

Rovuma Gas taxation:

- The perverse practices of the Italian Progeco NeXT Mozambique, homework for the Tax Authority and the Government of Mozambique

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They are referred to as the “Italian mafia” but it is a pure case of tax evasion.

A few months before the start of gas production in the Rovuma basin, in the Coral Sul FLNG project, relevant information on tax evasion has come to light. Remember this name: Progeco NeXT Mozambique. Its owner is Massimo Bottoni and he is Italian.

Just over 12 months ago, the company won a management contract (PES Moçambique) with one of the Rovuma giants, Italy’s ENI, one of the coordinators of the Coral Sul project, which consists of the construction of the floating natural gas liquefaction unit (FLNG).

PES Moçambique and Progeco NeXT has the same director in Italy and the same director in Dubai, Massimo Bottoni, the most visible face of the firm. The contract is called **Project Management Service**. A Project Service contract in the oil & gas industry has a wide dimension. The contractor may be asked to design a pipeline or a specific part for an extraction vessel. Its task is to get the best engineers in the world to do the job. This type of contract is only given to big companies that have been in the oil & gas business for a long time.

Progeco NeXT was already working with ENI in other countries and in Mozambique, it was the winner beating many competitors, mostly international service providers. For the relevant contract, signed on 10 December 2020, ENI has requested Progeco NeXT to be in charge of hiring, allocating and managing the engineers who will go offshore to drill and assemble the pipelines, from the depths to the floating ship that will receive and transform the gas.

Progeco NeXT has put its hands on a contract valued at several million US dollars, a million-dollar contract to supply services to ENI “robbing/harming” Mozambicans through tax evasion.

Analysis

Based on the information we were able to obtain, and only in relation to this project, Mozambique will not bill at least 40 million meticais in IRPS -Progeco NeXT has hired the workforce requested by ENI, but has not registered anyone in Mozambique. The contractors come from places such as England, the United States of America, Egypt, France and Qatar, work 28 days offshore, in the Rovuma basin, and the following 28 days take holidays in their homeland.

However, it can be seen that this process did not take into account the local content as stipulated in point 17 of the Contract between ENI and Progeco NeXT.

Documents in possession of “CIP-Carta” partnership show that in order to deceive the local authorities, Progeco NeXT, in Mozambique, has submitted front-end contracts for its international consultants stating that each one is paid USD 1.000.

An analysis by the “CIP-Carta” partnership, on tax practices in the industrial spectrum of multinationals subcontracted by the Rovuma gas giants, reveals the bad practices that could harm the country by more than 40 million meticaís, equivalent to 5.5% of the Personal Income Tax (IRPS) paid by the mega projects operating in the country’s oil and gas sector in 2020.

According to industry whistleblowers, the consultants’ actual contracts were registered in Dubai, a free trade zone. Companies registered in free trade zones enjoy tax benefits related to their location.

Therefore, the fact that ENI contracts Progeco NeXT, registered in a free trade zone in Dubai contributes to the minimization of tax revenues, as it gives this company a series of benefits, such as exemption from withholding taxes on dividends and interest in the double taxation treaty signed between the United Arab Emirates (UAE) and Mozambique (signed in April 2004) thus generating profit transfer, which would not happen if the company was registered in Mozambique. This in itself represents an illicit outflow of capital.

The contracts in Dubai vary from 12 to 15 thousand dollars a month, and all of them escape taxation on personal income, one of the main sources of tax revenue for the State, which currently averages 20% of the total contribution of the mega-projects.

In short: Máximo Bottoni, owner of Progeco NeXT which provides services to ENI, set up a small office in Maputo, as a front, not deducting a single cent for Mozambique’s public finances. The CIP-Carta partnership has evidence of the front contracts signed by Progeco NeXT Mozambique’s consultants, for the sole purpose of obtaining the proper work permit passed by the Labor authorities.

Cost inflation risks - Progeco NeXT being one of the prominent companies in this sector, one can understand ENI’s preference for this company, but the attention of the Tax Authority and the Ministry of Finance is called to a tighter control to avoid cost inflation and abusive transfer pricing and the consequent reduction of the taxable income.

The capture of potential revenues and the risks associated with them depend, among other factors, on constant and effective control and monitoring, cost estimates for development, production and pricing, and public disclosure of the main contracts and between the operator and its subcontractors (including their annexes).

Incidentally, this is the common modus operandis in the Rovuma basin. Our whistleblowers said that this is a modus operandis practiced by several subcontractors. The most serious, according to our sources, is that our authorities have never audited ENI’s service providers, justifiably so because they are international and are based in states such as Dubai, with special tax regimes. It is a perverse practice. The consultants earn a lot and leave nothing behind.

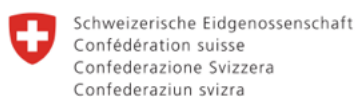
Furthermore, if the practice of subcontracting services in the Rovuma basin projects prevails (including the hiring of specialized labor) without due monitoring or clear rules previously established, there is a risk of undermining the channels through which the country could obtain gains from the exploration of natural gas.

*This article is the result of a partnership between CIP and Carta



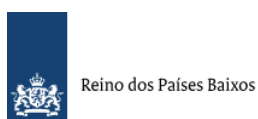
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