

10 July 2018

Export Credit Insurance Corporation of South Africa
P.O. Box 7075
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To: Mandisi Nkuhlu

We, the undersigned groups, urge the Export Credit Insurance Corporation of South Africa (ECIC) to reject support for the liquefied natural gas (LNG) development in northern Mozambique. The risks presented by the hidden debt and related corruption investigation, international sanctions, insecurity, and the environmental and social impacts should prevent export credit agencies (ECAs) from supporting the LNG development in northern Mozambique. We understand that the EIA studies for the project are under revision and take note of the fact that these revised studies are not available to local stakeholders.

Media exposés reveal that the Mozambican government secretly arranged \$2 billion worth of loans and bonds – via Credit Suisse AG and Russian bank VTB Group - without securing mandatory parliamentary approval.¹ The French Bank, BNP Paribas, was involved in loan syndication. In November 2017, all three banks did not respond to requests to comment on the allegations with Credit Suisse directing reporters to its 2016 Annual Report.² Though the investments were supposedly to pay for boats to catch tuna, the bonds actually paid primarily for military equipment.³ The government has admitted that it wanted to use the military equipment to protect the gas reserves and provide investment in related projects and companies. The government had hoped to quietly repay the debt via revenue from contract security work for the offshore oil and gas reserves and fishing, but low natural gas prices and an underperforming fishing fleet upended that plan.⁴

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Joshua Franklin & Wendell Roelf, *Swiss and UK Watchdogs Quiz Credit Suisse over Mozambique Debt*, REUTERS (7 June 2016), <https://uk.reuters.com/article/uk-mozambique-debt-credit-suisse-gp-idUKKCN0YT1ES>. One loan, subsequently converted into sovereign debt, was for \$850 million for the Mozambique Tuna Company, Ematum.

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Russel Ward, *Credit Suisse Among Banks Probed on Mozambique*, *WSJ Reports*, BLOOMBERG (Nov. 5, 2017), <https://www.bloomberg.com/news/articles/2017-11-06/credit-suisse-among-banks-probed-by-u-s-on-mozambique-wsj-says>.

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Matt Wirz, Julie Wernau, & Matina Stevis. *Behind Credit Suisse's Soured Mozambique Deals*, WALL STREET JOURNAL (Aug. 11, 2016), <https://www.wsj.com/articles/behind-credit-suisse-soured-mozambique-deals-1467214300>.

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Raquel Almeida Correia, *Não Preciso que o FMI Me Venha Far Aulas. Eu Estudei Na Mesma Escola*, PUBLICO (Sept. 30, 2016), <https://www.publico.pt/2016/09/30/economia/entrevista/nao-preciso-que-o-fmi-me-venha-dar-aulas-eu-estudei-na-mesma-escola-1745599>.

Regulators are investigating the parties potentially involved in covering up this secret debt. The Federal Bureau of Investigation (FBI) and Department of Justice (DOJ) in the U.S. are investigating Credit Suisse, VTB, and BNP Paribas to see whether they made improper payments to Mozambican officials and helped the country take on more debt than its economy could sustain.⁵ The U.K. is also investigating whether Credit Suisse and VTB deceived investors;⁶ a Swiss regulator is conducting a similar investigation of Credit Suisse. As a result of the debt cover-up, Moody's downgraded Mozambique's credit rating, finding the outlook for the country to be negative.⁷ Moreover, VTB is on the U.S. and E.U. sanctions lists, meaning that ECIC would potentially violate these sanctions if it were to support this project.

In addition to the debt, corruption, and sanctions concerns, this LNG development will have detrimental impacts on local communities and the climate.⁸ Despite about 80 percent of the country lacking access to electricity,⁹ the project does not attempt to improve that figure, evidenced by its dependence on the sale of gas to overseas markets, especially in Europe and Asia.¹⁰

Neither Mozambican law, nor the contract with Anadarko appear to require that locals benefit from the gas development.

In addition, the promised jobs are likely to go to foreigners and Mozambicans from cities, rather than local communities, and resources that local communities depend on – agriculture and fishing – will be destroyed.¹¹ Unique ecosystems, such as mangroves, and endangered species will

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Matt Wirz, Rebecca Davis O'Brien, & Jenny Strasburg, *FBI Investigates European Banks for Allegedly Aiding Corruption in Mozambique*, WALL STREET JOURNAL (Nov. 6, 2017), <https://www.wsj.com/articles/u-s-investigates-credit-suisse-vtb-and-bnp-paribas-for-roles-in-selling-mozambique-debt-1509923961>.

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See Wirz, Wernau & Stevis *supra* note 3.

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Moody's Investor Service, Rating Action: Moody's Downgrades Mozambique Sovereign Ratings to Caa3, Changes Outlook to Negative (July 8, 2016), https://www.moodys.com/research/Moodys-downgrades-Mozambique-sovereign-ratings-to-Caa3-changes-outlook-to--PR_351635.

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Consultec - Consultores Associados, Lda., *Environmental Impact Assessment Process for the Floating Liquefied Natural Gas Project: Environmental Impact Study Final Report*, 46-47 (2015) [hereinafter "Consultec"].

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The World Bank, Access to Electricity (% of Population), <http://data.worldbank.org/indicator/EG.EL.C.ACCS.ZS/countries/MZ-ZF-XM?display=graph> (latest data is from 2012); Consultec, *supra* note 8, at 188, 254.

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Carolyn Davis, *Anadarko-Led Mozambique LNG Project Secures Two More Contracts*, NATURAL GAS INTEL, 15 June 2018, <http://www.naturalgasintel.com/articles/114729-anadarko-led-mozambique-lng-project-secures-two-more-contracts>; Oleg Vukmanovic, *Anadarko Agrees Mozambique LNG Sale, Banks Discuss Finance Terms*, REUTERS (Feb. 20, 2018), <https://www.reuters.com/article/anadarko-petrol-lng-edf/anadarko-agrees-mozambique-lng-sale-banks-discuss-finance-terms-idUSL8N1QA7U4>; Matthew Hill & Borges Nhamire, *Mozambique Approves Anadarko's \$20 Billion Natural-Gas Plan*, BLOOMBERG (Feb. 6, 2018), <https://www.bloomberg.com/news/articles/2018-02-06/mozambique-approves-anadarko-s-gas-project-development-plan>.

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Kate DeAngelis, *Report from the Field: Perspectives and Experiences of Mozambican Communities and Civil Society on Liquefied Natural Gas Exploitation* (2016), <http://webiva-downton.s3.amazonaws.com/877/8e/a/>

be put at great risk of complete destruction.¹² Already land grabs of residential and farming land, inadequate resettlement or compensation without consent from communities and government harassment has taken place.

As for climate impacts, NASA recently found that the fossil fuel industry is responsible for most of the rise, which is “substantially larger” than previously thought, in global methane emissions.¹³ Worsening this global crisis, scientific studies have shown that lifecycle emissions of LNG projects are as high as those of coal projects, in part due to the multiple energy-intensive stages of LNG.¹⁴ Gas is not a climate change solution;¹⁵ government ECA support for new gas infrastructure would lock the world into fossil fuels for decades, blocking the transition to renewable energy.

Finally, the region where this gas development is occurring in northern Mozambique, Cabo Delgado, has experienced a recent increase in violence. Armed groups in the region have killed at least 39 people in the past couple of months,¹⁶ causing many local people to flee to neighboring islands. In response to the violence, the embassies of the United States,¹⁷ France, and United Kingdom¹⁸ have issued warnings, recommending that their citizens leave the area. Some of the companies working in the area, including Anadarko, have placed their employees in the area on

9041/1/2016.09.14_Mozambique_LNG_Trip_Report.pdf.

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M. Samoilys et al., *Resilience of Coastal Systems and Their Human Partners in the Western Indian Ocean*. Nairobi, Kenya: IUCN ESARO, WIOMSA, CORDIO and UNEP Nairobi Convention (2015); IUCN, The IUCN Red List of Threatened Species, <http://www.iucnredlist.org/> (last visited Feb. 26, 2018).

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John R. Worden, et al., *Reduced Biomass Burning Emissions Reconcile Conflicting Estimates of the Post-2006 Atmospheric Methane Budget*, 8 NATURE COMMUNICATIONS 2,227 (2017), <https://www.nature.com/articles/s41467-017-02246-0>.

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B. KAVALOV, H. PETRIĆ, & A. GEORGAKAKI, LIQUEFIED NATURAL GAS FOR EUROPE – SOME IMPORTANT ISSUES FOR CONSIDERATION (2009), <http://publications.jrc.ec.europa.eu/repository/bitstream/JRC47887/eur%2023818%20en.pdf>

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Greg Muttitt & Lorne Stockman, *Burning the Gas ‘Bridge Fuel’ Myth* (Nov. 2017), <http://priceofoil.org/content/uploads/2017/11/gas-briefing-nov-2017-v5.pdf>.

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Joseph Cotterill, *Shadowy Insurgents Threaten Mozambique Gas Bonanza*, FINANCIAL TIMES, 21 June 2018, <https://www.ft.com/content/5206046a-7070-11e8-92d3-6c13e5c92914>.

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U.S. Embassy in Mozambique, Security Alert – U. S. Embassy Maputo, Mozambique, 8 June 2018, <https://mz.usembassy.gov/security-alert-u-s-embassy-maputo-mozambique-june-8-2018/>.

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UK Issues Travel Warning after Mozambique Attacks, REUTERS, 12 June 2018, <https://uk.reuters.com/article/uk-mozambique-attack/uk-issues-travel-warning-after-mozambique-attacks-idUKKBN1J82GR>.

lock-down.¹⁹ This insecurity puts financing investments at risk if work cannot proceed as planned.

Given the environmental and social impacts of the gas development and Mozambique's extremely precarious financial standing, ongoing corruption investigations tied to the LNG projects, security issues, and international sanctions, it is clear that ECIC must not use taxpayer dollars to support, in any way, this natural gas deal. Such support would undermine U.S., Swiss and other regulatory efforts to investigate potential corruption and hold corrupt actors accountable.

We appreciate your taking the time to review our comments. We request a response by 20 July 2018.

Sincerely,

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Acção Académica Para O Desenvolvimento Das Comunidades Rurais (Mozambique)
African Climate Reality Project
Asia Pacific Forum on Women, Law and Development
Bank Information Center Europe
Both ENDS (Netherlands)
Center for Biological Diversity (United States)
Corner House (United Kingdom)
Corporate Europe Observatory
Ecologistas en Acción (Spain)
Finance & Trade Watch (Austria)
Friends of the Earth Japan
Friends of the Earth International
Friends of the Earth U.S.
Food & Water Europe

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Ed Cropley, *Anadarko Staff under Lock-Down in Mozambique after Attacks: Source*, REUTERS, 19 June 2018, <https://www.reuters.com/article/us-mozambique-violence/anadarko-staff-under-lock-down-in-mozambique-after-attacks-source-idUSKBN1JF0VK>.

Food & Water Watch
The Gastivists (International)
Groundwork (South Africa)
Inyanda Land Rights Movement (South Africa)
Jubilee Debt Campaign, UK
Justiça Ambiental (Mozambique)
Les Amis de la Terre (France)
Milieudefensie (Netherlands)
Mineral Policy Institute (United States)
Observatori del Deute en la Globalització (Spain)
Oil Change International (United States)
People's Dialogue (Southern Africa)
Re:Common (Italy)
Rural Women's Assembly (South Africa)
Trust for Community Outreach and Education (South Africa)
Urgewald (Germany)
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