

The logo for FairFinance Southern Africa is a purple speech bubble shape. Inside the bubble, the word "FairFinance" is written in a large, white, sans-serif font, with "Fair" and "Finance" on the same line. Below it, the words "Southern Africa" are written in a smaller, white, sans-serif font.

# FairFinance

## Southern Africa

### **Introduction**

This is a response to TotalEnergies' response to the Fair Finance Coalition of Southern Africa's 2024 case study "South African Public Financing of the Mozambique Liquid Natural Gas Project. The original case study and TotalEnergies response is available on the Coalition's website: <https://www.fairfinancesouthernafrica.org/>.

### **Response**

We thank TotalEnergies for responding to our report and would like to provide clarity on some of the matters raised. Our findings in our report are based on reputable publications, expert reports and peer-reviewed research. TotalEnergies raises a number of issues in its letter that are not discussed in our report, and should address these concerns directly with the sources. However we will do our best to provide clarity on some of these.

1. We recognise that the conflict in Cabo Delgado is rooted in numerous complex factors<sup>1</sup> and that all countries have underlying social tensions. There is also adequate evidence globally that fossil fuel investments amplify pre-existing socio-economic tensions, and that there are links between gas extraction investments, militarisation, and conflict escalation.

With regards to Cabo Delgado, a number of credible reports discuss the numerous and complex factors underlying the tensions in the region that culminated in the violent attacks and ongoing conflict. Many of these tensions pre-date gas extraction activities, but numerous experts, reports and publications highlight the role of the gas investments in exacerbating these tensions. It's important to note that the first physical attacks in the region occurred in 2017 when gas exploration projects were already active for some years. The attacks and insurgent occupations were characterised by torture and brutalisation of ordinary civilians<sup>2</sup>, to a level that had not occurred prior. When military presence in the Afungi Delta increased there was a resultant increase in tensions with insurgents and even the Rufin report acknowledges the presence of the gas project increases the risk of the area as a target for insurgents. Additionally, numerous reports, and witness accounts link the increase in military forces to severe human rights abuses, which further worsened tensions and socio-economic instability.

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<sup>1</sup> 'Violent extremism in Mozambique: drivers and links to transnational organised crime', Institute for Security Studies, 2022

<sup>2</sup> 'What I saw is Death; War crimes in Mozambique's forgotten Cape', Amnesty International, 2021

While Mozambique LNG did not create the conflict in Cabo Delgado, its requirement for security of the project coupled with worsening socio-economic conditions directly linked to the project, cannot be ignored as contributing factors. In addition, our report does not state “*that the sole mission of the JTF was to secure the Afungi site*”, but it does refer to numerous credible references that show the prioritization of the JTF in protecting the project site. We also did not use one single source when giving the context of the conflict, so although the Rufin report states that the conflict predates the gas projects, numerous experts, reports and publications have gone much deeper into the issue than the Rufin report did, and have highlighted the complexities, causes, drivers and links to the conflicts; some of these are referenced in our report. At a larger scale, it is difficult for the largest investment in Mozambique to not influence the decisions of the political elites, and the resulting consequences, but this was not covered by our report.

With regards to the attack in Palma in March 2021, TotalEnergies’ reply states that there is “*no official census of the number of deaths and missing persons*” and our report does not make any statements of official numbers. However, the fact that there has not been an official assessment on the issue is a problem in itself, but there is very credible data on the numbers of victims that is often ignored and not mentioned. The journalist Alex Perry helped conduct a survey that interviewed over 13000 households in Palma and surrounding areas and it established that at least 1193 civilian residents had been killed, abducted, or went missing during the attack<sup>3</sup>. This data has been verified by the Armed Conflict Location & Event Data Project (ACLED) and Ascent (a UK data verification company). The survey does not cover the internally displaced people based in the area during the attack, and is largely regarded as an underestimate. We should all be using more serious language to better depict the Palma massacre and the loss of lives. Official government statistics are still unavailable and a full account of those affected remains to be conducted, but there is adequate data, media coverage, and reports based on first-hand accounts that expose the extent and horror of the massacre.

Numerous witness accounts and well-documented reports show that the military presence was concentrated around the Mozambique LNG Project site and clear preference was given to the project site over civilians<sup>4</sup>. During the attacks people outside the project site were not provided with aid, safety or assistance with evacuation, and about 20,000 displaced people were camped outside the project but were denied access to safety. Within days there were reports of tens of thousands of people displaced from Palma arriving in other areas<sup>5</sup>.

It is worth noting that a court case has been filed in France by a group of subcontractors who accuse TotalEnergies of not aiding people in need, and

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<sup>3</sup> ‘Palma Massacre: A Hidden Catastrophe, Uncovered’, Alex Perry, 19 June 2023

<sup>4</sup> ‘Assessment of TotalEnergies’ Mozambique LNG Project Human Rights due diligence’, Uprights, 2023

<sup>5</sup> ‘Cabo Ligado Weekly: 29 March-4 April’, Armed Conflict Location & Event Data Project, 06 April 2021

involuntary manslaughter<sup>6</sup>; their claim is that TotalEnergies did not assist people on the day of the attack, and there are numerous eyewitness accounts and supporting documents that are being used in the legal case. These issues and claims should be addressed directly with the people leading this case.

Even as late as July 2023 it was reported that security in Cabo Delgado is focused mainly in the two districts where LNG Projects are active<sup>7</sup>.

2. With regards to security in the region, our report does not state that the region “*will always be dangerous and unstable*”. Experts do believe that unless the socio-economic drivers of the conflict are addressed, the situation is likely to remain volatile. Thus far the focus has been mainly on ensuring the presence of military forces.

Regardless of the efforts of TotalEnergies to improve conditions in the area, numerous reports, community based groups and grassroots and aid organisations indicate increasing socio-economic stresses relating to livelihoods, notably the loss of access to land and sea resources.

Jobs are not adequate compensation for loss of livelihoods. Notably the project’s job creation benefits unskilled workers mainly during the construction phase, which creates a peak in employment for a short period of time relative to the project lifespan, and then plunges people into unemployment when construction stops. The number of 5,000 jobs created is thus misleading. The temporary nature of these jobs is likely to create even further socio-economic instability once the construction phase has ended.

As the recent provincial elections illustrate, there is growing anger and frustration amongst the youth nationally, and it is critical to address the socio economic issues at the heart of the problem. This is coupled with increasing limitations on civil society in a country that already has a reputation of shrinking critical spaces and silencing critical voices. The response of the Mozambican government to dissenting voices has been to decrease civil society space and eliminate constructive pathways for resolution, notably through the silencing of journalists, elections fraud, and a general breakdown of the democratic processes; the breakdown of the trust of the people is a major concern. The Mozambique LNG Project is one of the largest investments in Africa and huge expectations have been created by the hype around it, and therefore there is major risk and concern about the possible failure of the gas investments to contribute to significant socio-economic growth.

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<sup>6</sup> ‘TotalEnergies mis en cause après l’attaque djihadiste de 2021 au Mozambique’, Le Monde, Published 10 October 2023, Accessed 22Jan2024.  
[https://www.lemonde.fr/les-decodeurs/article/2023/10/10/totalenergies-mis-en-cause-apres-l-attaque-djihadiste-de-2021-au-mozambique\\_6193475\\_4355770.html](https://www.lemonde.fr/les-decodeurs/article/2023/10/10/totalenergies-mis-en-cause-apres-l-attaque-djihadiste-de-2021-au-mozambique_6193475_4355770.html)

<sup>7</sup> ‘Cabo Delgado: two years since the Palma invasion’, 2023, Institute for Security Studies Africa

3. Our report does not state that the tax structures used by TotalEnergies are illegal, nor that the Mozambican government is unaware of such. We acknowledge that the “Mozambican government has full knowledge of the companies that have been set up outside Mozambique”. Actually, these are commonly-used legal mechanisms that enable companies to avoid tax. Research by Centre for Research on Multinational Corporations (SOMO) and the Centre for Democracy and Development (CDD) shows that<sup>8</sup>:

*“investors behind the Area 1 gas project, operated by TotalEnergies, and the Coral South FLNG (floating liquefied natural gas) project, operated by Eni, use subsidiaries in the UAE as conduits to provide loans to their respective projects in Mozambique. By doing so, these corporations illegitimately gain access to the tax benefits enshrined in the Mozambique–UAE tax treaty, allowing them to avoid tax on the interest associated with these loans. Besides any legal and tax benefits this structure provides, the UAE is not a jurisdiction of importance for these gas projects. As such, these multinational corporations appear to have created a paper reality – although one with real-world consequences – that will cause Mozambique to lose out on an estimated \$ 1.3 to \$ 2 billion in much-needed tax income during the lifetime of both projects. These tax losses amount to between 43 per cent and 67 per cent of Mozambique’s entire 2021 government spending”.*

These tax losses dwarf the 40 million USD contribution during 2022 and 2023 “Pamoja Tunaweza” socio-economic development initiative mentioned in the reply and even the 200 million USD multi-year Foundation fund.

The above example is mainly from losses linked to withholding tax rate on interest, but there are many other aspects of the gas investments that, even though legal and agreed on by the Mozambique government, are seen by experts as unfavorable to Mozambique’s people and future. There are the Investor State Dispute Settlement (ISDS) risks that, based on a recent Science Journal publication<sup>9</sup>, places Mozambique as one of the countries with the highest potential economic losses to climate-based ISDS claims. Even the overall economic benefits are considered to be low by many experts given the size of the investment. A report by Open Oil<sup>10</sup> analyzed the economic potential of the gas projects in Cabo Delgado and highlighted the numerous problems with the benefit sharing, notably but not limited to: much lower revenues than expected; billions lost through tax structures in the UAE; the delayed revenue returns for Mozambique; the increasing risk of stranded assets; the liability around the ENH stake. A recently published report by International Institute for Sustainable Development raises similar issues and risks<sup>11</sup>.

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<sup>8</sup> ‘The treaty trap: tax avoidance in Mozambique’s extractive industries’, Centre for Research on Multinational Corporations (SOMO) and Centre for Democracy and Development (CDD), 2023

<sup>9</sup> ‘Investor-state disputes threaten the global green energy transition’, K. Tienhaara et al., Science 10.1126/science.abo4637, 2022

<sup>10</sup> ‘Too Late to Count: a financial analysis of Mozambique’s gas sector’, West and Lépiz, OpenOil, 2021

<sup>11</sup> Halsey et al, ‘Navigating Decisions: The risks to Mozambique from liquified natural gas export projects’, International Institute for Sustainable Development, 2023

4. We are willing to discuss environmental impacts in detail separately from this communication, and our report did not state that TotalEnergies was not in “*accordance with local regulations*” or did not have a “*comprehensive biodiversity action plan*”. The difficulty is always going from paper to reality. We cannot ignore that projects of this scale have environmental impacts, many of which are difficult to mitigate. It is well documented that biodiversity and ecosystem functioning are changed significantly through gas extraction projects. The gas extraction sites are not within Quirimbas National Park, but are 8 km from the park and well within the area that will be affected.

For example, the introduction of alien invasive species through ballast water is a key reason for loss of coastal species, and marine traffic linked to the project would rise unavoidably and there are limited solutions for such problems. This is just one small example among many and not the focus of this report or this communication. Environmental impacts are often unanticipated and underestimated. Impacts also extend for vast distances along coastlines and marine systems, and are obviously not contained within project boundaries.

The region is primarily dependent on nature-based livelihoods, and there is an undeniable link between socio-economic instability and loss of livelihoods resulting from the lost access to land and sea resources and the detrimental impacts on wildlife and marine life.

With regards to the climate impacts, there is growing evidence that there is a significant underestimation of the impacts of gas extraction on climate change, and emissions from LNG are problematic. The mounting research around the topic is too extensive to list.

We strongly recommend that TotalEnergies look further into the many well-researched reports and studies available publicly that discuss the existing and projected impacts of the Mozambique LNG Project on people and ecosystems, as well as more broadly the economic, environmental and social impacts and risks associated with gas extraction globally.