



Sasol's Response to CIP's Claim of a Bad Deal for Mozambique? *Vague Assurances, No Details*

The Centre for Public Integrity welcomes Sasol's 21 November 2013 response to our report revealing that the Pande-Temane gas project has failed to deliver the expected revenues for the government of Mozambique.

The Sasol statement is the first formal response that CIP received following formal requests to all of the project partners including not only Sasol Petroleum Temane, but also Companhia Moçambicana de Hidrocarbonetos (CMH), Empresa Nacional de Hidrocarbonetos de Mocambique (ENH), Instituto Nacional de Petróleo (INP), the Ministry of Finance, the Tax Authority and the International Finance Corporation (World Bank).

CIP also welcomes the response by Minister Bias on 5th December 2013 to requests from Parliamentarians for more information on revenues received by the Government of Mozambique from the Pande-Temane gas project.

Unfortunately, both responses fail to provide the level of detail necessary for citizens of Mozambique to assess whether payments by Sasol to the Ministry of Finance are fair compensation to Mozambique for the value of gas exported to Mozambique.

The work of the Centre for Public Integrity on the extractive sector pursues two simple objectives: (1) comprehensive transparency in revenue payments to government and (2) a fair deal in extractive sector contracts for

Mozambicans. We continue to believe that the Sasol Pande-Temane project fails on both accounts.

A Bad Deal for Mozambicans

The Sasol response is more interesting for what it does not say than for what it does say. Specifically, it does not contest the two main findings of the CIP report.

Sasol does not dispute that the main potential source of government revenue in the fiscal system adopted by Mozambique (a share of total gas production), in place for all other petroleum concessions in Mozambique, was excluded from the contract covering the gas producing areas of Pande-Temane. Sasol also does not dispute that there were no compensating increase in royalty or corporate income tax rates.

Sasol does not dispute that there is a staggering difference between the sale price of gas in Mozambique (the price on which royalty and tax payments are assessed) and the sale price of the same gas in South Africa. Nor do they dispute that this broad price differential will remain in place once the ceiling on Mozambique prices is

lifted in 2014, due to massive increases in sale price of gas from Mozambique in South Africa recently approved by the National Energy Regulator of South Africa (NERSA).

Significance of Gas Price for Royalty Payments

Sasol states that the “royalty gas from the CPF project has been used to stimulate growth of gas based industries in Mozambique,” showing that nearly 50% of royalty gas will be taken in kind in 2013. CIP welcomes the expanded use of PandeTemane gas within Mozambique.

But growing domestic use of Pande-Temane gas does not change the fact that the government has received marginal revenues from royalty gas taken in cash throughout the first ten years of the project due to an unfair pricing formula. It was always predictable that in the early years, much of the royalty gas would be taken in cash rather than in kind due to a very limited domestic market.

Concern about the disadvantageous pricing formula for the calculation of royalty payments in cash comes not only from CIP, but also from the IMF and a 2009 study undertaken for the Ministry of Energy. The IMF explicitly cautions the Government of Mozambique not to make the same mistake in price formulas for calculating royalty payments in contracts for the Rovuma Basin that were made for Pande-Temane.¹ The study for the Ministry of Energy notes that the formula for calculating royalty prices is “very unusual”, indicates that the government is “not extracting full market value from the royalty and is leaving all the benefits of higher global petroleum process with the producers” and suggests that the government change the formula in subsequent contracts.²

It is widely accepted that the imposition of a royalty is to provide the government with modest early revenue from capital-intensive extractive sector projects that are unlikely to pay significant profit-based taxes in the early years. The pricing formula in Sasol’s contracts

ensures that these payments are only a fraction of the actual value of 5% of the gas produced.

How to Assess Government Revenue?

CIP claimed that publicly available information indicated that payments to the Government of Mozambique including all royalties, income taxes and dividends had amounted to less than \$50 million from 2004 through to 2012. We specifically sought confirmation of the figures that we published with the companies, government agencies and donors involved in the project. All refused to provide us with alternative figures.

Sasol claims that cumulative “direct contributions” to the government of Mozambique have by this stage in the project reached \$616 million.

CIP’s analysis of government revenue is based on internationally accepted benchmarks for assessing financial contributions from the extractive sector. The definition is simple: payments made to the Ministry of Finance.

For the Sasol Pande-Temane project, payments to the Ministry of Finance would include: royalty payments (production tax); corporate income tax from Sasol Petroleum Temane and CMH, and dividend payments by CMH to the government.

These are the same categories of payments that Mozambique is required to report through the Extractive Industries Transparency Initiative. And they are precisely the same categories of payments used by MIREM, the World Bank and the IMF in the preparation of their revenue projections that vastly overestimated what the government would receive by this stage in the project.

Marginal Payments to the Ministry of Finance

CIP is also not alone in its conclusion that payments to the Ministry of Finance from the Sasol Pande-Temane project have been

marginal. The data in the table below was prepared by the IMF and submitted to the Government of Mozambique in June 2012 under the heading “Mozambique: Revenues from Natural Resources” The figures for petroleum are for Sasol Pande-Temane – the only petroleum project operating in the country. Complete data is provided only for the years 2004-2009.

The IMF’s conclusion is that “revenues from natural resources have been relatively modest” and that “existing projects are not yet paying material IRPC as a consequence of prior losses and depreciation deductions, and fiscal regime concessions.” These conclusions are consistent with Mozambique’s reporting through the Extractive Industries Transparency Initiative.

**IMF Data (Mozambique) Revenues from Natural Resources³
(Petroleum Only – Millions USD)**

	2004	2005	2006	2007	2008	2009
Revenue Total						
Royalties	1.2	0.9	2.5	2.6	3.4	2.3
IRPC	0	0	0	0	0	0
Import/Export	0	0	0	0	0	0
Other	0.1	0	0.1	0.2	0.4	0.5
TOTAL	1.3	2.9	2.6	2.8	3.8	3.6

Source: Mozambique Authorities and IMF Staff.

According to Minister Bias, as some tax incentives have expired, Sasol’s contributions to government revenues grew from 189 million Mt in 2011 to 1,052 million in 2012. It is good news for Mozambicans that Sasol has begun to pay Corporate Income Tax (IRPC). CIP calls on the Mozambican Tax Authority and the Ministry of Finance to publish royalty and IRPC payments made to government by Sasol Petroleum Temane from 2004 through to 2013.

Are Sasol Payments to the Ministry of Finance Fair?

Although Sasol provides no details, we can only assume that the bulk of the “cumulative

direct contributions” come from payments by the project to state owned enterprises including CMH and CMG.

But the starting point for any discussion of whether Mozambicans have received a fair share of the value of Pande-Temane gas is how much Sasol itself has paid to the government as a 70% owner of the gasfields and Central Processing Facility (Sasol Petroleum Temane), and a 50% owner of the pipeline company ROMPCO (Sasol Gas Holdings). Sasol Petroleum International of South Africa is also the principal purchaser of Pande-Temane Gas, buying well over 90% of the total gas production over the lifetime of the project.

Based on the pricing formula, the export of Pande-Temane gas has clearly been a very profitable venture for Sasol. But it has been profitable for Sasol in South Africa, not in Mozambique, because Sasol sells the gas to itself at an abusively low price.

We encourage Sasol to speak to its own payments to the Ministry of Finance and allow Mozambican institutions including CMH and ENH to respond to CIP’s concerns directly. We ask therefore:

Question 1: What are year-by-year SPT royalty payments?

Sasol indicates royalties between 2004 and 2013 amount to 33% of total contributions to the Mozambican government. The data provided in the CIP report and the data provided above by the IMF, show royalty payments to be only a few million dollars per year. This seems to be confirmed by MEITI reports as well as CMH annual financial statements. The Government and Sasol should provide year-by-year totals of royalty payments by SPT.

Question 2: How much IRPC has Sasol Petroleum Temane paid and in what years?

IMF and other data suggest that Sasol Petroleum

Temanedid not pay any corporate income tax through 2010. Minister Bias seems to imply that this changed in 2012. Sasol should confirm the precise amounts and years in which IRPC was paid.

² Domestic Natural Gas and Condensate Market Study for Mozambique, IPA Energy and Water Consulting, 2009, p. 152 and 153.

³ See IMF June 2012, p. 13.

Question 3: What are year-by-year corporate social investment contributions.

Public documents from Sasol seem to indicate corporate social investment contributions through 2012 of approximately 13 million dollars.

These payments should not be included in an analysis of “government revenue”: they are not payments to the Ministry of Finance and are not subjected to government oversight. Nevertheless, Sasol should clarify the amount of corporate social investment it has contributed, year by year, since the project began.

(Endnotes)

¹ See Mozambique: Reforming the Fiscal Regimes for Mining and Petroleum, IMG Fiscal Affairs Department, June 2012, p. 48.

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