Angola's 'black gold' and diamonds: Are they a nation's best friends?

by Dean Andromidas

Part one in this first-hand report from the author's trip to Angola, which appeared in last week's issue, explained why British-run security firms, including DSL and Executive Outcomes, have been thrown out of Angola for sabotaging the peace process, under way since 1997.

Driving through Luanda for the first time, one is struck by two contrasting images. One, is the stark poverty and ruin, the result of almost three decades of civil war. The other, is that almost every car on the road, and Luanda's thoroughfares are filled with them, is no more than one or two years old. Furthermore, while the most practical cars are four-wheel-drive Jeeps and Landrovers, one sees the latest BMW sports cars, so small that one would think they would disappear in the numerous huge potholes, which become small lakes after a heavy rain, making one of the many formidable hazards confronting the driver on Luanda's streets.

EIR was afforded a unique opportunity to examine the security aspects of the oil and diamond-mining industries, and was able to see what many hope will be the beginnings of the reconstruction of the war-torn country, and the reconciliation of its people, who have been divided by civil war.

There are reasons, other than avarice, for this contrast of ostentatious wealth and abject poverty. For better or worse, diamonds and oil have been integral to the tragic history of Angola, since it gained its independence from Portugal in 1975. Producing $4.5 billion in revenue annually, oil is Angola's most important export and principal source of foreign exchange. And, with $700 million in diamonds produced annually, mining has become a close second. Despite the long civil war, production in both sectors continued. The ruling Popular Movement for the Liberation of Angola (MPLA) had exclusive control over the oil territory, while the opposition Union for the Total Independence of Angola (UNITA) controlled much of the diamond region, which is in the interior of the country.

As the peace process initiated in 1997 deepens, and the new government of national reconciliation extends its control over all of the territory, these vital resources are coming under the authority of the central government. The big question now is, when, and if, peace finally comes to Angola, will these resources be a key element in the country's reconstruction, or will they create another, perhaps more brutal division in the country?

Three decades of war and destruction

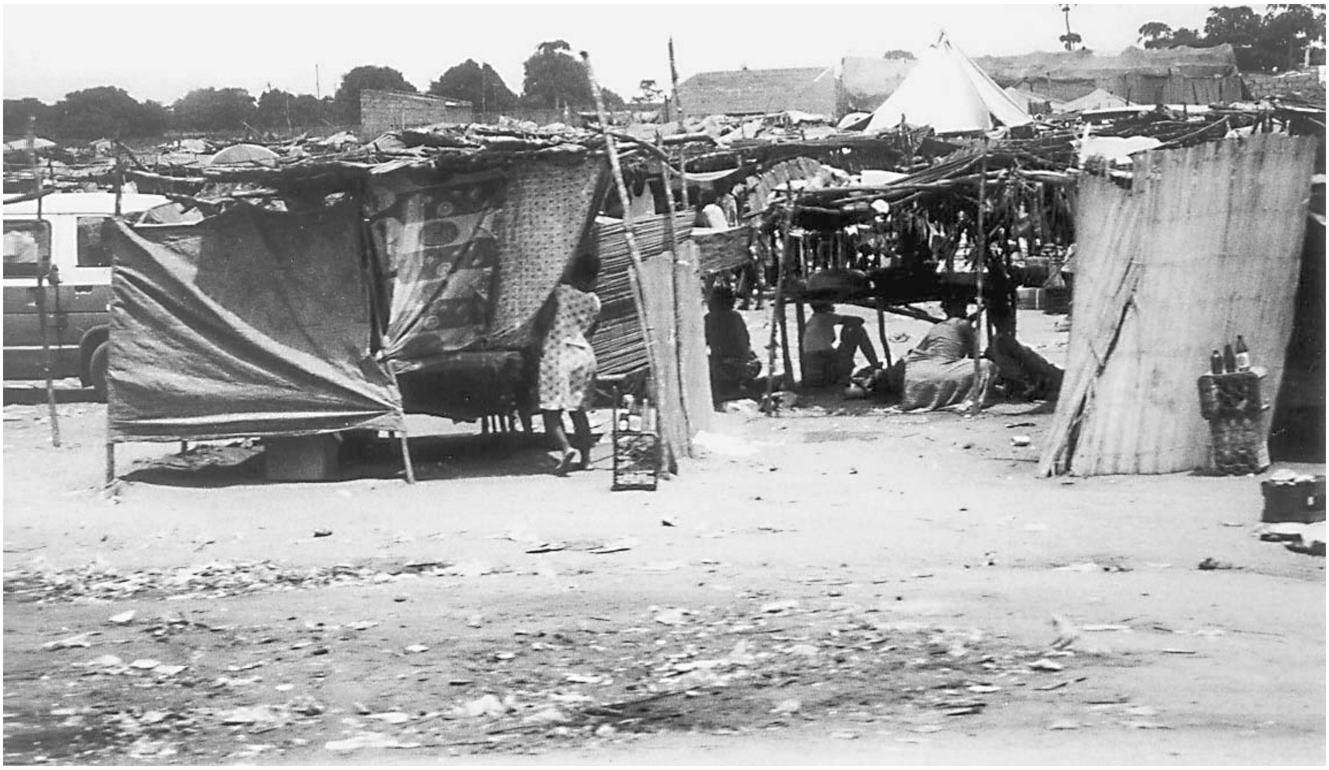
One cannot underestimate the economic impact of almost three decades of civil war on the Angolan people. Except for oil, all economic production figures were way below those of pre-independence times. Out of a population of more than 10 million, 3 million people are homeless. Once a major food exporter, Angola imports virtually all its food, and is dependent to a large extent on international food aid. Its infrastructure is in a state of total collapse, caused by the destruction during the war. The worst destruction was during the 1992-94 resumption of hostilities after the 1992 elections. Some 120 bridges were destroyed during this period. Of 72,323 kilometers of roads, only 8,317 are paved, and 60% of the paved roads are in need of major repair. The government estimates that it would take 10-15 years under present conditions to restore the road system to its pre-independence status. Although the Portuguese left behind three rail lines, these were unusable during the civil war, and are only now being repaired. The construction of new housing, schools, and industrial centers, and even the maintenance of those already built, was almost nonexistent.

While Angola exports $2.5 billion worth of oil annually, it must import $1.5 billion worth of commodities, especially food. Nonetheless, it has a current-account deficit of more than $400 million, and a foreign debt of more than $10.2 billion.

On top of this, are reports of rampant corruption that reaches up to the highest levels of the ruling elite. One source claims that all oil revenues are deposited in a bank account in London, and from there are transferred to accounts in France, Switzerland, and Luxembourg for disbursement to the Luanda-based nomenklatura.

The oil sector

Angola is Africa's second-largest oil producer after Nigeria. Oil was discovered in 1956 in Cabinda province, on the extreme northern coast of Angola. Cabinda is a small



A shanty town in Luanda, the capital of Angola. While small improvements in living conditions are visible in the city, the development that must take place requires massive capital investment in infrastructure, which must be conceived on an Africa-wide basis.

enclave separated from the rest of Angola by a narrow corridor that links Congo-Zaire to the Atlantic Ocean. Most of the oil is offshore, and therefore had been insulated from the fighting. The major player in the Angolan oil industry has always been American, with Chevron Oil, formerly Standard Oil of California, and Texaco sharing dominance. Of an annual production of 780,000 barrels per day (bpd), which is expected to reach almost 900,000 bpd by the end of this year, 60% is exported to the United States. Its high quality and low sulfur content makes it one of the most sought-after crudes on the U.S. market, and accounts for 5.5% of all U.S. imports, making Angola the United States' sixth-largest foreign supplier of oil. Throughout the civil war, American oil companies continued to pay royalties to the Marxist MPLA government, which used them to pay for Cuban and East bloc troops.

The French company Elf Aquitaine has become the leading non-American company operating in Angola, and has rapidly expanded its presence in the country. Led by Elf, France is making Angola a major strategic staging area for expanding its commercial and political presence throughout the southern African region. The British are also involved, via British Petroleum and the British independents Ranger Oil and its sister firm Branch Energy, which work hand-in-glove with the British-South African mercenary operation Executive Outcomes. We will hear more on them later.

One of the more interesting newcomers in the field is Norsk Hydro, a huge Norway-based multinational which has a dominant role in Norwegian North Sea oil industry. At the same time that it is investing in the Angolan oil sector, it has established joint projects with the Angolans in the agricultural sector, including in coffee and other crops.

With the advent of peace, the expansion of the oil industry has been dramatic, on the level of billions of dollars. Chevron alone will be investing $700 million a year between now and the year 2000; Texaco has invested more than $600 million in the last four years. Despite the fact that these investments are predominantly for the exploration and expansion of the oil industry itself, the effect can be felt in sometimes positive, and sometimes extremely disturbing ways. The scars of civil war and poverty contrast sharply with everything that has to do with the oil industry. For example, upon entering the Ministry of Education, one might think that civil war battles had been fought in the hallways, while the offices of Sonangol, the state-run oil company, have polished marble floors, have furniture imported from Portugal, and have state-of-the-art computer and communications technology. Decent housing that approaches Western standards is so scarce that foreign firms pay as much as $25,000 a month for a two- or three-bedroom apartment that would rent for less then one-tenth that amount in the United States or Europe. And, there are the new cars which crowd the almost impassable streets of Luanda, a product of the so-called "trickle-down effect" of petrodollars. (And speaking of petrodollars, the preferred currency is the newly issued U.S. hundred-dollar bill, affectionately known as the "*grande cabeça,*" or the "big head." This nickname comes from the fact that, compared to the old hundred-dollar bill, Benjamin Franklin's head is much bigger. The old issue has been officially withdrawn because counterfeits have flooded the international market.)

In an effort to keep oil dollars in the country, the government is putting pressure on the oil companies, other multinationals, and the foreign embassies, to recognize that "normalcy" has returned to Angola, and therefore they should encourage the families of their expatriate personnel to take up residence in Luanda. The challenge has been taken up especially by the French, where Elf Aquitaine is building a huge apartment complex of well over 100 units for its expatriates, in the middle of Luanda. The French are also building a new embassy compound. And Chevron, which has just completed construction of a huge new office complex in Luanda, is building a small city to the south of Luanda for its expatriates.

Nonetheless, because of privatization, the government is not involved in, nor does one see any signs of, modern housing construction for Angolan citizens.

Diamond mining

For most people, diamonds conjure up beautiful and fanciful images. For Angola, diamonds have been an evil curse. Over two decades, UNITA became one of the world's major suppliers of diamonds, but it used the profits to finance arms purchases to prosecute a war of liberation—a war, that after more than two decades of fighting, began to take on the appearance of a massive killing machine. For the MPLA, diamonds were a source of income for corrupt military officers and government officials, who filled many a Swiss bank account through illegal mining operations in diamond-rich areas that came under their control.

On both sides, slave labor was utilized to extract the diamonds. In any one of the many illegal mines that dotted the Kuanga River basin, one would see thousands of half-naked laborers working primitive mines with their bare hands.

With most of the guns now silent, can supplying diamonds subsidize real economic development? Prior to 1975, Angola was the fourth-largest supplier of diamonds on the world market. During the civil war, it dropped to seventh place. Current annual production, both official and unofficial, stands at $700 million. All official contracts are handled through agreements with the state diamond company, Endiame, which recently signed contracts with South Africa's DeBeers, and several "juniors," including the Vancouver-based DiamondWorks, which is linked indirectly to Executive Outcomes. Although unofficial production is illegal, these operations have no legal problems marketing their diamonds. In fact, DeBeers, and the New York-based Lazarre Kaplan International, maintain purchasing offices right in the middle of the diamond regions, and in Luanda itself.

All diamonds produced, both unofficially and officially, are sent to the Angolan National Bank for processing and export. Like Sonogal, it is an impressive structure, built during the colonial period and meticulously restored.

The security arrangements

The normalization of these two industries has been as integral to the peace process as has been the formation of a government of national unity. An agreement on how these resources would be shared between the two formerly warring parties continues to be as sensitive as the distribution of powerful ministerial portfolios. This is particularly the case with the diamond industry. There are many stories circulating about how this "resource sharing" agreement was eventually negotiated. Although none of these arrangements has been made public, it is clear that certain guarantees, most likely backed by the Clinton administration, have been given. This is indicated by the fact that UNITA forces have withdrawn from almost all the diamond-mining regions it firmly controlled for many years.

This process is also reflected in the way the Angolans have dealt with security arrangements for both the oil and diamond industry. This is crucial, because outside intervention, particularly mercenary operations, were integral to security. The most dramatic example, is that of the British-run, South African-based mercenary firm Executive Outcomes (EO). As detailed in the first part of our series, EO signed a contract with the MPLA in 1993 to supply a mercenary force that would arm, train, and give airpower and logistical support for a regiment of the Angolan army to conduct an offensive against UNITA. The intervention did not result in a decisive victory for the MPLA, but only served to extend the war another two years. Those two years were more destructive, in terms of the country's infrastructure, than the previous 21 years of civil war.

The contract was most likely paid for through the diamond and oil concessions which were given to Branch Energy and Ranger Oil. While spokesmen for EO, Ranger Oil, and Branch Energy are quick to deny any formal connection, they all share the same suite of offices in London. The mercenary firm Sandline International, whose director, former British Special Air Services Col. Tim Spicer, is famous for his escapades in Papua New Guinea, also has offices at this address.

Such incestuous links existed throughout the industry. For example, America Mineral Fields, controlled by British subject and former Anglo American mining corporation executive Jean Raymond Boulle, acquired a diamond concession in a disputed region in the Cuango River basin, and secured it with a mysterious Netherlands-based paramilitary firm called IDES. The latter was staffed by former Dutch soldiers and Gurkhas. These heavily armed, "diamond mine security" forces became so numerous that UNITA considered them to be a replacement for the Cuban mercenaries who left the country in 1991, and it demanded their withdrawal as a precondition for any peace agreement.

The government sets up its own firms

The the peace process has made possible the withdrawal of these mercenary operations. With the advent of a cease-fire, the assertion of central government authority throughout the country, particularly in the mining regions, could proceed. In 1992, the government organized two Angolan private industrial security companies, Teleservice Security and Alpha 5, but only in the last two years, as peace began to be consolidated, have they been able to exercise their mandate. Teleservices provides security to oil companies. Its shareholders include the chief of staff of the armed forces, the commander of the ground forces, and the current Angolan ambassador to Washington. Alpha 5 was organized to provide security to diamond-mining operations, and its major shareholder is Endiame, the state diamond-mining company.

These two companies operate at a very high standard, comparable to Western standards generally. Their security guards received more than $300 per month, plus food packets, transportation allowances, and bonus pay. This is far better than any other private security service in Angola, or any comparable level in government. It is much higher pay than a police officer gets, who receives only $60 a month, and even that is often not paid on time. The dramatic difference in pay is the only way to prevent corruption. By contrast, policemen, some of whom have not been paid for two or three months, very often "freelance" as criminals when they are off-duty. Although these companies recruit primarily from the large pool of former military personnel, one of the more disturbing aspects is that many former schoolteachers have been hired, primarily because of demand for English-speakers. The ex-schoolteacher has no complaints, because the pay is so much better.

The security guard business typically has a poor reputation. Nonetheless, the standard required for effective industrial security in such strategic industries as oil and mining, should not be simply putting a body on guard at the front gate, but should be on the same level as any other skilled industrial activity, covering the full range of security, from perimeter and internal security, to enforcement of safety and emergency procedures. This can only be achieved through education, training, and supervision.

In an effort to meet this standard, both Teleservice Security and Alpha 5 have management consultancy contracts with Grey Security Services, a South African company. Representatives of Grey Security go to great lengths to demonstrate that they have nothing to do with Executive Outcomes or any similar mercenary operation. Grey's representatives were

The general manager of Grey Securities in Angola briefs EIR *correspondents on security operations in the diamond mines and oil fields, at Teleservice's offices in Luanda.*

more than willing to show the transparency of their operation in Angola. On the basis of the consultancy contract, Grey is introducing the same management, supervision, and training procedures used in Grey's operations in South Africa. It was apparent that Grey's approach contrasted sharply with Defence Systems Ltd. and other firms, in which poorly trained and poorly paid security guards are placed at the client's front gate with supervision and management exclusively in the hands of foreign, expatriate personnel. In the case of DSL, it had 20 to 30 former SAS special forces and another 72 Gurkhas.

Grey Security, founded in 1980 by an industrial firm interested in providing upgraded security for itself, later expanded as an independent company. Among its clients are the leading South African banks and industrial firms, and government departments. It is expanding through mostly joint ventures in other parts of Africa, including in Botswana, Mozambique, Namibia, Nigeria, and Zimbabwe. It sees its job as not providing "armed guards"; in fact, a very small percentage of their guards are armed. It refuses to contract for the highly dangerous cash-in-transit business precisely for that reason. In addition, it is the only South African company that has been successfully qualified under the code of practice under the International Standards Organization, the body that sets standards for industrial enterprises. Because of these standards, it is the most expensive security firm in South Africa.

Under the management contract, Grey Security is committed to bringing both Teleservice Security and Alpha 5 up to Grey's standards. This entails placing Grey personnel from South Africa in key management and training positions in these companies. Alongside each Grey manager is an Angolan manager, who is being trained to eventually fill that position. Although the contract is for a long period of time, Grey's involvement will essentially be phased out in the lower levels of management, as more Angolans are trained.

We had an opportunity to see this process at every level, and were surprised at the results. To bring the security industry up to skilled industrial workforce standards, in a developing country, with the problems of poverty, culture, and lack of education, is a daunting task. According to the Grey managers we interviewed, this challenge had to be taken up at all levels of the business, from the gate guard up to the highest-level manager. One of the keys to their success, is giving employees the idea that they have a career, rather than just a job. That means not only decent salaries, but also the opportunity to advance in the industry, through additional training and education.

The development of Teleservices and Alpha 5 is impressive, but does this represent real development for the country? A trickle-down effect can been seen in the diamond-mining region, where the establishment of organized commercial mining has brought an end to the most hideous abuses, while bona fide employment has been provided at relatively decent wages. In one case, we were told that miners went on strike for better wages and working conditions, and after four months, they successfully won their demands from the mining company. It is also seen in much smaller ways; for example, the streets are cleaner, because for the first time, a sanitation company has finally been formed and reconstruction is advancing. Roads that had been impassable six months ago, have been almost fully repaired. In the center of Luanda, a small park has been created that was not there a few months ago. The fact that one can get through the arrivals at the airport in less than half an hour, and without being shaken down for payoffs, is considered one of the minor miracles of 1998.

On the other hand, it is also clear that the development that must take place will not be accomplished piecemeal or by trickling down. It requires massive capital investment in infrastructure—roads, railroads, electrical power grids, ports, and housing—that must be conceived on an Africa-wide basis. Even if all the corruption ended, and as much money from oil and diamond resources were devoted to broad-based development, it would not be enough. This can only be brought about by a new international financial system conceived and dedicated for that purpose.