

AFRICA RISK CONSULTING**Mozambique Monthly Briefing July 2019****Mozambique Summary 24 July 2019**

United States-based oil and gas company Anadarko Petroleum Corporation announces a final investment decision for the \$25 billion Area 1 liquefied natural gas (LNG) project in Mozambique, commencing operations on a project that could see Mozambique become a world leader in LNG production. Mozambique's state-owned oil company, Empresa Nacional de Hidrocarbonetos EP, delays plans to raise its \$2.3 billion share of the Area 1 LNG project as the government attempts to limit its debt obligations. South Africa's new justice and correctional service minister, Ronald Lamola, halts a previous decision to extradite former Mozambican finance minister, Manuel Chang, back to Mozambique as Chang reportedly still has diplomatic immunity and would not be tried on corruption charges.

Anadarko approves development of \$25 billion Area 1 LNG project

United States (US)-based oil and gas company **Anadarko Petroleum Corporation** announced a final investment decision on 18 June for the \$25 billion Area 1 liquefied natural gas (LNG) project in **Mozambique**, commencing operations on a project that could see Mozambique become a world leader in LNG production.¹ The decision to go forward was expected, and is a positive sign that international oil companies and investors are confident that production and export will be successful.

The Area 1 LNG project is a joint venture between Anadarko and some of the biggest names in gas production, including **Italy**-based **Eni**, **US**-based **McDermott International** and **Japan**-based **Chiyoda Corporation**.² The joint venture includes the construction of two LNG trains with a total capacity of 12.88 million tonnes per annum (MTPA).³ Anadarko was able to secure financing and off-take agreements for 86% of the first phase of the project, amid widely held expectations that the Anadarko board would approve the project (see *ARC Briefing Mozambique May 2019*).

The FID approval came despite a takeover of Anadarko by **US**-based oil company **Occidental Petroleum Corp** (see *ARC Briefing Mozambique May 2019*). Anadarko shareholders will vote on 8 August whether to approve the takeover, which would ultimately see Anadarko's Mozambique and other **African** assets end up as part of **France**-based oil company, **Total SA**. Anadarko's shareholders are likely to approve the deal, despite internal conflict within Occidental as it avoided a shareholder vote on the takeover by securing a \$10 billion financing agreement with **US**-based investment company, **Berkshire Hathaway**.⁴ Occidental investor **Carl Icahn** has led the calls that the Anadarko deal is overpriced and is working to remove several directors and Occidental chief executive officer, **Vicki Hollub**.⁵ Despite Icahn's efforts, he is unlikely to be able to stop the agreement from going forward, and Total is likely to be leading Mozambique's Area 1 LNG project by the end of 2019.

This is positive news for Mozambique, as Total has the experience and capabilities to ensure Area 1 becomes a major LNG project. LNG demand is expected to rise, particularly in **Asia**, over the next decade and Mozambique's LNG supply is key to meet that demand.⁶ In addition to Anadarko's Area 1 project, **US**-based oil giant **ExxonMobil** is expected to deliver its FID for the adjacent **Rovuma/Area 4**

¹ Construction Review, 25 Jun 2019

² Construction Review, 25 Jun 2019

³ Construction Review, 25 Jun 2019

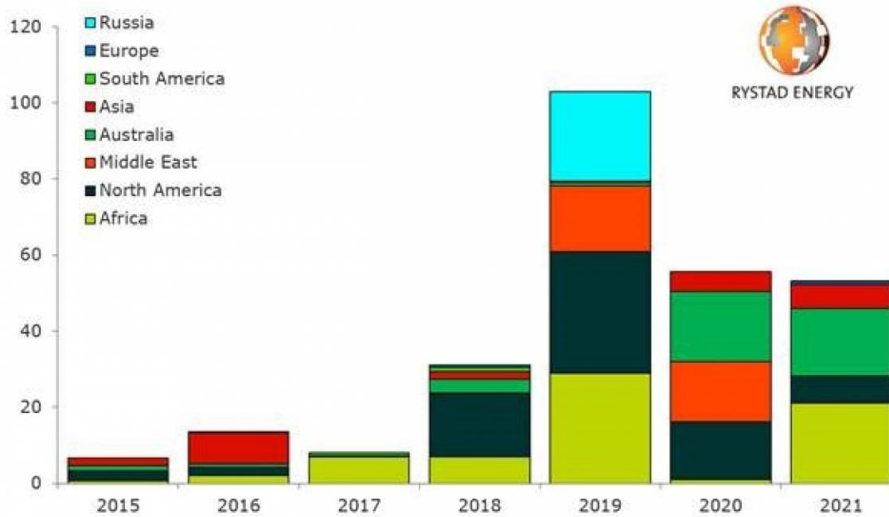
⁴ Reuters, 12 Jul 2019

⁵ Reuters, 12 Jul 2019

⁶ Riviera, 26 Jun 2019

LNG project by the end of the year.⁷ With ExxonMobil's FID, 2019 will be one of the biggest investment years for LNG ever, with a total forecasted investment of \$103 billion.⁸

Total greenfield LNG investments by approval year
Billion USD



Source: Rystad Energy UCube

Despite the large investments, Mozambique's economy is still expected to contract 2.2% this year, but will return to growth in 2020.⁹ The government has been quick to capitalise on the expected returns from LNG, accumulating massive amounts of debt, but has not yet been able to turn this into growth. The impact of two tropical storms in March and April did not help matters, but the risk going forward is that the government's massive debt will negate the future gains from the LNG projects.

State-owned oil company ENH delays funding for Area 1

Mozambique's state-owned oil company, **Empresa Nacional de Hidrocarbonetos EP (ENH)**, delayed plans to raise its \$2.3 billion share of the Area 1 LNG project on 9 July as the government attempts to limit its debt obligations.¹⁰ This will give the government more time to restructure previous debts prior to borrowing further, illustrating to potential investors that it is serious about its debt issue and intention to repay future loans. ENH holds a 15% stake in the Area 1 joint venture.¹¹ CEO **Omar Mitha** said that ENH will look to raise the funds later in 2019 when conditions are more attractive.¹²

Area 1 LNG Project Shareholding Partners

Anadarko	National Oil	Mitsui E&P	ONGC	Bharat	PTTEP	Oil
Mozambique	Company Empresa	Mozambique	Videsh	PetroResources	Mozambique	India
Area (26.5%)	Nacional de	Area 1	(16%)	(10%)	Area 1	(4%)
	Hidrocarbonetos	(20%)			(8.5%)	
	(15%)					

⁷ Riviera, 26 Jun 2019

⁸ Macrobusiness, 1 Jul 2019

⁹ MacauHub, 18 Jul 2019

¹⁰ Bloomberg, 9 Jul 2019

¹¹ MacauHub, 25 Jun 2019

¹² Bloomberg, 9 Jul 2019

Each partner in the Area 1 LNG project is required to fund its equity share of the project, which is independent of the debt that the Area 1 LNG project takes on.¹³ Of the \$25 billion needed for the Area 1 project, \$11 billion will come from the partners (see table above), while \$14 billion will come from bank loans.¹⁴ According to finance ministry spokesperson **Rogério Nkomo**, the government has approved a guarantee for ENH to raise the funds, though the **Assembleia da República** (Mozambique national assembly) and attorney-general must still endorse the guarantee.¹⁵

President **Filipe Nyusi's** (2015-present) administration has made government guarantees more difficult to obtain after the 2013 scandal in which former President **Armando Guebuza** (2005-2015) guaranteed parts of the \$2 billion hidden debt scandal, hurting Mozambique's economy since its discovery in 2016. However, in this instance the national assembly and attorney-general are likely to approve the loans, being aware that the economy depends heavily on the development of these LNG projects. According to a **Maputo**-based economist,

"The government will approve the guarantee, but there is no guarantee that international markets will want that debt even with a sovereign guarantee. It's a smart plan to wait to try and raise money after the restructuring of the other debt is complete, which shows the markets that the government repays its debt and can be trusted to do so in the future."¹⁶

The risk of Mozambique repeating the mistakes of the past is low as the Area 1 project involves international oil companies with credible compliance programmes that increase transparency. The project is financially sound and the risk of default is extremely low.

South Africa backtracks on extradition of former finance minister, Manuel Chang

South Africa's new justice and correctional service minister, **Ronald Lamola**, halted a previous decision to extradite former Mozambican finance minister, **Manuel Chang**, back to Mozambique on 13 July on the grounds that Chang reportedly still has diplomatic immunity and would not be tried on corruption charges.¹⁷ Mozambique's government will not be happy with the decision as any US trial risks exposing other government members involved in the \$2 billion hidden debt scandal. Lamola authorised justice department director-general **Vusi Madonsela** to file papers in response to Chang's application to be surrendered to Mozambican authorities because Chang's immunity from law would violate the **South African Constitution**, the **Extradition Act**, and the **Southern African Development Community** extradition protocol.¹⁸ The US government first asked South Africa to extradite Chang to the US to face trial for his involvement in the \$2 billion hidden debt scandal. South African authorities arrested Chang on 29 December 2018 at **Johannesburg's OR Tambo Airport** on the basis of a US-requested **Interpol** warrant.¹⁹

Despite the fact that these legal instruments make Chang's extradition to Mozambique illegal, former justice minister **Michael Masutha** decided to extradite Chang to Mozambique after the **Kempton Park** magistrate's court (**Gauteng Province**) concluded that Chang was extraditable to both the US and Mozambique.²⁰ Masutha made the decision on 21 May, his last day in office.²¹ Masutha and the South African courts had accepted the Mozambique's attorney-general's request to lift Chang's immunity in January 2019,²² although the Assembleia da República vote on this issue only lifted immunity for detention and police questioning, and Chang remained immune to arrest and prosecution.²³

¹³ Bloomberg, 9 Jul 2019

¹⁴ The Southern Times, 1 Jul 2019

¹⁵ Bloomberg, 9 Jul 2019

¹⁶ Source, economist, Maputo

¹⁷ Times Live, 13 Jul 2019

¹⁸ Times Live, 13 Jul 2019

¹⁹ www.za.usembassy.gov

²⁰ Mail & Guardian, 10 Jun 2019

²¹ ISS, 18 Jul 2019

²² News24, 30 Jan 2019

²³ ISS, 18 Jul 2019

Reportedly, prior to making his decision Masutha ignored advice from the US embassy and Mozambique civil society organisations that Chang would not face trial in Mozambique.²⁴ According to a South Africa-based political analyst,

“Masutha’s decision was based less on law than international relations, despite Masutha’s status as justice minister and not as foreign minister. The extradition of an African minister to the US, rather than keeping him in Africa, would not sit well with other African countries and the decision was made to prioritise Mozambique and African relations over the West.”²⁵

Chang has denied he did anything wrong and opposes extradition to the US.²⁶ The ruling **Frente de Libertação de Moçambique (Frelimo)** party also opposes extradition to the US, where a transparent trial may reveal the depths of the \$2 billion hidden debt scandal within Frelimo. With general elections scheduled for October, Frelimo and President Nyusi will want fewer mentions of the scandal – which occurred at the time that Nyusi was defence minister – rather than see Chang face the rule of law in the US. Chang’s trial in the US is expected to start on 7 October, roughly a week before the elections,²⁷ which may uncover Frelimo’s full complicity with the scandal and damage its image at a critical time.

Planner

8 Aug 2019 **Texas (United States)** Shareholders of US-based oil company Anadarko vote whether to approve takeover by US-based oil company **Occidental Petroleum Corp**;

7 Oct 2019 **New York (United States)** **US Dept of Justice**, Criminal Division, Fraud Section trial of Mozambique former finance minister **Manuel Chang** scheduled to begin;

Oct 2019 General elections scheduled

2031 Maturity date under new Eurobond debt restructure deal

Chronology

23 Jul 2019 **Maputo (Mozambique)** *Stock Market Wire*. **Ncondezi Energy** agrees to develop a \$1 billion coal mine and power plant with **China**-based **China Machinery Engineering Corporation** and **United States**-based **General Electric**;

22 Jul 2019 **Maputo (Mozambique)** *Offshore Magazine*. **Italy**-based oil company **Eni** starts installation works on its **Coral Sul** floating LNG treatment and liquefaction unit in **Mozambique**;

20 Jul 2019 **Maputo (Mozambique)** *Fin24*. **Former Credit Suisse AG** banker **Andrew Pearse** admits taking kickbacks and pleads guilty to wire fraud over the \$2 billion hidden debt scandal;

17 Jul 2019 **Cabo Delgado Province (Mozambique)** *MacauHub*. Mining company **Mwiriti Lda** discovers a large gold deposit in **Montepuez** district;

17 Jul 2019 **Maputo (Mozambique)** *Xinhua*. **China**-based construction company **CITIC Construction** agrees to build 35,000 houses in four provinces over five years, in a \$1.4 billion project;

15 Jul 2019 **Maputo (Mozambique)** *africanews*. Human rights activist **Maria Alice Mabota** files papers to run in the October presidential elections, representing the **Democratic Alliance Coalition**;

²⁴ ISS, 18 Jul 2019

²⁵ Source, political analyst, South Africa

²⁶ Nasdaq, 13 Jul 2019

²⁷ ISS, 18 Jul 2019

12 Jul 2019 **Johannesburg (South Africa)** *Business Day*. Justice minister **Ronald Lamola** applies to set aside the extradition of **Mozambique's** former finance minister, **Manuel Chang**, and may extradite Chang to the **United States**;

9 Jul 2019 **Maputo (Mozambique)** *Business Day*. State-owned oil company **Empresa Nacional de Hidrocarbonetos** pauses plans to raise funds for its gas project with **United States**-based **Anadarko Resources** to limit its debt;

4 Jul 2019 **Maputo (Mozambique)** *Macauhub*. The government signs 13 cooperation agreements with **Portugal**, including a €14m (\$15.77m) credit line until March 2020;

4 Jul 2019 **Maputo (Mozambique)** *Seanews*. **United States**-based **ExxonMobil** announces plans to provide \$3m to **United States Agency for International Development (USAID)** for social and economic development programmes in **Mozambique**;

3 Jul 2019 **Maputo (Mozambique)** *Reuters*. **Mozambican police** say 11 people were killed in Islamist militant armed group attacks last week in northern Mozambique near the **Tanzanian** border;

25 Jun 2019 **Maputo (Mozambique)** *Ecofin Agency*. The **International Monetary Fund** says Mozambique's economy will grow in double digits by 2023 due to revenues from natural gas exploration;

24 Jun 2019 **Maputo (Mozambique)** *Xinhua*. Opposition **Renamo** party leader **Ossufo Momade** says Renamo is committed to peace despite an internal crisis;

21 Jun 2019 **Cabo Delgado (Mozambique)** *Africa Intelligence*. The **United Kingdom** reportedly agreed to provide military cooperation to Mozambique to confront attacks in **Cabo Delgado** in an MOU signed with **Mozambique** on 13 May;

18 Jun 2019 **Maputo (Mozambique)** *Bloomberg*. **United States**-based oil and gas company **Anadarko Petroleum Corp** approves a \$25 billion LNG project in Mozambique;

17 Jun 2019 **Maputo (Mozambique)** *Xinhua*. State-owned hydroelectric plant **Cahora Bassa Hydroelectric** offers 2.5% of its shares to **Mozambique** citizens and companies in a public offering until 12 July;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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