

## *OIL MAJORS FIGHT OVER ANGOCHE BLOCKS IN 5TH LICENSING ROUND*

# Will Frelimo-linked Petroinveste be forced on the Winners?

Mozambique's 5th Licensing Round has closed with major oil companies competing over only two potentially oil-producing blocks in Angoche. Ignoring the advice of INP, the oil majors did not include local companies in their bids. Petroinveste, recently established by senior Frelimo figures, failed to join one of the international bids and is now seeking to be given a 15% stake in whatever consortium is declared the winner.

### Summary

Six months after the original deadline, bids have now been submitted for Mozambique's 5<sup>th</sup> Licensing Round. INP had hoped to capitalize on industry enthusiasm over the massive gas finds in the Rovuma Basin with 15 blocks on offer. Overall the results are disappointing, with no complete application received for more than half of the available blocks and little competition for most of the others.

The real excitement is over just two blocks in Angoche where industry majors are fighting over the last best chance for significant oil finds. Competing for both blocks are ENI (partnering with Sasol and Statoil) and Exxon (partnering with Rosneft). Total (partnering with Sonangol) is competing for one.

Both the Petroleum law of 2014 and the licensing round were designed to increase participation by "local" companies. The Ministry and INP were very clear that bids with local partners would be given preferential treatment. The major oil

companies ignored this guidance. Only one bid included a local company (Indico Dourado Lda). Other local companies, particularly the Frelimo-linked Petroinveste, were reported to have been seeking entry into consortium bids but were unsuccessful.

Surprisingly, two local companies (Petroinveste Mozambique SA and Namoz Natural Resources Lda) submitted bids as "non-operators." There was no indication in the licensing round that bids by non-operators would be accepted. There is now speculation that a local company might be forced on the winning consortia.

The "non-operator" application by Petroinveste for a 15% stake in the two Angoche blocks is a threat to good governance in the sector. The company's petroleum credentials are non-existent. It was only created in 2014. But the company has political clout. The board of directors includes a number of high-ranking members of Frelimo and is closely associated with Quionga, a Frelimo-linked firm established in 2013 to seek commercial opportunities in natural gas.

## Context

On 23 October 2014, the National Petroleum Institute (INP) and the Ministry of Resources (MIREM) launched Mozambique's 5<sup>th</sup> Licensing Round for the competitive allocation of new petroleum concessions. In total, 15 onshore and offshore concessions were on offer.

INP had long wanted to launch a new licensing round in order to capitalize on the excitement generated by the gas finds in the Rovuma Basin. Preparations for the 5<sup>th</sup> licensing round had been ongoing since 2012. Delays were due, at least in part, to the obvious logic of putting in place the new Petroleum sector and fiscal laws prior to allocating additional concessions.

When the licensing round was launched, the competition was due to close on 20 January 2015. However, legal documents essential to the bidding process were not available for distribution including the new Petroleum Regulations and the new "model" production-sharing contract. In late December 2014, the deadline was extended until the end of April 2015. On 15 April it was extended again until the end of July 2015.

Ultimately, INP was unable to provide either the Regulations or the model contract in a timely fashion. The Petroleum Regulations were published only published on 16 July, less than two weeks before the close of the licensing round. The "model" production sharing contract has still not been released.

## The Applications

On 30 July 2015, INP announced the list of applicants for the 5<sup>th</sup> licensing round. Expectations were modest given that plummeting oil prices have resulted in deep cuts to exploration budgets. Even taking oil prices into account, however, the results were somewhat disappointing. More than half of the 15 blocks on offer failed to attract a single complete application.

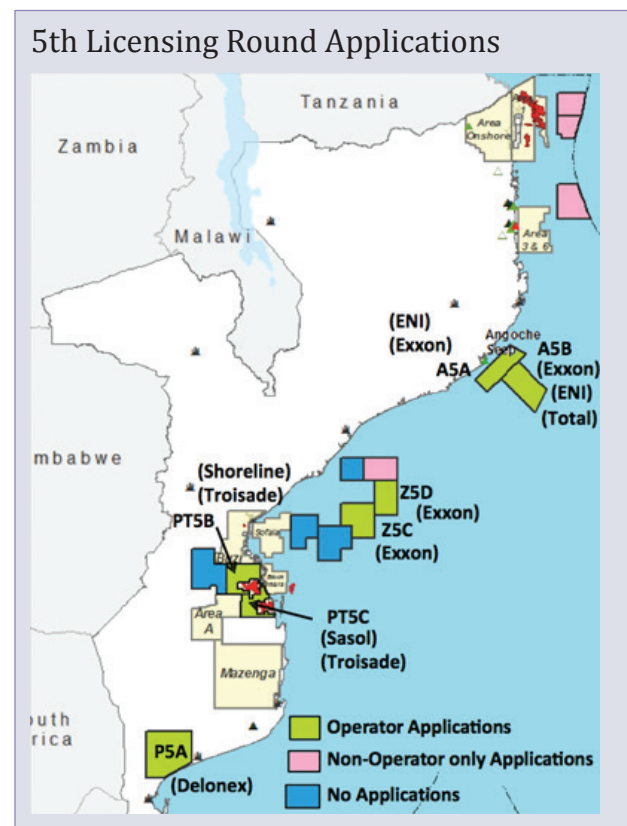
The big successes of the licensing round were the two Angoche offshore blocks (A5-A and A5-B), widely considered to be Mozambique's

last best chance for a major oil find. Both blocks both received competing bids from world-class oil companies. For Block A5-A it is a two-way competition between ENI (partnering with Sasol and Statoil), and Exxon (partnering with Rosneft). For Block A5-B, competitors include these two same consortia and Total (partnering with Sonangol).

Multiple bids were also received for two blocks in the Pande Temane region. The competing bids for PT-B come from Shoreline CanOverseas (partnering with Bluegreen and Indico Dourado) and Troisade. For Block PT-C, Troisade will compete against Sasol.

Three other blocks received a single complete application. Exxon (partnering with Rosneft) applied for two of the Zambezi concessions (Z5-C and Z5-D) while Delonex (partnering with India Oil Corporation) applied for the Palmeria concession south of Maputo (P5-A).

The remaining eight concessions did not receive a single complete application. No complete applications were submitted for the three Rovuma Basin concessions on offer. It is unclear whether



the lack of interest is due to uninteresting geology or the fact that there is little to be gained in finding more gas deep offshore in the far north. Four of the six Zambezi concession failed to attract a single bid (Z5-A, B, E and F), as did one of the Pande Temane blocks (PT-A).

to the north of that concession and are seeking an Exploration and Production Concession Contract to cover that area as well.

ENI also submitted an application outside of the

### Summary of Complete Applications – 5<sup>th</sup> Licensing Round

#	Block	Area	Bidders	Operators	Partners
<b>Multiple Complete Bids</b>					
1	A5-A	Angoche	2	ENI Exxon	Sasol / Statoil Rosneft
2	A5-B	Angoche	3	ENI Exxon Total	Sasol / Statoil Rosneft Sonangol
3	PT-B	Pande Temane	2	Shoreline Canoverseas Troisade	Bluegreen / Indico Dourado
4	PT-C	Pande Temane	2	Sasol Troisade	
<b>Single Complete Bid</b>					
5	Z5-C	Zambezi	1	Exxon	Rosneft
6	Z5-D	Zambezi	1	Exxon	Rosneft
7	P5-A	Palmeira	1	Delonex	Indian Oil Corp.
<b>No Complete Bids</b>					
8	R5-A	Rovuma	0		
9	R5-B	Rovuma	0		
10	R5-C	Rovuma	0		
11	Z5-A	Zambezi	0		
12	Z5-B	Zambezi	0		
13	Z5-E	Zambezi	0		
14	Z5-F	Zambezi	0		
15	PT-A	Pande Temane	0		

### Applications Beyond Licensing Round Concessions

The 5<sup>th</sup> Licensing Round was limited to 15 pre-designated concession areas. Two applications were submitted for other areas.

Delonex Energy was the sole applicant for the Palmeira concession south of Maputo. They have also applied for additional acreage immediately

formal licensing round concessions. Here they seek a “Reconnaissance” contract for the Angoche area outside the two specific concessions on offer. Article 29 of the Petroleum Law of 2014 provides for a “reconnaissance concession contract” granting the non-exclusive right to carry out preliminary exploration. The contract would be valid for a maximum period of two years and would not be renewable.

## *ENH Stake*

ENH is guaranteed by law and licensing round terms to hold at least a 10% stake in all projects. The size of stake offered to ENH is one of the biddable parameters and is worth 5 points out of 100 total available points.

The applications by Shoreline Canoverseas and Delonex retained the minimum stake of 10%. The applications by ENI and Total would provide ENH with a 15% stake, while Exxon is offering a 25% stake and Sasol is offering a 30% stake to the national oil company.

## *Operators and Non-Operators*

Applications in the 5<sup>th</sup> Licensing Round were received from seven companies designated as “operators.” In two cases, Sasol and Troisade, the companies propose to finance the exploration phase alone. The other five applications come from consortia with a lead company and partners.

Petroleum exploration and production is often very complex and hugely expensive. It is common therefore for companies to form consortia or “joint venture” partnerships in order to

### **Angola Allows “Non-Operators” to Apply**

Angola’s ongoing bidding round provides an example where bids are explicitly sought from “non-operating” companies. In 2014, Angola launched a competitive licensing round for 10 blocks (3 onshore and 7 offshore). Consistent with international best practice, all companies were required to pre-qualify prior to the submission of full applications.

Angola has been an oil producer for more than 100 years and consistently ranks among the largest oil producers in Africa. The sector remains dominated however by foreign companies. In 2013, six Angolan exploration and production companies held between 2.5% and 30% in 12 different concessions that collectively produced only 11,000 barrels of oil per day. In comparison, national output ranges from 1.6 to 1.8 million barrels per day.

In 2012, Presidential Decree 3/12 created financial incentives for Angola oil companies including reduced income tax rates as well as exemptions from signature bonuses and contributions to social projects.

Priority in the 2014 licensing round was given to Angolan companies who were specifically encouraged to seek pre-qualification as either operators or non-operators. The terms of the licensing round allocated a minimum percentage to both the national oil company Sonangol (30%). In addition, the terms stated, “20% block participation will be awarded to the competing Angolan companies.”

The results of pre-qualification were announced in July 2015 with a total of 84 companies being accepted: 37 as operators and 47 as non-operators. Final bids are due on 18 September 2015.

There is considerable confusion within industry circles on how the winning Angolan non-operators will be associated with specific bids. Angolan companies joined the “roadshow” to London and Houston seeking exposure to international applicants but these efforts do not appear to have been successful. It may be that these non-operators will simply be assigned to specific concessions. Another option is that Sonangol will hold an initial 50% stake, with 20% reserved for Angolan non-operators. Following a successful exploration phase, Sonangol would then transfer the 20% interest to pre-qualified national companies on a “best offer” basis.

#### **(Endnotes)**

- 1 See Africa Energy Intelligence, INP imposes locals in 5th bidding round, No. 733, November 2014.
- 2 See Questions 7, Questions and Responses, INP, UPDATED 6 Jan 2015.

spread the risk and balance their portfolios. The dominant joint venture partner is referred to as the “operator.” They are normally the signatories of the contract that governs the terms of the concession and they are responsible for the day-to-day operations. The junior partners within the joint venture are often referred to as “non-operators.” They contribute financially (and sometimes technically) but they do not participate directly in day-to-day operations.

There are two normal ways in which joint venture partners can join. First, they can be part of a successful bid within a licensing round. This is the approach taken by five of the seven full applications in the 5<sup>th</sup> Licensing Round. Second, they can buy a percentage stake in a concession already awarded to a successful bidder. This is the approach taken by companies buying stakes in the Anadarko and ENI Rovuma concessions.

### *Pressure to Engage Local Partners*

The Petroleum Law of 2014 marked the beginning of a concerted effort to bring Mozambique companies into the petroleum exploration and production sector. Specifically, Article 26 of the Petroleum Law (21/2014) states “Mozambican legal entities as well as foreign legal entities that associate with Mozambican legal entities shall have a *pre-emption right* in the granting of concession contracts.” (26.4)

When the bidding round was launched in London in October 2014, Minister Bias was explicit that bids were expected to be consortia of between two and four companies and that bids that included “local partners” would receive special treatment. In response to request for clarification from potential bidders about whether a national partner was specifically “required,” INP provided a vague response that “*preference* is for a group composition in the published application guidelines which would include the Operator, ENH and at least one other Concessionaire.”

The expectations of INP were clear. Major companies should partner with local companies in order to increase their chances of success. But the approach was rejected by all of the major

oil companies including ENI, Exxon, Sasol and Total.

Only one of the seven operator applications included a “local partner.” Shoreline CanOverseas bid for Pande Temane (PT-B) included two partners: Bluegreen Investments LCC (US-based investment firm) and Indico Dourado LDA (a Mozambique registered company owned by Emiliano Finocchi, an Italian national with links to businesses owned by Frelimo insiders).

### *Local Companies Competing in Licensing Rounds*

In the past, it has been common practice for extractive sector rights to be granted to politically connected companies that clearly lack the technical and financial capacity to undertake effective exploration. Concessions were sought for the sole purpose of speculation – to sell them on to international companies at a profit.

The practice has largely been abolished as stronger governance has been brought to the oil sector in most countries. It is now highly unusual for companies without the technical and financial capacity to bid independently. Where local companies are allowed to bid independently (see Textbox on Angola) the terms for such applications are spelled out in advance.

In Mozambique’s 5<sup>th</sup> Licensing Round there was no indication that local companies would be allowed to submit applications as in the category of “non-operator.” Yet with only one exception, local companies failed to be able to associate themselves with the larger applications. Given the strong pressure from INP, it is interesting to ask why companies would not have engaged politically connected local partners in order to strengthen their chances of winning. One answer might be that bidding with a local company could easily run afoul of foreign anti-corruption laws as in the case of Cobalt and its association with local companies in Angola.

## Non-Operator Applications

The most surprising results of the Licensing Round, therefore, were the independent applications by two “local” companies for concessions as “non-operators.” The companies are Petroinveste Mozambique SA and Namozza Natural Resources LDA.

Petroinveste could easily be characterized as Frelimo’s oil company. Petroinveste is seeking a 15% stake as a non-operator only for the highly coveted Angoche blocks. The selection of only these two blocks suggests that the company has a very clear strategy (and perhaps some inside information) in order to maximize their economic prospects.

Public records of a recent board meeting of Petroinveste show the following participants: Raimundo Domingos Pachinuapa, Oldivanda Bacar, Alberto Joaquim Chipande, Abdul Magid Osman Carimo Abdul Mahomed Issa, José Mateus Muária Katupha, and Ivan António de Jesus Remane. The company is reported to be an arm of Quionga Energia SA, a firm established in 2013 to seek commercial opportunities in Cabo Delgado gas.<sup>1</sup> Employees of Petroinveste include an American businessman named Scott Spears and his Mozambican co-stakeholder in SP Offshore Energy Services Mozambique, Ivan Remane. Spears has reportedly brokered deals between major oil companies and local investors in Nigeria and was also involved in securing rights in the Comoros Islands’ offshore for Safari Petroleum.<sup>2</sup>

Namozza Natural Resources Lda is a Mozambican company registered on 5 February 2015. Namozza’s application seems to make no reference to the percentage stake that it is seeking in a total of nine concessions. They are seeking non-operator in the highly sought Angoche blocks. In addition, they are seeking non-operator status in the two contested blocks in Pande Temane (PT-B and PT-C) and one of blocks that Exxon bid for in Zambezi (Z5-D). They are the only company that showed any interest at all in the three deepwater Rovuma blocks and in Zambezi Z5-E.

Namozza is 90% owned by Zamona Investments Limited and 10% owned by J&F International Trading. Zamona Investments is owned by General Martin Shalli, the disgraced former head of Namibia Defence Force (NDF) who left the position admit allegations of corruption. The three other individuals associated with the company (Albinus Indilakaenashili Edward, Gerson Tuhafeni Nehemia, and Hadino Timothy Hishongwa) are also Namibian. The remaining 10% of Namozza Natural Resources Lda is held by J&F International Trading run by Armando Jeque.

## Minimum Requirements

It is standard practice to establish minimum requirements for all companies seeking petroleum rights. According to international best practice, a pre-qualifying process should take place first in order to weed out companies that do not meet the minimum requirements.

There was no pre-qualification process for Mozambique’s 5<sup>th</sup> Licensing Round. But there were minimum requirements. In order for a bid to be eligible, operators were required to have been operators of an analogous concession in the past and have assets ranging from \$100 million for the onshore blocks to \$5 billion for deep water offshore. Non-operators were required to have sufficient financial assets to meet the proposed work program and contingencies. For the deep-water blocks, this meant that the company’s total assets must exceed \$250 million.

See Mozambique Fifth Licensing Round Application Guidelines, INP, October 2014, p. 49-51.

The requirement that non-operators in deep-water blocks (+500m) must have assets of more than \$250 million should exclude applications by both Petroinveste Mozambique SA and Namozza Natural Resources Lda. Bathymetry maps show the bulk of the Angoche blocks and all of the Rovuma blocks have depths of more than 500 meters.

### Experience Requirements – Application Guidelines<sup>3</sup>

	Onshore	Offshore <500m	Offshore >500m
Operator	Onshore operatorship experience including drilling and assets greater than \$100 million	Offshore operatorship experience including drilling and assets greater than \$2 billion	Deep water offshore operatorship experience, including drilling, and assets greater than \$5 billion
Non-operator/ Partner	Sufficient assets to support the proposed work program and contingencies	Sufficient assets to support the proposed work program and contingencies	Total assets and capital greater than \$250 million
All Participants	Companies must have proven expertise, technical capacity and financial means to conduct the required petroleum operations in an efficient manner (Petroleum Law – Article 26)		

Furthermore, it is unclear how these non-operator applications can be taken seriously given that the bidders have no idea what level of financial commitment would be required as these are contained in sealed bids. The scale of the required resources however is significant. For example, Petroinveste’s proposed 15% stake in Angoche could well require an exploration investment on the order to \$65 million for each of the two blocks.

INP has indicated that the results of the bidding round will be announced “within the next three months.”

Bids that do not meet the minimum requirements should be excluded at the outset. Bids that do meet those requirements will be assessed against the criteria shown in the “score card.”

From an international perspective, the interest will be focused on the three heavyweight bids for the two potential oil-bearing blocks in Angoche.

From a national perspective, the interest should be focused on how INP will manage the “non-operator” applications. The bids by Petroinveste for the Angoche blocks are particularly controversial. A 15% stake in the highest value blocks in the 5<sup>th</sup> Licensing Round are being sought by individuals with connections to the very highest reaches of political power.

## BID EVALUATION SCORE CARD

### EPCC 5<sup>th</sup> License Round

Appendix A	<b>Applicant Details and Financial Information</b>	<b>5</b>
	Total Investment in E&P Exploration	1.0
	Value (Market Cap) – Small to Large	2.0
	Production of Oil and Gas	1.0
	Affordability of work Program Bid	1.0
	<b>Applicant Technical Expertise</b>	<b>8</b>
	Number of E&P wells drilled	2.0
	Technology – relevant to Area	4.0
	Number of discoveries	2.0
Appendix B	<b>TECHNICAL WORK PROGRAM</b>	<b>50</b>
	Technical Database	8.0
	G&G evaluation already completed	10.0
	License Prospectivity	4.0
	First Exploration Period	22.0
	Second Exploration Period	5.5
	Third Exploration Period	0.5
Appendix C	<b>FINANCIAL PROPOSAL</b>	<b>37</b>
	Training	2.0
	Institutional Support	5.0
	Social Support	2.0
	State participation (ENH)	5.0
	Production Bonus	4.0
	Other Terms	19.0
App D	<b>APPENIX D - HSE</b>	
	<b>Pass or Fail</b>	
	Health Safety Environment	
		<b>TOTAL 100</b>

#### (Endnotes)

- 1 See Frelimo luminaries to act as business angels, Africa Energy Intelligence, 16/12/2014.
- 2 See Frelimo luminaries to act as business angels, Africa Energy Intelligence, 16/12/2014.
- 3 See Mozambique Fifth Licensing Round Application Guidelines, INP, October 2014, p. 49-51.



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