Angola becomes Africa's largest oil producer

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Angola overtook Nigeria this year as Africa's largest, and the world's eighth largest, oil producer—a combination of Angola's surge in growth and Nigeria's decline in production following rebel attacks on its oilfields.

Angola is now producing over 1.9 million barrels per day (bpd) of high-quality crude oil from onshore and near-shore fields, up from 900,000 bpd in 2002 and from 500,000 bpd in 1993. Nigeria's output has declined by a quarter from 2.5 million barrels bpd in 2006 as its production has been hit by rebel attacks, primarily the Movement for the Emancipation of the Niger Delta (MEND).

Nigeria's decline in production worries the West, and the British government recently agreed to provide training and logistical support to the Nigerian military to combat rebel attacks and to protect its own interests—primarily British Petroleum's (BP) activities in the country.

Angola too faces the threat of disruption to its onshore oil production from the rebel group Front for the Liberation of the Enclave of Cabinda, though they are currently less well organised than MEND. Nevertheless, the threat has led Angola to redirect investment toward offshore deposits, where the ocean acts as a buffer against violent attacks.

The oil sector produces more than half of Angola's GDP and 95 percent of its exports, and the government is seeking to expand this by developing the country's ultra-deep offshore oilfields, at a depth of 1,500 to 3,000 meters. They hope that this will add an estimated 500,000 bpd to the current output level. Energy consultant Wood Mackenzie currently predicts an unconstrained peak for Angolan oil production of between 2.2 million and 2.3 million bpd within five years.

In a bidding round two years ago Angola received $3 billion for the rights to three drilling licences from consortia led by Eni, Total and Petrobas. A further round is under way offering up 10 new blocks. Exxon began pumping from new block 15 in July this year and Chevron will start producing 125,000 bpd from block 14 in 2009.

Angola is also hopeful of beginning to export liquefied natural gas by 2012, with national petroleum company Sonangol; Chevron, Total, Eni and BP having invested $4 billion to produce 5 million tonnes a year.

Angola's surge in growth has produced a desire within the ruling class for it to become a regional power on par with Nigeria and South Africa. President José Eduardo dos Santos' decision to join OPEC appears primarily as a sign of Angola's return to the world stage following the end of its civil war six years ago.

Dos Santos has been critical of South African President Thabo Mbeki's handling of the Zimbabwe situation and his leniency regarding President Robert Mugabe. He has also been critical of the surge in anti-immigrant violence in South Africa. Both of these positions play to an international audience.

Angola has also developed ties with fellow Lusophone countries both within Africa and outside. It has invested some of its oil wealth in Guinea-Bissau and Mozambique, and has strong ties with both Brazil and Portugal. The largest private investors in Angola (outside of oil) are Portuguese and exports from Portugal to Angola rose in 2007 by 39 percent, to €1.4 billion.

The United States has a strategic interest in Angola and its armed forces now cooperate closely with Angola's, despite the US having previously backed rebels against the formerly pro-Stalinist government.

Angola has begun to assume a military role in Africa, in keeping with Western interests, and is active in both Congo-Brazzaville and Congo-Kinshasa, its neighbours to the north. In the former it is helping to train units of the army, and in the latter it has offered to deploy troops along the frontier with Rwanda to help stabilise the Kivu provinces.

French President Nicolas Sarkozy has also promised a "strategic alliance" between France and Angola following his visit in May, the first such high-level visit in 10 years. Sarkozy was accompanied by representatives of French transnationals, including oil company Total and defence electronics company Thales. Total plans to double its oil production of 300,000 bpd within six years and to begin production at three ultra-deep fields between 2009 and 2011.

With growing instability in the Middle East following the US-led "war on terror," Africa has become increasingly important for global oil and natural gas supplies. Africa holds only around 9 percent of the World's proven oil reserves (compared to almost 62 percent from the Middle East), though industry analysts believe it could hold significant undiscovered reserves.

The US and China in particular have sought to exploit the continent's resources taking 33 percent and 9 percent respectively of the continent's total exports in 2006. China now receives about one third of its oil imports from Africa, with 85 percent coming from just five countries: Angola, Equatorial Guinea, Nigeria, the Republic of Congo and Sudan. Angola exported approximately 465,000 bpd to China in the first half of 2007.

Beijing secured a major stake in Angola's future oil production in 2004 after promising a $2 billion package of loans and aid including funding for roads, railways, bridges, schools, hospitals and a fibre-optic network. In addition to oil, China's manufacturing sector has also created enormous demand for timber, aluminium, copper, nickel, iron ore and diamonds.

Trade between China and Africa rose six-fold between 2002 and 2007, from around $9 billion to $73 billion, and it is now Africa's second-highest trading partner behind the United States.

Foreign direct investment (FDI) into Africa almost doubled between 2002 and 2007 to $36 billion as global companies sought to exploit high commodity prices.

In sub-Saharan Africa some 75 percent of FDI went to just five countries—South Africa, Nigeria, Angola, Sudan and Equatorial Guinea—while the bottom 24 countries received only 5 percent. Almost all this investment went towards the extraction and removal of the continent's natural resources, with the overwhelming majority being channelled into petroleum extraction. In Nigeria, for example, 79 percent of FDI (about $4 billion) goes to petroleum projects.

FDI in infrastructure includes road and rail networks, but investors are only concerned with getting goods to market, e.g., connecting the mines to the ports, and there has been no attempt to build national, never mind transnational, transport links.

By far the most profitable sector for investors is in offshore oil and natural gas production. In Angola, for example, the vast majority of total FDI inflows go to offshore drilling.

International banks, commodity interests and construction companies are queuing up to exploit Africa's mineral wealth, and Angola is a prime target.

Europe's banks are opening lines of credit with Angola worth €1 billion, following Brazil that opened credit lines of $1.3 billion in 2006. Sonangol, whose turnover in 2007 was $17 billion—almost a third of Angola's GDP—acts as a sovereign wealth fund to strengthen Angola's international credit rating.

Angola is proposing to reopen and expand the vast iron ore deposits of Cassinga and Cassala Kitungo, and several large multinational firms, including Australian giant BHP Billiton, have shown an interest. Meanwhile the state diamond firm, Endiama, hopes to produce more than 10 million carats of diamonds this year for the first time.

A boom in construction will give new ports for Luanda, Lobito, Cabinda and Porto Amboim as the current port system cannot cope and there are regularly 30 or so vessels moored offshore for weeks waiting to dock. Luanda will also get a new airport.

Despite the capital needing 400,000 more new houses for its working population, almost all of the construction has been geared towards foreign visitors and the new middle class. Five new hotels have been opened this year, and ten more are under construction along with marinas, golf courses and luxury flats. Luanda has reportedly taken over from Tokyo as the world's most expensive city for visitors.

The government dominates the economy since oil revenues go overwhelmingly to the state. The political and military elite have ensured that they maintain an important foothold in industries such as the diamond sector, by enacting laws that require local partnerships.

On paper, Angola is now a middle-income country, though 70 percent of the population live below the poverty line with life expectancy just 41.7 years. Only 2.7 percent of new investment is for agriculture and the disparity between those who have benefited from the boom, and the majority living on the land that have not, is shown in a comparison of incomes. The average income in Luanda last year was $3,476, whereas inland at Bié it was just $201.