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The Angola
Economic and Political Risk
Briefing

A twice-weekly update and analysis of the latest political, economic and energy sector developments in Angola, from Zitamar Consulting LLP

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The Angola Economic Briefing is produced by the team behind Zitamar News, Mozambique's premier English-language business news service since 2015 — in partnership with Angola-focused Moxico Risk Consulting LLP, and Mark Bohlund, a seasoned Africa economist formerly of IHS Markit and Bloomberg.

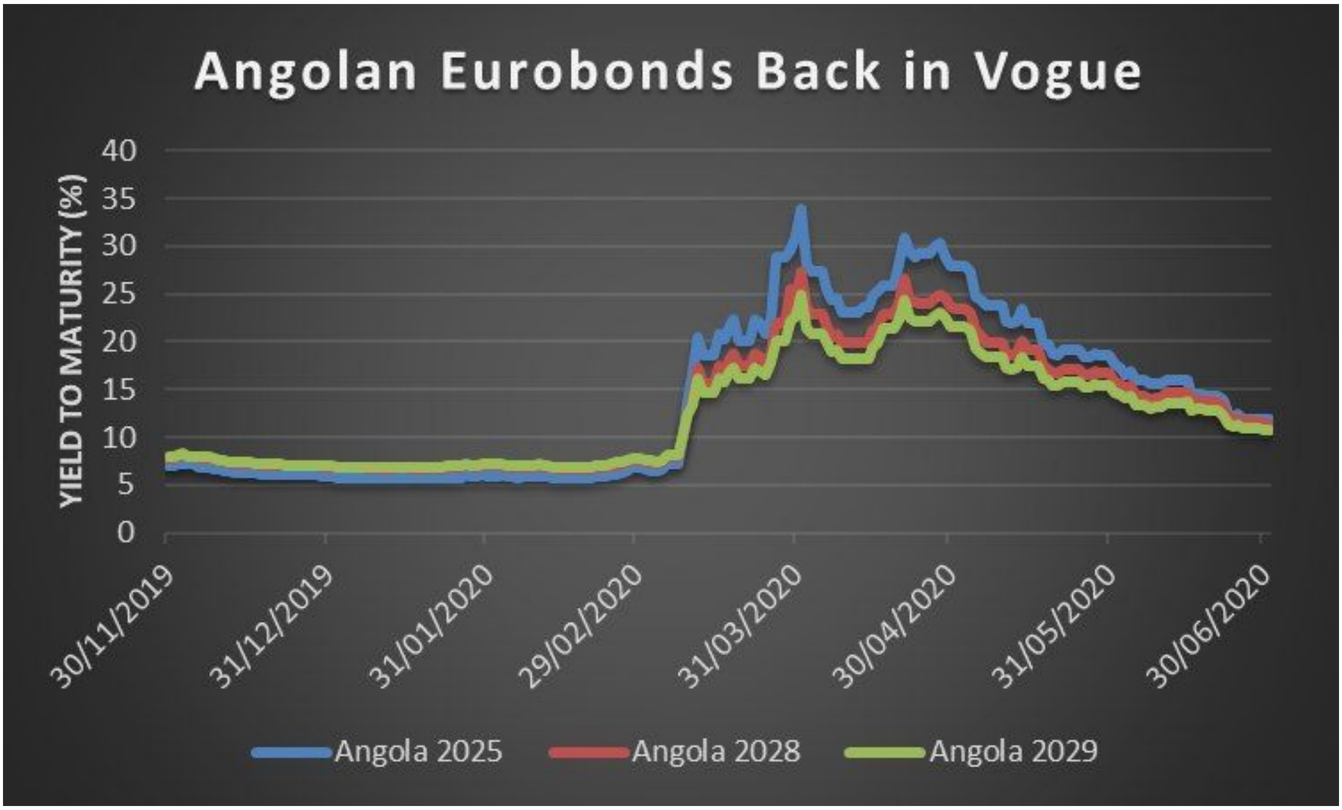
From the Editor:

Welcome to Issue 8 of the Angola Economic and Political Risk Briefing, from Zitamar Consulting LLP.

Angola is refusing to fall in line with OPEC+ demands to cut oil production, according to [an unconfirmed report by Reuters] yesterday— saying it will instead defer the required cuts to the fourth quarter of 2020. An increased quota in H2 should ease the pain of those cuts for Angola, whose sovereign Eurobonds were the top-performing EM bonds in 2Q (see Chart of the Day). But downside risks remain: further falls in the oil price, or setbacks in negotiating a suspension of debt-servicing payments with China, could prompt another sell-off of Angola's Eurobonds.

A potential snag in the negotiations with China are the delays and alleged irregularities in building a $6 billion new airport in Luanda, which is likely to remain on hold despite the government authorising the restart of 13 transport projects. And a former contractor is suing Angola in a US court over alleged breach of contract and illegal expropriation — staining the government's attempts to paint Angola as a safe destination for international investors.

Chart of the Day



Angola resists OPEC pressure to comply fully with oil cuts (Reuters)

Summary:

Angola is resisting pressure from Saudi Arabia for a steeper oil output cut to comply fully with record supply curbs, according to OPEC and industry sources quoted by Reuters. This followed a report in the Wall Street Journal that an ultimatum had been issued by Saudi energy minister Prince Abdulaziz bin Salman in recent weeks for Nigeria and Angola to present a detailed description of how they plan to comply with the quotas agreed in April, or face a price war. Angola is saying it can only compensate for overproduction in 4Q — not 3Q, like the other non-compliant countries — according to an unnamed OPEC source. A source familiar with Angolan oil shipment plans said Sonangol would supply full volumes to buyers such as Indian refiner MRPL and Indian Oil Corporation (IOC), as well as to Chinese firms Unipec and Sinochem, in August.

Analysis:

Angola was still producing above its OPEC quota in June, according to analysts polled by Reuters. Oil output stood at 1.24mbpd in June, down from 1.27mbpd in May but above the 1.18mbpd OPEC quota for Angola in May through to July. The survey showed Kuwait, Saudi Arabia and the United Arab Emirates making large cuts beyond their reduced quotas to bring OPEC oil production to its lowest since 1991. Angola was 83% compliant with its agreed cuts, with Iraq and Nigeria continuing to account for larger shortfalls. Official details are yet to emerge about Angola's offer for additional cuts in 3Q to compensate for its overproduction in May (see Angola Economic Briefing – 26 June), but the latest reports suggest that it will take a harder negotiating stance than usual. We were assuming Angola had offered compensatory cuts starting in August, when the agreed OPEC quotas are set to increase (to 1.25mbpd in the case of Angola), but it now seems like the Angolan governments are looking to push any compensatory cuts into 4Q. We see a high likelihood that Angola will continue to produce above its agreed quota in July.

Angola Eurobonds top emerging market performer in 2Q (Reuters)

Summary:

Angola's Eurobonds were the top-performing fixed income assets in emerging markets in 2Q according to Reuters. Angola's 2025, 2028 and 2029 Eurobonds all doubled in value during 2Q, which saw a strong recovery for most emerging market assets after a sharp sell-off during March as the Covid-19 pandemic spread across the world.

Analysis:

The strong performance in Angolan Eurobonds is largely a mirror image of the sharp sell-off in March, when a generalised sell-off in riskier emerging market assets was compounded by the sharp drop in the global oil price. Nevertheless, there were some positive developments underpinning the Angolan economic outlook, and by extension its Eurobonds, in 2Q. Firstly, the oil price has more than doubled largely thanks to substantial production cuts by OPEC members (see above). Secondly, negotiations with China are likely to defer substantial external debt-service payments (see Angola Economic Briefing – 5 June), possibly for as long as three years,and sharply reduce the near-term risk that Angola will default on the Eurobonds and other commercial debt. Reversals in these two developments pose significant downside risks to Angola's Eurobonds, which are now in touching distance of returning to single-digit yields after pushing as high as 34% in April.

Restart of work on new airport halted due to missing funds (Expansão)

Summary:

Expansao reports that works on the new Luanda airport (Angola International Airport), started in 2005 but halted in 2017, are likely to remain suspended in the short term until issues between the Ministry of Transport and the former contractor, China International Fund, are worked out. CIF was ejected from the project in 2019 due to allegations of irregularities and unpaid bills to subcontractors. The Attorney General's Office announced in May that it had recovered $286mn from CIF. A memorandum of understanding and an addendum to the contract for the airport was signed between the Ministry of Transport and the new contractor, China National Aero-Technology International Engineering (AVIC) in May at an estimated value of $1.4 billion.

Analysis:

The assessment of what has already been done, versus what remains to be done, is likely to delay the restart of construction considerably. However, we view disagreements between the Angolan government and CIF as unlikely to disrupt negotiations for a reprofiling of Angola's external-debt service payments to China. CIF is a Hong Kong-domiciled entity which lost much of its influence with the Chinese government following the arrest of its President, Sam Pa, on 8 October 2015 in a Chinese government anti-corruption probe. Other Chinese companies with economic interests in Angola, such as Bank of China and Industrial and Commercial Bank of China (ICBC), now have much more influence over the Chinese government position during these negotiations.

Government authorises restart of 13 transport projects (*Jornal De Angola*)

Summary:

On 1 July the Ministry of Transport authorized the restart of 13 "strategic" projects in the maritime, rail, and air transport sectors. These projects were all suspended with the declaration of a State of Emergency in Angola from 27 March 2020. Maritime projects include construction of the breakwater at Cais de Cabinda Bridge and various ports construction projects underway in Cabinda, Soyo and Zaire Provinces. Rail projects include the development of a new railway workshop in Cazenga, construction of four new railway overpasses, and importing railcars for the Caminhos de Ferro de Luanda (CFL) line. Air transport projects include runway rehabilitation at Quatro de Fevereiro International Airport in Luanda as well as restarting the construction of the New Luanda International Airport.

Analysis:

The list of companies benefitting from this strategic designation is dominated by Chinese entities including China Road and Bridge Corporation (CRBC), China Harbour Engineering Company (CHEC), China Gezhouba Group Company (CGGC), China National Aero-Technology International Engineering (AVIC), China Machine Engineering Corporation (CMEC), China Hyway Group Limited. This comes as little surprise given the Angolan government's ongoing debt restructuring negotiations with Chinese creditors. Contracts for Chinese companies in Angola were specifically suggested by the Chinese team during the discussions. We are likely to see announcements of further similar concessions to Chinese companies in other sectors (such as agriculture and logistics) as the negotiations continue.

Aenergy expropriation case gets New York hearing (*Folha8*)

Summary:

Representatives of US company General Electric and the Angolan state are scheduled to respond to a lawsuit brought by Aenergy in a New York federal court on 30 October 2020. The owner of Aenergy, Portuguese businessman Ricardo Leitão Machado, is seeking compensation of €489 million from five defendants for crimes including termination of contract, illicit enrichment and illegal expropriation. The defendants are five Angolan state entities, including the Ministry of Finance and the Empresa Pública de Produção de Electricidade (PRODEL), as well as three General Electric corporations, who were partners with Aenergy. The lawsuit relates to the Aenergy's 2017 contracts with Angola's Ministry of Energy and Water in 2017 for the construction, operation and maintenance of power plants in Angola. Aenergy claims that documents were forged to help justify the expropriation of four of their GE TM2500 turbines.

Analysis:

Aenergy's accusations being presented in US court will be embarrassing for the Angolan state entities involved, and do not fit with President Lourenço's vision of Angola as a safe investment destination for foreign businesses. Concerns over expropriation of assets in Angola were already high in some business circles following the Africa Growth Corporation (AFGC) case, which dragged on from 2017 to 2019 and was covered negatively in the US press. But Portugal is unlikely to be able to bring much pressure to bear on the Angolan state to resolve this matter in favour of Machado's company.

Benguela's governor threatens land expropriations (*VOA Portuguese*)

Summary:

One month after the approval of the proposed Public Expropriation Law, Benguela's governor Rui Falcão Pinto de Andrade has warned the owners of large unproductive farms in his province that their rights to hold the land will be revoked. The announcement came on 30 June, when he said that the expropriations would start "in a few days". He urged those holding 20-30,000 hectare plots of land that they needed to invest in order to make the land productive.

Analysis:

Angola has historically been agriculturally very productive, but almost constant warfare from 1961 to 2002, followed by a subsequent lack of investment in agriculture, has taken its toll. Today, only 10% of its 35 million hectares of arable land are being cultivated, according to an International Finance Corporation study from January 2020. While Governor Pinto's suggested approach may seem like a solution, very few landholders actually have access to the credit required to increase productivity on their holdings. Expropriation will do nothing to address the investment climate in this sector, and many of the owners of these large unproductive estates are influential members of the government and military, who will prove very difficult to take land from. It therefore seems unlikely that Governor Pinto will follow through on this threat.