

MEDIA RELEASE

RESPONSE BY THE MINISTER OF ENERGY TO THE SUNDAY TIMES ARTICLE DATED 24TH MARCH 2019

Date: 28 March 2019

Over the past couple of days, there have been a number of media reports about alleged irregularities in the department's cooperation with South Sudan. These reports emanated from a sensational headline article that was published on the front page of the "Sunday Times" dated 24th March 2019, titled **"Jeff's dodgy \$1bn Oil deal –Minister Radebe's team splurges millions in pursuit of Energy venture in South Sudan"**. In light of where we find ourselves as a country and the dire need to clean up our backyard as government, there has never been a better time for media to be playing its part in exposing any illicit behavior by public officials who are found wanting. For the record, I also applaud the process of other corruption-busting mechanisms set up by the former and current Presidents, like the Zondo Commission, that have been set up to hold public officers to account. Sadly however and emerging of late, is the suspicious timing of various spurious allegations on the eve of these contested elections. On the one hand, my superior logic says that this kind of political posturing and settling of scores should come as no surprise for a seasoned politician like myself and perhaps, I should take it on the chin. But, the other part of my conscience says that the prejudicial selection of truth and fiction is unjust for South Africans who seek to only know and read the uncompromising truth. These allegations require an emphatic response to set the record straight and dispel such untested assertions.

1. Contextual Background

To assist with context, it will be useful to firstly describe South Africa's relationship with South Sudan. Our relationship dates back to the time when the liberation movements of the African National Congress and the Sudanese People's Liberation Army were fighting for their liberation. The South African Government has played a critical role in the liberation of South Sudan. In preparation for the new State of South Sudan, South Africa went to the extent of training many leaders and cadres of South Sudan for the new administration. This training was provided by the University of South Africa and coordinated by the Department of Public Service and Administration. While President Cyril Ramaphosa, was still Deputy President of the Republic, he played a central role to South Sudan's peace process - a role that is still being continued by the current Deputy President Mr David Mabuza. The South African National Defence Force also continues to deploy troops in that country as part of the United Nations Peace mission.

The point I make here, is that South Africa took a political position to support South Sudan in its social and economic development, long before I became the Minister of Energy. Contrary to the innuendos of the said newspaper article, this government to government cooperation had been years in the making and technically cast in stone – certainly, not by my own doing. That would be giving me far too much credit.

2. International Energy Agenda

For those who require a better understanding of the international energy agenda, it needs to be emphasized that International Cooperation is an integral part of ensuring energy security. The energy portfolio has a number

of agreements and Memoranda of Understanding which underpin this cooperation. An example of such agreements is the corporation agreement with Mozambique which, amongst others, facilitates trade in both gas and electricity between the two countries.

Cooperation in infrastructure development forms a critical pillar of the African Union's Agenda 2063-The Africa we want. This, amongst others, informs our approach to investments in the Continent such as our current petroleum exploration operations in Ghana.

3. Strategic Rationale

So why has South Africa been talking to South Sudan? South Africa is a net importer of crude oil and it has always been our strategy to source oil and gas for our domestic use, both internationally and where possible within our own territory. In all my pronouncements, including those to Parliament, on the issue of high oil prices, I have consistently indicated that I am engaging with my counterparts on the Continent. This is to bolster South Africa's position with regards to access to crude oil and ensure self-sufficiency as well as way of mitigating fuel price fluctuations in the long term. On 12 September 2018 when addressing the National Assembly I indicated that taking into account the current reality of unproven reserves in our country, we needed to look at more prolific countries and invest in blocks producing crude oil particularly on the African continent. I further stated that this will require financial resources as exploration is quite a costly but necessary exercise. In September 2018 I specifically mentioned that I had begun a process of engaging with my counterparts in Nigeria, South Sudan and Equatorial Guinea as part of our intervention to mitigate future challenges.

As government we would want to get to a situation in which the prices of fuel compare favourably with those of oil producing countries. As recently as Tuesday the 26th of March 2019, I met the Minister of Energy of Botswana to explore areas of strategic cooperation between the two countries.

This strategy also includes facilitation of drilling for oil locally which has led to the recent oil and Gas find off the coast of Mossel Bay and the Shale gas potential in the Karoo. Our involvement in various parts of the Continent including South Sudan is informed by this strategy.

South Sudan is a significant oil producer with estimated reserves of 3.5 billion barrels of crude oil. It also has 3 trillion cubic feet (tcf) of natural gas in its estimated reserves. The country's reserves are ranked third largest on the African continent after Nigeria and Angola. To illustrate the magnitude of the gas reserves, the PetroSA Gas To Liquids Refinery has over the past 20 years only used 1 tcf of gas.

The country is land locked and to get its oil to the market, it is dependent on a pipeline passing through Sudan and incurs significant logistical costs. It is envisaged that a Joint Investment Project will assist South Sudan in finding an additional export route and in turn, bring strategic oil reserves to other markets including South Africa.

Towards the end of 2018, South Sudan invited South Africa to consider participation in the oil and gas sector in that country. If you familiarize yourselves with government processes, you will know that such participation can only be done through a Government-to-Government agreement. In the conclusion of a Memorandum of Understanding (MOU) between the two countries, all the Constitutional and legal processes undertaken have to

involve the Department of International Relations and Cooperation and the Presidency. The Presidential Minute empowering the Minister of Energy to sign the MOU on behalf of the South African government was duly authorized - without this, an MOU can never be concluded.

The Joint Investment Project value chain starts from an exploration block, to a pipeline, then to a new refinery and finally, to a new terminal. This will unlock the reserves of South Sudan to be self-sufficient, serve regional markets and will bring value, financially and strategically, for South Africa and South Sudan.

This is not only for South Sudan but for the East African region including Ethiopia, Tanzania, Uganda and Kenya, with Sudan creating a robust market that facilitates trade and other investment opportunities.

4. Sequence of events Leading to the Article

Leading to the Sunday Times article, the Journalist contacted the Director-General of National Treasury who explained to her how these matters are dealt with in government and specifically how this matter had been raised with National Treasury by CEF and SFF officials. As quoted verbatim by the journalist herself the Director General said the following: “The National Treasury met with SFF and CEF at their request. They wanted to understand what they needed to do to meet the requirements of the Standard for Infrastructure procurement and Delivery Management and the Public Finance Management Act. We agreed that once they complete the necessary work, including undertaking the feasibility study, they will come back to the National Treasury for the necessary approvals.” Essentially, the

National Treasury has been kept abreast on the developments of this project, while also seeking their advice on how infrastructure procurement will work, when the need arises.

5. A Detailed Analysis of the Article

I wish to proceed and deal with the misrepresentations in the article.

An energy expert would know that as a future potential equity partner in the joint investment project, South Africa could potentially do the following with the South Sudanese crude oil:

1. Swap it for any other suitable crudes.
2. Sell it into the open market
3. Uplift, refine it and bring finished products into the country.

5.1 Project Development & Resourcing

The development of such a project requires key critical skills which are scarce on the Continent such as geologists, refinery specialists, process engineers, economists, financial modellers, petroleum industry experts, business analysts, investment and funding specialists. The members of the team of experts mentioned in the article are all CEF Group employees with a proven track record in delivering on complex projects. They are not an additional financial burden to the Group.

There are six experts assigned to the South Sudan Project and twelve to the Saudi Arabia Refinery and Petrochemical Project who are also all sourced from within the CEF Group. How a conclusion is reached that the Saudi

Arabia project is not receiving adequate attention is an indication of the malicious intent of the so called source.

The CEO of the project has not been relieved of his current responsibilities as the acting CEO of SFF. His responsibilities in the project are therefore not an additional cost to the CEF Group. His primary responsibility on the South Sudanese Project is to oversee the feasibility stage. The long term plan is to ensure a transfer of skills and a sharing of key resources which will contribute to the development of both countries.

5.2 Project Approach

The project is still in the feasibility stage where a number of assessments are still being made. Therefore the project at this stage does not require any Cabinet or National treasury approvals.

5.3 Travel Costs

On the travel costs of this project, it stands to reason that a project of this magnitude requires coordination between various divisions within the CEF Group and their counterparts on the South Sudanese side, hence travelling of experts from both sides is necessary for prudent and timely execution of the project. To date, the Project has spent no more than R 2.2 million, which includes personnel costs and travel. The basis and source of the R20 million mentioned in the Sunday Times is misleading.

The hiring of an aeroplane to travel to Juba was due to a critical business need and was duly approved in line with Treasury Regulations after consultation with National Treasury.

5.4 Capital Investment (\$1bn)

The stated \$1Bn is the estimated cost of the full project including the oil block, pipeline and refinery which will be spread over a period of 10 (ten) years. A project of this magnitude passes through various phases of approval and execution. The amount mentioned is an indicative figure at this stage. As with similar projects of this nature, upon completing the feasibility study, the project has a potential to attract other strategic partners and/or investors which may include South Sudanese and South African companies.

5.5 Approval Processes

The signing of the Government to Government agreement was widely published in November 2018. The Project is now in the feasibility stage, which has been approved by the SFF Board. The cost of the studies is well within the SFF Board's delegation of authority. It is incorrect that the SFF Board rejected the expenditure related to the project.

The project has never been formally tabled before CEF Board for approval. It is therefore incorrect that CEF Board rejected the project as alleged in the article. The allegation that CEF Board rejected the request for approval of \$9m is also not true since this figure falls within the delegated levels of the SFF Board which does not require the CEF Board approval.

5.6 International investments in South Sudan

The assertion that two foreign governments has done a similar feasibility study and found that the venture did not make sense is not corroborated by the level of interest demonstrated by the activities of other countries in South Sudan. Out of five members of BRICS countries, three major players in the petroleum sector (i.e. Russia, China and India) are already in South Sudan. In addition, other multi-national companies have made significant investments in the country. Other important countries in South Sudan are Malaysia, Nigeria, Kuwait, and Saudi Arabia. Some oil majors having shown interest to work with South Africa to unlock the potential of South Sudan.

It is international best practice in the oil Exploration and Production industry, especially in countries that have a high demand which cannot be met by domestic production, to have equity interests in oil producing blocks outside of their countries. South Korea and one of India's state-owned companies have stakes in oil and gas projects in different oil producing countries. This project, if fully executed, will bring similar value for South Africa.

5.7 Non-factual information and faceless sources

Let me take this opportunity to address the issue of the removal of Mr Luvo Makasi as the Chairperson and a member of the CEF Board, as it has already been reported in the media. Mr Makasi was removed in his role following serious allegations relating to corruption that were brought to my attention. Mr Makasi was given an opportunity to make representations to me relating to these allegations. The representations were not sufficiently

persuasive given the information that had been presented to me. In future, I will not hesitate to take a similar decision should any office bearers place themselves in similar situations.

In dealing decisively with the corruption allegations before me, this kind of misleading information being paddled, smacks of an attempt to derail the clean-up process being undertaken and provides a divergent distraction to the task at hand. I will not be deterred in doing everything in my power to bring to book those allegedly involved in corruption at the CEF. The CEF Board has distanced itself from the grossly misleading information that the media alleges to have been supplied by the Board and other insiders. We believe the information is malicious and is intended to distract us from what is important and to sour the relationship with our South Sudanese counterparts.

A case in point is an allegation relating to the SFF Board meeting last week to ratify the expenditure *ex post facto*. No SFF Board meeting was scheduled for last week and none took place.

6. Way forward

In conclusion, I would like to thank everyone present here today and assure you all that the Department of Energy and its entities are open to honest and transparent engagements on this and other energy matters.

In the next couple of weeks, we will be engaging further on our broader energy plans and key initiatives. This is important in ensuring that we take the country along with us as we continue to deliver on the government's broader national energy imperatives.

Thank you.