The Queensway syndicate and the Africa trade

# China’s oil trade with Africa is dominated by an opaque syndicate. Ordinary Africans appear to do badly out of its hugely lucrative deals.

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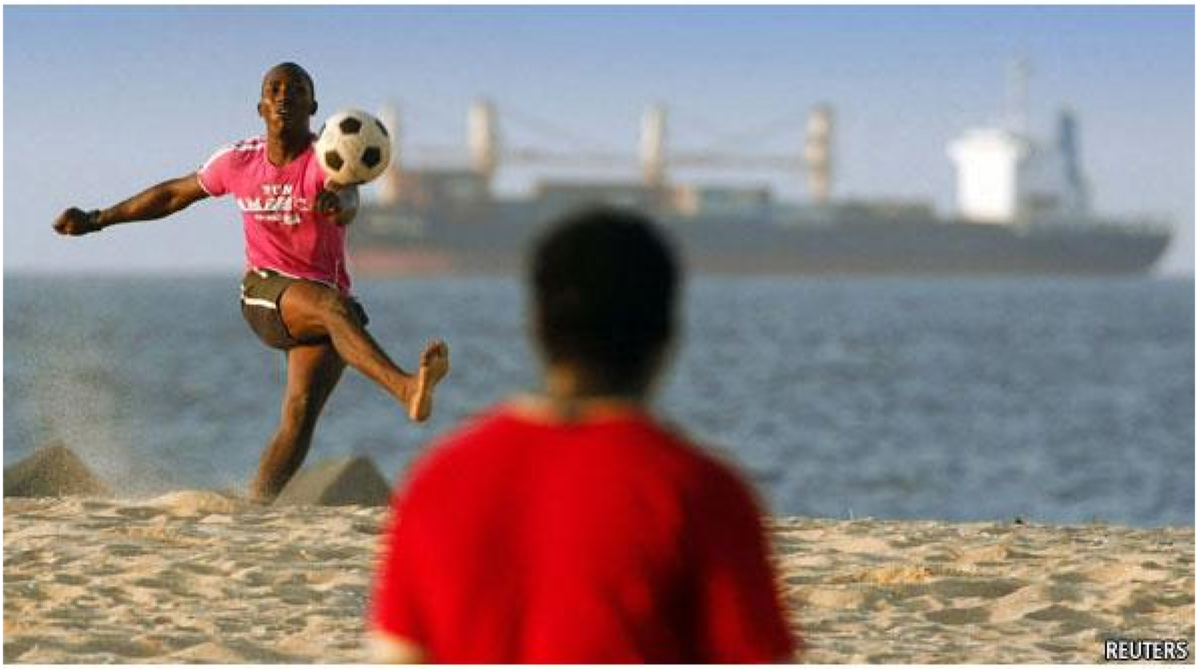


WHEN the man likely to become China’s next president meets an African oil executive, you would expect the dauphin to dominate the dealmaker. Not, though, with Manuel Vicente. On April 15th this year the chairman and chief executive of Sonangol, Angola’s state oil firm, strode into a room decorated with extravagant flowers in central Beijing and shook hands with Xi Jinping, the Chinese vice-president and probable next general secretary of the Communist Party. Mr Vicente holds no official rank in the Angolan government and yet, as if he were conferring with a head of state, Mr Xi reassured his guest that China wants to “strengthen mutual political trust”.

Angola—along with Saudi Arabia—is China’s largest oil supplier and that alone makes Mr Vicente an important man in Beijing. But he is also a partner in a syndicate founded by well-connected Cantonese entrepreneurs who, with their African partners, have taken control of one of China’s most important trade channels. Operating out of offices in Hong Kong’s Queensway, the syndicate calls itself China International Fund or China Sonangol. Over the past seven years it has signed contracts worth billions of dollars for oil, minerals and diamonds from Africa.

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These deals are shrouded in secrecy. However, they appear to grant the Queensway syndicate remarkably profitable terms. If that is right, then they would be depriving some of the world's poorest people of desperately needed wealth. Because the syndicate has done deals with the regimes in strife-torn places, such as Zimbabwe and Guinea, it may also have indirectly helped sustain violent conflicts.

*The Economist* repeatedly put these accusations to the people who feature in this article, asking for their side of the story. But—with one exception, noted below—we heard nothing. In short, it looks as if the fortunes of entire African countries depend to a significant degree on the actions of a little-known, opaque and unaccountable business syndicate. "Buccaneers are cutting themselves a large slice of Africa's resource cake," says Gavin Hayman of Global Witness, a watchdog that mapped the syndicate's deals.

**The Queensway rules**

The syndicate is built on links forged during the cold war. It is largely the creation of a man known as Sam Pa. Though he uses several names, he was born Xu Jinghua. After attending a Soviet academy in Baku four decades ago, say people who have looked into his career, he traded with Angola during its civil war, which lasted from 1975 to 2002 and over the years was a proxy battleground for several outside powers, including China, America, Cuba, the Soviet Union and South Africa. Mr Pa is a private and rarely photographed person. His name appears in few syndicate documents. He is believed to exert control through Veronica Fung, who may be a member of his family. She controls 70% of a core company, Newbright International. The two frequently travel in Africa, using the syndicate's fleet of Airbus jets. They are said sometimes to bypass customs.

Mr Pa has several Chinese partners, according to a 2009 American congressional report. The daughter of a Chinese general, Lo Fong Hung, married to Wang Xiangfei, a well-connected banker, controls 30% of Newbright. Mrs Lo is the public face of China International Fund and China Sonangol. She is listed as a director of dozens of interconnected companies. The business's operations were initially entrusted to the head of a privatised engineering firm from the mainland, Wu Yang. Later, African partners took over.

Although the Queensway syndicate has sometimes been suspected of being an arm of the Chinese government, there is little evidence of that. Indeed, it has often been the butt of criticism from Chinese officials. More likely it was set up to take advantage of a new strategy by the Chinese government, known as the "going out" policy. In 2002, after decades of commercial isolation, China started encouraging entrepreneurs to venture abroad. Short of contacts, Mr Pa teamed up with Hélder Bataglia, a Portuguese trader who had grown up in

Angola and had links to Latin America. Together in 2004 they visited Néstor Kirchner, the president of Argentina, and Hugo Chávez, the president of Venezuela. Mr Chávez welcomed them on his weekly television show “Aló Presidente”, where Mr Pa grandiloquently declared: “This is an historic day because we are taking part in your programme.”

The syndicate initialled several deals in Latin America but none of them came to much. The idea was to trade minerals for infrastructure—in return for commodities, Chinese contractors would build housing and highways. But Argentina and Venezuela already had a fair amount of both, so the syndicate turned to new markets.

In late 2004 Mr Pa travelled to Angola. He knew President José Eduardo dos Santos, having first met him as a student in Baku and later traded with his guerrilla army. Mr Pa’s new partner, Mr Bataglia, also knew the guerrillas from having supplied them with food during the civil war. They were joined by a third trader, Pierre Falcone, a French Algerian who has long enjoyed close links with the Angolan elite and particularly the president.

Together the men persuaded the Angolan elite to channel their fast-expanding oil exports to China through a new joint venture, called China Sonangol. Mr Vicente, boss of Angola’s Sonangol, became its chairman. Contracts, signed in 2005, gave the company the right to export Angolan oil and act as middleman between Sonangol and Sinopec, one of China’s oil majors.

China Sonangol threw itself into the business, according to Angolan oil ministry records and applications for bank loans backed by oil shipments. The official statistics are incomplete, but good sources have concluded that almost all of China’s imports of oil from Angola—worth more than $20 billion last year—come from China Sonangol. By contrast, China’s state-owned oil companies have no direct interest in Angolan oilfields, one of their two biggest sources of crude. Their names do not show up on the map of concessions.

**To Guinea and Zimbabwe**

By 2009 the syndicate was trading a lot of Angolan oil and decided to expand to other African countries. Mr Vicente, both head of the Angolan state oil company and of China Sonangol, flew to Guinea in 2009 to arrange a deal for the syndicate. One of the people he met was Mahmoud Thiam, Guinea’s minister of mines, whose government had come to power the same year in a coup. Mr Thiam is an American citizen who studied at Cornell University and had previously worked as a Wall Street banker at Merrill Lynch and UBS.

With Mr Thiam’s support, the syndicate won the chance to become a partner in a new national mining company. This would control the state’s share of existing projects and, much more important, gain control of future projects in what is a relatively undeveloped mineral territory. Guinea contains the world’s largest reserves of bauxite and its largest untapped reserves of high-grade iron ore. Under a contract signed by Mr Vicente, the syndicate got an 85% share in a venture called the African Development Corporation. The government received the other 15%. The venture won exclusive rights to new mineral concessions in Guinea, including the right to negotiate oil-production contracts in the Gulf of Guinea. In return, the syndicate promised to invest “up to $7 billion” in housing, transport and public utilities, according to the government of Guinea (GDP $4.5 billion).

Ultimately this deal foundered on a Guinean election, but at the time the Queensway syndicate was so pleased that it reportedly gave Guinea's military ruler a helicopter as a present. Mr Thiam began to travel with representatives for the syndicate—though in a response to our questions (and as the only person to reply to us) he says he was representing the Guinean government's shareholding in the joint venture and he denies ever having become one of its employees. Mr Thiam went to Madagascar for the negotiation of a deal modelled on the one he made on Guinea's behalf. Simultaneously, he carried on as mines minister for another year.

Around the same time, Zimbabwe also caught the syndicate's eye. Mr Pa met Happyton Bonyongwe, the head of the Central Intelligence Organisation (CIO), the country's notorious secret police, which helps to keep Robert Mugabe in power. Mr Pa's plane frequently showed up at the Harare airport and he bought properties in the capital, including the 20-storey Livingstone House. His two original partners, Mrs Fong and Mrs Lo, became directors in a new company, called Sino-Zimbabwe Development Limited, which received rights to extract oil and gas, and to mine gold, platinum and chromium. In return, the company publicly promised to build railways, airports and public housing. These pledges were valued at $8 billion by Mr Mugabe's government.

By 2009 the Queensway syndicate spanned the globe from Tanzania and Côte d'Ivoire to Russia and North Korea and on to Indonesia, Malaysia and America. It had bought the JPMorgan Chase building at 23 Wall Street in New York.

**A sad, sad Songangol**

Nobody should begrudge an entrepreneur commercial success. And China needs the raw materials that the Queensway syndicate can supply. However, there are three worries about the syndicate's conduct.

The first is personal gain. The terms under which China Sonangol buys oil from Angola have never been made public. However, several informed observers say that the syndicate gets the oil from the Angolan state at a low price that was fixed in 2005 and sells it on to China at today's market prices. The price at which the contract was fixed is confidential, but Brent crude stood at just under $55 a barrel in 2005; today it is trading above $100. In other words, the syndicate's mark up could be substantial. Over the years, considering the volume of oil that is being sold to China, its profit could amount to tens of billions of dollars. *The Economist* 's requests for comment have gone unanswered. No public statement suggests the terms have been renegotiated since 2005.

Sonangol's skyscraping ambitions

In return for Angolan oil, the syndicate promised to build infrastructure, including low-cost housing, public water-mains, hydroelectric plants, cross-country roads and railways, according to the government. The country desperately needs such things, to be sure. But their value is unlikely to exceed several billion dollars. That looks like a poor deal for the Angolan people.

In Angola accusations of personal enrichment percolate up towards the top of the state structure. In 2006 the head of the external intelligence service, General Fernando Miala, alleged that $2 billion of Chinese money intended for infrastructure projects had disappeared. He claimed that the funds had been transferred to private accounts in Hong Kong by senior officials, though without naming people mentioned in this article. The general was swiftly sacked, tried and imprisoned (he may, however, now be about to make a comeback to government).

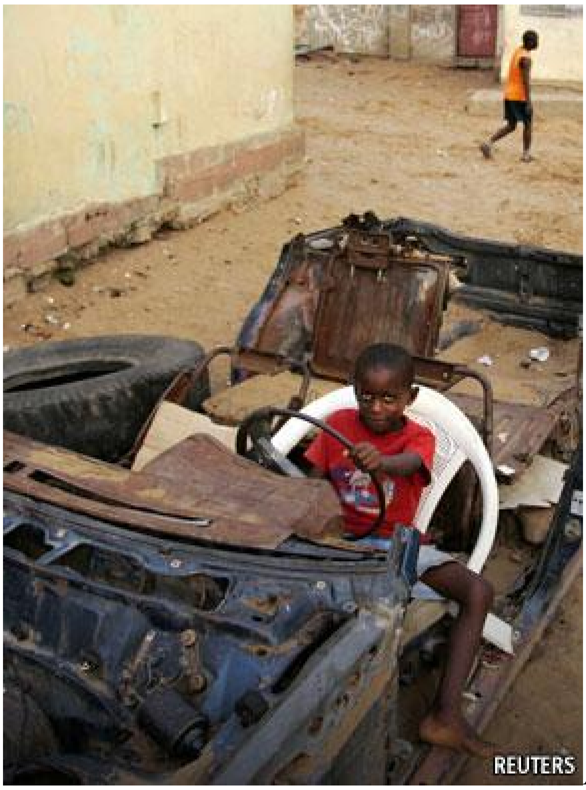
Parts of the Angola-China oil trade appear to be contaminated by conflicts of interest. The Angolan president's son is said to be a director of China Sonangol, the main trading partner of the state oil company. *The Economist*'s requests for comment to the companies went unanswered. As well as running both the state oil company and its main customer, Mr Vicente is a director of private shell companies linked to the syndicate. Although these may exist for tax purposes, a report on foreign corruption, prepared last year by the American Senate, reveals that Sonangol was deemed so corrupt in 2003 that Citibank closed all its accounts. The report also says that Mr Vicente personally owns 5% of Sonangol's house bank which has assets worth $8.2 billion. According to the IMF and the World Bank, billions of dollars have disappeared from Sonangol's accounts. At one point, Sonangol awarded Mr Vicente a 1% ownership stake in the company he chairs. He was forced to give it back after a public outcry in Angola.

In Guinea criticism is focused on the former mines minister. An unpublished 2009 WikiLeaks cable quotes an American mining executive, whose company stood to lose business in Guinea because of the syndicate, complaining that Mr Thiam has “personally benefited from promoting [the] China International Fund”. Mr Thiam denies this. As a former Wall Street banker, he already had money before he returned to the country of his birth.

**The deserted railway**

The second complaint about the Queensway syndicate is that in Africa it has failed to meet many of the obligations it took on to win mining licences. Zimbabwe is still awaiting even a fraction of its promised infrastructure. Guinea never received the 100 public buses that were meant to arrive within 45 days of the 2009 deal.

The situation in Angola is more complicated, though also disappointing. Chinese contractors have built some housing and railway lines and the projects were at first financed by the syndicate. Signs saying “China International Fund” appeared on construction sites. But in recent years they have been replaced by those of other Chinese companies. According to Western diplomats and Chinese businessmen, the syndicate stopped paying bills for more than eight months in 2007. All work stopped, 2,000 Angolan day labourers were fired on the Benguela railway project and only a Chinese cook remained on duty. Western diplomats suspected the syndicate was banking on being bailed out by the Angolan government, which had staked its legitimacy on infrastructure development. Soon enough, the government issued treasury bonds worth $3.5 billion to finance the projects. Subcontractors are now paid directly by the Angolan state.



Angola’s wealth isn’t trickling down

Six years after the syndicate arrived more than 90% of the residents of the capital, Luanda, remain without running water. Meanwhile, the syndicate has continued to prosper.

The third complaint against the Queensway syndicate is that its cash props up certain political leaders and thereby fuels violent conflicts. For instance, in Guinea the syndicate came to the rescue of the junta. In September 2009 government men went on the rampage, raping women by the score and massacring more than 150 protesters in a sports stadium, which triggered EU and African Union sanctions. A month later, the syndicate signed its minerals deal, transferring $100m to the cash-strapped junta. Bashir Bah, a member of the opposition, condemned the deal. "First of all it is immoral, and second of all it is illegal," he said.

The deal caused outrage even inside the government. The prime minister, Kabine Komara, a relatively powerless figure, protested about ministers' conduct to other officials. A memo from the prime minister's office, dated November 26th and leaked to Global Witness, declared: "The council of ministers did not discuss or bring up the question of creating a national mining company. What's more it is not acceptable that a foreign company could become a shareholder in such a company, as it would grant the company, ipso facto, the ownership of all the current and future wealth of the country." Mr Thiam denies any knowledge of Mr Komara's complaint.

According to international institutions, the military leaders, who backed Mr Thiam, needed the syndicate's money if they were to hold on to power. A World Bank official told Western diplomats the junta would "sell the country short on mining revenues and tell the international donors to get lost". The junta eventually fell and, following elections last year, the minerals deal is now in limbo.

In Zimbabwe the situation is even more egregious. The finance minister, an opposition member of the governing coalition, has blocked extra funding for the CIO, presumably because it backs Mr Mugabe. And yet, it is suddenly flush with cash. In recent months it has reportedly doubled the salaries of agents, acquired hundreds of new off-road vehicles and trained thousands of militiamen who are now in a position to intimidate voters during next year's elections. Several sources who have looked at the deal concluded that the money came from Mr Pa. They say he struck a side deal with the CIO that gives him access to Zimbabwe's vast diamond wealth—controlled in part by the CIO. The diamonds were for some years banned from reaching international markets because of global industry prohibitions over violence routinely inflicted on Zimbabwean miners. Yet, Mr Pa is said to buy them and apparently makes payments directly to the CIO, bypassing government coffers.

Little is certain about China Sonangol and China International Fund. Our repeated questions to the companies and their representatives went unanswered. The documents and witnesses we tracked down around the world paint an incomplete picture. But they raise questions of immense public interest.

**Who benefits?**

Oversight of the Queensway syndicate's businesses is almost non-existent. A decade ago Mr Vicente forbade foreign oil companies in Angola to publish even routine data, on threat of ejection. Since then Sonangol has published some information on its operations. But oil contracts are treated as state secrets. Revenues from deals with the syndicate go to an opaque agency controlled by the president whose accounts are off-limits even to government ministers. Although Sonangol scores reasonably for some criteria, such as revenue, in rankings by Transparency International and Revenue Watch, two lobbies for corporate openness, it still receives bottom rankings for safeguards against corruption.

The syndicate itself is even more opaque. Who ultimately benefits by how much from the lucrative deals is not clear from public records. The syndicate's corporate structure is fiendishly complex. Individual companies are not vertically integrated—it is not a group in the usual sense. There is no holding company, though the same people keep cropping up as directors in the records of affiliated companies, which are often owned by shell companies registered in lightly regulated tax shelters. Final beneficial ownership is impossible for an outsider to establish.

All this means that the syndicate taints China's "going out" policy, a cornerstone of the country's rise in recent years. When the policy works, African resources are swapped for aid, commercial financing and payments in kind such as public infrastructure. But with the syndicate, billions of dollars meant for schools, roads and hospitals have apparently ended up in private accounts. Rather than fixing Africa's lack of infrastructure, Chinese entrepreneurs and Africa's governing elites look as if they are conspiring to use the development model as a pretext for plunder.