Political Risk Alert (21 May 2019)

Angola: Sonangol troubles add to pressure on President Lourenco

Event: The chairman of state oil company Sonangol was dismissed on May 8 as the country's fuel shortage worsened.

Significance: President Joao Lourenco dismissed Carlos Saturnino as Sonangol chairman following the company's inability to distribute fuel across the country. However, the company's primary problem is a lack of access to foreign currency to pay foreign suppliers coupled with delayed payments from its own customers. The ruling MPLA is aware that public protests, which have been small until now, could grow if the fuel situation deteriorates again or if food shortages related to transport disruption become serious.

Analysis: Several factors are behind the current fuel crisis, all related to the ongoing shortage of foreign exchange. Firstly, Sonangol is having difficulties in accessing currency to pay its foreign providers. Although a major exporter of crude oil, Angola imports about 80% of its refined fuel needs. Secondly, while Sonangol own finances have improved recently, most companies in the industrial sector are in a precarious state with many unable to pay their outstanding debts. Prodel, the state-owned company overseeing energy distribution, now owes almost a billion dollars to Sonangol. Thirdly, Sonangol's oil distribution network across the country is crumbling due to technical problems, leading to chronic delays in the delivery of products.

The current fuel crisis started in early April, with warnings from the Ministry of Energy and Water failing to prompt a reaction from Sonangol. In early May, petrol stations ran out of fuel, with reports of large lines of cars at stations in most cities. Hospitals and industries also lacked fuel for their generators. The crisis also impacted Sao Tome and Principe in the Gulf of Guinea, a large importer of Angolan oil.

Although Sonangol announced the resumption of imports on May 5, the situation remained problematic in many areas. On May 8, Lourenco dismissed Saturnino and the entire Sonangol board, vowing that this situation would never be allowed to happen again.

However, given that Saturnino had been working to put the company on a firmer footing, Lourenco's response may also have had political underpinnings. Saturnino was appointed in November 2017 to replace Isabel dos Santos, daughter of former President Jose Eduardo dos Santos. He subsequently found himself competing for influence with Paulo Jeronimo, the head of the recently created National Oil and Gas Agency (ANPG), for the management of Sonangol's privatisation programme.

Two of Sonangol's powerful former CEOs, Isabel and former Vice-President Manuel Vicente, also retain considerable informal influence at the company and reportedly opposed Saturnino's turnaround plans developed in response to the removal of subsidies and the liberalisation of the country's fuel markets. In addition to planned structural reforms and the sale of stakes in several oil fields, some 19 subsidiaries have also been earmarked for sale.

Their sale would be problematic for key elites given that many of these companies are opaque and politically sensitive, and the removal of Saturnino as chairman suggests that the privatisation process may now be postponed indefinitely. Conversely, should such sales be undertaken without a transparent tendering and auction process, members of the elite could secure new,

low-profile stakes in these privatised entities.

Saturnino's dismissal could also be linked to a softening of relations between the current president and the dos Santos family. Since the start of the year, Lourenco has taken a less aggressive stance towards his predecessor and his allies, likely determining that an economic recovery will be even slower without their support.

The former president's son, Jose Filomeno dos Santos, was released from jail in March after spending seven months in detention following charges of embezzling funds from the Sovereign Wealth Fund. Also in March, Isabel was reappointed to the board of telecommunications company Unitel, despite previous speculation that she was likely to be ousted. Meanwhile, Vicente has become an increasingly important informal adviser to Lourenco and Gaspar Martins, the new Sonangol CEO, is a close Vincente associate.

Whatever the political dimensions behind his response, the fuel crisis is a wake-up call for Lourenco, who dismissed three government secretaries on May 10 in a further attempt to show that he was on top of the situation. In June, the ruling People's Movement for the Liberation of Angola (MPLA) will hold an extraordinary meeting at which Lourenco will attempt to shore up support for his government's austerity programme.

While the arrival of Martins should improve the relationship between Sonangol and the ANPG, some Sonangol officials will see it as an opportunity to slow down or even reverse the removal of subsidies and other aspects of the liberalisation programme. The economy is expected to grow by only 0.4% this year, according to government figures, with inflation at approximately 17.5%.

Whether the new Sonangol board still supports the previous reform drive will become clearer at an oil and gas conference in early June at which Angola is set to open 49 new concessions for exploration, research and development of oil production between 2019 and 2025.

Revival of the oil sector will be key to improving the flagging economy, but Lourenco will have to tread carefully to both resolve the crisis and ensure that a short-term accommodation with key elites does not derail his reform agenda. His government remains under close scrutiny from the IMF, which has been concerned about its commitment to fiscal consolidation under the three-year, 3.7-billion-dollar funding package as part of the Extended Fund Facility agreed last December.

Without new projects, the oil industry's output could fall to 1 million barrels per day by 2023, according to the oil ministry, down from approximately 1.5 million currently. This is nearly half of what Angola was producing a decade ago. Sonangol is counting on new investments from oil majors such as Total, Eni and ExxonMobil, and has recently tried to attract Shell back to the country.

Looking ahead: While the fuel crisis appears to have eased temporarily, longstanding structural and foreign exchange problems will persist. This will add to hardship in the southern regions, which are experiencing severe drought. While investor fears will grow if there are concerted efforts to halt Sonangol reforms, it is more likely they will slow, rather than stop, due to ongoing pressure from the IMF.

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