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World Bank Refuses to Honestly Assess Economic Benefits from Sasol Pande Temane

The World Bank decided that the scope of the final evaluation of the "Southern Africa Regional Gas Project between the Republic of Mozambique and the Republic of South Africa" (Sasol Pande Temane) should be neither regional nor include South Africa. By refusing to ask the big questions, the World Bank seeks to turn an economic failure into a marginal economic success. CIP calls on the World Bank to rewrite the evaluation taking the economic benefits Sasol reaps from Mozambican gas in South Africa.

In July 2014 the World Bank quietly published their assessment of the "Southern Africa Regional Gas Project between the Republic of Mozambique and the Republic of South Africa." This is the World Bank's final evaluation of their support for the development of the Pande Temane gas fields and the pipeline to South Africa.[1]

CIP had hoped that this document would provide an honest accounting of the ways in which Mozambican's have, or have not, benefited from tens years of natural gas exports to South Africa.

The big question surrounding the Sasol Pande Temane project is the price at which Sasol buys gas in Mozambique and sells that gas in South Africa. CIP's detailed analysis of the shortcomings of the deal and the economic implications set out in "First Major Extractive Sector Project Fails Mozambique." The World Bank report systematically ignores the major questions surrounding this project and does not even reference CIPs analysis in the 60-page evaluation.

At every turn, the World Bank analysis employs narrow technical justifications in order to avoid openly acknowledging the staggering imbalances in economic benefits for Mozambique and for Sasol.

Although by title, the project is "regional" and covers "South Africa", the evaluation explicitly excludes any analysis of the economic benefits to either Sasol in South Africa or to the South African government.

Although the World Bank has provided technical assistance on the Pande Temane project since 1994, including support for negotiating contracts with Sasol, the evaluation explicitly excludes any analysis of the core contracts signed between 2000 and 2002.

The benchmark for the economic analysis in the evaluation then is not whether Mozambique got a fair deal from the sale of their natural gas but how the economic returns compare to narrow World Bank projections.

Equally troubling is the World Bank's use of confidential Sasol revenue data (data not available to Mozambicans) and their misrepresentation of how this compares to revenue data publicly available in EITI reports.

CIP calls on the World Bank to commission a new evaluation of Sasol Pande Temane that explicitly *includes* the economic benefits of Mozambican gas in South Africa, that examines the economic implications of the contracts signed between 2000 and 2002 that were negotiated with World Bank support, and that uses only revenue data that is available in the public domain.

Problem 1: No Analysis of the Economics in South Africa

The first major failing of the World Bank analysis is that it explicitly excludes any analysis of the economic benefits inside South Africa. The report notes that, "if the project were to be designed today … the project would likely have been designed as a regional project." "This would have meant that impacts would have been assessed in both Mozambique *and* South Africa" and would have involved looking at the benefits "in both countries" (p. 15).

This is a surprising claim given that the formal project title is the "Southern Africa *Regional Gas Project* between the Republic of Mozambique *and the Republic of South Africa*" (emphasis added) It is impossible to assess the benefits flowing from the project without looking at South Africa, given that through June of 2012, of the 875 MGJ of natural gas, all but 23 MJG were exported to South Africa. (p. 13.)

As it is widely known that the majority of the economic benefits of the project are to be found in South Africa, CIP wonders why the World Bank would fall back on a technical definition of the scope of the project that seems wholly inconsistent with the project title or purpose.

Problem 2: No Assessment of Unfair Transfer Pricing

Assessing the economic benefits of Mozambique gas in South Africa is essential given the difference between the price that Sasol pays for gas in Mozambique and the price at which they sell the same gas in South Africa.

The report concedes, for example, that the share of "economic rent" accruing to Mozambique is not the 64% as the World Bank projected in 2003, but rather 52%. (p. 26) The question is: 52% of what?

CIP's report on the Sasol project "First Major Extractive Sector Project Fails Mozambique" demonstrated that Sasol was able to transfer the overwhelming majority of the profits from Mozambique to South Africa because of an unfair pricing agreement. According to CMH, Sasol bought gas under the original deal for $1.50 per gigajoule and is now paying around $3.00.[2] According to the South African Energy Regulator, Sasol sold Mozambican gas in South Africa under the original deal for more than $7.00 can now sell the gas for up to $14.00 per gigajoule.[3]

CIP believes that any credible analysis of the economic benefits from the Sasol Pande Temane project must include an assessment of the price at which Sasol buys gas in Mozambique and sells that same gas in South Africa.

Problem 3: No Assessment of Pre-2003 Agreements

The scope of the report is also too narrowly defined in time. The evaluation explicitly excludes analysis of the core agreements including the Petroleum Production Agreement (PPA) of 2000, the Pipeline Agreement (PA) of 2000 and the Gas Sales Agreement of 2002 on the grounds that they were negotiated in advance of World Bank support.

Specifically, the evaluation states that, "Prior to the Bank's involvement, the major contractual agreements to implement the project had already been put in place" (p. 9). More specifically, it states that "the most important agreements, allocating risks and returns amongst the stakeholders (the PPA and the PA) had already been agreed and signed, almost exactly 2 years before the Bank received a request to support the project." (p. 34). The conclusion drawn is that, "Where possible, the Bank should enter the project preparation process as early as possible." (P. 34)

In fact, these agreements were negotiated with explicit World Bank support; it was just a different World Bank project. World Bank support for developing the Pande Temane gas reserves began with the "Gas Engineering Project" in June of 1994 and continued through until June 2003. The final assessment of the Gas Engineering Project, published in 2004, states that some resources from the first phase of that project, and most of the resources from the second phase, were explicitly devoted to support negotiations with Sasol.[4]

CIP believes that the core terms that establish the division of the economic benefits between Sasol and Mozambique, negotiated with direct support from the World Bank, should be central to any evaluation of the project.

Problem 4: No Analysis of Gas Sales Agreement

The Pande Temane gas project has failed to deliver reasonable revenues to the people of Mozambique because the Gas Sales Agreement is fundamentally unfair. The World Bank evaluation devotes almost no attention to this issue and when the gas sale terms are discussed, the mischaracterized the problem.

In order to give security to both the government and the Sasol, the original agreement included a price cap (ceiling) and collar (floor). The World Bank notes that given the massive rises in global oil prices in the intervening years, the cap limited the economic benefits that Mozambique could have secured. Specifically, in the context of high global oil prices, the report indicates that "this has led to Sasol having obtained gas (and paid taxes) at lower cost over the period 2004-14 than if the gas price did not have a cap." (P. 13).

In fact, the staggering difference between the price at which Sasol buys and sells Mozambique gas has little to do with international oil prices or the cap that was in place for the first ten years. The real problem is that the gas formula agreed in 2002 simply pays Mozambique far too little irrespective of international prices. The World Bank is fully aware of the problem. In fact, the evaluation of the Gas Engineering Project acknowledged that a major weakness of the project was that, "SASOL controls all of its components (upstream, transport, downstream) and that its overall strategy is probably to seek gas at the lowest possible cost at the point of delivery". (p. 8 of 2004).

CIP believes that by emphasizing the economic consequences of the cap on prices for the first ten years, the World Bank report diverts attention away from the real issue, which is the fundamentally unfair terms of the gas sales formula irrespective of its responsiveness to international benchmarks.

Problem 5: Economic Evaluation Compared only with Original Projections

What is the benchmark for assessing the economic performance over the first ten years of Sasol Pande Temane? The World Bank evaluation is based only on how Mozambican government revenues compared with their initial projections from 2004. The evaluation admits to the "fiscal benefits from income taxes and royalties being below expectation to date." (p. 24) and more specifically that "Until 2012, minimal taxes and royalties had flowed to GoM." (p. 23.) The World Bank also admits that Mozambique's share of the "rent" within Mozambique (not taking into account the value of the gas in South Africa) is not the projected 64% but rather only 52% (p. 26).

Nevertheless, the evaluation deems the fiscal benefits to be "satisfactory" given that "data provided by Sasol indicates that the total amount of income tax and royalties paid to GoM from 2004 to 2013 was US$ 130 million", and that this "is 124% of target to 2013." (page 22 and p. vi.). In the original project document the World Bank said that the projections were based on "conservative assumptions" and that "the true economic benefits realized by the Project could be much higher."[5] Yet these targets were barely met even though the sale price was at the limit of the cap ($34) rather than the World Bank assumed price ($20) and that an expansion of gas production capacity increased exports.

CIP believes that is little difference in whether actual government revenues over 10 years are around $50 million (as suggested in public revenue data), $130 million (as claimed by Sasol), or $170 million (as claimed by Minister Bias). All three are a pittance compared with the billions of dollars that Mozambique gas is worth in South Africa.

Problem 6: Based on Confidential Company Revenue Data not EITI

The World Bank report economic analysis is based on confidential company data that is not available to the Mozambican public. The report states that, "data provided by Sasol indicates that the total amount of income tax and royalties paid to GoM from 2004 to 2013 was US$ 130 million (undiscounted)." (p. 22) The report also provides a graphic representation showing royalties and taxes paid to the Government of Mozambique from 2004 through 2013. (p. 23) At the same time the report indicates that, "Annual figures reported by Sasol are lower than annual figures reported in the EITI Mozambique reports." (P. 22). This implies that the revenue data is available in the public domain and that the report takes a *conservative* view on government revenues.

It is clear that the authors of the World Bank report have never actually looked at Mozambique's EITI data. The statement that figures in annual EITI reports are higher is simply untrue. First, EITI reports cover only four of the ten years covered by the Sasol data (2008-2011). More than half of the $130 million appears to come in years 2012 and 2013 – years for which no EITI report has yet been released. Second, a significant source of revenue in the Sasol data is corporate income tax paid by ROMPCO (the pipeline company) but ROMPCO data is not included in the first three of the four available EITI reports. Therefore, the vast majority of the $130 million dollars that Sasol indicates have been paid in royalties and income tax to the government of Mozambique cannot be found in Mozambique's EITI reports.

CIP strongly objects to the use of confidential company data – information not available to Mozambican citizens – in the assessment of the economic benefits of the Sasol Pande Temane project. CIP also strongly objects to the misrepresentation of the existing data available to the public through EITI.

Still no accounting for failed IMF projections.

CIP has challenged the legitimacy of the analysis contained in the World Bank's final evaluation of the Sasol Pande Temane project. At the same time we commend the World Bank for undertaking the analysis and making the document public. We challenge the IMF to do the same.

In 2007 the IMF published revenue projections for the Sasol Pande Temane project that were far more optimistic than either those prepared by the World Bank or those prepared by MIREM.[6] CIP highlighted the serious mismatch between IMF projections and actual government revenues in our documents analysis of the Sasol Pande Temane project. However there has been no official response from the IMF to account for the flawed projections, or any indication that they have resolved these errors in their current efforts to model potential revenues from coal or Rovuma LNG.

No details on revenue payments from the Government.

Donors have an obligation to account to the Mozambican people for their assessments of the real distribution of economic benefits from the Sasol Pande Temane project between the Sasol (in both countries) and the government of Mozambique. Donors also have an obligation to explain the differences between their revenue projections in the early stages of the Pande Temane project and the actual revenues that were received. But the real transparency problem lies not with the donors but with the Government of Mozambique.

Both Parliament and the people of Mozambique deserve a thorough accounting of the economic benefits from the Sasol Pande Temane gas project. This accounting must include year-by-year revenue payments made to the Government of Mozambique by Sasol Petroleum Temane, by CMH and by ROMPCO. The Government should also commission a study into the value of Mozambican gas sold in South Africa.

(Endnotes)

1 See “Implementation and Completion Results Report” on the “Southern Africa Regional Gas Project between the Republic of Mozambique and the Republic of South Africa” Report No: ICR86374-MZ, 30 June 2014.

2 CMH: Annual Financial Statements For the year ended 30 June 2014, p. 10.

3 The average price during 2008-09 was R63.28/GJ. See National Energy Regulator of South Africa, “The Price Capping Mechanism For The Financial Years 2008/2009,” p. 1. See National Energy Regulator of South Africa, Sasol Gas Maximum Price Approval, 26 March 2013, p. 1.

4 See, Gas Engineering Project –Implementation Completion Report, Number 27480, World Bank, 15 March 2004.

5 Project Appraisal Document – Southern African Regional Gas Project (No: 26757-MOZ) 22 October 2003, p. 64.

6 For the IMF, see Philip Daniel, Ana Paula Dourado, Diego Mesa Puyo and Alistair Watson, “The *Petroleum Sector*: *Fiscal and Economic Terms*,” Aide-Mémoire of the Fiscal Affairs Department, IMF, 2007, p. 14. For MIREM see Per-Åke Andersson, The impact of the mega projects on the Moçambican economy, Discussion Paper No. 18, Gabinete de Estudos, Ministério do Plano e Finanças, República de Moçambique, Marco de 2001, p. 11.

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