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## **Goldman Sachs backs Angolan oil deal despite corruption risks**

The investment bank Goldman Sachs is backing an oil deal in Angola by U.S. firm Cobalt International Energy, despite a risk that local partners in the deal could expose Cobalt to prosecution for corruption in the United States, Global Witness revealed today.

Goldman Sachs is a major shareholder in Cobalt and two of its executives sit on Cobalt's board. Agreements with the Angolan state oil company, Sonangol, give Cobalt shares in two Angolan oil exploration blocks and assign it two local partners, Alper Oil Limitada and Nazaki Oil and Gáz S.A.<sup>1</sup>

Alper and Nazaki are obscure companies with no visible industry track record. This is a serious concern as Angola is a poor country afflicted by severe corruption: many observers believe that small and little-known companies are used as fronts by top Angolan officials to enrich themselves privately.<sup>2</sup>

Cobalt has gone ahead with the deal, which was executed at the end of February, even though it warned in its own U.S. regulatory filings: "We have not worked with either of these companies in the past, and, therefore, our familiarity with these companies is limited. Violations of the FCPA [Foreign Corrupt Practices Act] may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results and financial condition."<sup>3</sup>

"It seems extraordinary that Goldman Sachs would back this kind of deal in Angola, a notoriously corrupt country, at a time when the bank's own business ethics in the United States are under heavy fire," said Diarmid O'Sullivan of Global Witness. Last month, Goldman Sachs was charged with fraud by U.S. authorities in relation to its dealings with mortgage-backed securities in the United States.<sup>4</sup> The Wall Street bank has denied any wrongdoing.

Cobalt will operate the two blocks, meaning it will be in charge of drilling for oil, with Sonangol, Nazaki Oil and Gáz and Alper Oil as its minority partners. Sonangol declined to explain to Global Witness why it chose these two companies. Alper Oil's website provides little detailed information about its activities, not even a contact phone number. Nazaki Oil and Gáz does not have a website.

Nazaki Oil and Gáz is covering its own costs but Alper Oil's upfront costs are being paid by Cobalt, which aims to recoup them out of future revenues. So Alper Oil could make huge profits if oil is found, without investing any capital upfront or taking any risks, and loses nothing if no oil is found.

Transparent management of the oil sector is crucial to the economic future of Angola, a country so poor that the average life expectancy is a mere 46.5 years.<sup>5</sup> But Sonangol's actions raise serious concerns about whether it is acting in the public interest or the interests of the ruling elite.

In March 2010, Global Witness revealed that Sonangol nominated a son-in-law of President dos Santos of Angola to the board of a key investment vehicle. In August 2009 we revealed that a private company, pre-qualified by Sonangol to bid for oil rights, had shareholders with the same names as top officials, including Sonangol's chairman.<sup>6</sup> Sonangol declined to comment on these cases.

Cobalt replied to written questions from Global Witness on its own behalf and that of its shareholders, including Goldman Sachs. Cobalt's letter said: "Please be assured that we have devoted considerable resources towards mitigating the specific risks identified in the statements that you have included in your letter". Cobalt's letter also said that the company had retained two law firms for the "specific purpose" of addressing these risks and continued to work closely with them.

However Cobalt declined to answer specific questions about the deal, including a request to identify the ultimate beneficial owners of Alper Oil and Nazaki Oil and Gáz, on the grounds that this would

"involve selective disclosure of non-public company information and, in some cases, to do so would also be a breach of the confidentiality provisions of agreements by which [Cobalt] are bound."<sup>7</sup>

So it is not clear whether or not Cobalt and its investors know who the ultimate beneficial owners of these companies are. "In the highly corrupt and predatory environment of Angola, the public is being asked to take it on trust that deals with opaque partners are ethical. After the sharp practices of the credit crunch and the fraud charges levelled against Goldman Sachs in the United States, this is a tall order," said O'Sullivan of Global Witness.

He added: "There is an urgent need for the United States and other major jurisdictions to impose tougher regulations on overseas oil investment. The Energy Security through Transparency Act, currently under consideration in the US Senate, would help satisfy this need."

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**For further information, please contact:**

**Diarmid O'Sullivan on +44 207 492 5863 or +44 7872 620 955**

**Graham Lee on +44 207 492 5862 or +44 7790 965 397**

Notes

1. Cobalt International Energy. 10-K filing to the Securities and Exchange Commission for 2009. Page 5. 424B1 Prospectus. Page 106. Both accessed at [www.sec.gov](http://www.sec.gov)
2. Global Witness confidential interviews with foreign and domestic observers of the Angolan oil industry. See also United States Department of State, Angola human rights report for 2009, Section 4. Official Corruption and Government Transparency. Accessed at [www.state.gov](http://www.state.gov)
3. Cobalt International Energy. 10-K filing for 2009. Page 51.
4. Securities and Exchange Commission. SEC Charges Goldman Sachs With Fraud in Structuring and Marketing of CDO Tied to Subprime Mortgages. Press release. 16th April 2010. Accessed at [www.sec.gov](http://www.sec.gov)
5. United Nations Development Programme. Human Development Report 2009. Country Fact Sheet Angola. Accessed at [www.undp.org](http://www.undp.org)
6. Global Witness. Link between Angolan president's son-in-law and state oil company raises questions about transparency. 15th March 2010. Private oil firm's shareholders have same names as top government officials. 4th August 2009. Accessible at [www.globalwitness.org](http://www.globalwitness.org)
7. Letter to Global Witness from Cobalt International Energy. 18th May 2010.

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