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# ENI PUTS PRESSURE ON MOZAMBIQUE TO GRANT KEY BENEFITS IN NEW GAS CONTRACT

## - The State could lose more than 92 million dollars a year

Por: Rui Mate

## 1. Introduction

The Centre for Public Integrity (CIP) has learned that the Italian energy company ENI is pressuring the Mozambican government to sign a contract for the Coral Norte project, located in Area 4 of the Rovuma Basin[1]. This project, with an estimated investment of 7 billion dollars – similar to the amount invested in Coral Sul – marks another significant milestone in Mozambique's natural gas exploitation.[2]

This negotiation is under way in a delicate context, since the current government, led by Filipe Nyusi, is less than a month away from ending its term of office. Negotiating a contract of this scale, with long term impacts on the national economy, should be postponed to the next government in respect for the principle of prudence and the need to guarantee greater transparency and stability in decisions which affect the future of the country. Signing a contract of this nature in a period of political transition raises serious questions about the legitimacy of this decision and the interests underlying it, particularly when the country is going through a generalised crisis, with wide-ranging expressions of popular discontent against public policies which have proved inefficient over the past ten years.

Our information indicates that the contract proposed by ENI excludes two clauses that are crucial for the national interest: *(i)* the possibility of paying the production tax in kind;[3] and *(ii)* the local content requirement[4]. These alterations raise significant concerns about the benefits which the country can really obtain from the exploitation of its natural resources.

The legislation on local content in Mozambique is still scattered, covering norms that are found in the Mining Law, the Petroleum Law, and the law on Megaprojects, but without any specific law which centralises the directives on the theme. This regulatory gap amplifies the risk that Mozambique is not capitalising to the full on the economic and social benefits deriving from the exploitation of natural resources.

Furthermore, the position taken by the current President of the Republic, Filipe Nyusi, against the creation of a specific law on local content, with the argument that it could damage competitiveness, strengthen the controversy[5]. The absence of a robust regulatory brand exposes the country to potentially unfavourable negotiations, especially in large scale projects such as Coral Norte.

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## 2. ENI Proposals Threaten the Potential for Local Development and the control of Resources

Despite the strategic relevance of the Coral Norte project for Mozambique, ENI's proposals raise legitimate concerns and the timing in which it is intended to discuss them strengthens the conviction that the multinationals that operate in Mozambique, and the consortia in particular, will do everything to make their interests viable, while it is up to the Mozambicans to accept, or not, contractual terms that are pernicious for the country. The likely exclusion of the clauses on paying taxes in kind and on local content would block the country's efforts to maximise the benefits from the exploitation of natural resources.

### Payment of Tax in Kind

The payment of tax in kind is a mechanism which allows the production tax to be paid in the form of natural resources, such as gas, instead of money. This can expand the capacity of Mozambique to use directly the natural gas for internal consumption, the generation of electricity, or sale on the international market. Its exclusion would limit the country's power to manage its resources strategically, reducing control over the economic benefits generated.

Currently, payment of the production tax in kind faces practical obstacles. Although this mechanism allows the Government to receive some of the gas extracted for domestic consumption or for sale, making this operational requires adequate infrastructure to store, process and distribute the natural gas. Mozambique also lacks the technical and logistical capacity to manage these resources directly, which led to the option to receive the payment in cash[6]. This approach, however, limits the strategic flexibility of the country and could be interpreted as direct sale of the resource, reducing the opportunity to maximise its benefits.

As an alternative to overcome these limitations, robust investment would be needed in infrastructure and in technical capacity building, allowing the Government to manage the gas received as payment in kind in an efficient manner. Strategic partnerships, both national and international, can play a crucial role in the creation of local capacities for the storage and use of the gas, guaranteeing that this mechanism is becoming a viable tool for sustainable economic development.

### Local Content

The requirement for local content ensures that a significant part of the goods, services and labour employed in the projects comes from Mozambique. Without this clause, the country runs the risk of seeing the opportunities for employment and economic development transferred to foreign companies, worsening external dependence and limiting the positive impact on the local economy.

Although the Coral Sul project invested millions of dollars in building the capacity of Mozambicans in various areas[7], the technical capacities needed to attend to the specific requirements of projects such as Coral Norte have not yet been fully developed.

This scenario raises concerns about the impact of eliminating the local content clause in the new contract, because this measure may reduce the incentives for continued investment in technical training and in the inclusion of national suppliers. Without this requirement, there is an increased risk of Mozambique depending exclusively on foreign labour and services, worsening the exclusion of local workers from specialist functions and limiting the development of a robust national value chain.

The Coral Sul project is located on the high sea, about 50 kms from the coast of Cabo Delgado[8], which presents unique challenges for the implementation of local content. Exploration in ultra-deep waters requires a high level of technical specialisation and advanced equipment which are often not available locally. This reality limits the capacity of Mozambique to employ local workers and use local suppliers for various functions, including security maintenance and technical operations.

The removal of these clauses presents a clear threat to the potential for the economic and social development of Mozambique. Furthermore, the pressure to sign a contract at a moment of political transition, with the end of the term of office of the current Government, raises concerns about the transparency and the prudence of these decisions. [9]

## 3. Consequences of a Contract without the Crucial Clauses

Signing the contract without these clauses could have several negative implications, including:

**I.** The loss of local benefits – the absence of a local content clause could exclude Mozambican workers from specialist jobs and limit the growth of national companies in the sector. It is recognised that undertakings on the high sea and in ultra-deep water presents significant technical challenges for the full implementation of this requirement. However, alternatives can be explored to maximise local benefits, even in an adverse context:

a) Institute technical capacity building initiatives in collaboration with the private sector and educational institutions to create a skilled Mozambican labour force to attend to the needs of future projects, such as Coral Norte;
b) Encourage consortia between foreign and national companies to transfer knowledge and technology, allowing local suppliers to form part of the value chain in the most effective way;
c) Include a phased approach, establishing gradual targets for local inclusion over the duration of the project, considering the initial limitations and the time necessary to develop technical capacities; and
d) Direct part of the revenue generated by the project to create or strengthen technical training installations and local industrial infrastructure, promoting greater self-sufficiency in the long term.

**II.** The reduction in strategic revenue – without paying the tax in kind, Mozambique loses the opportunity to manage directly the natural resources for domestic consumption, or to generate strategic revenues on the international market. Although payment in cash provides immediate liquidity to finance public expenditure, alternatives can be considered to balance short and long term fiscal benefits:

a) Establish a system which combines payment in kind with payment in cash. Part of the gas could be used to attend to local energy needs or for direct export, while the rest would be converted into monetary revenue;
b) Establish a mechanism which allows the government to retain part of the natural gas as a strategic reserve, guaranteeing energy security and flexibility to take advantage of future opportunities on the global market; and
c) Direct the funds received in cash to structuring projects, such as energy and industrial infrastructure which amplifies the long term economic and social benefit.

**III.** Increased dependency on the multinationals – the lack of protection mechanisms, such as local content, perpetuates the dependence of Mozambique on multinational companies, preventing the development of a robust and sustainable national industry. Some strategies to face this dependence include:

a) Negotiate contractual clauses that demand the gradual transfer of knowledge and technologies from the multinationals to local companies;
b) Create regulatory incentives to attract foreign investment directed to the development of complementary industries in the country, such as the production of specialist equipment or services; and
c) Encourage partnerships between the government and local companies to participate in minor projects in the gas sector, accumulating experience and capacity to compete with multinationals in the future.

# 4. Forecast of the Economic Losses

Based on the available data on the Coral Sul project, we can make a forecast of the economic losses for Mozambique, if the clauses on the payment of tax in kind and on local content are accepted in the Coral Norte project. Considering that the Coral Norte project has characteristics similar to those of Coral Sul, we estimate that the economic losses may reach 2.3 billion dollars over the 25 years of the project's duration - about 92 million dollars year. Just to have an idea, this sum represents 1.71% of the State revenue envisaged in the PESOE of 2024. This forecast strengthens the importance of keeping these clauses jn the contract to maximise the economic and social benefits for the country.

## Methodology of Forecasts

The calculations presented in this section were carried out to highlight the specific impacts of excluding clauses related to in-kind tax payments and local content. These calculations are based on official data and recognized studies to ensure the accuracy of the estimates. The 2% and 10% values were chosen based on practices observed in similar contracts and case studies, reflecting the potential impact of excluding these clauses. To estimate the potential economic losses, we followed these steps:

1. We used data from the Coral Sul project, which has characteristics similar to those of Coral Norte. The total investment in Coral Sul was estimated at 7 billion dollars, with a direct contribution to the State's annual revenues of 772 million dollars over 25 years (INP, n.d.).
2. Based on Article 11 (Fiscal Terms and Other Charges) of the contract signed between the Mozambican Government and ENI, we assumed that excluding the in-kind tax payment clause would result in a 2% loss of the total annual contribution. This percentage was chosen considering the project's exploration depth (2000m) and established contractual practices. The 2% estimate is also supported by studies such as those by PUC-Rio, which highlight how appropriate fiscal policies can generate significant long-term fiscal benefits for oil and gas-producing countries (PUC-Rio, n.d.).
3. Using the definition of local content provided by Da Cruz (2020), which states that local content includes the share of local production factors used in the production of goods or provision of services, as well as the participation of Mozambican citizens in company equity (minimum of 10%), we assumed that excluding this clause would result in a 10% loss. Impact studies on resource exploration projects in countries like Nigeria and Angola show that the absence of local content clauses can lead to significant revenue losses and hinder local economic development due to reduced participation by national companies and workers (Warner, 2011; Heum et al., 2003; Teka, 2012).
4. Loss Calculation for Coral Norte:

a) Loss due to exclusion of in-kind tax payments: 772 million dollars * 2% * 25 years = 386 million dollars.

b) Loss due to exclusion of local content: 772 million dollars * 10% * 25 years = 1.9 billion dollars.

5. Total Estimated Loss: We summed the estimated losses to calculate the total economic loss: 386 million dollars + 1.931 billion dollars = 2.3 billion dollars.

The exclusion of in-kind tax payments and local content clauses not only reduces direct revenues but also limits job creation, diminishes additional revenues in sectors like services and industry, and hinders sustainable long-term economic development. Literature on natural resource development, such as the guide from the International Mining for Development Centre, discusses how the distribution of costs and benefits directly impacts the success of major projects, particularly in developing countries.

If the in-kind tax payment and local content clauses are maintained, Mozambique is estimated to generate additional revenues of up to 2.3 billion dollars over 25 years, while also creating thousands of jobs and strengthening the local industry. The experience of countries like Brazil, highlighted by the National Agency of Petroleum, Natural Gas, and Biofuels (ANP), demonstrates that requiring local content in exploration and production contracts can lead to significant economic and social benefits, promoting greater economic and social inclusion.

Although the contract of the Coral Sul project allows payment of the production tax in kind, the Government has preferred to receive it in cash[10]. This change in the form of payment does not alter the total amount received by the Government, but it impacts the management of resources in the following way:

1. Payment in kind offers the Government the flexibility to use the natural gas directly for domestic consumption, electricity generation or sale on the international market. This can be strategic to guarantee energy security and reduce dependence on imports.
2. Payment in cash provides immediate fiscal revenue, which can be used to finance public expenditure. However, this may limit the capacity of the Government to manage natural resources in a strategic way in the long term.

However, even the change in payment, from kind to cash, does not result in a direct economic loss. The potential loss is in the reduction of flexibility and in control over natural resources, which may have an impact on the capacity of the country to maximise the long term economic and social benefits.

## 5. Conclusion and Recommendations

The signing of a contract that excludes strategic clauses such as the payment of tax in kind and the requirement for local content, may compromise the long-term benefits for Mozambique. It is beyond comprehension that a government which is a month away from ending its term of office, and which is facing enormous opposition on the streets due to ten years of mistaken public policies, wants to sign a contract that is damaging to the country, whose economy is in tatters. Such decisions require a transparent, careful and inclusive approach, especially bearing in mind its scale and impact on future generations. Hence, it is recommended that:

a) The current Mozambican government should defend the national interest, which involves avoiding signing structuring contracts which could condition the performance of the coming governments and, above all, harm millions of Mozambicans;

b) The current Government should promote public consultations, involving various segments of society, to strengthen the legitimacy of decisions about natural resources. This involves guaranteeing the inclusion of the crucial clauses, so as to ensure payment in kind and local content to maximise national benefits;

c) The next Government should develop a legal brand on local content, creating specific legislation which ensures the fair redistribution of the benefits, builds the capacity of local companies and reduces dependence on the multinationals; and

d) The ENI consortium, formed by companies quoted on the most reputable stock exchanges of the world, should refrain from making deals with a Government which is just a month away from ending its term of office, and which is facing enormous opposition which has already caused more than 50 deaths. Probably some of the main shareholders or stock exchange investors would not like to be associated with these practices which contradict the rules of ethics and compliance in business.

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