

AFRICA RISK CONSULTING

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The board of United States (US)-based oil company Anadarko Petroleum Corp unanimously decides that the acquisition bid from US-based Occidental Petroleum Corp is a better deal than an earlier bid from US-based Chevron Corp, forcing Chevron to drop its bid. The result will be a restructuring of Anadarko's African assets, including its Mozambique liquefied natural gas (LNG) project. Opposition Movimento Democrático de Moçambique (MDM) confirms it will field its founder, Daviz Simango, as its presidential candidate in the 15 October general elections. Suspected Islamists kill seven people in Cabo Delgado Province in a continuation of violence that could threaten LNG production in the area and hamper aid efforts to victims of Cyclone Idai and Cyclone Kenneth.

Total to acquire Mozambique LNG project

The board of **United States (US)**-based oil company **Anadarko Petroleum Corp**, unanimously decided on 6 May that the acquisition bid from US-based **Occidental Petroleum Corp** was a better deal than an earlier bid from US-based **Chevron Corp**, forcing Chevron to drop its bid on 9 May.¹ This will result in a restructuring of Anadarko's **African** assets, including its **Mozambique** liquefied natural gas (LNG) project. Mozambique would have preferred Chevron to acquire Anadarko, given Occidental's limited experience with LNG and its relatively shallow pockets compared to Chevron. However, Occidental's earlier deal to sell its Africa assets to **France**-based **Total** if the deal with Anadarko went through will be positive for Mozambique.

Anadarko's board signed a definitive agreement with Occidental on 9 May and the deal is expected to close at the end of 2019.² Occidental's takeover equals \$76 per share, or \$56 billion.³ Chevron had offered \$65 per share, which Anadarko initially accepted amid fears that Occidental's shareholders would vote against the transaction (see *ARC Briefing Mozambique* April 2019). However, a new deal in which US-based **Berkshire Hathaway**, owned by investor **Warren Buffet**, pledged \$10 billion to help finance the cash portion of the deal means that a shareholder vote is not necessary.⁴ According to the rules of the **New York Stock Exchange**, on which Occidental is listed, a company cannot issue more than 20% of its stock without shareholder approval and this is no longer the case with the \$10 billion pledge as it meant Occidental could offer more cash and less stock.⁵

Occidental plans to sell off many of Anadarko's assets and focus on its shale fields in the US.⁶ For its African assets, Occidental signed a binding deal with Total on 5 May to sell its assets in Mozambique, **Algeria**, **South Africa** and **Ghana** for \$8.8 billion.⁷ The divestment of these assets is expected at the same time as the close of the Anadarko acquisition, so should be completed by the end of 2019.⁸ The Occidental acquisition is less positive for Mozambique, which would have benefited from Chevron's extensive LNG experience and deep pockets, so the binding deal to sell its Mozambique assets to another LNG giant, Total, is the best possible scenario in the current situation. Total will acquire:

¹ FT, 10 May 2019

² FT, 10 May 2019

³ FT, 10 May 2019

⁴ FT, 10 May 2019

⁵ FT, 10 May 2019

⁶ Competition Policy International, 9 May 2019

⁷ CNBC, 5 May 2019

⁸ CNBC, 5 May 2019

- 24.5% interest and operatorship in **Hassi Berkine, Ourhoud** and **El Merk** fields in Algeria, in which Total already owns 12.25%;
- 27% interest in **Jubilee** field and 19% participating interest in the **Tweneboa, Enyenra** and **Ntomme (TEN)** fields in Ghana;
- 26.5% participating interest and operatorship in **Area 1 LNG** project in Mozambique;
- Exploration licences in offshore South Africa, close to Total's **Brulpadda** discovery.

With this acquisition, Total becomes the fourth-largest LNG seller in the world after **Qatar**-based **Qatargas**, **Netherlands**-based **Royal Dutch Shell** and **Malaysia**-based **Petronas**.⁹

In the midst of the negotiations, Anadarko chief executive **Al Walker** said the company was ready to make a final investment decision on the LNG project on 18 June.¹⁰ The FID is likely to be approved considering Anadarko and its partners in the LNG project have already secured the sale of 8.5 million tonnes of LNG per year (see *ARC Briefing Mozambique* February 2019) and signed further sales and purchase agreements on 13 May to supply LNG to **Japan**-based **JERA** and **Taiwan**-based **CPC Corp**.¹¹ The deal is for 1.6 million tonnes of LNG per year for 17 years from the commercial start of operations.¹² JERA is the world's biggest buyer of LNG and CPC Corp is the sole LNG buyer in Taiwan.¹³

The project's LNG long-term sales are now:

Companies	Sales in million mt/year	Period
Tokyo Gas & Centrica	2.6	Until the early 2040s
Shell	2	13 years
CNOOC	1.5	13 years
EDF	1.2	15 years
Tohoku	0.28	15 years
Bharat	1	15 years
Pertamina	1	20 years
JERA & CPC Corporation	1.6	17 years
Total volume	11.18	

Walker and Mozambique President **Filipe Nyusi** (2015-present) said on 8 May they will be making a joint announcement on 18 June, and that all issues under negotiation have been satisfactorily resolved, practically announcing now that the project will go ahead.¹⁴ This is one of two major LNG deals that stand to bring in billions for the Mozambique government from 2022, making Mozambique a major investment destination. However, Mozambique still holds significant investment risks: corruption, and economic instability resulting from the massive debt accrued in anticipation of these projects.

MDM confirms Simango as presidential candidate

The minor opposition **Movimento Democrático de Moçambique (MDM)** party confirmed on 9 May that it would field its founder, **Daviz Simango**, as its presidential candidate in the 15 October general

⁹ CBNC, 6 May 2019

¹⁰ Reuters, 8 May 2019

¹¹ Club of Mozambique, 13 May 2019

¹² Club of Mozambique, 13 May 2019

¹³ Club of Mozambique, 13 May 2019

¹⁴ Club of Mozambique, 8 May 2019

elections.¹⁵ Simango is the son of **Uria Timoteo Simango**, the first vice-president of Mozambique's main opposition party, **Resistência Nacional Moçambicana (Renamo)**. Simango was a Renamo member from 1997 but founded the MDM as an offshoot of Renamo in March 2009.¹⁶ Simango has been the mayor of **Beira** since 2003 and ran for president in 2009 and 2014.¹⁷

While the MDM is not a contender to win the elections, it may steal votes from Renamo, which would be to the advantage of the ruling **Frente de Libertação de Moçambique (Frelimo)**. The MDM is the third largest party in the Mozambique, but its support lags far behind that of Frelimo and Renamo.

Party (candidate)	2014 general election	2009 general election
Frelimo	57.03% (Filipe Nyusi)	75.01% (Armando Guebuza)
Renamo (Afonso Dhlakama)	36.61%	16.41%
MDM (Daviz Simango)	6.36%	8.59%

The MDM is not expected to increase its vote share in these elections. Its main stronghold, Beira, has been battered by two successive cyclones, **Cyclone Idai** and **Cyclone Kenneth** (see *ARC Briefing Mozambique* April 2019). The electoral commission will need to make alternative plans to run the election effectively in the Beira area, given the extent of the damage. Although this will negatively affect the MDM's election results, the party is likely to continue to have representation in parliament and Simango to retain the Beira mayorship.

Cabo Delgado militant attacks continue despite arrests and increased security

Suspected **Islamists** killed seven people in **Cabo Delgado Province** on 3-5 May in a continuation of violence that could threaten LNG production in the area, as well as hamper aid efforts to victims of Cyclone Idai and Cyclone Kenneth.¹⁸ The attacks have so far only slightly affected international gas companies operating in the region. The attacks occurred in four separate villages – **Iba**, **Ipho**, **Minhanha** and **Macomia** district – where attackers killed seven people and burned homes.¹⁹ These are the first attacks since two large cyclones hit the region in late April and will hamper aid delivery to approximately 240,000 people.²⁰ The suspected Islamists also damaged an election registration centre in Macomia district, disrupting voter registration processes in the region as the electoral commission attempts to register people for the 15 October general election.²¹

The attacks continue despite a provincial court sentencing 37 people on 24 April to prison terms between 12 and 40 years for attacks in Cabo Delgado region.²² The accused were found guilty of a number of charges, including first degree murder, instigating collective disobedience, possession of illegal weapons, and membership of a criminal organisation.²³ Ten individuals were given 40-year sentences, while 24 defendants were jailed for 16 years, and three individuals under 21 years of age were given 12-year sentences.²⁴ The court acquitted 113 defendants due to lack of evidence although there are also 20 separate cases against individuals who were granted bail before the trial but whose whereabouts are currently unknown.²⁵

¹⁵ Club of Mozambique, 11 May 2019

¹⁶ BBC, 3 Nov 2009

¹⁷ Club of Mozambique, 11 May 2019

¹⁸ Sunday Times, 6 May 2019

¹⁹ Sunday Times, 6 May 2019

²⁰ Sunday Times, 6 May 2019

²¹ Sunday Times, 6 May 2019

²² AllAfrica, 25 Apr 2019

²³ AllAfrica, 25 Apr 2019

²⁴ AllAfrica, 25 Apr 2019

²⁵ AllAfrica, 25 Apr 2019

No organisation has yet taken responsibility for the violence and analysts continue to struggle with the motivation for the attacks.²⁶ Some theories link the violence to organised crime and the smuggling trade, others suggest that Mozambique government figures or foreign private security companies are inciting the violence. Although there is a link to Islamist groups, the modus operandi of the attackers appears different from that of similar groups.²⁷ However, most agree that the violence has something to do with the vast amount of money to be made off the LNG find in the region.²⁸

President Filipe Nyusi visited the area on 12 April to inspect the defence and security units that are responsible for protecting the local population as well as the foreign companies operating in the area.²⁹ Nyusi said the government would strengthen security forces. While forces have captured some suspected gunmen, Nyusi admitted that

“...we don’t have much information and we need more information.”³⁰

The continuing attacks, combined with the inability of the government to effectively police the area, mean further attacks against foreign company workers and assets could occur. Most analysts agree that the fact that the Cabo Delgado region will soon be home to a multi-billion dollar LNG project is a significant factor. This increases the security risk that companies take when investing in the region. While the rewards currently outweigh the risks, this may change if the security environment continues to deteriorate.

Planner

18 Jun 2019 **(Mozambique)** Final investment decision expected on **Area 4 block** natural gas project, owned by **Italy**-based **Eni**, **United States**-based **ExxonMobil** and **China**-based **China National Petroleum Corporation**;

15 Oct 2019 **(Mozambique)** General elections scheduled;

20-22 Nov 2019 **Maputo (Mozambique)** Mozambique Gas Summit;

22-23 Apr 2020 **Maputo (Mozambique)** Mozambique Mining Energy and Oil & Gas Conference and Exposition.

Chronology

13 May 2019 **Maputo (Mozambique)** *Business Day*. **South Africa**-based **Standard Bank** commits to funding part of **United States**-based oil company **Anadarko**’s \$20 billion LNG project in **Mozambique**;

7 May 2019 **Maputo (Mozambique)** *Club of Mozambique*. **United States**-based oil company **Anadarko Petroleum** says it will make its final investment decision for its Mozambique LNG project on 18 June;

6 May 2019 **Cabo Delgado (Mozambique)** *Times Live*. Suspected **Islamists** kill seven people in renewed attacks, threatening aid shipments to victims of **Cyclone Kenneth**;

5 May 2019 **Johannesburg (South Africa)** *Reuters*. **United States**-based oil company **Occidental Petroleum Corp** enters a binding agreement to sell the **Algeria, Ghana, Mozambique** and **South Africa**-based assets of **Anadarko Petroleum Corp** to **France**-based **Total S.A.** for \$8.8 billion if it acquires Anadarko;

²⁶ Mail & Guardian, 25 Apr 2019

²⁷ Mail & Guardian, 25 Apr 2019

²⁸ Mail & Guardian, 25 Apr 2019

²⁹ AllAfrica, 15 Apr 2019

³⁰ AllAfrica, 15 Apr 2019

3 May 2019 **Maputo (Mozambique)** *World Bank*. The **World Bank** activates the **International Development Association Crisis Response Window** to provide \$545m in funding to **Mozambique, Malawi and Zimbabwe** to recover from **Cyclone Idai**;

2 May 2019 **Cabo Delgado Province (Mozambique)** *Club of Mozambique*. Health officials declare a cholera outbreak due to the devastating effects of **Cyclone Kenneth**;

1 May 2019 **Lusaka (Zambia)** *Lusaka Times*. **United Kingdom**-based bank **Atlas Mara** plans to swap its **Zambia, Rwanda, Mozambique and Tanzania** assets in return for a 6.27% stake in **Kenya**-based **Equity Group Holdings Plc**;

29 Apr 2019 **Cabo Delgado Province (Mozambique)** *Club of Mozambique*. The **Instituto Nacional de Gestão de Calamidades** revises the death toll from **Cyclone Kenneth** to 38 people;

29 Apr 2019 **Maputo (Mozambique)** *EWN*. The **United Nations** grants \$13m in emergency funds to help **Mozambique** and **Comoros** recover from **Cyclone Kenneth**;

29 Apr 2019 **Maputo (Mozambique)** *Reuters*. **Switzerland**-based anti-corruption group **Public Eye** files a criminal complaint against **Switzerland**-based bank **Credit Suisse** over the \$2 billion hidden loans scandal;

27 Apr 2019 **Cabo Delgado Province (Mozambique)** *Reuters*. Flooding begins in **Cabo Delgado Province** after **Cyclone Kenneth** makes landfall, killing five people;

25 Apr 2019 **Maputo (Mozambique)** *africanews*. A northern **Mozambique** court sentences 10 people to 40 years in prison for attacks in **Cabo Delgado Province**;

25 Apr 2019 **Maputo (Mozambique)** *Club of Mozambique*. **Cyclone Kenneth** makes landfall in **Mozambique**, just weeks after **Cyclone Idai** damaged much of central and northern **Mozambique**;

23 Apr 2019 **Maputo (Mozambique)** *Verdade*. Economy and finance minister **Adriano Maleiane** says the government reached a deal to restructure a \$535m loan from **Russia**-based **VTB Capital Bank** to **Mozambique Asset Management**, part of the \$2 billion hidden debt scandal.

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Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

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