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ANGOLA'S MISLAID BILLIONS

Oil is the devil's excrement. We are drowning in the devil's excrement.
—Juan Pablo Pérez Alfonso, Venezuelan founder of the Organization of Petroleum Exporting Countries[1]

The problem is that the good Lord didn't see fit to always put oil and gas resources where there are democratic governments.
—Dick Cheney, when CEO of the oil-services company Halliburton[2]

This is all lies.
—Manuel Vicente, head of the Angolan state-owned oil group Sonangol[3]

In Angola in 2001, corruption was extreme. More than US$1 billion per year of Angola's oil revenues had reportedly disappeared in each of the five previous years.[4] In a country where three-quarters of the people were on the verge of starvation, a billion dollars a year was one-sixth of national income.

"The suspicion is that the missing billions have been siphoned off by the Angolan political elite through corrupt contracting methods," reported the *Times*, "with huge commissions and kickbacks for key government officials." There were accusations within Angola, *the Times* continued, that 59 senior government figures, including President José Eduardo dos Santos, were

[1] Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, Berkeley, University of California Press, 1997, p. 4. He said this in 1976.
[2] International Consortium of Investigative Journalists, "Greasing the Skids of Corruption," Center for Public Integrity, 2002, p. 2. Cheney said this in 1996.
[3] Bruce Stanley, "Crude Interest," *Washington Times*, September 4, 2002.
[4] The $1 billion estimate comes from investigations done by Global Witness, a human-rights organization. The sum is also said to have emerged in calculations done by the International Monetary Fund (IMF), though the IMF has not published these calculations. The $1 billion figure was widely reported in the press: for example, Michael Dynes, "The Oil Flows But Angola's People Live on Handouts," *The Times*, February 24, 2003, p. 25; Rory Carroll, "After the War, Angola's battle for Survival Begins," *Guardian*, February 7, 2003; Declan Walsh, "Angolan Government Accused of Siphoning Off Oil Money," *Boston Globe*, September 8, 2002, p. A16.

John McMillan prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

making "vast personal fortunes through embezzlement."[5] (See Exhibit 1.) The U.S State Department said Angola's wealth was "concentrated in the hands of a small elite, who often used government positions for massive personal enrichment."[6]

Angola was the world's third worst country for corruption, as measured by Transparency International's 2002 corruption perceptions index.[7] Rafael Marques, an Angolan journalist who was jailed for reporting the abuses, said, "Right now, the main institution in the country is corruption. The system is rotten to the core and until you change the entire system nothing will change."[8]

How did this "rotten" system come into being? What, if anything, could be done to correct it? Was there a role for outsiders—the multinational oil companies, nongovernmental organizations (NGOs), the IMF and other international organizations, foreign governments—to push reform on the Angolan government? Could external pressure bring a change for the better?

ANGOLA'S LOST POTENTIAL

Angola presented a horrifying case of squandered possibilities. Rich in natural resources, it was one of the world's poorest countries. Most of its people lived wretched lives.

Angola had vast reserves of oil, diamonds, and other minerals. (See Exhibit 2 for a map of Angola and Exhibit 3 for some basic data on its economy.) In 2002 it was the world's fourth-largest diamond producer.

In 1973, per capita income had been US$5,000.[9] Over the next three decades it fell by a factor of ten, so that in 2002 it was just US$500.[10] This catastrophic drop in living standards resulted from a longstanding civil war plus what the Angolan government itself called "precarious" economic policies.[11]

Angola had seen nearly continuous civil war since its independence from Portugal in 1975. The war killed over half a million people, it is estimated, and displaced 2 to 4 million (from a total population of about 13 million). Through the 1990s, the insurrection came from the National Union for the Total Independence of Angola (UNITA), led by the flamboyant Jonas Savimbi, who attracted support among American conservatives. In February 2002, government troops killed Savimbi, and in April 2002 the government and UNITA signed a ceasefire accord, ending the civil war.

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5 Dines, op. cit.

6 U.S. Department of State, *Angola: Country Report on Human Rights Practices*, March 31, 2003, http://www.state.gov/g/drl/rls/hrrpt/2002/18167.htm, (August 1, 2003).

7 Transparency International, "Transparency International calls on oil companies to disclose payments to Angola," press release, http://www.transparency.org/pressreleases_archive/2002/2002.10.18.angola.html (June 8, 2002).

8 Tim Butcher, "Corruption Replaces War as a Way of Life in Angola," *National Post* (Canada), July 30, 2002, p. A12.

9 Hodges, op. cit., p. 2.

10 World Bank data.

11 Government of Angola, "Poverty Reduction Strategy Foresees Growth and New Jobs," September 24, 2002, http://wwww.reliefweb.int/w/rwb.nsf/0/4f90c253a92780e4c1256c3f002df80f?OpenDocument, (August 1, 2003).

The war had begun as a revolt against the Portuguese colonialists. Later it developed into a cold-war struggle between socialism and capitalism, one side backed by the Soviet Union and Cuba, the other by the United States. By the 1990s, however, the fighting was no longer driven by ideological differences or by ethnic grievances, in the assessment of historian Tony Hodges, but by "crude material interests." The combatants fought for control because the state was "critical for access to the public resources generated by oil and diamonds." In the end, Angola's civil war was about nothing more than "personal enrichment."[12]

Angola's oil reserves were estimated to exceed 7 billion barrels, making it Africa's second-largest producer after Nigeria.[13] While smaller than the oil giants (Saudi Arabia had 262 billion barrels in known reserves, Iraq 113 billion, Venezuela 78 billion, and Russia 65 billion[14]), Angola's reserves amounted to 700 barrels per citizen. The world price of crude oil fluctuates, but typically it has been around US$15 to US$20 per barrel (Exhibit 4).

An investment boom was anticipated for Angola in 2003-05, with the foreign oil companies operating there predicted to invest US$18 billion. Angola's Oil Minister, Jose Maria Botelho, proclaimed "the transfer of the oil market's attention from the Middle East to Africa."[15]

Poverty coexisted with the oil and diamonds. Seventy percent of Angolans were living on less than $1 a day. (See Exhibit 5 for some human development indicators.) In 2002, the Angolan Planning Ministry noted the "destruction of the country's infrastructures, feeble health and education systems, food insecurity, non-qualified human resources, disarticulated production, misdistribution of revenues." The Ministry reported that 58 percent of the adult population was illiterate, 63 per cent had no access to potable water, 75 percent lacked basic sanitation, and 65 percent had no access to health care.[16]

"Angola experiences serious macroeconomic instability, characterized by very high inflation, large fiscal imbalances, rapid monetary growth and underinvestment in the social sectors," said the Economist Intelligence Unit. "A major cause of this is vast unrecorded expenditure."[17] Justino Pinto de Andrade, professor of economics at the Catholic University of Angola, remarked, "The role of the state should be to take that wealth and apply it in ways that will benefit the people of Angola. The oil revenues go straight to the state budget, but the people see very little benefit."[18]

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[12] Tony Hodges, *Angola: From Afro-Stalinism to Petro-Diamond Capitalism*, Bloomington, Indiana University Press, 2001, p. 19.

[13] The reserves estimate, made in 2002, is from the U.S. Department of State, at http://usinfo.state.gov/regional/af/trade/a2120402.htm, (June 8, 2003).

[14] Data from Timothy L. O'Brien, "Just What Does America Want to Do With Iraq's Oil?" *New York Times,* June 8 2003, p.4-8.

[15] Dines, op. cit.

[16] Government of Angola, op. cit.

[17] Economist Intelligence Unit, *Angola Country Report*, February 10, 2003.

[18] Lydia Pol Green, "Angolans Come Home to 'Negative Peace'," *New York Times*, July 30, 2003, p. A1.

WHERE DID THOSE BILLIONS GO?

"This is all lies," Manuel Vicente, head of the Angolan state-owned oil group Sonangol, said of the report that billions were going missing. "This is an amount that cannot disappear."[19] How is it possible to hide a billion dollars per year?

Anywhere in the world, it is common practice for an oil company to pay what is called a signature bonus, which is cash paid upfront upon signing an exploration contract.[20] The government receives the signature-bonus money immediately, whereas it waits years for any royalties to come in. During the bidding for a concession, the size of the signature bonuses the companies offer is one of the factors the government takes into account in choosing the winning bidder. A signature bonus is not in itself a form of corruption. In any auction, there are good reasons for the seller to ask for an upfront payment in addition to royalties. The bidding over the upfront payment helps reveal which of the companies values the property the most.[21]

In Angola, the signature bonuses for offshore drilling rights were typically US$100 million to US$400 million per block.[22] In 1999, TotalFinaElf, BP, and ExxonMobil reportedly paid the Angolan government US$870 million in signature bonuses.[23] According to the IMF, the Angolan bonus payments were problematic. Rarely were they mentioned in Angola's fiscal accounts, and when they were the sums were grossly understated. For example, the oil companies told the IMF that, following a September 2001 auction for a deep-water block, they paid about US$400 million. The Angolan government told the IMF it received US$285 million. From this single auction, therefore, more than US$100 million was left unaccounted for.[24]

Angola's state finances "are fragmented between secret offshore accounts and shadowy oil funds," the Economist Intelligence Unit noted, "under a system of parallel state finances which bypasses the Treasury and the budget and involves the presidential office, the national oil company, Sonangol, and Banco Nacional de Angola (the central bank)."[25] An IMF report said, "Reported revenues from Sonangol cannot easily be reconciled with its share of oil receipts. The company assumed some time ago complete control of foreign currency receipts from the oil sector, and stopped channelling them through the central bank as mandated by law."[26]

A "web of opaque offshore accounts" was used by the Angolan government to manage its oil revenues, the IMF said.[27] Hundreds of millions of dollars were said to be held in Sonangol bank

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[19] Bruce Stanley, "Crude Interest," *Washington Times*, September 4, 2002.
[20] For a discussion of signature bonuses, see BP's web site, "Corruption," http://www.bp.com/environ_social/bus_ethics/corruption/index.asp, (August 1, 2003).
[21] R. Preston McAfee and John McMillan, "Bidding for Contracts: A Principal-Agent Analysis," *Rand Journal of Economics* 17, Autumn 1986, 326-38.
[22] Ian Gary and Terry Lynn Karl, "Bottom of the Barrel: Africa's Oil Boom and the Poor," Catholic Relief Services, 2003, p. 10.
[23] Daniel Fisher, "Dangerous Liaisons," *Forbes*, March 28, 2003.
[24] Henri E. Cauvin, "IMF Skewers Corruption in Angola," *New York Times*, November 30, 2002, p. A6.
[25] Economist Intelligence Unit, op. cit.
[26] Justin Pearce, "Billion-Dollar Scandal Hits Angola," *Sunday Times* (South Africa), October 20, 2002, p. 1.
[27] Cauvin, op.cit..

accounts in various countries. Manuel Vicente of Sonangol admitted to journalists that the company had "around ten" bank accounts in various countries. "Basic risk management," was how he explained it. "You don't want to have all your eggs in one basket."[28]

Investigative journalists traced some of the oil companies' bonus payments to the bank Lloyds TSB in Jersey, an island in the English Channel. (Jersey is a favorite destination for illicit cash, often used by money launderers.) According to these journalists, on July 15, 2000, the U.S. firm Marathon Oil paid $13.7 million into a Sonangol account in Jersey. This was one-third of a signature bonus Marathon had agreed to pay for the rights to an Angolan offshore oil tract. Over the next few months, reportedly, large sums of money were shifted out of that account to, among others, a company owned by a former Angolan cabinet minister and a charitable foundation run by the Angolan president.[29]

The oil company Elf (which at the time was owned by the French government but later was privatized and became part of TotalFinaElf) spent about US$60 million per year in bribes worldwide in the 1980s and 1990s, according to André Tarallo, who headed Elf's African business. Tarallo, who was nicknamed "Mr. Africa" for his close ties to African leaders including Angola's President dos Santos, was testifying in the Paris trial of himself and two other former Elf top executives charged with misusing funds.

Elf maintained a slush fund in Liechtenstein, from which it paid into the Swiss bank accounts of African government officials, Angolans among them. The secret bank accounts had code names like Othello, Tomato, Bonifacio, and Mineral. Elf paid the bribes to win oil concessions in the face of competition from other companies. Loik Le Floch-Prigent, Elf's then-CEO, argued in court that paying bribes was nothing less than their patriotic duty. "Elf is a French company up against the Anglo-Saxon world," he said. "We are David against Goliath."

Elf's payoffs, Tarallo said, were "part of a long tradition which gave entire satisfaction to the beneficiaries as far as secrecy was concerned." Le Floch-Prigent told the court, "Clearly in most petrol-producing countries it is the head of state or king who is the real beneficiary." During Angola's civil war, however, Elf made payments both to sides. As well as paying President dos Santos, it paid UNITA, the insurgent group. In 1991, according to testimony of one of the defendants, Elf opened a US$2 million Swiss bank account, with the code name Salad, on behalf of rebel leader Jonas Savimbi.[30]

The French prosecutors accused the Elf executives of skimming US$435 million from Elf's African slush funds for their own use: acquiring a $9.3m belle epoque Paris mansion, a country chateau, and a villa in Ibiza, and spending millions at Cartier, the jewelers. One Elf executive,

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[28] International Consortium of Investigative Journalists, "Greasing the Skids of Corruption," Center for Public Integrity, 2002, p. 5, http://www.public-i.org/dtaweb/icij_bow.asp?Section=Chapter&ChapNum=4, (August 1, 2003).

[29] Ibid., p. 1; David Leigh, "Angolan Oil Millions Paid into Jersey Accounts," *Guardian*, November 4, 2002

[30] Paul Webster, "Elf Spent $60m a Year on Bribes, Investigators Told," *Guardian*, July 12, 2000; Thijs Berman, "The Scapegoat Speaks," *Radio Netherlands*, April 1, 2003, http://www.rnw.nl/hotspots/html/fra030401.html (September 29, 2003); Peter Gumbel, "Gushing Greenbacks," *Time Europe*, May 5, 2003, http://www.time.com/time/europe/magazine/printout/0,13155,901030505-447190,00.html (September 29, 2003); Hugh Schofield, "Elf Trial Reveals Moral Vacuum," *BBC News*, April 24, 2003, http://news.bbc.co.uk/2/hi/europe/2973267.stm (September 29, 2003).

Alfred Sirven, admitted using the money after "confusing some of the accounts with my own."[31] Sirven, Le Floch-Prigent and Tarallo were sentenced to five years in jail for enriching themselves with Elf funds intended for bribing politicians.[32]

The Elf story suggests that oil corruption sometimes involves not only host-country officials but also employees of the multinational oil companies. Similar examples from other countries occasionally come to light. In 2003, James Giffen, an American consultant to the government of Kazakhstan, was arrested under the Foreign Corrupt Practices Act for allegedly being the conduit for US$78 million in payments from U.S. oil companies into the secret Swiss bank accounts of Kazakh officials. A former Mobil Oil Company executive, J. Bryan Williams, pleaded guilty in a U.S. court to tax evasion, in failing to report a US$2 million kickback Giffen had paid him in 1996 for negotiating Mobil's US$1 billion stake in a Kazakhstan oil field. Williams told the court he had been secretly paid by "people, organizations and governments with whom I did business on Mobil's behalf."[33]

Also in 2003, the U.S. oil-services company Halliburton admitted bribing Nigerian tax officials for favorable tax treatment. A Halliburton subsidiary was developing a liquefied-natural-gas plant and an offshore oil and gas facility in Nigeria. (Halliburton had also, since the mid-1980s, worked on many of the major oil concessions in Angola, sometimes in partnership with Sonangol.) In a filing to the U.S. Securities Exchange Commission, Halliburton said that during 2001 and 2002 it had "made improper payments of approximately US$2.4 million to an entity owned by a Nigerian national who held himself out as a tax consultant when in fact he was an employee of a local tax authority."[34]

EXTERNAL PRESSURE

The Nongovernmental Organizations

Global Witness, Human Rights Watch, and other NGOs had for some years been calling on oil companies to "publish what you pay," to make it harder for developing-country governments to misappropriate natural-resource revenues. In 2002, the financier and philanthropist George Soros helped launch a coalition of 30 NGOs to campaign for new global rules on transparency. "Money that could be used to reduce poverty and jump-start economic growth," Soros noted, "is stolen instead."[35]

In their accounting, the oil companies aggregated the payments they made in different countries. It was impossible to deduce from their accounts, therefore, how much they paid Angola or any other country. The NGOs proposed that regulators like the U.S. Securities and Exchange

[31] Paul Webster, "Elf Trial Told of Cash for Oil Concessions," *Guardian*, March 26, 2003.
[32] Robert Graham, "French Court Jails Elf Officials for Corruption," *Financial Times*, November 12, 2003.
[33] Joshua Chaffin, "The Kazakh Connection" *Financial Times* June 25, 2003; Kenneth N. Gilpin, "Former Mobil Oil Executive Pleads Guilty to Tax Evasion," *New York Times*, June 13, 2003, p. B2.
[34] *Associated Press Worldstream*, "Nigerian President Orders Probe into Corruption Allegations Against Halliburton," June 18, 2003; *The Age* (Melbourne), "Halliburton Firm Bribed Nigeria," May 10, 2003.
[35] Nicholas Shaxson, "Soros Aims to Stop Graft in Energy Projects," *Financial Times*, June 12, 2002.

Commission, or the stock exchanges on which the companies were listed, change their rules to require payments to be detailed country by country.[36]

The NGOs called on developed-country governments to compel the oil companies to publish how much they pay. "At the moment, all taxes paid by companies in the U.S. or in the U.K. have to be declared, but those paid in the rest of the world are lumped together, making it impossible for Angolans to see how much money their government is earning," said Transparency International chairman Peter Eigen. "It is high time to introduce legislation that ensures full disclosure on a country by country basis worldwide."[37]

Noting that some "US$20-40 billion has over the decades been illegally and corruptly appropriated from some of the world's poorest countries, most of them in Africa, by politicians, soldiers, businesspersons and other leaders, and kept abroad in the form of cash, stocks and bonds, real estate and other assets," Transparency International further called on the international community to "adopt a treaty to expedite the tracing, recovery and repatriation of wealth stolen from developing countries and transferred abroad, including sealing of all known loopholes, requiring banks to open their books for inspection where there is reasonable cause to suspect illegal activity, and mandatory liquidation and repatriation of assets known to have been corruptly acquired."[38]

"Angola is the worst-case study where it's totally out of control," said Gavin Hayman of Global Witness. "It's the poster child for the issue of transparency."[39]

The Oil Companies

Most of the major oil companies were operating in Angola (Exhibit 6). They included five of the world's 15 largest corporations, measured by revenue: ExxonMobil, BP, Royal Dutch-Shell, ChevronTexaco, and TotalFinaElf (Exhibit 7). A better yardstick of corporate size than revenue, which is a gross measure of the firm's activities (it includes the cost of purchased inputs, which are really other firms' activities), is value added, which is a net measure. (Value added is computed as the sum of salaries and benefits, depreciation and amortization, and pre-tax income.) ExxonMobil's value added in 2000 was US$53 billion, Royal Dutch-Shell's was US$38 billion, BP's was US$37 billion, and TotalFinaElf's was US$27 billion.[40] These companies dwarfed Angola, whose gross domestic product—that is, the national value added—was US$10 billion.

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[36] Nicholas Shaxson, "Soros Aims to Stop Graft in Energy Projects," *Financial Times*, June 12, 2002.

[37] Transparency International, "Transparency International Calls on Oil Companies to Disclose Payments to Angola," October 18, 2002, http://www.transparency.org/pressreleases_archive/2002/2002.10.18.angola.html, (August 1, 2003).

[38] Transparency International, "The Nyanga Declaration on the Recovery and Repatriation of Africa's Wealth," March 4, 2001, http://www.transparency.org/pressreleases_archive/2001/nyanga_declaration.html, (August 1, 2003).

[39] Carola Hoyos and John Reed, "Angola Forced to Come Clean," *Financial Times*, October 2, 2003.

[40] Paul De Grauwe and Filip Camerman, "How Big Are the Big Multinational Companies?" University of Leuven, January 2002, http://www.econ.kuleuven.ac.be/ew/academic/intecon/DeGrauwe/PDG-papers/How%20big%20are%20the%20big%20multinational%20companies.pdf (September 25, 2003)

John Browne, the BP chief executive, argued that companies should disclose their oil payments. "Corruption isn't inevitable. If we can combine the leverage of government with a firm and effective refusal by the private sector to tolerate corruption," he said, "we can begin to renew trust not just in corporate activity but in the whole development process." To this end, BP had to be "transparent in reporting on our activities and finances, because where there is a dark corner there will be doubt."[41]

Most of the oil companies, however, disagreed with BP. David O'Reilly, chairman and chief operating officer of ChevronTexaco, said, "I don't accept that oil is at the root of a country's pains and evils. It is fundamentally a question of governance."[42] He rejected the calls for the oil companies to publish what they paid, as this would mean breaking their contracts. He argued that the onus should not be on the companies, but that the countries should be encouraged to disclose the payments they were receiving.[43]

Thomas Saunders of TotalFinaElf invoked business confidentiality.[44] "Oil companies generally don't publish what they pay for permits," he said. "Whether it's the oil industry or any other industry, obviously you wouldn't want your competitors to know what you pay. It's not that we're against it, or that there's something to hide; it's just the standard."

Another argument was that politics was not the companies' business. Andrew Norman of Texaco said, "We recognize that we have a responsibility to the people of Angola, but when it comes to government policy we feel very strongly that it's not our role to suggest or influence national economic policy."[45] Geir Westgaard of the Norwegian company Statoil made the point still more sharply.[46] "I think it's unwise and unrealistic to assume that businesses can fulfill the role that the international community has had difficulty accomplishing. Our industry has to be sensitive to accusations of being too political, of meddling with governments; there can be a whiff of neocolonialism."

According to ExxonMobil chairman Lee Raymond (whose catchphrase was, "You kinda have to go where the oil is"), influencing how governments spent their money was not a proper role for corporations.[47] ExxonMobil had scrupulously observed its contract-confidentiality agreement with the Angolan government. This showed, Raymond said, ExxonMobil's sensitivity to local needs.

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[41] John Browne, "Leading Toward a Better World?" speech at Harvard University, April 3, 2002, http://www.bp.com/genericarticle.do?categoryId=98&contentId=2000266 (February 11, 2004). Browne reiterated his call for transparency in June 2003: see *International Oil Daily*, "Majors Back UK Transparency Drive, Though Some Seem Lukewarm," June 17, 2003.
[42] Hoyos and Reed, "Angola Forced to Come Clean," op. cit.
[43] Carola Hoyos, "Oil Chief Calls for Action on Trade Barriers," *Financial Times*, September 11, 2003
[44] International Consortium of Investigative Journalists, "Greasing the Skids of Corruption," Center for Public Integrity, 2002, p. 10.
[45] Ibid., p. 11.
[46] Ibid., pp. 10-11.
[47] David Buchan and Sheila McNulty, "Interview: Lee Raymond, ExxonMobil," *Financial Times*, March 12, 2002.

The International Organizations

A 2002 report of an IMF mission's negotiations with the Angolan authorities stated:

> In relation to the transparency of government operations, the discussions centered on the need to identify and eliminate or include in the treasury account all extrabudgetary and quasi-fiscal expenditures; record and transfer to the treasury all revenues, including the total amount of signature oil bonuses; ensure that all foreign currency receipts and government revenues, including Sonangol receipts, are channeled through the central bank as mandated by the law; eliminate all subsidy and tax arrears to and from Sonangol; publish data on oil and other government revenues and expenditures, as well as on external debt; and conduct independent financial audits of the 2001 accounts of Sonangol and of the central bank.[48]

In 2001, the IMF pressed Angola to open its books, asking that the accounts of Sonangol and the Banco Nacional de Angola be audited. Accusing the IMF of trying to interfere in Angola's sovereignty, President dos Santos refused to order the audits. A two-year standoff ensued, during which the IMF ceased making loans to the country.[49]

In 2002, Peter Woicke, executive vice president of the International Finance Corporation, the private-sector lending arm of the World Bank Group, called on the oil companies to fully disclose their payments to developing countries, for this "would push governments to invest more wisely."[50]

The Foreign Governments

The British government lent its support to the publish-what-you-pay campaign. At a June 2003 conference in London attended by representatives of oil-country governments, multinational companies, and NGOs, Prime Minister Tony Blair called on oil, gas, and mining companies to reveal their payments in developing countries. "When there is corruption it is almost always the poor who suffer most," Blair said. "We need therefore to use transparency in revenue and financial management to allow people to hold government to account and build public trust."[51] Blair offered US$1.7 million to any developing country starting a pilot disclosure scheme. The British proposal stopped short of requiring transparency, however, relying instead on the oil companies' voluntary compliance.

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[48] IMF, "Angola - 2002 Article IV Consultation," February 19, 2002, http://www.imf.org/external/np/ms/2002/021902.htm, (August 1, 2003).

[49] Butcher op. cit., Africa Energy Intelligence, "Goodbye to Oil Transparency," April 16, 2003.

[50] International Finance Corporation, "Head of IFC Advocates Full Disclosure of Extractive Industries Payments to Developing Nations," Press release No. 02/129, September 30, 2002, http://wbln0018.worldbank.org/IFCExt/pressroom/IFCPressRoom.nsf/0/98F2AD06713C8D7E85256C440065C9AE/?OpenDocument.

[51] BBC News, "Blair's plea to tackle oil corruption," June 17, 2003, http://news.bbc.co.uk/go/pr/fr/-/1/hi/business/2998528.stm, (August 1, 2003).

The United States was trying to reduce its dependence on oil from the Middle East. It considered diversification to be crucial for its national security. Angola was supplying the U.S. with roughly the same amount of oil as Kuwait. West Africa supplied about 16 percent of America's oil in 2000. A CIA report of December 2000 predicted that by 2015 this would rise to 25 percent. It was unlikely that the people would benefit, however, the CIA report said: "The pattern of oil wealth fostering corruption rather than economic development will continue."[52]

"There is no doubt that increased oil production from Africa would improve global energy security," said Walter H. Kansteiner, the U.S. Assistant Secretary of State for African Affairs, in November 2002. West Africa "has become a strategic interest." Rather than pressing the oil companies to reveal their payments, the "number one" aim of U.S. policy, Kansteiner said, was helping Africa fight corruption through strengthening its government institutions.[53]

In September 2003, it was reported that the Bush administration had expressed its support for the activists' campaign for more disclosure of global oil deals. But this backing came only after the campaign had been watered down. A U.S. State Department official said the administration disagreed with the argument that if companies disclosed their payments, governments would be forced to open their budgets to scrutiny as well. The administration, working together with ExxonMobil and the other major oil companies, changed the direction of the campaign, shifting the onus for disclosure from the companies to the oil-producing countries. A British government official said that the requirements on the companies were deleted because of the American pressure. "It was more important to have a lot of people on board," he said, "than to railroad something through."[54]

ANGOLAN RESPONSES

In July 2002, the Angolan government passed a law on state secrecy giving itself broad authority, according to the U.S. Department of State, to "impose criminal penalties on individuals who publicize information that the Government views as damaging," as well as to "censor reports from international financial institutions or international press stories that criticized the Government or exposed official corruption." The legislation also took aim at the publish-what-you-pay campaign, providing for the prosecution of international oil companies if they released data on their transactions in Angola. (However, by the end of 2002, the law had not been used.)[55] Did this new law signal even heavier repression, or was it a sign that the government was becoming anxious?

In early 2003, Rafael Marques, the dissident Angolan journalist, predicted:

> There comes a point where corruption no longer works. The dossiers on the government's misdeeds are building up and as they grow a social movement is

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52 Don Melvin and Bob Deans, "African Oil to Cut American Reliance on Persian Gulf," *Sydney Morning Herald*, July 12, 2003, p. 20; Rachel L. Swarns, "Oil Abounds, Misery Too: A Case Study," *New York Times*, January 14, 2001.

53 Paul Maidment, "The Other Gulf," *Forbes*, March 10, 2003.

54 Jeff Gerth, "U.S. and Oil Companies Back Revised Effort on Disclosure," *New York Times*, September 19, 2003.

55 U.S. Department of State, op. cit.

gathering strength. It is even addressing the internal rifts in our society. I believe that in two years, civil society here will be strong enough to force the government to change.[56]

[56] *New Zealand Herald,* "Feasting on the Bones of Angola's Poor," February 22, 2003.

Discussion Questions

1. The *Economist* magazine, commenting on Africa's disastrous economic performance, said, "The main reason the continent is so poor today" is that "incompetent tyranny has been common since independence."[57] Describing Africa as a "continent in need of leadership," the article concluded, "In the end it is up to Africans to solve their own problems, starting with the ejection of some of their current rulers. The Big Men will not go quietly; but they are not immortal, either." Discuss in light of Angola.

2. Dick Cheney said, "The good Lord didn't see fit to always put oil and gas resources where there are democratic governments." Is this mere chance, or is it systemic? Echoing Juan Pablo Pérez Alfonso's view of oil as "the devil's excrement," the academic literature talks of a "resource curse." Across countries, there is a negative correlation between dependence on natural resources (measured by the fraction of resource receipts in total exports) and economic growth. Note the paradox: being rich in natural resources might have been expected to lead to economic success. What political and/or economic forces could give rise to the resource curse?

3. According to Milton Friedman, the Nobel economist, "The social responsibility of business is to increase its profits."[58] According to Mary Robinson, the former United Nations High Commissioner for Human Rights:

> Twenty years ago few companies had environmental policies. Today the environment is unquestionably a mainstream business issue. So it should be with human rights. Having a strong human rights policy and a sound implementation strategy is about risk management and reputation assurance. Human rights is a bottom-line issue.[59]

In light of these two views, evaluate the NGOs' publish-what-you-pay campaign.

4. Is it conceivable that external actors—international organizations, foreign governments, nongovernmental organizations, multinational firms—could succeed in pressuring the Angolan government to reform itself? According to Rafael Marques, civil society could become strong enough to force the Angolan government to change. Is this possible? Could external pressure serve to reinforce whatever domestic resistance exists?

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[57] "Making Africa Smile," *Economist*, January 15, 2004.

[58] Milton Friedman, "The Social Responsibility of Business Is to Increase its Profits," *New York Times Magazine*, September 13, 1970.

[59] http://web.amnesty.org/web/web.nsf/pages/ec_home, May 28 2003.

Exhibit 1
Angola's Ten Richest People

José Eduardo dos Santos	President of the republic
Lopo do Nascimento	Parliamentary deputy
José Leitão	Head of civil affairs, president's office
Elísio de Figueiredo	Ambassador
João de Matos	Former army chief of staff
Higino Carneiro	Minister of public works
Hélder Viera Días "Kopelipa"	Head of military affairs, president's office
António Mosquito	Businessman
Valentim Amões	Businessman
Sebastão Lavrador	Banker

An Angolan weekly newspaper, *Angolense*, compiled this list, though it did not state where it got it. Each person on it was said to have more than US$100 million. The article named another 49 people who it said had at least US$50 million. A spokesman for President dos Santos said the report was "slanders and defamation," adding, "we refute your disinformation as dangerous, as it aims not only to destroy the mentioned personalities, but the State institutions themselves."

Source: Economist Intelligence Unit, *Angola Country Report*, February 10, 2003, from "Wealth Has Changed Its Color: Our Millionaires," *Angolense*, January 13, 2003. The response is in "President Denies 'Angolense' Report," *Angola News Index*, January 22, 2003, http://www.angola.org/news/NewsDetail.cfm?NID=11579.

Exhibit 2
Map of Angola

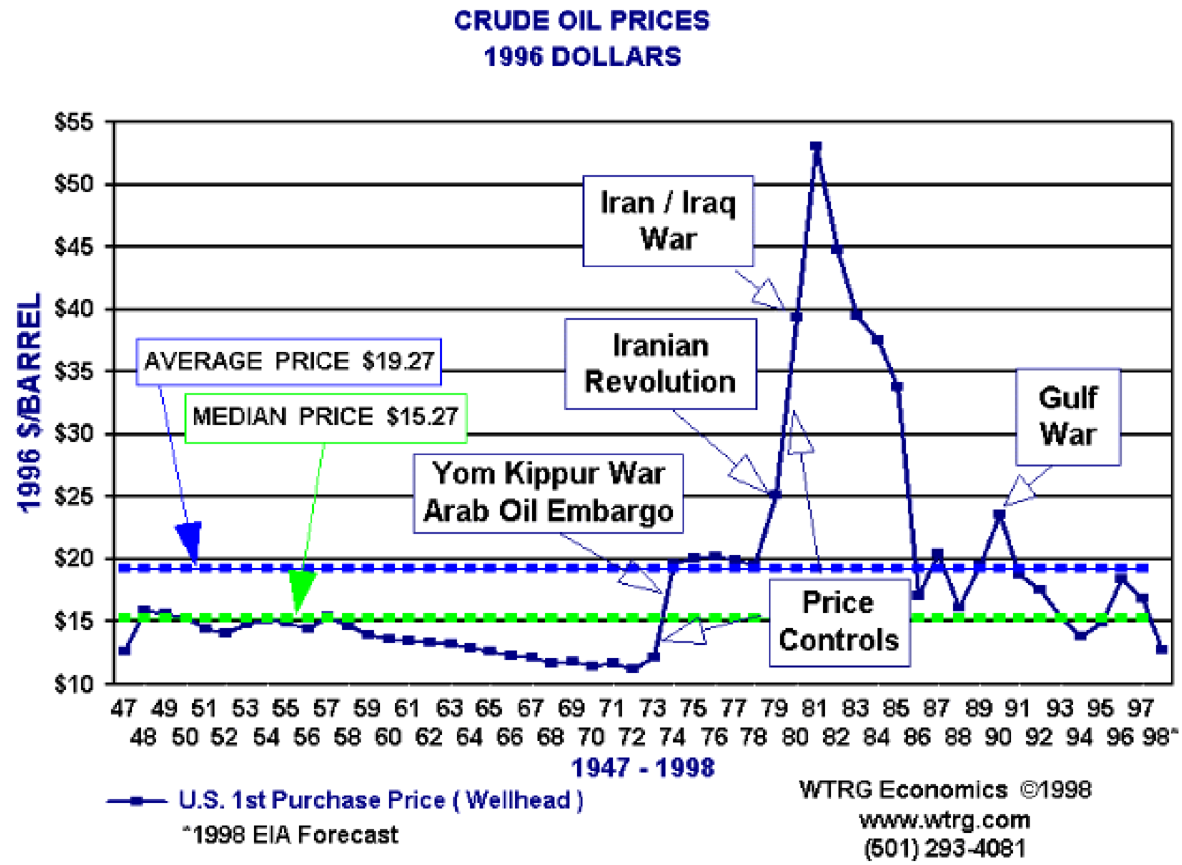
Source: UT Library Online, Perry- Castañeda Library Map Collection, " Angola Maps," http://www.lib.utexas.edu/maps/angola.html, (August 1, 2003).

Exhibit 3
Basic Economic Data for Angola

GDP	purchasing power parity - $10.1 billion (2000 est.)
GDP - growth	4.9% (2000 est.)
GDP - per capita	purchasing power parity - $1,000 (2000 est.)
GDP – by sector	agriculture: 7%, industry: 60%, services: 33% (1999 est.)
Inflation rate	325% (2000 est.)
Labor force	5 million (1997 est.)
Labor force	in agriculture 85%, in industry and services 15% (1997 est.)
Budget	*revenues:* $928 million ; *expenditures:* $2.5 billion (1992 est.)
Industries	petroleum; diamonds, iron ore, phosphates, feldspar, bauxite, uranium, and gold; cement; basic metal products; fish processing; food processing; brewing; tobacco products; sugar; textiles
Agriculture products	bananas, sugarcane, coffee, sisal, corn, cotton, manioc (tapioca), tobacco, vegetables, plantains; livestock; forest products; fish
Exports	$7.8 billion (f.o.b., 2000 est.)
Export commodities	crude oil 90%, diamonds, refined petroleum products, gas, coffee, sisal, fish and fish products, timber, cotton
Export partners	U.S.54%, South Korea 14%, Benelux 11%, China 7%, Taiwan 6% (1999)
Imports	$2.5 billion (f.o.b., 2000 est.)
Import commodities	machinery and electrical equipment, vehicles and spare parts; medicines, food, textiles, military goods
Import partners	South Korea 16%, Portugal 15%, U.S.13%, South Africa 10%, France 8%
Debt - external	$10.8 billion (2000 est.)
Economic aid	$493.1 million (1995)
Crude oil output	$7.4 billion (2000)

Source: The CIA World Factbook 2002, "Angola," http://www.cia.gov/cia/publications/factbook/geos/ao.html, (August 1, 2003).

Exhibit 4



Source: http://www.wtrg.com/prices.htm

Exhibit 5
Human Development Indicators for Angola

Total population (millions), 2001	12.8
Annual population growth rate (%), 1975-2001	2.8
Health expenditure per capita (PPP US$), 2000	52
Life expectancy at birth (years), 2001	40.2
Probability at birth of not surviving to age 40 (% of cohort), 2000-05	49.2
Population without sustainable access to an improved water source, 2000	62
Undernourished people (as % of total population), 1998-2000	50
Adult literacy rate (% age 15 and above), 2001	42.0
Public expenditure on education (as % of GDP), 1998-2000	2.7
Internally displaced persons (i.e., refugees) (thousands), 2001	202

Source: United Nations Development Programme, "Human Development Indicators 2003," http://www.undp.org/hdr2003/indicator/cty_f_AGO.html (August 5, 2003)

Exhibit 6
Leading Foreign Oil Companies in Angola

Company	Home Base	NYSE? (Y/N)	Form of Ownership: Publicly Traded: PT Privately Held: PH State Owned: SO
BHP	Melbourne, Australia	Y	PT
BP	London, England	Y	PT
Canadian Natural Resources	Calgary, Canada	Y	PT
Chevron Texaco	San Ramon, CA, USA	Y	PT
ConocoPhillips	Houston, Texas	Y	PT
Daewoo	Seoul, South Korea	N	PT
Engen	Cape Town, South Africa	N	PH
Eni	Rome, Italy	Y	PT
Exxon Mobil	Irving, Texas, USA	Y	PT
Falcon Oil	Vancouver, Canada	N	PT
Fortum	Espoo, Finland	N	PT
INA-Naftaplin	Zagreb, Croatia	N	SO
Marathon Oil	Houston, TX	Y	PT
Mitsubishi	Tokyo, Japan	N	PT
Naftgas	Yugoslavia	N	SO
Naphta-Israel	Israel	N	PH
Occidental	Los Angeles, CA	Y	PT
Ocean Energy	Houston, TX	N	PH
Petrobras	Houston, TX	N	PH
Pedco	Iran	N	SO
Petrofina	Brussels, Belgium	N	Acquired by TOTAL
Petrogal	Lisbon, Portugal	N	SO 35% Eni 33%
Petronas	Kuala Lumpur, Malaysia	N	SO
Phillips	Houston, TX	Y	ConocoPhillips (PT)
Royal Dutch/Shell	The Hague, Netherlands	N	JV – Shell Transport & Trading/Royal Dutch Petroleum
Statoil	Stavanger, Norway	Y	PT
Teikoku	Tokyo, Japan	N	PT
TotalFinaElf	Courbevoie, France	Y	PT

Other oil companies operating in Angola: Gulf Energy, Lacula Oil, Norsk Hydro/Saga, and Petro-Inett.

Source: Compiled from *Forbes*.com, March 10, 2003, http://www.forbes.com/2003/03/07/cx_pm_0307westafrica.html (September 25, 2003), company reports, and web searches.

Exhibit 7
The World's Largest Corporations

	Revenues	Profits	Assets
1. Walmart	220	7	83
2. ExxonMobil	192	15	143
3. General Motors	178	0.6	323
4. BP	174	8	141
5. Ford Motor	162	-5	277
6. Enron	139	N/A	N/A
7. DaimlerChrysler	137	-0.6	185
8. Royal Dutch/Shell	135	11	112
9. General Electric	126	14	495
10. Toyota Motor	121	5	150
11. Citigroup	112	14	1,000
12. Mitsubishi	106	0.5	61
13. Mitsui	101	0.4	50
14. ChevronTexaco	100	3	76
15. Total Fina Elf	94	7	79

Data for 2001; corporations ordered by revenue; figures in US $ billions.

Source: *Fortune*, July 22, 2002