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Will new markets see Angola through oil slump

Barbara Njau | 10/12/2014 9:01 am | Comment on this article

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Can Angola defy the downturn in oil demand and continue to profit from its abundance of fossil fuels? One analyst thinks it can – with a little help from a more diverse range of overseas investors.

The end of Angola's civil war in 2002 precipitated its rise as one of the world's fastest growing economies. Frenzied oil exploration along the vast western seaboard by international oil majors including American firm Chevron and UK-based BP, alongside a real estate boom fuelled by the government's post-war reconstruction plan, pushed Angola's GDP up by an average of 17% a year between 2003 and 2008, according to the African Development Bank (AfDB). By 2014, Angola's capital Luanda was crowned as the world's most expensive city by the consulting firm Mercer, as investors piled in to stake a claim in its commodities-fuelled growth.

Yet the government's inability to develop sufficient road, rail and air links across the country, and its slow progress in removing bureaucratic barriers to foreign business, means Angola's days of sky-high growth may be at an end. Moreover, the weak performance of oil in global markets – crude oil prices have fallen by 25% since June, and OPEC expects international demand will drop from 30 million barrels per day to just 28 million in the first quarter of 2015 – led the International Monetary Fund to predict that Angola's GDP will grow by only 3.9% this year.

Indeed, data from greenfield investment monitor **fDi** Markets shows that after experiencing a rapid influx of FDI between 2003 and 2009, foreign investment into Angola has gradually tapered off. While the country attracted 16 greenfield projects in 2003 and peaked at 52 projects by 2009, FDI has been in decline and in 2013 the country attracted just 17 projects.

Another level

Yet Manuel Reis, a founder of the financial advisory firm Eaglestone, says that while the Angolan economy has been partially affected by its troubled business environment, the economic slowdown is more indicative of normalised growth rates as the country develops from a low economic base to become a middle-income country. "Angola is very expensive and the bureaucracy can be complicated," says Mr Reis. "It is not a common African country. What that means is you cannot have the same mindset when doing business in Angola that you would when you are operating elsewhere in the continent, because you are playing at a different level."

Increasing interest from commodities businesses operating outside fellow Lusophone countries Portugal and Brazil reveals that far from losing its appeal for international investors, Angola is seen as a key destination for firms interested in developing their presence in sub-Saharan Africa. Pointing to the move by investment promotion agency Invest In Poland to highlight Angola as one of four top African destinations in its Go Africa Programme for Polish businesses, Mr Reis identifies a growth in interest among eastern European investors.

The Go Africa Programme, which was launched at the start of 2014, aims to create a forum for knowledge and co-operation among African businesses and Polish entrepreneurs who are interested in doing business in the continent. Alongside Algeria, Nigeria and South Africa, Angola was noted as a key destination for new entrants in the region.

For Mr Reis, this proves that Angola's economic growth in the coming years will be driven by newer economic partners. "I have seen new firms from new geographies increasing their interest in Angola," he says. "Countries in eastern Europe are looking for growth and they are looking to Angola for this. For example, Poland is set to have its first conference in November on Angola and people there are very interested in the country."

Gas powered

Despite the slowdown this year in international demand for oil, Mr Reis maintains that the Angolan government's success in diversifying its economic partners and shoring up its foreign exchange reserves to prevent capital account shortages mean that in the short term it will have the financial capacity to absorb any shocks. Moreover, while GDP growth may not reach the pre-2008 peaks of 17%, the AfDB predicts it could reach 8.8% next year, well above the global average rate of 4% that the IMF has forecast for the international economy in 2015.

While oil is expected to remain the country's economic mainstay – it accounts for 97% of Angola's exports and 80% of state revenues – the government's investments in higher value-added production, and its decision to develop its liquefied natural gas (LNG) industry, mean Angola will become a key player in the global commodity markets.

The 2012 decision by the state to create a $10bn LNG facility in the Soyo region in north-west Angola was part of its push to diversify its commodity exports. The facility, which was created as a joint venture between Sonangol, Angola's government-owned oil and gas firm, and Chevron, BP, ENI and Total, gathers, processes, sells and delivers 5.2 million tonnes of LNG per year as well as propane and butane. Although Brazilian oil and gas firm Petrobras is the facility's main customer, Mr Reis says this site will be important in the government's efforts to diversify its trade partners, as it seeks to export LNG to other commodity-hungry countries aside from Brazil.

Refinement plan

Elsewhere, the government's move to construct a new oil refinery in Lobito on the western seaboard of Angola will be significant in enabling the country to shift into more value-added midstream and downstream oil refining. Although completion of the new refinery is not expected until 2018, it will have a processing capacity of 200,000 barrels per day and this will enable the country to command higher prices for its oil exports, while also reducing the cost of locally refined energy for its citizens.

"Although Angola has not been very successful in diversifying beyond its natural resources, it has taken significant steps forward in professionalising its oil and gas industry," says Mr Reis. "This has been part of an overall governmental framework. For example, 10 years ago, it was hard to find gas stations in Angola. You had to drive for an hour to get the fuel, and limited distribution networks created fuel shortages. That does not happen any more, as the country has done much to move into midstream and downstream beneficiation.

"I see a lot of excitement about Angola from different parts of the world. New entities, from private equity investors to oil majors, are still asking about Angola. I do not foresee any decrease in investor appetite for the country. My outlook is very positive – otherwise I personally would not be doing business in Angola."