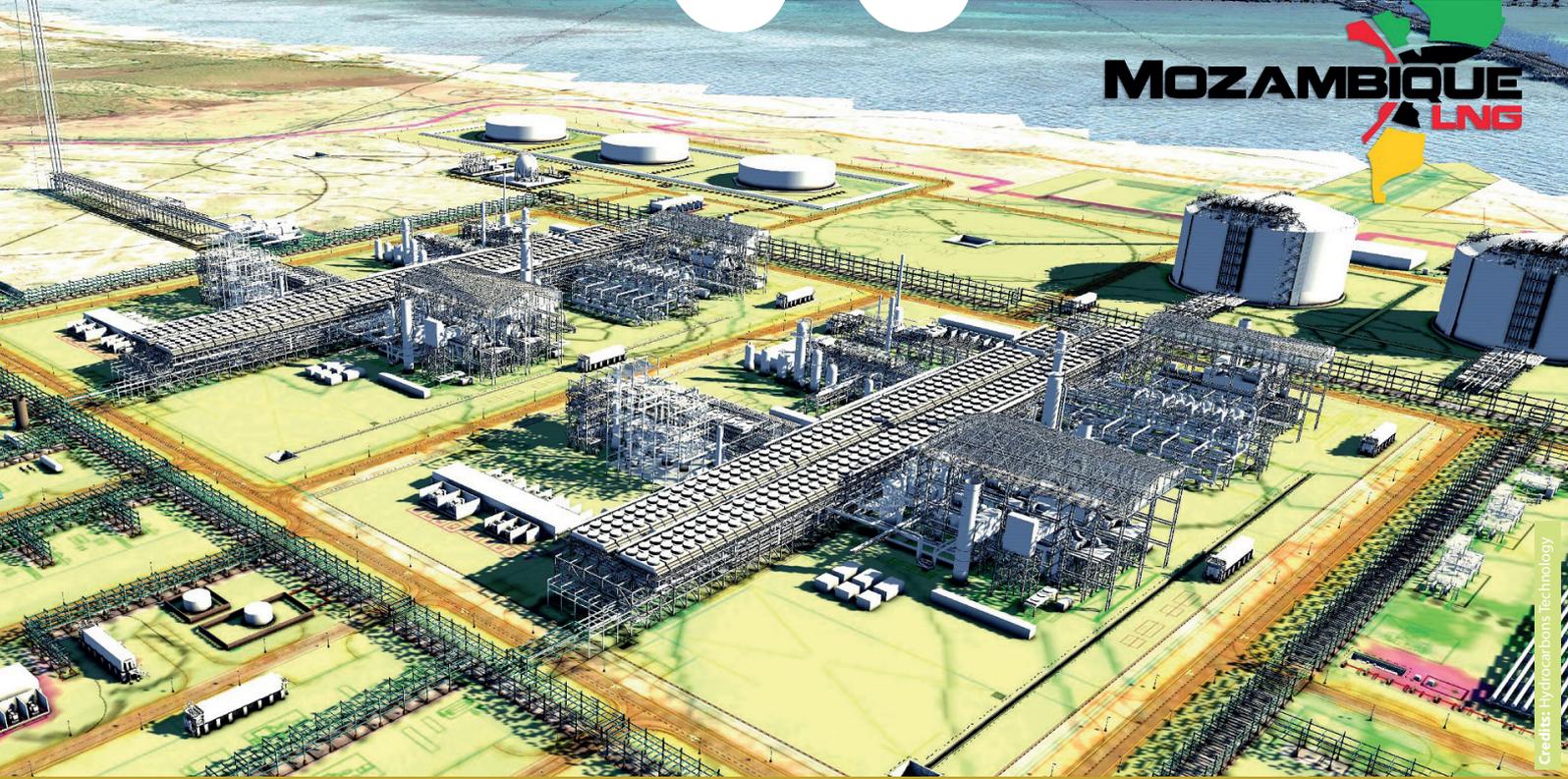


MOZAMBIQUE LNG PROJECT

Facing potential reputational and economic risks, lenders put financing for the Area 1 project on hold

- The CEO of TotalEnergies, Patrick Pouyanné, faces the challenging responsibility of making the most optimal investment decisions with the resources he mobilized from international creditors. Investments that, above all, do not compromise the “good image” of investors. The “owners” of the money also appear to have adopted a more cautious stance. They are in no hurry to disburse the financing approved under the Final Investment Decision (DFI) reached in June 2019.





Credits: Hydrocarbons Technology

The “suspense” continues over the existence or not of conditions for the resumption of the TotalEnergies project in northern Mozambique. The progress made in improving the security situation, due to the intervention of the Mozambican Defense and Security Forces (FDS) with the support of Rwandan troops and the SADC Mission, has led to speculation that the Mozambique LNG Project may be resumed soon. However, the French multinational has not yet announced a decision on the lifting of “force majeure”¹.

¹ Term used to refer to a legal break in a contract due to unforeseen events





Credits: PAUL J. RICHARDS/AFP

According to the indications given by the multinational, lifting the “force majeure” of the multimillion-dollar project necessarily involves meeting four main conditions ²: (i) the return of State employees to the neighboring towns of Palma and Mocímboa da Praia; (ii) maintenance of project cost “as it was before”; (iii) better security conditions, and; (iv) a positive assessment of the humanitarian conditions in Cabo Delgado.

Despite the observed progress in the northern province of Cabo Delgado, it remains challenging to determine precisely when the established conditions for resuming the project will be met. The only certainty is that the multinational is willing to wait as long as necessary to meet these conditions. In fact, as the CEO of TotalEnergies, Patrick Pouyanné, said during his visit to Cabo Delgado last February, “there is no rush” for the resumption of the project.

The relatively more relaxed stance of the French energy giant appears as an “affront” to the impatience of the Mozambican government, which des-

perately depends on gas revenues from the Rovuma basin to meet the ever-increasing payments on the public debt. Indeed, annual interest payments on the country’s sole Eurobond worth \$900 million, issued in the context of the hidden debt scandal, will rise from 5% to 9% next year. Furthermore, Principal payments of \$225 million are scheduled to start in 2028.³

Nevertheless, the stress test imposed on the Government by TotalEnergies represents just one side of the story. The French multinational is also facing its own set of challenges and pressures. Pouyanné, as the company’s leader, bears the crucial responsibility of making the most optimal investment decisions using resources obtained from international creditors. It is imperative that these investments not only yield favorable outcomes but also safeguard the reputation of the creditors in the global market.

Creditors also appear to have adopted a more cautious stance. That is, the “owners” of the money

² Hill, M. (2023, March 13). Total Won’t Export LNG From Mozambique Until 2027 at Earliest. <https://www.bloomberg.com/news/articles/2023-03-13/total-won-t-export-lng-from-mozambique-until-2027-at-earliest>

³ Hill, M. (2023, March 2). Total’s LNG-Project Revival Crucial for Mozambique to Pay Debt. <https://www.bloomberg.com/news/articles/2023-03-02/total-s-lng-project-revival-crucial-for-mozambique-to-pay-debt>

are not in a hurry to disburse the financing that supports the Final Investment Decision (DFI) reached in June 2019.

The Executive Director of CDD Prof Adriano Nuvunga recently had an interaction with the Export-Import Bank of the United States (US Exim), the main investor in the Mozambique LNG Project. During this interaction, it was confirmed that the institution has not yet disbursed the approved funding.

Like other capital-intensive projects⁴, the Mozambique LNG project relies on a financing pool with a diversified set of creditors as a means of, among other things, quickly mobilizing the necessary capital and sharing the investment risk. According to initial projections, the project's funding sources would include USD 800 million in cash flows from operations, USD 7.4 billion in equity and USD 15.8 billion in senior debt (table below), totaling a cost of USD 24.1 billion⁵.

Creditor	Financing
Export-Import Bank of the United States (US Exim)	USD 3.75 billion
Japan Bank for International Cooperation (JBIC)	USD 3 billion
NEXI	USD 2 billion
UK Export Finance (UKEF)	USD 1.2 billion
Export Credit Insurance Corporation of South Africa (ECIC)	USD 800 million
Atradius - Dutch insurance company	USD 660 million
SACE - Export Credit Agency in Italy	USD 950 million
African Development Bank (AfDB)	USD 400 million
Export-Import Bank of Thailand (Thai Exim)	USD 150 million
Other sources (international commercial banks, export credit agency-backed loans, and senior debt from concessionaires)	USD 2.9 billion

US EXIM, with an investment of US\$3.75 billion, is the main creditor of the TotalEnergies project in Area 1 of the Rovuma Basin. It should be recalled that the US state bank entered the Rovuma basin gas business in September 2019 when it authorized direct financing of up to US\$5 billion to support the export of engineering goods and services, US procurement for the development and construction of the project in Area 1, motivated by the desire to ensure the financial hegemony of the United States of America (USA) in the LNG business.

With funding approved, but not disbursed, the French oil company's responsibilities regarding the

"ideal moment" for the recovery increased. Although the Area 1 project appears to be of minimal commercial risk, with 86% of production sold through long-term contracts with the main LNG buyers in Asia and Europe, the same cannot be said from the perspective of security and human rights.⁶

Resuming the project at an "untimely moment" could entail serious reputational and economic costs for creditors, as their resources would be associated with investments in contexts of insecurity and violation of human rights, "pinching" their good image in the international market. These considerations are particularly important in the case of the

⁴ A capital-intensive project is one that requires a significant investment in fixed assets, such as equipment, machinery and facilities, in relation to labor and other operating costs. In other words, this type of project requires a high amount of capital to be implemented and operated.

⁵ African Development Bank (2020). Mozambique LNG Area 1: Project Summary Note. https://www.afdb.org/sites/default/files/documents/projects-and-operations/mozambique_lng_area_1_psn_compressed.pdf

⁶ Ibidem 5

US state-owned bank EXIM and the British Export Credit Agency (UKEF), which are active members of the Equatorial Principles (EP) initiative⁷.

One of the EP requirements for approving funding for Category A projects⁸, which is the case with Mozambique LNG, is a human rights risk assessment. And here, the question is precisely whether the assumptions and results of the evaluation that allowed the approval of financing in 2019 will remain valid to unlock disbursement for the resumption of the project.

It is in this context that the importance of the independent report commissioned by Pouyanné to the expert in humanitarian action Jean-Christophe

Rufin becomes evident. The still unknown report, the results of which were expected to be known by the end of February, includes an assessment of the humanitarian and human rights situation and should guide investors in deciding on whether or not to lift the “force majeure” declared in April 2021.

The key issue at hand is the worsening human rights situation in the province where significant gas reserves are located in the northern region of the country. For creditors, it is crucial that the resumption of operations occurs at an “ideal” moment, aligning with the principles that typically govern their investments. Failing to do so could result in significant reputational risks for the creditors.

⁷ The Equator Principles (EP) are a set of voluntary guidelines adopted by financial institutions to ensure that large-scale development or construction projects adequately consider the potential impacts associated with the natural environment and affected communities.

⁸ Category referring to projects with potential risks and/or significant environmental and social impacts that are diverse, irreversible or unprecedented.



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