possible.¹⁸⁶

As a result, some of the funds from the second EximBank loan were used to continue the major programmes of GRN, but the Ministry of Finance

¹⁸⁰ World Bank, *International Development Association Interim Strategy Note for the Republic of Angola*, Report No. 39394-AO, 26 April 2007, Annex 7:

Non-concessional Borrowing by Government of Angola since 2004, p. 49. This reports that there were also 'three months' management commission at 0.3% and immobilization commission, also at 0.3%.

¹⁸¹ US Department of State, '2008 Investment Climate Statement – Angola', www.state.gov/e/eeb/afd/2008/100819.htm.

¹⁸² 'Big projects fall behind schedule', *Financial Times*, 24 January 2008.

¹⁸³ Exercício - 2009 - Volume I, Resumo da Despesa com o Programa de Investimentos Públicos, on <http://www.minfin.gv.ao/>. Last accessed 6 July 2009.

¹⁸⁴ This brings the average cost of construction for each home to US\$461.

¹⁸⁵ Interview, Luanda, 3 October 2007.

¹⁸⁶ 'China's stock bubble can be traced to Angola', *Asia Times Online*, 27 March 2007.

was forced to raise US\$3.5 billion in domestic funding by issuing treasury bonds in 2007. This was a new departure as Angolan funds are being used for the first time to finance Chinese firms to ensure completion of these projects.

Corruption issues in the Sino-Angolan relationship

Behind the CIF loan there is an opaqueness that can be traced back to the first loan in March 2004. According to the Angolan media, the first loan appears to have contributed to a struggle within the Angolan leadership for access to these funds and coordination of their disbursement.¹⁸⁷ It appears that senior presidential advisers may have been sidelined after the Chinese became concerned about rent-seeking. Rumours in Luanda during this period alleged that the Chinese secret services had provided President dos Santos with a list of 20 Angolan businesses seeking to benefit illegally from this new arrangement.¹⁸⁸ What is certain is that Angola's Finance Minister visited Beijing in December 2004, and shortly after that President dos Santos created the GRN to manage the CIF loan. According to Levokowitz, McLellan Ross and Warner, some of the key individuals involved with CIF also may have links to the security apparatus of China. Ju Lizhao, the Angolan representative of CIF, is a former colonel for the People's Liberation Army (PLA) General Staff, Department Foreign Affairs Division.¹⁸⁹ Wang Xiangfie, husband of Lo Fong Hung, has been associated with a company believed to be affiliated with the Chinese military intelligence;¹⁹⁰ and Wu Yang listed his residential address on company filings at the same address as the headquarters for the Ministry for Public Safety. In the same compound there is a reception desk for the foreign intelligence service.¹⁹¹

In 2007, CIF's opacity attracted renewed media attention. In March 2007, a Chinese construction company, Zhejiang Hangxiao Steel Structure Co. Ltd, came under investigation by the China Securities Regulatory Commission

(CSRC) for suspected stock price rigging in deals related to Angola, and it suspended its trading of stock on 19 March.¹⁹² Suspicion around the company followed a statement in February by Hangxiao that it had signed a \$4.4 billion contract to sell the CIF construction products and services for its 'Residents' Heaven' public housing projects in Angola. In March, China's Ministry of Commerce published a report that Hangxiao Steel had defended its handling of US\$4.4 billion of contracts but that CIF 'had failed to supply Hangxiao with details of its contracts with the Angolan government.'¹⁹³ Unusually for the CSRC, on 22 March it made a public statement on the case, urging the Shanghai Stock Exchange and the local regulatory bureau to investigate as well. The Zhejiang Provincial Securities Regulatory Commission said it had launched an investigation. Under China's regulations, the top management, directorate or board of directors of listed companies are liable to ensure the truth, accuracy, completeness, timeliness and fairness of disclosed information. In May of the same year, CSRC fined the Shanghai-listed construction company, management and leading shareholders a combined US\$95,000 for failing to follow legal procedures in the release of financial information, which led to the jailing of two Hangxiao employees and one associate on insider trading charges.¹⁹⁴ Trading in Hangxiao shares was suspended twice in July 2007, and in August, in a statement to the Shanghai Stock Exchange, Hangxiao stated that although construction of its first phase consisting of 32 buildings was under way, it was not yet able to secure confirmation of follow-up construction and the dispatch of extra workers to Angola had been cancelled.¹⁹⁵

The Miala case

Allegations of mismanagement of Chinese funds emerged again during the 2007 trial of Angolan security chief General

187 'Financiamento Chinês: Lei obriga a subcontratação de empresas angolanas', *Semanário Angolense*, 1–8 July 2006.

188 'José Pedro de Moraes sossega Chineses', *Semanário Angolense*, 25 December 2004; 'Toninho versus Feijó: crónica de um duelo anunciado', *Voice of America*, 10 December 2004.

189 Levkowitz, McLellan Ross and Warner, *The 88 Queensway Group*, p.17.

190 *Ibid.*, pp. 5–6.

191 *Ibid.*, pp. 6–7.

192 'Hangxiao Steel Structure defends handling \$4.4b Angola contracts', *Xinhua Online*, 27 March 2007.

193 See <http://english.mofcom.gov.cn/column/print.shtml?newsrelease/commonnews/200703>.

194 'Xinhua: Chinese investors claim 2.7 mln yuan compensation from company releasing false information', *Xinhua Online*, 26 December 2007; 'Market maker; Lin Rongshi isn't up to his old tricks in Chinese stocks. But, as he describes, plenty of markets still are. Fair warning to the bulls', *Forbes*, vol. 181,

195 'Question mark over Angola project, says Hangxiao Steel', *China Daily*, 7 August 2007. issue 2, 28 January 2008.

Fernando Garcia Miala for attempted insurrection. Reportedly, Miala threatened to reveal the names of individuals in senior government positions who had benefited from diversion of funds from the Chinese lines of credit. Miala was dismissed from the army and sentenced on 20 September 2007 to four years in jail for insubordination. Allegations of Chinese funds being linked to CIF have rumbled on in the Angolan media well into 2009. This has resulted in Chinese diplomats in Luanda emphasizing that CIF is a private entity that has nothing to do with the Chinese government.

Angolan civil society, some international NGOs and international donors have also raised concerns for some time regarding transparency in the use of Chinese funds. Probably partly as a response to General Miala's allegations, and reflecting the tensions between more technocratic government departments and the opaque management procedures of the presidency, on 17 October 2007 the Ministry of Finance in Luanda issued a statement denying any misuse of Chinese funds. It also published details of the lines of credit managed by the ministry.¹⁹⁶ This has had a knock-on effect in encouraging greater openness by Chinese officials, allowing publication of more details about the EximBank loans in China.

Although this is a welcome development, even more disclosure is needed, especially regarding the GRN, as many of the larger Chinese infrastructural projects are managed out of this office. Unlike projects undertaken by the Ministry of Finance, it is unclear how much money is directly managed by the GRN, how funds are allocated among projects and how much money has been spent so far.¹⁹⁷

What is clear, however, is that in times of war, before Miala's fall from grace, he played a key role in the procurement of arms through a network that has been unveiled in the 'Angolagate scandal'. At the time Miala was director of Angola's military intelligence. The network included Arcady Gaydamak (aka Ari Barlev), Pierre Falcone, alongside 'Kopelipa' and President dos Santos, among others, and reached into Angola, Congo-Brazzaville, Cameroon and the Democratic Republic of the Congo, and possibly further afield. Miala was also involved in

appointing and chairing the commission that runs Endiama. Arguably his involvement paved the way for Ascorp Ltd, and Lev Leviev's involvement in the Angolan diamond industry. It seems that key members of this network still operate on a global scale, albeit without some of their former allies, who were replaced by new partners.

A special relationship?

The view from China

China's growing role in Angola has generated debate and speculation. From both the Angolan and the Chinese perspectives, the relationship is pragmatic and strategic.

From Angola's perspective, the Chinese provide funding for strategic post-conflict infrastructure projects that Western donors do not fund. Chinese financing offers better conditions than commercial loans, lower interest rates and longer repayment times. Non-Chinese credit lines that Angola had secured in 2004 demanded higher guarantees of oil, with no grace period and with high interest rates.

Chinese financing was provided when concessional funding was not available for Angola. Relations between the international financial institutions and Angola had been poor for years. The recurrent episodes of hyperinflation and stabilization had prevented any lasting accord or agreed framework with the IMF. This, in turn, meant that relations with the World Bank were limited to emergency and humanitarian assistance projects. At the end of the war in 2002, the IMF and many Western donors wanted Angola to negotiate a Staff-Monitored Programme (SMP) and show good performance for three trimesters before being eligible to receive financial support. An SMP would give credibility to Angola's economic policies and open the way for a donor conference to raise funds to rebuild the country. However, the Angolan government felt it could not agree to IMF conditionalities, and after multiple rounds of consultations it announced that it would no longer seek to conclude an IMF agreement. This was not

196 'Governo nega mau uso dos créditos da China', Comunicado do Ministério das Finanças, *Jornal de Angola*, 18 October 2007

197 The slowdown of GRN projects raised further speculation about the chairman General Kopelipa's future in late December 2007 when Angolan private newspaper *Folha 8* published allegations that the Angolan Military Judiciary Police had detained General Kopelipa, along with Antonio José Maria, chief of Intelligence Services of the Angolan Army. On 27 December 2007 the Presidency issued a statement denying the allegations.

the first time: agreement with the IMF had collapsed several times previously during cycles of high commodity prices.¹⁹⁸

Integral to this renewed cooperation is China's need to access energy resources. In the construction sector, Angola is a particularly favourable market for many Chinese companies, which deliver quickly and have their risk mitigated by funding guarantees from the Chinese government, underpinned by oil-backed loans to Angola. Angola needs significant outside investment and there is relatively little competition. As a result, Chinese firms have found profitable deals, although they are now under increasing pressure to hire Angolans.

The view from Angola

For the Angolan government the relationship brings significant advantages to the country, helping to support economic growth. As a commodity-based economy emerging from 27 years of conflict, Angola was in desperate need of new partners and a new source of FDI. China provides a new model of cooperation, based on credit lines, economy and commerce, which contrasts with Western efforts of cooperation based on aid attached to conditionality. As highlighted above, the US\$3 billion pre-credit finance facility in September 2005 was based on a long-term agreement with Unipec for Angolan oil destined for the Chinese market. China Sonangol International was created to avoid conditionalities. Philip Badge, a partner at law firm Linklaters in Singapore who advised on the deal, explained that: 'Initially the special purpose vehicle structure was the banks' preference. The security arrangements in previous transactions were complicated by contractual negative pledge concerns and the application of the World Bank negative pledge to Angola. This time, banks are protected without the need for an SPV, which cuts down complexity in documentation and execution.'¹⁹⁹

Funds from this 2003 deal were used in part to pay back a US\$1.25 billion loan signed in September 2003 via a special purpose vehicle called Nova Vida. Unlike that deal, which was created to avoid negative pledge restrictions on oil

offtake contracts, the Unipec 2005 pre-credit finance facility was free of such conditions as it had been agreed with CSIH, which is not bound by the same rules as Sonangol.²⁰⁰

China also offers Angola cheap technology transfer opportunities. These tend to be more suitable and less expensive than those from Europe or the United States, where the technology gap is bigger.

The influence of China in Angola is often overplayed, and there is a growing fatigue among Angolan officials about the West's fixation with it.²⁰¹ For the most part, Angolan officials are open about their cooperation with China and candid about not wanting to depend on any one development or commercial partner. President dos Santos made this point clear in his 2008 New Year address to the diplomatic corps by stressing that the Angolan government plans to reinforce its bilateral and commercial relationships with other countries: 'Globalization naturally makes us see the need to diversify international relations and to accept the principle of competition, which has in a dynamic manner replaced the petrified concept of zones of influence that used to characterize the world.'²⁰²

This pattern is visible when one looks at the origin of Angola's imports over the years. China's share has increased significantly, but so have the shares of India, South Africa and Brazil. With the exception of Portugal, the European Union's share has decreased. Rui Miguéns, deputy governor of the Angolan National Bank, explains that 'with constant appreciation of the Euro, it should not come as surprise that European imports have decreased in the last couple of years'. In fact, in his view, the growing relationship with China should not be regarded as a current 'phenomenon' but rather as a logical reorientation of trade partners as a response to expensive products coming from Europe. Angola will increasingly import from China, although some high-quality products will continue to be imported from Europe and the United States.²⁰³ As noted above, despite China's efforts to enter the oil sector, production is still dominated by Western companies.

198 Tony Hodges, *Angola from Afro-Stalinism to Petro-diamond Capitalism* (Oxford: James Currey, 2001).

199 'Engineering efficiency', *Trade Finance*, 1 November 2005.

200 *Ibid.*

201 Interview with José Pedro de Morais, Finance Minister, Luanda, 13 October 2007.

202 José Eduardo dos Santos, Presentation of New Year Greetings by Diplomatic Corps, Luanda, 10 January 2008.

203 Interview with Rui Miguéns, Deputy Governor of Angola's National Bank (BNA), Luanda, 26 September 2007.

2.4 Angola's Strategy of Diversification

China's massive credit lines to finance infrastructural development raise important questions related to the sustainability of these projects. As the global economic downturn starts to affect Angola, and since the legislative elections of September 2008, Angolan officials are shifting away from rapid post-conflict infrastructural redevelopment to investing in a diversified non-oil-dominated economy. The US\$1 billion loan from the Chinese Development Bank announced in March 2009 is focused on agriculture. There is also much stronger demand for local content provisions, and a reluctance in Angola to enter into further oil-backed facilities. The World Bank's 'Angola mode' may become a description of only one phase of this developing relationship. Chinese officials and companies would prefer continued oil-backed guarantees, but also are concerned that increasing their use of Angolan labour will raise their project costs and risks.

The inflow of money and credit lines from China enables Angola's rulers to resist pressure from Western financial institutions for transparency and accountability. Yet this should not be exaggerated as Angola has said it will continue to work with the IMF on technical assistance. Recently, the government also published data on the oil sector that go beyond what several candidate countries of the Extractive Industries Transparency Initiative (EITI) have disclosed.

As noted above, the investigation of the Hangxiao Steel Structure Co. Ltd by the China Securities Regulatory Commission (CSRC) shows Chinese efforts to curb corrupt practices, although there does not appear to have been an

investigation of the company's Hong Kong-registered partner, CIF. Nonetheless, Angolan civil society and some international NGOs and Western governments have raised concerns regarding the transparency in the use of Chinese funds. In particular, CIF's extension of US\$2.9–9.8 billion through GRN has been opaque.

Angola continues to pursue a strategy of diversification of its international political and economic relationships. India has been the greatest loser to date. OVL has been flat-footed in competition with China for oil concessions, unable to compete directly in cash terms. However, OVL has indicated that it would offer US\$1 billion for the rights to blocks relinquished by SSI and continues to offer to partner in the Sonaref oil refinery. These offers were made in 2008 but Indian officials hope that Angola's desire to see diversified relationships will eventually play in their favour. This would probably have been the case during a boom, but in the economic downturn it appears that Angola is once more being pushed closer to China as a result of the need to access new loans. That President dos Santos visited China twice in 2008 underlines the importance of China's current support for Angola, and one can expect that Chinese NOCs will be rewarded.

In comparison with China and India, Japan and South Korea have had a low profile and, as noted above, their companies were absent in the pre-qualification lists for the postponed 2007/08 oil licensing round. Traditional partners such as Portugal and Brazil remain fully engaged in Angola's post-war reconstruction. In 2007, both these countries announced that they would nearly double their credit lines to Angola in a move to drum up business for their own firms and help Angola rebuild its economy. The need to diversify sources of financing further and at the same time sustain existing dependence on Western technology has caused the Angolan government to strengthen its relationship with the Paris Club of Creditor Nations. In late 2006 and early 2007 Angola paid the bulk of its principal interest – estimated at around US\$2.5 billion – to Paris Club creditors. In November 2007, the issue of overdue interest arrears of about \$1.8 billion was also resolved, when the government pledged to repay the outstanding amount in three tranches by 2010. The agreement with the Paris Club clears the way for the

normalization of Angola's relations with the rest of the world. This is already evident in the World Bank's doubling of funds to Angola in 2007 and Spain's pledge of US\$600 million for Angola's reconstruction in late November 2007. Other donors such as France, Italy, Germany and Canada have also extended credit lines to Angola.

The Chinese seem to be settling in for the long haul in Angola. Although both China and Angola stand to benefit

from the increased economic cooperation, the relationship also raises new policy challenges for Angola as it tries to avoid becoming too reliant on any single economic relationship.

India is trying to catch up. Although it lacks the financial muscle that China enjoys, it hopes that an Angolan strategy of diversification will allow it to gain a stake in Angola's oil acreage.

2.5 Conclusion: Prospects for the Future

China has played an important role in assisting Angola's post-conflict development although it only established diplomatic relations with Angola in 1983. Chinese financial and technical assistance has kick-started some 120 projects since 2004 and provided up to US\$15 billion in loans by March 2009.

These Chinese credit lines were initially oil-backed, although since 2007 the Angolan government has sought non-oil-backed terms despite Chinese officials' best efforts to lobby for the continuation of this formula. Sinopec remains hungry for further Angolan acquisitions. The 'Sinopec International Group' has also pre-qualified for operatorships in the postponed 2007/08 oil licensing round and its SSI joint-venture vehicle with Sonangol pre-qualified as a non-operator. China has over the last couple of years invested in upgrading its refineries in order to reduce its need for West African sweet crude. This is unlikely to impact on Angola in the near term and China will still require a certain volume for blending, but it is likely that China will become less reliant on Angolan crude over coming years.

The private and state business ties are a major factor in the success of Chinese oil strategies in Angola *vis-à-vis* those of other Asian countries. The deep political and business relations between China and Angola contrast sharply with India's approach. Although India established diplomatic relations with Angola shortly after independence, relations in terms of official visits and

bilateral meetings have been slow to gain momentum. This applied to an even greater extent to relations with Japan and South Korea.

The advantage for both China and Angola of such entrenched diplomatic relations is illustrated by the change in the type of loans that China has been extending to Angola over the past few years. Since China's initial US\$2 billion oil-backed loan in 2004, which was intended for infrastructure development, loans now are no longer exclusively oil-backed and have been adapted to fit changing national priorities. This is a pragmatic relationship, summed up succinctly in President dos Santos's remark in November 2007 that China needs natural resources and Angola wants development.

It could also be argued that because of its financial clout, China was more able to meet Angolan needs for post-conflict reconstruction than other Asian countries. Indian investment in the development of Angola's infrastructure has been dwarfed by Chinese efforts. Although Indian participation is increasing, China remains firmly at the top of the trade ranking, increasing the amount of Angolan crude which it imports while also increasing its investments and exports to Angola. India has been regularly outbid by China despite a rejuvenated 'oil and diamond diplomacy' in the wake of the 2004 commodity boom. The only strategy left for it is to try to emulate China's approach to Angola, both diplomatically and more specifically in terms of partnering with Sonangol in a joint venture (as OVL has attempted to do).

Japan and South Korea have only played a marginal role in Angolan oil – even though Japan was the world's second largest importer of oil in 2008, is an important bilateral donor and is active in the Angolan oil industry since 1986. The trend that Japanese firms often follow is to look for large resource deals with little risk. Of the 81 companies which pre-qualified to bid for ten oil licences in the 2007/08 oil licensing round, only one was Japanese and none were South Korean. This is not to indicate that Japanese and South Korean interests in Angolan oil are non-existent or weak, as both countries have demonstrated their interest in deepening their involvement.

Japan has taken a different approach from China, India and South Korea. It abolished its national oil company,

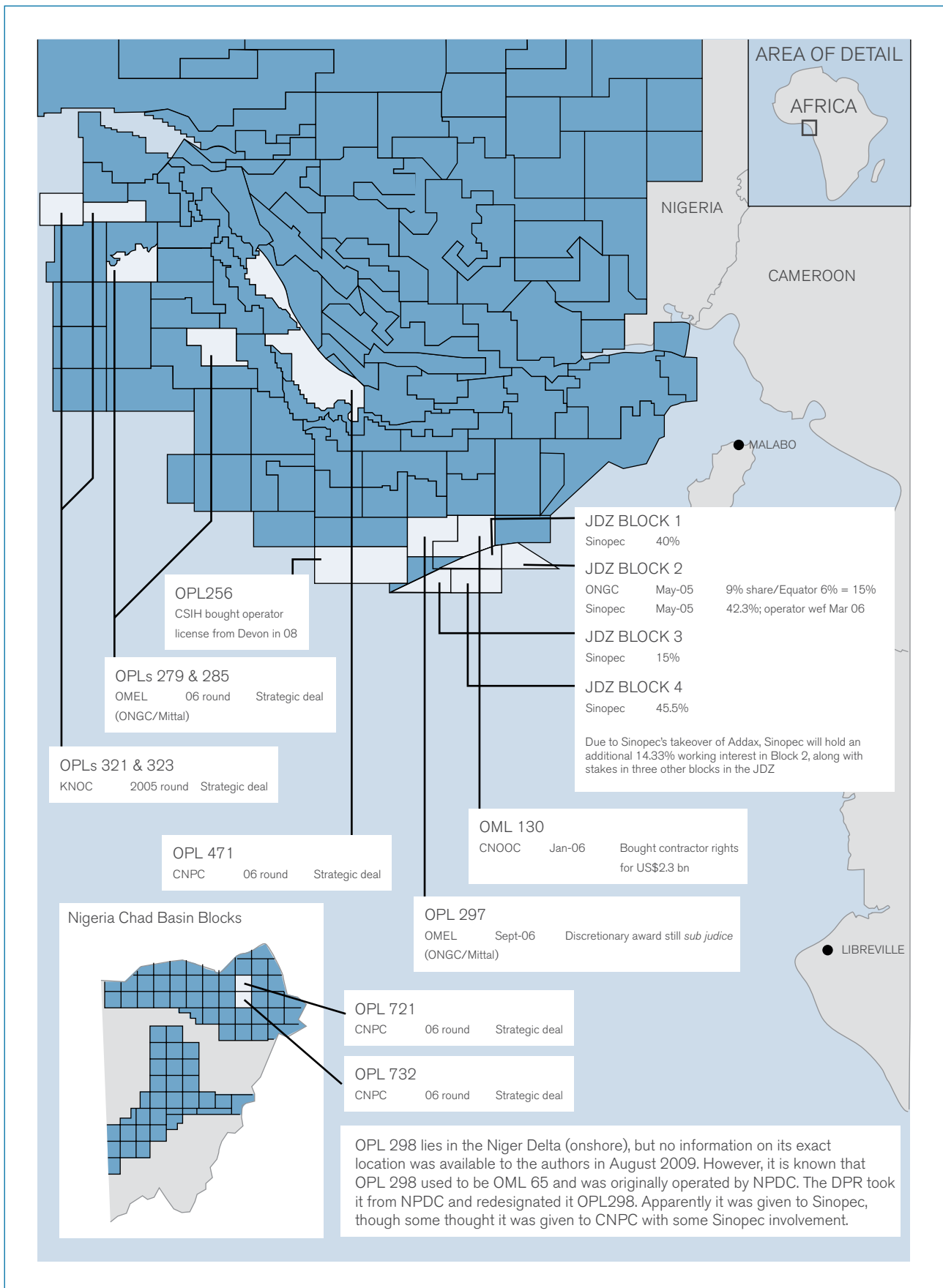
JNOC, in 2005 and encouraged upstream companies such as Taiyo Oil, Inpex Corporation and Mitsubishi Corporation to merge and seek new acreage and equity oil, including through classic Japanese joint-venture subsidiaries such as Ajoco. This strategy has yet to win new concessions.

While Japan is risk-averse (albeit at the same time looking for large deals), the limitations that South Korea faces in becoming a more obvious presence in Angola largely stem from its late arrival in the country. The

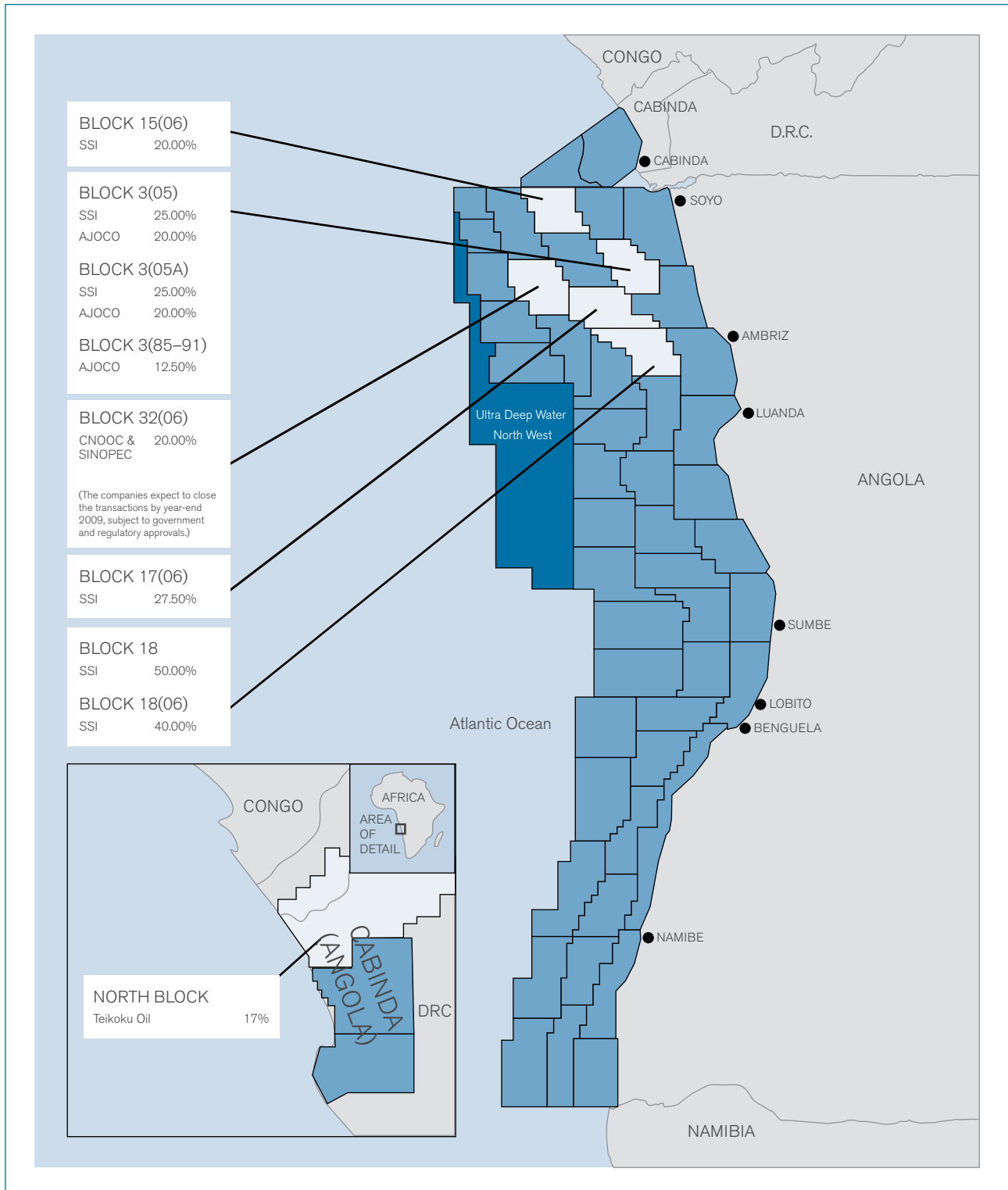
inclusion of closer relations with Angola in South Korean President Lee Myung-bak's programme for energy diplomacy is an indication that there is a political aim to encourage South Korea's presence in Angola.

The extent to which South Korean and Japanese oil companies can compete with their more financially hefty Indian and Chinese counterparts will be tested as further oil licensing rounds take place. The outcome will ultimately depend more on Angolan politics than on technical merit.

Annex A – Asian Oil Concessions (Blocks) in Nigeria



Annex B – Asian Oil Concessions (Blocks) in Angola



Annex C – Chinese Funded Projects in Angola

Table A1: Projects financed by China Construction Bank & EximBank in 2002

Project	Total value (US\$m)
Phase I of the rehabilitation of the 444 km Luanda Railway	90
Phase I of the rehabilitation and expansion of the electrical network of Luanda	15
The rehabilitation of electricity networks of Lubango	15
The rehabilitation of electricity networks of Namibe and Tombowa	25
A project related to telecommunications	N/A

Source: Angolan Ministry of Finance (2007); Angolan Ministry of Energy and Water (2007)

Table A3: Projects financed by EximBank of China (phase II)

Sector	Number of contracts	Total value (US\$m)
Health	1	43.8
Education	3	229.6
Energy and Water	3	144.9
Agriculture	1	54.0
Fisheries	3	266.8
Post and	4	276.3
Public Works	2	89.5
TOTAL	17	1104.9

Source: Angolan Ministry of Finance (2007)

Table A2: Projects financed by EximBank of China (phase I)

Sector	Number of contracts	Total value (US\$m)
Health	9	206.1
Education	8	217.2
Energy and Water	8	243.8
Agriculture	3	149.8
Transport	1	13.8
Social Communication	1	66.9
Public Works	1	211.7
TOTAL	31	1,109.3

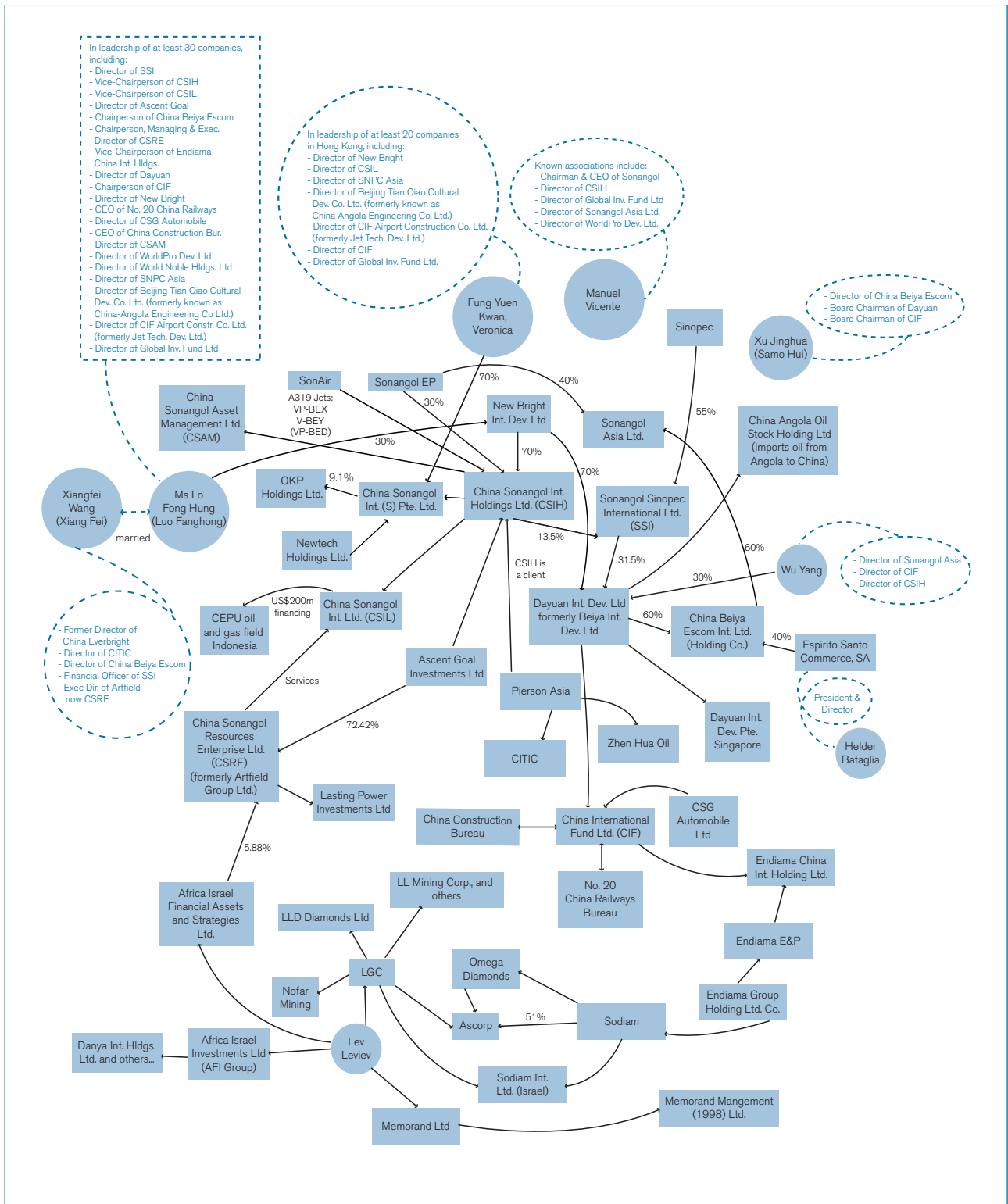
Source: Angolan Ministry of Finance (2007)

Table A4: EximBank 'Complementary Action' Projects

Sector	Total value (US\$m)
Health	159.4
Education	145.6
Energy and Water	76.5
Education and Health	1.7
Fisheries	40.0
Telecommunications	56.3
Public Works	65.5
TOTAL	545.0

Source: Angolan Ministry of Finance (2007)

Annex D – The Global China Sonangol Business Web



This diagram is a snapshot of some of the China-Angola connections alluded to in the main text of this report. It is not necessarily a complete or true depiction of facts, and may contain errors or misrepresentations. The authors do not take responsibility and are not liable for any errors or omissions.



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