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DIRECTORATE OF INTELLIGENCE

22 August 1985

ANGOLA: Paying for the War With Oil

Summary

Crude oil sales accounted for about 90 percent of the \$2 billion in hard currency that Angola earned in 1984. Cabinda Gulf Oil Company operations--jointly owned by Gulf-Chevron and the Angolan government--accounted for \$1.4 billion, or 76 percent of the total. Some \$900 million of this foreign exchange was used for imports from and debt payments to Western countries. We believe that the bulk of the remaining \$1.1 billion--60 percent of oil sales--went to purchases and credit payments to the Soviet Union, Eastern Europe and Cuba largely for military assistance. We believe that if Gulf-Chevron were to sell its Angolan oil holdings, little disruption of oil production would occur since French and Brazilian oil companies probably would be ready buyers.

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This memorandum was requested by Phillip Ringdahl, Director African Affairs, National Security Council. It was prepared by [redacted] Southern Africa Branch, Office of African and Latin American Analysis. It was coordinated with the Directorate of Operations. Comments and queries may be directed to the Chief, Southern Africa Branch, [redacted]

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S E C R E T

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Angolan hard currency earnings totalled \$2 billion in 1984, some 90 percent of which came from oil sales (see table 1). [redacted] we believe that oil production last year averaged 200,000 barrels per day, including some 130,000 barrels per day produced by Cabinda Gulf oil fields. The Angolan government received approximately 60 percent of total oil export earnings, or \$1.1 billion, [redacted] Aside from petroleum, the only two significant export earners for Angola in 1984 were coffee and diamonds, which together contributed some \$200 million, or about 10 percent of hard currency earnings. [redacted]

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According to UN trade data, \$900 million of Angola's 1984 hard currency earnings were spent on imports from Western countries, including interest on debt (see table 2). Given the decline of the domestic economy and the reversion of agriculture to subsistence levels, these imports--primarily food, manufactured goods and machinery--are vital to feeding the urban population and supporting the war effort. We believe that the bulk of the remaining \$1.1 billion--minus what the oil companies remit in profits--is used to fund purchases from, or make credit payments to, Communist suppliers. [redacted] the recent decline in crude oil prices has left Angola with little spare hard currency to save as foreign reserves. [redacted]

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We believe Angola pays for most of its military assistance--weapons, foreign personnel and support--in hard currency. Although some have been provided as grant assistance and others for full cash payment on delivery, most were obtained on long-term credit. In addition, Angola pays for a large contingent of instructors, trainers, specialists, and technicians to provide the expertise necessary to operate and maintain the equipment. [redacted] Angola also pays hard currency for the Cuban combat force that supplements the Angolan Army in defense of fixed positions. [redacted]

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We believe that if Gulf-Chevron or other US companies involved in Angolan oil production were to offer to sell Angolan oil holdings, little, if any, disruption of oil production would occur. [redacted] French and Brazilian oil companies--whose current Angolan operations have important US investment--have been anxious to expand their involvement in Angolan oil. The Brazilian oil company Petrobras has engaged in countertrade with Angola to increase ties to that country. Given the strong toehold that Petrobras and the French company ELF Aquitaine already have in Angola, they probably would have little difficulty taking over for US companies. [redacted]

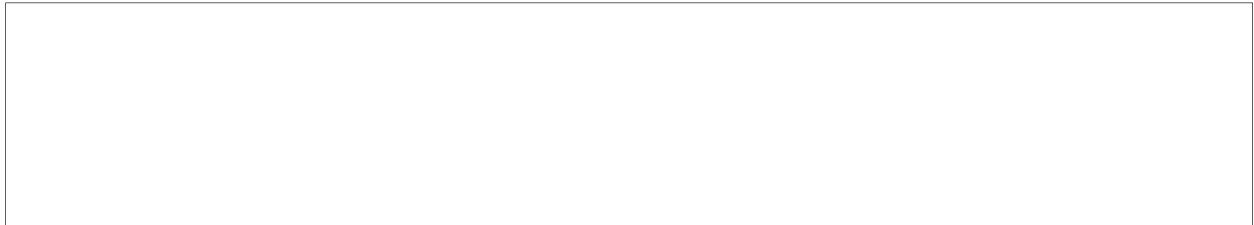
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TABLE 1: Angolan Export Earnings (1984)

<u>Export</u>	<u>Quantity</u>	<u>Average Price</u>	<u>Value</u>
Crude Oil	175,000 barrels per day	\$28/barrel	\$1.8 billion
Coffee	22,750 tons	\$2400/ton	\$0.06 billion
Diamonds	760,000 carats	\$165/carat	<u>\$0.12 billion</u>
TOTAL			\$1.98 billion



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TABLE 2: Identified Angolan Import and Debt Service Payments

<u>Import Category</u>	<u>Value in US\$ millions</u>	<u>Percent</u>
Food, live animals, beverages, tobacco, edible fats and oils	180	19
Raw materials, mineral fuels lubricants, chemicals	21	2
Machinery and transport equipment	276	30
Other Manufactured goods	176	19
Goods not identified by kind	109	12
Debt service	<u>162</u>	<u>18</u>
TOTAL	924	100

Source: UN trade data.



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