

Change is coming to Angola

With the government steering an overhaul of its oil and gas sector, the west African country is looking to remain competitive despite declining oil production levels.

The 2018 developments in Angola's oil and gas sector and overall political environment provide insight into the path the industry may be treading in the years ahead and offer initial promise that change is coming. Angola's role as a key player in the African oil and gas space has suffered from low oil prices in recent years and a production decline, which have put a strain on the public budget. The recent recovery of oil prices has provided short-term relief, but does not obviate the need for continued political, legal and economic reform. President João Lourenço's efforts to reorganise the public sector and the oil and gas industry, and to streamline foreign investment procedures, are encouraging steps and will serve Angola well if the country wants to remain competitive in the African and global oil and market.

Setting the scene—a new leadership

During his first year in office, President Lourenço has made substantial headway with numerous changes to key positions within the Government and its agencies and state-owned companies, including Sonangol's senior management. He has also passed major regulatory changes to the oil and gas sector and given signs that he is intent on improving the governance and compliance systems in the public sector.

President Lourenço's recent election to the leadership of the ruling party, the People's Movement for Liberation in Angola, ends almost 40 years of political leadership by the former President, José Eduardo dos Santos, and marks another important step in the political transition process that is underway. While the task ahead should not be underestimated, the reforms to date signal that a genuine effort to bring change to the country's public administration and business environment, a develop-



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ment which has received praise from the international community and investors.

Legal and regulatory reforms

Since taking office, the new government has started an overhaul of Angola's oil and gas sector by creating a new oil and gas regulator, the National Oil and Gas Agency, thereby redefining (and narrowing) Sonangol's role to that of a national oil and gas company proper. Further reorganisation of the sector is expected in the coming years, including Sonangol's renewed focus on exploration and production, increased refinery capacity and partnerships with foreign oil companies in developing new blocks.

Other regulatory highlights include Angola's decrees aimed at simplifying investment in the oil and gas industry, new rules and procedures for public tenders involving oil and gas contracts, a revised natural gas statute, the first comprehensive antitrust law and the announcement of a wave of privatizations of

state-owned companies. In particular, the expected privatization of Sonangol's exploration and production arm, which is drawing investor attention, could markedly change the landscape of the country's oil and gas industry.

At this initial stage, the jury is still out on whether President Lourenço's reforms will be sufficient to keep Angola and its national oil company competitive in a global market. In addition to typical domestic challenges many oil-rich countries face, such as the need to diversify their economy, Angola and Sonangol will have to deal with global issues facing the industry at large such as climate change and energy transition policies.

Budgetary challenges, foreign investment and increasing Chinese influence

In 2017, the government took the Angolan Kwanza off its peg to the dollar to protect reserves and make Angolan exports cheaper

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to Angola's main trading partners. The government also engaged with the International Monetary Fund to partake in a support programme to inject funds into the economy, and assist economic and fiscal reforms. In addition, the recent increase in oil prices has alleviated Angola's public budget challenges. Fiscal consolidation is poised to continue.

Despite these initiatives and the increase in oil prices, Angola's debt has risen to over \$33bn, more than 70pc of its gross domestic product. Analysts at Fitch Solutions revised Angola's 2019 economic growth forecast down from 2.6pc to 2.3pc. Declining oil production and growth forecasts have led to international credit agencies downgrading Angola, notwithstanding President Lourenço's initial efforts. While a more diverse and less oil-dependent economy is a goal in sight, there is a general consensus that, in the short term, revenue increase and budgetary stability depend on more production (and global oil prices). This may be a challenge at a time when Angola's production is declining. According to a September 2018 report by BMI Research, Angola's July 2018 output was 1.40mn b/d, less than its average of 1.72mn b/d over the past ten years.

Angola's economic reforms consequently will need to include meaningful incentives to investment in oil production. Foreign investors will play a critical role in this process, with China leading the pack.

In this regard, the government recently enacted a presidential decree designed to create a

more reliable and investor-friendly legal framework on foreign investment.

In the last few weeks, Zambia and Angola signed a memorandum of understanding expected to pave the way to the construction of an oil pipeline between the two countries that reportedly will require over \$5bn in investments. The signing comes amidst ongoing projects to rehabilitate and modernise existing refineries (and to construct new ones) in a bid to increase Angola's oil production capacity. There have also been reports of efforts to attract investment in Angola's oil and gas industry by at least one GCC NOC in the context of the ongoing reforms in the sector.

Further, earlier in 2018, Total's ultra-deep-water Kaombo project came online. The expectation is that Total's two floating production storage and offloading units at Kaombo reach 230,000 b/d in 2019. Total also concluded an agreement in 2018 to launch the Zinia 2 development, expected to have a production capacity of 40,000 b/d. Total's executives have publicly attributed a favourable fiscal framework introduced by the Angolan authorities for satellite developments as a factor in the project's success. Eni has also recently announced a new discovery in Angola's deep offshore, which provides potential increased production from the Kalimba project.

These forays by foreign investors are encouraging, and add to China's appetite for the country's resources. China remains Angola's largest trading partner after Saudi Arabia, with Angola providing China most of its crude-oil needs. The China Development Bank has recently granted a \$2bn loan to Angola to support Angola's export efforts, which will add to Angola's \$23bn debt with China. It remains to be seen how much China's augmented role in the Angolan economy will be at the expense of

or in addition to, additional investment by the West and the Middle East in the under-reform Angola oil and gas industry.

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A new opportunity

Angola's future offers reasons for cautious excitement. There are immediate opportunities for the Angolan oil and gas sector such as the 2019 bid rounds for onshore and offshore blocks announced in October 2018, as concrete steps to reverse the production downward trend. Angola can also take steps to extend the life and production of mature fields and attract new players from the trending decommissioning segment. At the same time, however, the government will continue to be under pressure to balance the public budget and attract investment in production, while facing a new global environment that includes climate change issues, energy transition and peak demand against competing global basins such as Brazil and Mexico.

During this fascinating period of substantial reform and political consolidation, the biggest challenges faced by the Portuguese-speaking country remain its declining oil production and the quest to persuade the international community that the recent changes are only the beginning of a long-lasting shift in policy and business practices that will help Angola reach its potential as a global player in the oil and gas market. ■

\$5bn

The amount of investments required as a result of an MoU between Angola and Zambia to build an oil pipeline