Chapter 3. The Economy

Women cultivate a field belonging to a farmers' association.

IN 1988 OBSERVERS OFTEN mentioned Angola's need to rehabilitate and revive its economy. Since independence in 1975, most economic production had deteriorated, and the country had become almost totally dependent on the export of oil for revenues. In the wake of the war for independence, the flight of trained personnel and foreign capital had left the country without the means to continue production. Furthermore, the prolonged insurgency, which still affected much of the country in late 1988, had undermined those enterprises that were still functioning. Although the political and military situation undoubtedly contributed to these economic problems, the Angolan economy had never been very strong, and most economic successes were of recent and precarious origins.

By the late 1980s, the economic potential of Angola had not been reached. Existing transportation networks, including railroads, roads, and ports, serviced only a fraction of the traffic they were built to accommodate. Likewise, manufacturing industries, such as textiles, cement, vehicle assembly, and food processing, all operated well below their productive capacities. Moreover, vast areas that had been cultivated for both cash and subsistence crops lay idle, and Angola was forced to import food. Indeed, even the local labor force, which had worked on the large agricultural estates, was unemployed and subsisted in displacement camps or in the cities on foreign aid. The only exceptions to the general regression in productivity were in the oil, electric power, telecommunications, and air transportation industries. While these sectors were expanding, most of Angola's economic production was shrinking.

Background to Economic Development

The Angolan economy has been dominated by the production of raw materials and the use of cheap labor since European rule began in the sixteenth century. The Portuguese used Angola principally as a source for the thriving slave trade across the Atlantic; Luanda became the greatest slaving port in Africa (see Slave Trading in the 1700s, ch. 1). After the Portuguese Empire abolished the slave trade in Angola in 1858, it began using concessional agreements, granting exclusive rights to a private company to exploit land, people, and all other resources within a given territory. In Mozambique, this policy spawned a number of companies notorious for their exploitation of local labor. But in Angola, only the

Diamond Company of Angola (Companhia de Diamantes de Angola—Diamang) showed even moderate success. At the same time, Portuguese began emigrating to Angola to establish farms and plantations (*fazendas*) to grow cash crops for export (see Agriculture, this ch.). Although these farms were only partially successful before World War II, they formed the basis for the economic growth that shaped Angola's economy in the late 1980s.

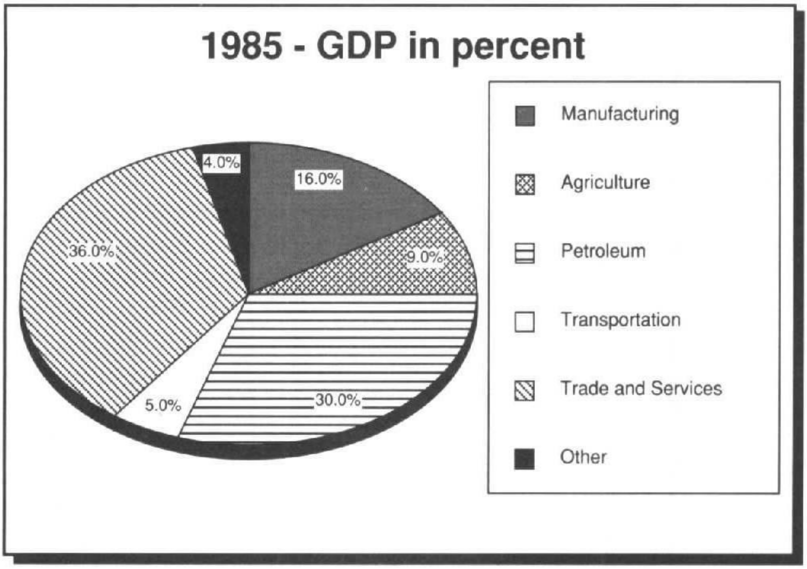
Before World War II, the Portuguese government was concerned primarily with keeping its colonies self-sufficient and therefore invested little capital in Angola's local economy. It built no roads until the mid-1920s, and the first railroad, the Benguela Railway, was not completed until 1929. Between 1900 and 1940, only 35,000 Portuguese emigrants settled in Angola, and most worked in commerce in the cities, facilitating trade with Portugal. In the rural areas, Portuguese settlers often found it difficult to make a living because of fluctuating world prices for sugarcane and sisal and the difficulties in obtaining cheap labor to farm their crops. As a result, they often suspended their operations until the market prices rose and instead marketed the produce of Angolan farmers.

But in the wake of World War II, the rapid growth of industrialization worldwide and the parallel requirements for raw materials led Portugal to develop closer ties with its colonies and to begin actively developing the Angolan economy. In the 1930s, Portugal started to develop closer trade ties with its colonies, and by 1940 it absorbed 63 percent of Angolan exports and accounted for 47 percent of Angolan imports, up from 39 percent and 37 percent, respectively, a decade earlier. When the price of Angola's principal crops—coffee and sisal—jumped after the war, the Portuguese government began to reinvest some profits inside the country, initiating a series of projects to develop infrastructure. During the 1950s, Portugal built dams, hydroelectric power stations, and transportation systems. In addition, Portuguese citizens were encouraged to emigrate to Angola, where planned settlements (*colonatos*) were established for them in the rural areas. Finally, the Portuguese initiated mining operations for iron ore, manganese, and copper to complement industrial activities at home, and in 1955 the first successful oil wells were drilled in Angola (see Extractive Industries, this ch.). By 1960 the Angolan economy had been completely transformed, boasting a successful commercial agricultural sector, a promising mineral and petroleum production enterprise, and an incipient manufacturing industry.

Yet by 1976, these encouraging developments had been reversed. The economy was in complete disarray in the aftermath of the war of independence and the subsequent internal fighting of the liberation movements. According to the ruling Popular Movement for the Liberation of Angola-Workers' Party (Movimento Popular de Libertação de Angola-Partido de Trabalho—MPLA-PT), in August 1976 more than 80 percent of the agricultural plantations had been abandoned by their Portuguese owners; only 284 out of 692 factories continued to operate; more than 30,000 medium-level and high-level managers, technicians, and skilled workers had left the country; and 2,500 enterprises had been closed (75 percent of which had been abandoned by their owners). Furthermore, only 8,000 vehicles remained out of 153,000 registered, dozens of bridges had been destroyed, the trading network was disrupted, administrative services did not exist, and files and studies were missing.

Angola's economic ills can also be traced to the legacy of Portuguese colonial development. Although the Angolan economy had started to show strong signs of growth by 1960, most developments had originated recently and precariously. Many of the white settlers had come to Angola after 1950 and were understandably quick to repatriate during the war of independence. During their stay, however, these settlers had appropriated Angolan lands, disrupting local peasant production of cash and subsistence crops. Moreover, Angola's industries depended on trade with Portugal—the colony's overwhelmingly dominant trade partner—for both markets and machinery. Only the petroleum and diamond industries boasted a wider clientele for investment and markets. Most important, the Portuguese had not trained Angolans to operate the larger industrial or agricultural enterprises, nor had they actively educated the population. Upon independence Angola thus found itself without markets or expertise to maintain even minimal economic growth.

As a result, the government intervened, nationalizing most businesses and farms abandoned by the Portuguese. It established state farms to continue producing coffee, sugar, and sisal, and it took over the operations of all factories to maintain production. These attempts usually failed, primarily because of the lack of experienced managers and the continuing disruptions in rural areas caused by the National Union for the Total Independence of Angola (União Nacional para a Independência Total de Angola—UNITA) insurgency. Only the petroleum sector continued to operate successfully, and by 1980 this sector had helped the gross domestic product (GDP—see Glossary) reach US$3.6 billion, its highest level up to 1988 (see fig. 6). In the face of serious economic problems and the continuing war throughout the countryside, in 1987 the government announced plans to liberalize economic policies and promote



Source: Based on information from Tony Hodges, *Angola to the 1990s*, London, 1987, 43.

Figure 6. Gross Domestic Product (GDP) by Sector, 1985

private investment and involvement in the economy. But most observers believed that the key to Angolan economic success rested only partially with the privatization of production. Even if peace were achieved, the economy would still have great difficulties in reaching its full potential.

Structure of the Economy

Since independence, the economy has been dominated by the oil export industry and drained by the need to carry on the war against the UNITA insurgents. Because of the collapse of the cash-crop economy, particularly the cultivation of coffee by large-scale plantations, in 1988 the economy depended totally on the oil sector to generate funds. As a result of increased oil production, GDP had risen steadily from Kz109.4 billion (for value of the kwanza—see Glossary) in 1982 to Kz144.9 billion in 1985.

Unfortunately, however, as the war against UNITA continued, most revenue from oil sales was quickly spent on the nation's defense forces. The relationship between oil profits and defense requirements became most acute in 1986 when the price of oil dropped, reducing government revenues and resulting in a jump in the percentage of government spending on defense.

At the same time, the war has also wreaked havoc in the already suffering agricultural sector, forcing the government to use precious foreign exchange to import food. Once a food exporter, Angola by the late 1980s was importing half of its grain requirements to compensate for reduced production in the war-torn rural areas.

Although the war has caused much rural-to-urban migration, industries based in the cities have been unable to harness this potential work force. Most of the Angolans coming into the cities have little education or training, partly because education in the rural areas has been disrupted by the war. Furthermore, the industries in the cities have been hurt by the lack of raw materials, including grain, timber, sugarcane, and cotton, normally produced in the rural areas. Consequently, industries have come to depend on high-priced imported materials. The frequent unavailability of industrial inputs, particularly during 1986 when the government severely restricted imports to protect foreign exchange reserves, has led to underproduction and underuse in the manufacturing sector (see Industry, this ch.).

As a result of the general dislocation in the economy, particularly in the transportation and distribution systems, many goods were unavailable in the 1980s. Thus, the black market (also called the parallel market, or *kadonga*) had come to dominate trade and undermine government efforts to impose order on domestic production. Consequently, the value of the kwanza also dropped, making it increasingly difficult for the government to attract wage earners to either agricultural or manufacturing enterprises. Furthermore, pilfering and graft in most economic enterprises had become common, as workers recognized that goods used in barter were more valuable than wages paid in kwanzas. As a result, inflation was high, goods were scarce, worker absenteeism was widespread, and productivity was low.

Role of the Government

The government, under the control of the MPLA–PT Central Committee, directly controlled most of the economy (see Structure of Government, ch. 4). Government-owned enterprises took the place of private enterprises and businesses. Because most Portuguese owners of manufacturing concerns and agricultural plantations fled the country at the time of independence, the new government was forced to nationalize factories and farms to keep them operating. The government also intervened directly to protect the country's wealth from foreign exploitation by creating companies to control Angola's mineral and petroleum wealth. State-owned companies in the oil industry have negotiated attractive terms of operation with the foreign companies that pump the oil, keeping a large percentage of the profits inside the country. The government's economic policies thus have combined ideology with necessity to fill the gap left by the Portuguese, without emulating the economic system created under colonialism.

But in the mid-1980s, Angola's centralized economy had fallen on hard times. Despite a 21.5 percent rise in the volume of oil production in 1986, government oil receipts fell to only 45 percent of the budgeted level because of the serious drop in worldwide oil prices that year. As a result, government revenues were barely half of the level budgeted for 1986 (see table 4, Appendix A). The government responded by cutting overall expenditures by 5.5 percent, mostly for items related to economic development, although expenditures for social services rose by 14 percent. The war against UNITA compounded the effect of lost oil revenue—defense expenditures rose to a record 40.4 percent of the 1986 budget (see War and the Role of the Armed Forces in Society, ch. 5).

Weak economic performance since independence has led government planners to reorient economic ideology, endorsing programs to liberalize many state policies and return some state functions to the private sector. In December 1986, the government decreed the liberalization of agricultural marketing, allowing for some free trade of agricultural goods to motivate farmers to produce more for the local market. Since the departure in 1975 of the Portuguese traders, who traditionally had monopolized rural trading, the inefficiency of the National Company for the Marketing and Distribution of Agricultural Products (Emprêsa Nacional de Comercialização e Distribuição de Produtos Agrícolas—Encodipa) and the scarcity of basic consumer goods and manufactured agricultural inputs have discouraged peasants from producing surpluses (see table 5, Appendix A). Most peasants have retreated to a purely subsistence form of farming. Similar inadequacies by the state livestock marketing company have resulted in serious overstocking in the cattle-raising southwestern region of Angola. Since 1984 the government has also been dissolving the state farms established on land formerly owned by Portuguese commercial farmers and has been turning the land over to the workers. Agricultural development stations have been set up to provide these farmers with services such as mechanized plowing. Furthermore, local peasant associations and cooperatives have been established throughout the country to organize production and consolidate resources.

On August 17, 1987, President José Eduardo dos Santos announced plans to restructure the economy. These reforms, called the Economic and Financial Rectification (Saneamento Económico e

Financeiro—SEF), put the economy in line with the policy guidelines approved by the Second Party Congress in December 1985. In his speech, the president listed several factors affecting the economy, including the steep fall in oil prices in 1986, the "excessive centralization of socialist planning methods," the poor management of state enterprises, and corruption. The SEF program mandated a strong move toward the private sector domestically and abroad, including membership in the International Monetary Fund (IMF—see Glossary) and World Bank (see Glossary). The foreign investment law was therefore being reviewed, and an office was to be established to promote investment and reduce negotiating costs. The SEF program also called for the privatization of nonstrategic state enterprises, ending budget subsidies to the remaining state enterprises, shifting from state farms to the peasant sector, raising prices, enacting monetary reforms, and devaluing the kwanza. The president noted that because the state had tried to enter so many different areas of economic activity, it had been unable to prevent the deterioration of the services for which it was traditionally responsible, such as education, health services, police, and civil administration. One area that the government was unlikely to relinquish to the private sector, however, was control over imports (see Foreign Trade and Assistance, this ch.).

In addition to the general liberalization of economic policies that the government proposed, the MPLA-PT Central Committee also launched a campaign against graft and the parallel market. The parallel market offered at exorbitant prices a full range of goods normally unavailable inside Angola. By June 1987, forty-two work teams had been established to oversee government efforts to end this illegal trade, and the provincial authorities had ordered the closing of all parallel markets. In addition, the government directed the military to supervise more closely the movement of goods at the intraprovincial and interprovincial level. The government also started an educational campaign of "consciousness raising" on farms and in factories to discourage the theft and pilfering that fed goods to the parallel market.

These efforts notwithstanding, in 1988 sources estimated that approximately 40 percent of the goods imported through Luanda never reached their intended destinations because of theft. Moreover, because the purchase of basic foodstuffs required ration cards, in 1988 the parallel market was thriving.

Foreign Trade and Assistance

Because of the overall decline in productivity after independence, Angola has become increasingly dependent on foreign trade and assistance to meet its domestic needs. It has also become dependent on oil export earnings to fund imports. Traditionally, the most important imports have been machinery items, especially equipment for the oil industry. By the mid-1980s, however, military equipment and food were becoming Angola's most important imports. The country continued to export most of its oil to the West, in particular the United States. The Soviet Union, as the country's arms supplier, and France and the United States, as suppliers of oil equipment, were the country's major import partners. Assistance from individual foreign countries and international organizations was also becoming increasingly important to Angola because of its mounting food crisis.

Only by severely limiting imports has the government been able to prevent a serious crisis in the balance of payments account. In the 1980s, the Ministry of Planning, in consultation with the National Bank of Angola (Banco Nacional de Angola—BNA), the Ministry of Domestic and Foreign Trade, and other ministries drew up an annual foreign trade budget as part of the annual national plan. This plan set ceilings for categories of imports in each sector of the economy, and import quotas were then allocated to individual companies. For each foreign order, the importing company was required to submit invoices and apply to the Ministry of Domestic and Foreign Trade for an import license. Most imports were brought in by state foreign trade companies and new regional import-export companies. However, the oil companies enjoyed foreign exchange autonomy and imported their equipment directly.

Foreign Trade

Until the dramatic fall in world oil prices in 1985 and 1986, the most dominant feature of the external economy since independence had been the large increase in oil export earnings (see table 6, Appendix A). By 1985 crude oil exports were more than eight times their 1973 level. At the same time, however, there was a precipitous drop in other exports, most notably coffee and diamonds, leaving Angola almost completely dependent on oil for export earnings. In 1988, for example, oil revenue represented nearly 90 percent of total export earnings. Nevertheless, the strong performance of the oil sector, combined with stringent import controls, resulted in continuing trade surpluses, which by 1985 had risen to US$740 million.

The country's principal trading partners, except for the Soviet Union, continued to be Western nations. The United States has been the main market for oil and thus the leading importer by far of Angolan goods since at least 1980. Angola's other main Western markets were Spain, Britain, Brazil, and the Netherlands. Spain, in particular, substantially increased its trade with Angola by importing a record US$300 million worth of goods in 1985, ten times the 1980 level. Angola's principal Western sources of goods were the United States, France, and Portugal (suppliers of oil industry equipment), but an increasing amount of goods came from Brazil. The Soviet Union, because of the large amount of arms it supplied, emerged as the major source of imports. Angola has also developed close trade ties with Zimbabwe, importing maize for local consumption and blankets to use as items of barter in rural marketing campaigns.

Since 1979 Angola has imported an increasing amount of foodstuffs from Western nations. In particular, it has imported wheat from the European Economic Community (EEC) and Canada, increasing from 83,000 tons in 1980 to 205,000 tons the following year and dropping to an average of 160,000 tons per year from 1982 to 1986. Likewise, Angola imported meat (100,000 tons in 1985) and milk (400,000 tons in 1985) from the West.

Because of the sharp drop in oil prices in 1986, imports were severely limited by the government. The government suspended the issue of import licenses except when importers obtained credit abroad or had their own foreign exchange. Capital goods imports were slashed, as were consumer goods, spare parts, and some industrial inputs. Military purchases were not cut, however, nor were imports of food, pharmaceuticals, goods for rural marketing campaigns, and oil industry equipment.

Foreign Assistance

Since 1980 foreign assistance grants have increased because of Angola's agricultural crisis and the drop in oil export earnings. In 1984 gross official development assistance from multilateral institutions rose to US$33 million, nearly double the figure for 1979 (see table 7, Appendix A). Foreign aid was likely to increase in the late 1980s as a result of Angola's accession to the Lomé Convention (see Glossary) in April 1985, making the country eligible for funding under the Lomé III Agreement, which was to remain in effect until 1990.

Because of the mid-1980s crisis in local agricultural production, food imports were essential to feed the population, and Angola had to appeal for more than US$100 million in food aid. Nevertheless, such aid did not meet food requirements, and in 1986 the country experienced a cereal shortfall of more than 100,000 tons. In addition, Angola appealed for US$21 million in nonfood aid in 1987, most of which was earmarked for relief and survival items.

Most direct aid was provided by Western organizations, and Angola was trying to improve its relations with several individual Western countries to negotiate for further assistance. In addition to assistance provided by the United Nations (UN) World Food Programme (WFP), in the late 1980s the EEC was providing assistance through the Lomé III Agreement as well as through the European Investment Bank. Furthermore, Angola regularly received aid from Sweden for various small-scale development projects, and France provided some assistance tied to the purchase of French equipment. Angola has improved relations with the Federal Republic of Germany (West Germany) and succeeded in reaching an agreement in 1987 with that country for 3,600 tons of food aid. Likewise, Portugal agreed in 1987 to provide US$140 million in credits toward the recovery of Angolan companies hurt by the exodus of Portuguese settlers after independence and to cooperate in some joint economic ventures with the Angolan government.

Angola also received significant assistance from the Soviet Union and East European nations. In 1977 Angola and the Soviet Union established an intergovernmental commission for technical, scientific, and trade cooperation. Projects addressed by this commission have included the design of a hydroelectric station, rural electrification, assistance in the petroleum and fishing industries, the supply of industrial equipment and physicians, and the training of Angolan technicians. The commission agreement was to run to the year 2000 and included plans for Soviet technical assistance in the petroleum industry, in light industry, and in livestock production. Angola has similar technical assistance agreements with Hungary (for the pharmaceutical and automobile industries), with Yugoslavia (for the petroleum industry and for agriculture), and with Bulgaria (for urban planning). Yugoslavia also built a large department store in Luanda to market Yugoslav-made goods, and trade between the countries has increased. And in October 1986, the government signed a cooperation agreement with the Council for Mutual Economic Assistance (Comecon or CMEA), the common market for the Soviet Union, its East European allies, and a few other countries. Under Comecon a joint commission on cooperation was to be established to determine future forms of cooperation and assistance between the nations.

Labor Force

Before independence the economy employed a labor force of unskilled Angolans and trained Portuguese. Since independence there has been little change in the overall composition of the work force, although in the 1980s there was a shortage of both skilled and

Semiskilled laborers work in a plastics factory.

unskilled workers. Most foreign workers fled the country at independence, but some have returned as contract workers, called *coopérants* by the government. Many unskilled workers in the rural areas—primarily plantation laborers—migrated to the cities in the wake of the 1975-76 fighting and the exodus of the plantation owners and managers. In the 1980s, most of the work force, even in the cities, remained illiterate and untrained for work in the manufacturing sector. By 1980 the labor force still conformed to its preindependence distribution: roughly 75 percent of all workers were engaged in agricultural production, 10 percent in industry, and 15 percent in services.

Calling itself a socialist workers' state, Angola was committed to protecting the rights of its workers and providing them with a reasonable wage. In the 1980s, all workers therefore belonged to the National Union of Angolan Workers (União Nacional dos Trabalhadores Angolanos—UNTA) and received a minimum wage. In addition, there were incentive programs at some factories, and UNTA promoted a "socialist emulation" program in which workers won bonuses for exceptional productivity. Nevertheless, the government has become dissatisfied with worker productivity, especially at the state-run enterprises, and has proposed to tie all wages to performance.

Foreign workers have also posed a problem for the government because of their high salaries and because they contradict the party's ideological commitment to the use of Angolan labor. The government, however, was forced to use foreign workers in many crucial positions after the departure of the Portuguese. These positions included those held by physicians, teachers, engineers, and technicians. Most came from Portugal, Cuba, Eastern Europe, Italy, France, Spain, Scandinavia, and Brazil. By 1984 the salaries of these foreign workers accounted for more than US$180 million, despite government attempts to force a reduction in this work force.

In pursuit of Angolanization (that is, the goal of having an upper-level work force that is at least 50 percent Angolan), in 1985 the government began initiating some training programs. In November of that year, it reached agreement with the German Democratic Republic (East Germany) on a training program for Angolan financial analysts. The greatest success occurred in the petroleum sector, however, in which by the end of 1985 more than 50 percent of the workers were Angolans with some technical training. This success was the result of actions taken by the government and the National Fuel Company of Angola (Sociedade Nacional de Combustíveis de Angola—Sonangol), which employed about half of the workers in the petroleum industry, to substitute Angolans for foreign workers. The 1982 Angolanization law (Decree 20/82) established a special fund for training activities. Consequently, intensive training courses and seminars in the petroleum field increased from 66 in 1982 to 151 in 1985. Sonangol participated in financing various training efforts, including scholarship grants. Furthermore, Sonangol closely cooperated with Angolan universities to introduce fields of study related to the petroleum industry. In the early 1980s, two training programs, one for geologists and geophysicists and the other for petroleum engineers, were instituted in the schools of science and engineering at the University of Angola. At the same time, the university's school of engineering began an equipment engineer training program. The training of middle-level technicians was undertaken by the National Petroleum Institute, at Sumbe in Cuanza Sul Province; the institute's teachers and administrators were *coopérants* from Italy (see fig. 1). The institute trained between fifty and sixty production specialists per year, some of whom were from countries belonging to the Southern Africa Development and Coordination Conference (SADCC).

By the beginning of 1986, the government claimed some success in its Angolanization program. According to the minister of industry, 44 percent of senior-level and middle-level management in industry were Angolans. Nevertheless, after the drop in oil prices in 1986, the government sought to reduce the number of foreign workers even further and enacted the Statute on the Coopérant

Worker. This law established the principle that *coopérants* must train Angolan workers in their jobs and pay taxes based on Angolan labor regulations. To increase the ranks of Angolan workers, the government even encouraged the return of Angolan exiles who had formerly opposed the MPLA. These included former members of the National Front for the Liberation of Angola (Frente Nacional de Libertação de Angola—FNLA), the Organization of Angolan Communists (Organização dos Comunistas de Angola—OCA), and UNITA (see Political Opposition, ch. 4). The response to this encouragement has been somewhat meager, however, because of Angola's ongoing instability.

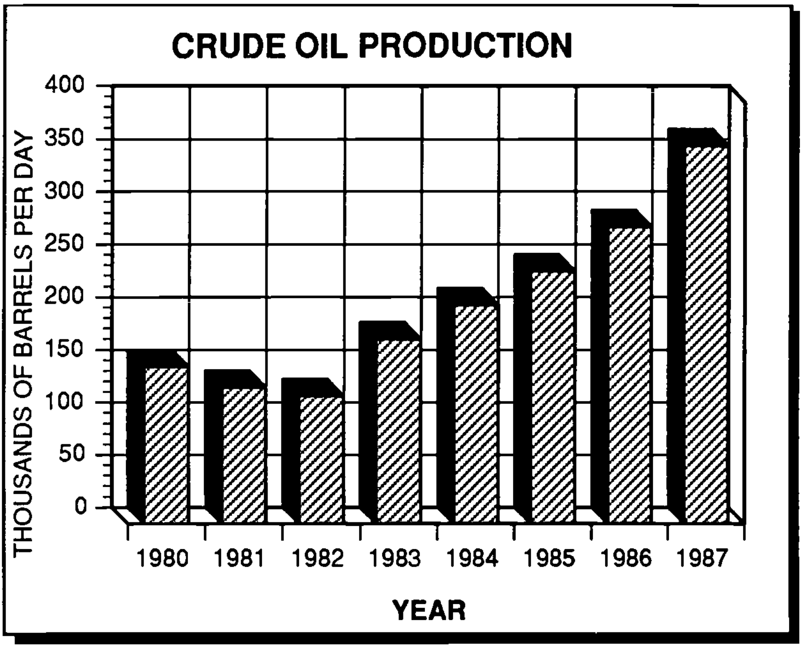
Extractive Industries

The petroleum industry dominated the extractive industries and, indeed, the entire economy. Since the dramatic increase in oil prices in 1973 and 1974, petroleum had assumed growing importance. The petroleum industry was so important, in fact, that the MPLA for the most part allowed foreign oil companies to import as much machinery as they needed and made only modest demands for the Angolanization of the work force. Thus, petroleum has remained the most successful sector in the economy, despite the 1986 price drop, and has provided the government with most of its revenues. In contrast, mining of diamonds and iron ore, commodities that once ranked as major exports, has almost ceased because of disruptions from the war. Either through direct attacks on diamond mines or through the disruption of iron ore transport, in the 1980s it had become nearly impossible to continue operating these mineral industries. Diamond production started to revive in 1987, but only in areas patrolled by government troops.

Oil

As of December 1984, the country's total proven recoverable reserves of crude oil were estimated by Sonangol at 1.6 billion barrels. This amount was considered sufficient to maintain production at 1986 levels until the end of the century. Most Angolan oil is light and has a low sulfur content. As the only oil producer in southern Africa, Angola has promoted cooperation in energy matters on behalf of SADCC.

The first oil exploration concession was granted by the Portuguese authorities in 1910, but commercial production did not begin until 1956 when the Petroleum Company of Angola (Companhia de Petróleos de Angola—Petrangol) started operations in the Cuanza River Basin (see fig. 3). The company later discovered oil onshore in the Congo River Basin and became the operator for most of



Source: Based on information from United States, Central Intelligence Agency, *International Energy Statistical Review*, November 27, 1984, 1; and September 27, 1988, 1.

Figure 7. Crude Oil Production, 1980–87

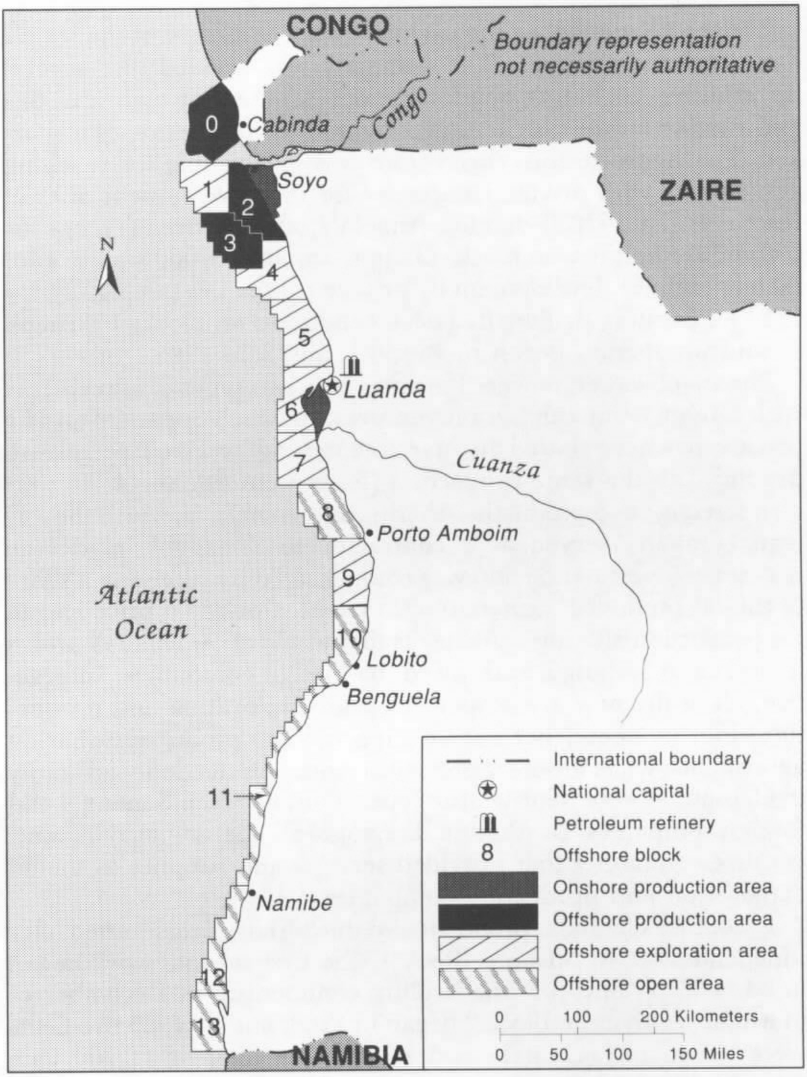
the onshore fields in association with Texaco, an American company, and Angol (a subsidiary of Portugal's SACOR). At about the same time, a subsidiary of the American-based Gulf Oil, the Cabinda Gulf Oil Company (Cabgoc), began explorations in the Cabinda area in 1954 and started production in 1968. Production rose from 2.5 million tons in 1969 to 8.2 million tons in 1973, while exports nearly quadrupled in volume. Because of the added benefit of the 1973 oil price increase, the value of oil exports was almost twelve times higher in 1973 than in 1969, and oil finally surpassed coffee as the principal export. Crude oil production in the early 1980s dipped somewhat as a result of decreased investments. By 1983, however, production had rebounded and thereafter continued to set new output records (see fig. 7).

Postindependence Exploration and Production

Following independence, the new government enacted sweeping changes in the oil industry and claimed sole rights over all of the petroleum deposits in the country. Under the Petroleum Law No. 13/78, enacted on August 26, 1978, the government established Sonangol as the exclusive concessionaire of the state's hydrocarbon resources. The company was divided into several directorates, including one for the development of hydrocarbons and another for the distribution of byproducts on the domestic market. The hydrocarbons directorate was responsible for reaching agreements with private companies for the development of local resources. In 1978 it divided Angola's offshore area (except for Cabinda) into thirteen blocks of approximately 4,000 square kilometers each for development by private companies (see fig. 8). By 1981 exploratory drilling had been conducted on Blocks 1 through 4, and production began in Blocks 2 and 3 in 1985.

Sonangol was empowered to enter into two types of agreements with foreign companies: joint ventures, in which Sonangol and its private partners shared in investments and received petroleum produced in the same proportion (51 percent Sonangol, 49 percent foreign); and production-sharing agreements, in which the foreign company served as a contractor to Sonangol, made the necessary investments, and was compensated by receiving a share of the oil produced. Sonangol also could stipulate a price cap in the production-sharing agreements that would allow windfall profits to accrue to Sonangol and not to the foreign companies. In practice, all of the new areas opened up for exploration and production since independence have been subject to production-sharing agreements, while the areas previously under production—primarily in Cabinda—were joint-venture operations between Sonangol and foreign companies. In addition, Sonangol also participated in joint-venture companies that provided services and supplies to the oil exploration and production companies.

Except for Cabinda, production in the offshore fields started after independence. In offshore Block 1, the first seismic work began in May 1982, and the first drilling commenced in December of that year. Activity in Block 2 began in 1980, and by 1985 two fields were producing (Cuntala and Essungo) a total of 11,700 barrels per day (bpd—see Glossary). In addition, oil was discovered by the end of 1985 in the West Sulele formation in Block 2. Sonangol had started construction in Block 2 of the Kwanda operational base to provide support for operators in Blocks 1, 2, and 3. Block 3 also started exploration activity in 1980, and by 1986 at least six wells there were considered commercial. A major development project was being initiated in Block 3 for the Palanca and Pacaca fields and for a sea-loading terminal. The other blocks in exploration were 4, 5, 6, 7, and 9; Blocks 8, 10, 11, and 12 had not been opened by the government as of the end of 1985 (see table 8, Appendix A).



Source: Based on information from Tony Hodges, *Angola to the 1990s,* London, 1987, 54.

Figure 8. Oil Exploration and Production Areas, 1986

Oil was also produced in onshore fields in the Cuanza and Congo river basins. There were forty-six wells in the Cuanza River Basin, near Luanda, where production began in 1959. In 1986 Sonangol estimated that the field had a life of another five to six years at then-current levels of production. Being an old field, it had very low production costs. The oil fields in the Congo River

Basin, however, were far more productive, yielding nearly eight times the amount raised in the Cuanza River Basin. From 1981 to 1985, between 30,700 bpd and 34,900 bpd were produced in the Congo River Basin, but an average of only about 4,200 bpd was produced in the Cuanza River Basin.

In addition to its production agreements, Sonangol has actively invested in the development of production capabilities and in exploration and distribution projects. In 1979 the company compiled the available data on the sedimentary basins and carried out a seismic survey program on the continental platform, upon which the subsequent division of the continental shelf platform was based. Furthermore, the company has made major investments in expanding its ability to distribute petroleum at home and abroad since it assumed direct responsibility in 1977 for marketing Angolan oil (Cabgoc marketed Cabinda oil, which accounted for almost half of Angola's oil production). Some of Sonangol's other major investments included gas injection facilities in Cabinda; development of the Takula, Lumueno, Quinfuquena, Quinguila, Essungo, and Cuntala fields and the offshore Cabinda fields; construction of the Kwanda oil field service base; and construction of the Quinfuquena oil terminal.

New arrangements have also been made for the future development of several production areas. Financing totaling US$350 million has been secured for the development of the Takula fields in Cabinda, owned jointly by Sonangol and Cabgoc, from an international consortium of banks. Cabgoc has also signed three new joint-venture contracts on oil research and exploration in Cabinda. Under the terms of these contracts, Cabgoc was to be responsible for the total cost of the research operations and was to be reimbursed by Sonangol only if commercially viable oil was discovered.

As a result of the many joint-venture and production-sharing agreements reached by the government in the late 1970s, by 1985 US$798 million had been invested in exploration and US$1.2 billion in development. The largest investors were Cabgoc and Sonangol in Cabinda and the French firm Elf Aquitaine and its partners in Block 3. This increased investment has led to higher production. For example, production in Cabinda more than doubled between 1980 and 1985.

Marketing

Exports of crude oil have outpaced exports of refined oil because refining facilities have not been expanded at the same rate as crude oil output. In the late 1980s, all of the oil produced offshore (in Cabinda and Block 3) was exported, while the crude oil found onshore was refined domestically.

Petrangol's output was about 32,000 bpd in 1985, sufficient to meet domestic demand for most products except butane and jet fuel, while a large surplus of fuel oil was produced for export (585,900 tons in 1985). The facilities for bottling propane and butane were also expanded at a cost of US$7 million. The capacity of the Petrangol oil refinery on the outskirts of Luanda was increased to 1.7 million tons a year in 1986. In 1987 Sonangol was exploring the possibility of having some of its crude petroleum refined in Portugal.

The supply of petroleum products for the domestic market was controlled by Sonangol and increased 8 percent between 1980 and 1985. Initially, Sonangol shared the market with Shell and Mobil, but Sonangol bought out the Angolan subsidiaries of these companies in 1981 and 1983. Subsequently, Sonangol also purchased two Portuguese companies that bottled gas, gaining a monopoly over the distribution of refined products. Among these products, butane gas accounted for 65 percent of the total gas consumed locally and was used primarily in homes in urban areas. In addition, Sonangol distributed gasoline, gas oil, and lubricating oils. Its greatest distribution problems were the lack of storage facilities throughout the country and problems associated with the domestic transportation network.

In response to the fall in oil prices in 1986, the Angolan government began considering regional cooperation to protect the interests of oil suppliers. In that year, Angola was invited to join the Organization of Petroleum Exporting Countries (OPEC). Although it declared its willingness to act in concert with OPEC members to avert the growing crisis in oil prices, Angola joined the African Petroleum Producers' Association, which included four OPEC members (Algeria, Gabon, Libya, and Nigeria) and three non-OPEC oil producers (Cameroon, Congo, and Benin). Together, these eight countries produced 188 million tons of oil in 1986, equivalent to about one-fifth of OPEC's production and 6.4 percent of world production.

In the late 1980s, the major foreign oil companies operating in Angola were American. Chevron, which had taken over Gulf, owned 49 percent of the shares in the offshore Cabinda blocks, Angola's largest production area, where output was fairly stable in 1986 and 1987 at about 200,000 bpd. In 1986 President Ronald Reagan's administration pressured American oil companies and equipment suppliers to withdraw their interest in the Angolan oil industry to protest the presence of Cuban troops in Angola.

Oil exploration off the coast of Cabinda
Courtesy United Nations (J.P. Laffont)

Chevron therefore withdrew 20 percent of its interests from Cabgoc and sold its shares to the Italian firm Agip. Conoco, however, rebuffed this pressure and became the third American oil company to begin operations in Angola in offshore Block 5. Texaco, another major operator in Angola, operated in offshore Block 2, near Soyo, where it held a 40 percent interest in a production-sharing consortium. It also had a 16 percent interest in some of the onshore fields in the Congo River Basin.

The United States Congress also banned new Export-Import Bank lending and credit insurance for sales to the Angolan oil industry, putting American suppliers at a major disadvantage in this market. British suppliers waiting to come into the market have been delayed because of the reluctance of British banks to offer long-term or medium-term credits for such sales. However, France has entered the market, granting exceptional credit facilities for oil-related sales.

Diamonds

Diamond mining began in 1912, when the first gems were discovered in a stream in the Lunda region in the northeast. In 1917 Diamang was granted the concession for diamond mining and prospecting, which it held until independence. Control over the company was obtained by the government in 1977. In April 1979, a general law on mining activities (Law 5/79) was enacted and gave the state the exclusive right to prospect for and exploit minerals. Accordingly, a state diamond-mining enterprise, the National Diamond Company (Emprêsa Nacional de Diamantes—Endiama), was founded in 1981 and acquired the government's 77 percent share in Diamang. UNITA, which selected the diamond mining industry as a principal target, soon crippled mining efforts, and by the beginning of 1986 the two foreign companies involved in servicing and operating the industry pulled out of Angola. By mid-1986 Diamang was formally dissolved, leaving large outstanding debts.

Attacks by UNITA on mining centers, disruption of transport routes, and widespread theft and smuggling caused diamond sales to fall to US$33 million by 1985 and to an estimated US$15 million in 1986. In late 1986, Roan Selection Trust (RST) International, a subsidiary of the Luxembourg-registered holding company ITM International, began mining in the Cafunfo area, along the Cuango River, the site of Angola's most valuable alluvial diamond deposits (see fig. 9). Mining had been halted there for more than two years after UNITA attacked the mining camp in February 1984, kidnapping seventy-seven expatriate workers and severely damaging the mining equipment. After the subsequent kidnapping of a British expatriate in November 1986, defense forces in the area were strengthened, allowing the resumption of mining operations. In 1987 production there averaged 60,000 carats, and about 120,000 carats were produced in the other two mining areas, Andrada and Lucapa. By 1987 diamond production had risen to 750,000 carats, compared with less than 400,000 carats produced in 1986. The 1987 figure, however, was still not much more than 1985 production and only a little over half of 1980 output (see table 9, Appendix A).

This increase in production has benefited from the rise in the price per carat received for Angolan diamonds. The resumption of mining in the area along the Cuango River and a decline in theft of stones of higher value in the Andrada and Lucapa areas have increased the value of output. Furthermore, Endiama, which was responsible for overseeing the industry and for holding monthly sales, has benefited from a general improvement in the world diamond market as well as dealers' willingness to pay higher prices in the hope of securing favored treatment in the future. As a result, average carat value established by the monthly sales in 1987 exceeded US$110, more than twice as much as in 1985 (US$45) and at its highest level since 1981 (US$119).

In 1987 Endiama signed a two-year mining contract with the Portuguese Enterprises Corporation (Sociedade Portuguêsa de

Empreendimentos—SPE), a Portuguese company that has retained a large number of Portuguese technicians previously employed by Diamang. Former Diamang shareholders founded SPE in 1979 after Diamang was nationalized. The precise terms of the contract were not made public, but it was thought that the company would undertake new prospecting, which had been at a virtual standstill since independence. Through a subsidiary, the SPE also was to help Endiama with diamond valuation, which a British company had been carrying out. In December 1987, Angola also signed an agreement with the Soviet Union to cooperate in mining diamonds and quartz. Under the terms of the agreement, the Soviet Union was to participate in mining enterprises and was to draw up a detailed geological map of Angola.

In 1987 the government also began to revise the 1979 mining law to encourage new companies to invest in the diamond-mining industry, in particular to resume prospecting. Among the companies believed to be considering investing in 1988 was Britain's Lonrho conglomerate, which had taken an increasingly active interest in Angola in the late 1980s. The South African diamond-mining giant DeBeers was also interested after it lost its exclusive marketing rights for Angolan diamonds at the end of 1985 because of government suspicions that DeBeers had devalued Angolan diamonds. DeBeers has expressed interest in studying the kimberlite pipes (deep, subsurface deposits), which, because of the depletion of the alluvial deposits, were thought to represent the future of the Angolan diamond industry.

Iron Ore

Once one of the country's major exports, iron ore was no longer mined in the late 1980s because of security and transportation problems. From the mid-1950s until 1975, iron ore was mined in Malanje, Bié, Huambo, and Huíla provinces, and production reached an average of 5.7 million tons per year between 1970 and 1974. Most of the iron ore was shipped to Japan, West Germany, and Britain and earned almost US$50 million a year in export revenue. After independence, the government established a state company, the National Iron Ore Company of Angola (Emprêsa Nacional de Ferro de Angola—Ferrangol), for the exploration, mining, processing, and marketing of iron ore. Ferrangol contracted with Austromineral, an Austrian company, to repair facilities and organize production in Cassinga. Production began to slow in 1974 as a result of technical problems at the Cassinga mine in Huíla Province and stopped completely in August 1975. The area fell under foreign control after South African forces invaded in 1975.

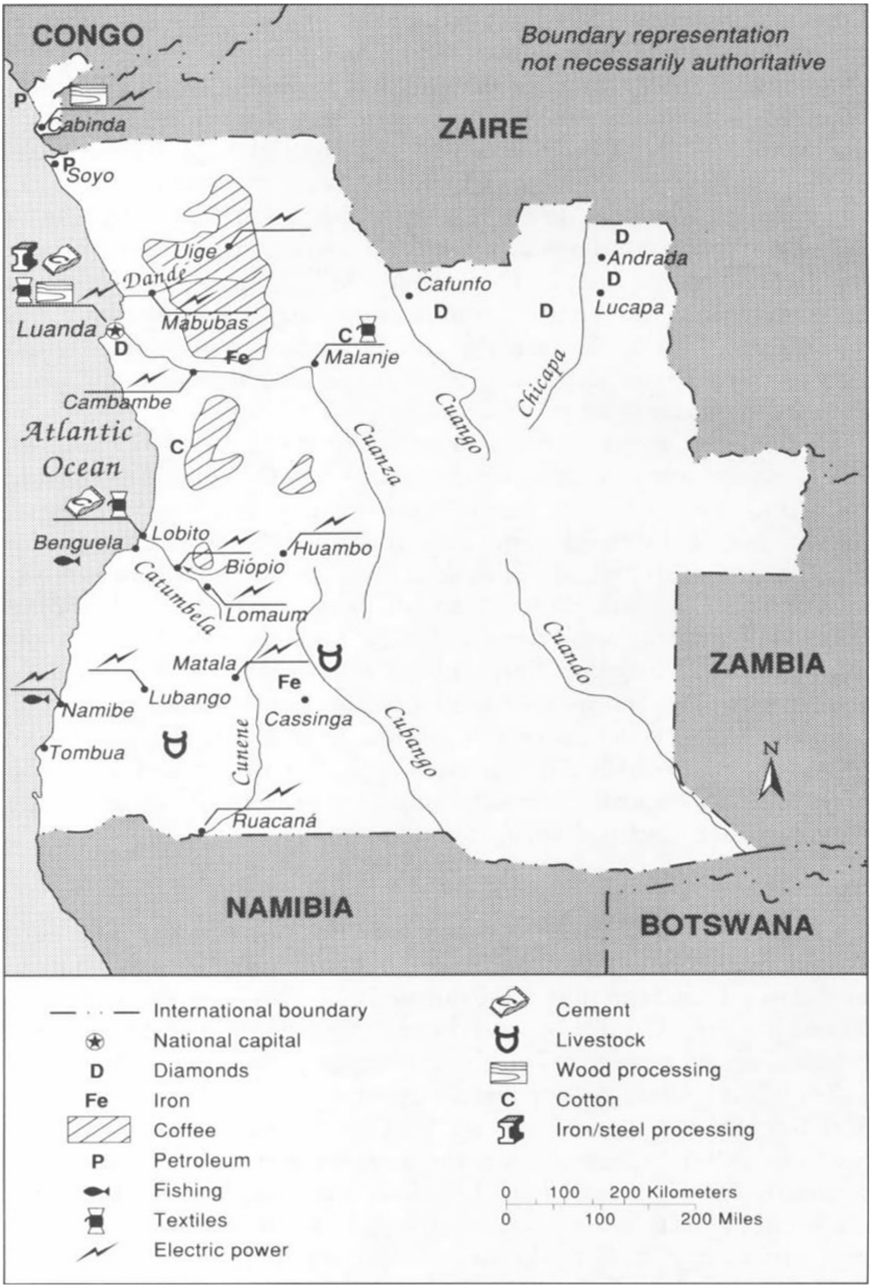


Figure 9. Economic Activity, 1988

Although South Africa withdrew its troops in early 1976, as of 1988 mining had not resumed in the area.

By 1988 the Cassinga mines had a production capacity of approximately 1.1 million tons per year. However, the railroad to the port of Namibe (formerly Moçâmedes) needed extensive repair, and since it was located only 310 kilometers north of the Namibian border, security against South African attacks could not be ensured. Furthermore, UNITA was active in the area and posed a threat to the rail line if it were repaired. Even if these problems could be resolved, production of iron ore at Cassinga would be costly in view of the depressed state of the world steel market in the late 1980s.

Other Minerals

In addition to diamonds and iron ore, Angola is also rich in several other mineral resources that had not been fully exploited by the late 1980s. These include manganese, copper, gold, phosphates, granite, marble, uranium, quartz, lead, zinc, wolfram, tin, fluorite, sulfur, feldspar, kaolin, mica, asphalt, gypsum, and talc. The government hoped to resume mining in the southwest for crystalline quartz and ornamental marble. It has been estimated that 5,000 cubic meters of marble could be extracted annually over a period of twenty years. A state-owned company mined granite and marble in Huíla and Namibe provinces and in 1983 produced 4,450 cubic meters of granite and 500 cubic meters of marble. Since then, the company has ceased production to re-equip with modern machinery. Quartz production, however, was suspended indefinitely because of the military situation in the areas close to the extraction sites in Cuanza Sul Province.

The government established a company in 1980 to exploit phosphate deposits located in the northwest. There were 50 million tons of deposits in Zaire Province and about 100 million tons in Cabinda. Although studies of the deposits in both locations have been made by Bulgarian and Yugoslav companies, as of 1988 production had not started at either site.

Agriculture

By the end of the colonial period, a variety of crops and livestock was produced in Angola. In the north, cassava, coffee, and cotton were grown; in the central highlands, maize was cultivated; and in the south, where rainfall is lowest, cattle herding was prevalent. In addition, there were large plantations run by Portuguese that produced palm oil, sugarcane, bananas, and sisal. These crops were grown by commercial farmers, primarily Portuguese, and by peasant farmers, who sold some of their surplus to local Portuguese traders in exchange for supplies. The commercial farmers were dominant in marketing these crops, however, and enjoyed substantial support from the colonial government in the form of technical assistance, irrigation facilities, and financial credit. They produced the great majority of the crops that were marketed in the cities or exported.

After independence, the departure of Portuguese farmers and traders in the rural areas undermined agricultural productivity. In response, the government set up state farms on land formerly owned by the Portuguese and established the National Company for the Marketing and Distribution of Agricultural Products (Emprêsa Nacional de Comercialização e Distribuição de Produtos Agrícolas—Encodipa) to maintain the rural trading system. Neither body, however, was successful, and by 1984 the government started phasing out the state farms and turned production over to individual farmers. In December 1985, the government also put most rural trade back into private hands. To help peasant farmers, the government established agricultural development stations and provided bank credits for small-scale agricultural projects. Several hundred state farms were to be turned over to associations of tenant farmers as an embryonic form of cooperative. The association was to buy or rent tools for shared use, share marketing initiatives to strengthen prices, and share transport. By the end of 1985, the Directorate of Farm Marketing controlled 4,638 farm cooperatives and 6,534 farmers' associations; but of these, only 93 cooperatives and 71 associations were operational.

In the late 1980s, the country faced serious problems in resuscitating agricultural production. By 1988 the departure of the Portuguese, rural depopulation, and the physical isolation of the farming areas had almost totally halted commercial production of such cash crops as coffee and sisal, as well as the subsistence production of cereals. Production was stagnating because of marketing and transport difficulties; shortages of seed, fertilizer, and consumer goods for trade with peasant farmers; and the impact of the war on planting, harvesting, and yields. Land mines and fear of attacks had forced peasants to reduce the areas under cultivation, especially fields distant from villages, and to abandon hopes of harvesting some planted areas. Moreover, the internal migration of peasants to safer areas had resulted in the overcultivation of lands and decreased yields.

Despite these obstacles, there were some successes. The relatively secure Huíla Province maintained a fair level of production, and the reorientation of government policy away from inefficient state farms and toward peasant producers promised to provide services to and boost production by peasant farmers. By the end of 1987, there were twenty-five development stations providing services to peasant producers in ten provinces, and four more were being set up.

Coffee

Nowhere has the decline in agricultural production been more dramatic than in the coffee sector. Formerly Angola's leading export, by 1985 coffee exports had dropped to 8 percent of their 1973 level (see table 10, Appendix A). Under colonial rule, about 2,500 large commercial farms and 250,000 peasants were involved in growing coffee. During the 1975-76 fighting, the owners, managers, and skilled technicians, as well as most of the migrant work force, abandoned the coffee estates, which were then nationalized. Suffering from a lack of skilled management and shortages of available labor in the rural areas, these coffee farms have continually posted losses. By 1985 the thirty-four state coffee companies produced only 8,890 tons of coffee and depended on government subsidies to stay in business. The government marketed only 4,700 tons from peasant producers in that year.

In 1983 the government adopted an emergency program to revive the coffee industry. Local coffee companies, rather than the National Coffee Company (Emprêsa Nacional de Café—Encafe), were given the responsibility to run the state coffee farms, and, to encourage greater efficiency, the area under cultivation was reduced to less than one-fifth of the area abandoned by the large commercial coffee growers at independence. Aid for these efforts has been obtained from the French Central Board for Economic Cooperation (Caisse Centrale de Coopération Economique—CCCE) and two UN organizations, the WFP and the Food and Agriculture Organization (FAO). The WFP was furnished with US$14.3 million on a five-year (1983-87) plan to pay coffee workers in food rather than in local currency to discourage worker absenteeism, one of the industry's most serious problems. In addition, the government, as part of its program of economic liberalization, was in the process of turning over the marketing of coffee to local, rather than national, organizations.

Despite these efforts, however, by 1985 the state coffee farms had only about 50 percent of the required work force because of the general drain of people from the rural areas and the unattractive wages that were paid in nearly worthless kwanzas. Moreover, the industry was still plagued by the UNITA insurgency, whose attacks had inflicted over US$4 million worth of damage on coffee plantations by 1985. Other problems encountered on the coffee plantations mirrored the general deterioration of the economic infrastructure. High charges for transportation of coffee and machinery and lack of facilities for hulling the coffee slowed and made more expensive the entire production process. Furthermore, some plantation managers complained that their workers were not productive, not only because of absenteeism but also because of their advanced age.

The decline in coffee exports in the mid-1980s resulted largely from the depletion of stocks that had earlier cushioned exports as production declined. Exports to members of the International Coffee Organization (ICO) have remained fairly stable since 1983, but exports to non-ICO members, of which East Germany has been by far the most important market in the late 1980s, have declined. The fall in sales to the non-ICO market has eroded coffee earnings because these sales have traditionally been at substantially higher prices than those to ICO members. Exacerbating the decline in production and exports has been the depressed world market for coffee. From February 1986 to August 1987, ICO indicator prices dropped by more than 20 percent.

Food Crops and Livestock

The decline in marketed food crop production and the rapid growth of the urban population have caused a food crisis in the cities. By the mid-1980s, urban dwellers depended almost entirely on cereal imports, and the approximately 600,000 rural displaced persons were completely dependent on food aid from foreign donors. Local production of cereals met only half the national requirement in 1986 and totaled only about 300,000 tons—about 60 percent of the yearly average in the mid-1970s. Decreased production was the result of general problems associated with the war, including deteriorating transportation and a lack of market incentives for peasant producers. By the late 1980s, malnutrition was widespread.

Similarly, livestock production has declined. Both cattle and pigs are raised, but production fell from 36,500 tons slaughtered in 1973 to only 5,000 tons in the early 1980s. This tremendous decrease was the result of a combination of factors, including the departure of the commercial farmers, increasing disruption from the war (in this case from South African forces in the southern part of the country), and the deterioration of facilities and services, especially vaccinations, crucial for livestock production. During their occupation of Cunene Province in 1975, the South African troops allegedly destroyed some 1,500 water holes for cattle, severely damaging livestock production in that region.

A laborer holds a basket of freshly picked coffee beans.
Courtesy United Nations (J.P. Laffont)