global witness

A DUD DEAL

How SOCO dumped Congo oil block in contentious Africa exit

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Publicly listed SOCO International Plc disposed of one of its last Sub-Saharan Africa assets in a deal that breaches Congolese law and appears to make no commercial sense, Global Witness's investigation reveals.

Last year Sub-Saharan Africa waved goodbye to London listed oil company SOCO International. SOCO's history in the region has been mired in controversy. From 2007 to 2015, the company attempted to explore for oil in the Democratic Republic of Congo's Virunga National Park, a UNESCO-protected World Heritage Site, paying others who bullied or bribed anyone who got in its way.

SOCO left in a manner true to form. As part of its Africa divestment, it sold its operating stake in one of Republic of Congo's prime untapped offshore oil blocks, Marine XI, to an opaque shell company with no prior experience, cash or assets. That company – Coastal Energy Congo – promptly installed a close relative of the incumbent president to manage its local business and started to transfer payments to at least one "specialist" service provider connected to its CEO. SOCO failed to inform or seek authorisation from Congo's oil authorities prior to the sale, in breach of Congolese law.

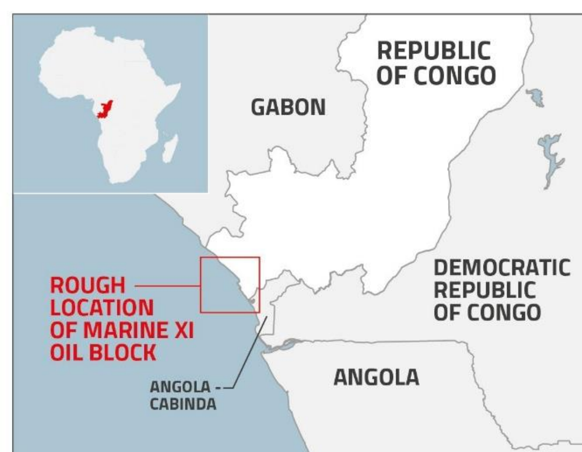
SOCO's deal does not appear to make commercial sense. It announced completion of the transaction without receiving any money and had at least one better offer, which it declined.

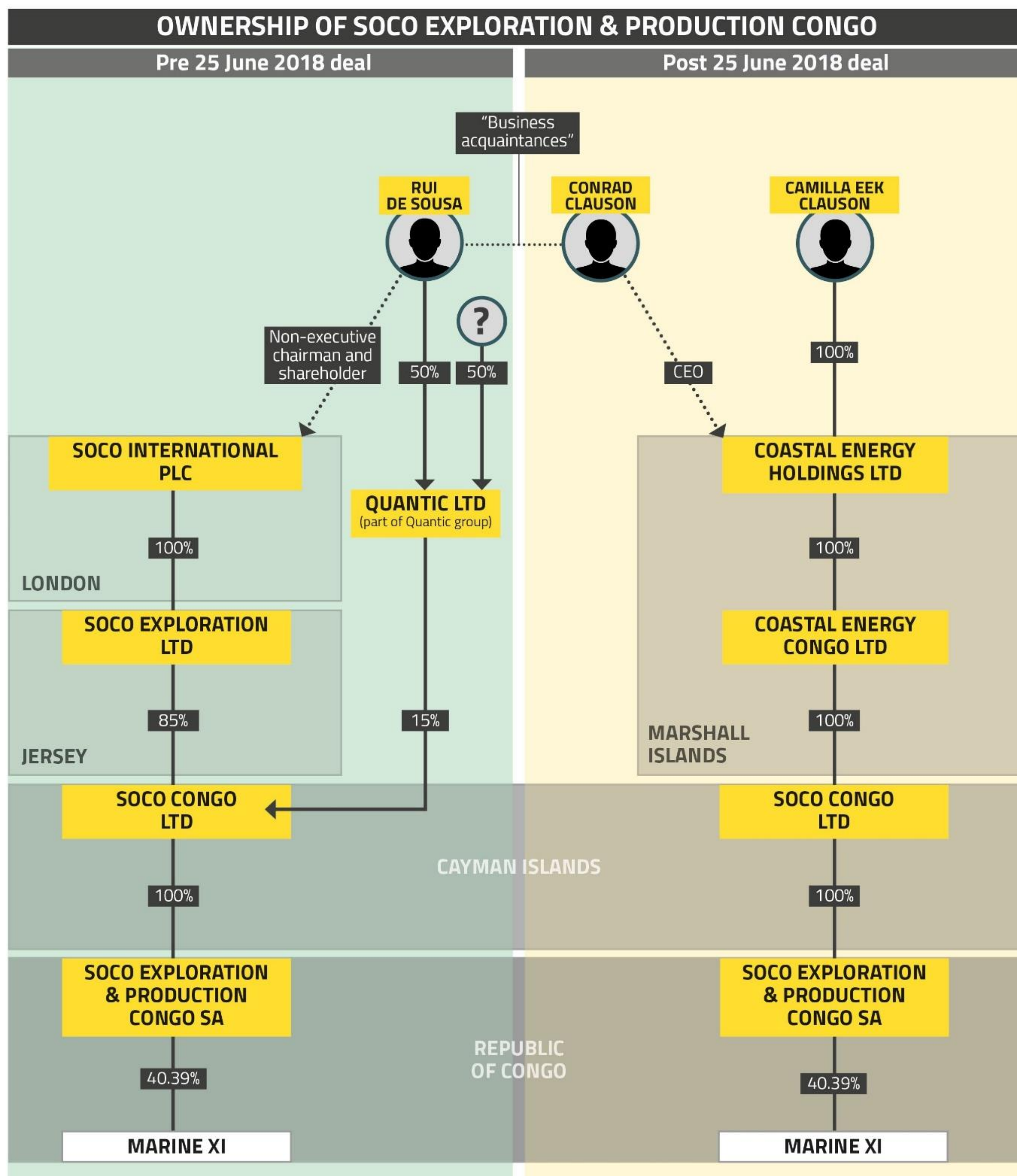
Overnight, the Congolese government found a dud in control of one of its oil blocks and SOCO's shareholders found themselves an asset short with nothing concrete to show for it.

For over two decades, Global Witness has investigated corruption in deals for natural resources. On first inspection, this one has many of the tell-tale signs, which require further scrutiny: a seemingly nonsensical deal; the absence of a competitive sale process; questionable payments to related companies; the use of anonymous companies registered in secrecy jurisdictions, which disguise their real beneficiaries; and the involvement of politically-exposed persons.

The Congolese oil authorities have begun to investigate; it is time UK regulators did the same.

MARINE XI OIL BLOCK, REPUBLIC OF CONGO





IN LIMBO: SOCO BREACHES CONGOLESE LAW THROUGH SALE IN ANOTHER JURISDICTION

On 25 June 2018, SOCO International announced that it had signed and completed an agreement to sell its entire shareholding in SOCO Congo Limited to a company called Coastal Energy Congo Limited. SOCO Congo fully owns SOCO Exploration & Production Congo SA (SOCO EPC), the entity holding the 40.39 per cent operating stake in the Marine XI oil block (see above graphic).

Only after extensive research could Global Witness confirm that Coastal – which shares a similar name with a much bigger South-East Asian oil company – is owned and run by two Norwegians, Camilla Eek Clauson and her husband Conrad Clauson, respectively (see box 1). Coastal appears to be little more

than a shell company, which was incorporated just months before the deal.

"*Coastal Energy is a SPV [special purpose vehicle]*," the company's lawyers told Global Witness when we first wrote to the company for comment in July 2018, "*so it's not like we could get someone to email you from a Coastal Energy email address, as one doesn't exist.*"

In its June announcement, SOCO reported that its Africa director, Serge Lescaut, would be retained in a "*similar role*" by Coastal, but he was let go shortly thereafter. Coastal instead hired Landry Gantsui, a close relative by marriage of Congolese president Denis Sassou Nguesso, as general manager of SOCO EPC and a consultant for SOCO Congo.

As a family member of the incumbent president, Gantsui is considered vulnerable to corruption, otherwise known as a 'politically-exposed person' (PEP). To say that someone is a PEP is not to say that they are corrupt. Rather, it refers to the risk that they could use their political position or influence to obtain improper benefits, financial or otherwise, for themselves or for a third party. If a company identifies a PEP in its business dealings, this should trigger a series of enhanced checks and processes to identify and mitigate corruption risks, known as due diligence.

Coastal did not respond to Global Witness's questions on whether it undertook due diligence on Gantsui prior to his appointment or the results of this, but stated that he was hired following a normal recruitment procedure and on the basis of his skills and experience. Coastal said his contract was terminated in October 2018.

SOCO and Coastal's deal took the Congolese oil authorities by surprise. SOCO Congo and Coastal Energy Congo are misnomers – both companies are incorporated far from the small central African state where they conduct their business, in the tropical archipelagos and renowned secrecy jurisdictions of the Cayman and Marshall Islands, respectively. SOCO Exploration Limited, the subsidiary of SOCO International that held its interest in SOCO Congo, is incorporated in Jersey – another island secrecy jurisdiction.

Coastal Energy Congo was incorporated in the secretive Marshall Islands in May 2018, just weeks before its deal with SOCO. ©Getty Images.

SOCO International officially informed the Congolese authorities of the deal on 27 June 2018 – two days after announcing its completion to the London Stock Exchange, according to documents seen by Global Witness.

Congo's 2016 oil law requires companies to inform and seek authorisation from the oil authorities prior to any change of operator of, or direct or indirect transfer of interests in, an oil block. Failure to do so renders the transaction void and with no legal effect.

The original production sharing contract signed by SOCO in August 2005 also clearly states that "*any transfer of interest in the*

rights and duties covering the permit zone, as well as any change of control of the entities comprising the contractor group, excluding affiliated companies, is subject to the approval of Congo" (article 19).

Congo's oil authorities had a conundrum: SOCO had breached domestic law, the deal had direct ramifications for Congo (it led to the transfer of control over the operator of one of its oil blocks) and only Congo (the Marine XI interest was SOCO Congo's sole asset), but it took place far from the country and outside its jurisdiction.

At this point, Congo's officials had two – equally unattractive – options: do nothing, or revoke the licence. The latter would set a precedent, however, and run the risk of deterring future investment.

Choosing neither, they instead commissioned a formal inquiry to establish whether Coastal had the technical and financial capacity to operate the block.

However, rather than visiting the Clausons, Coastal or its parent company Coastal Energy Holding Limited in the Marshall Islands, the team leading the inquiry instead went to Geneva, to the offices of a contractually-unconnected company, an oil consultancy called Swiss Upstream Advisors. The team was led by Teresa Goma, Congo's new *directrice générale des hydrocarbures (DGH)*, who had assumed her post a few months earlier in March 2018.

Swiss Upstream is run by Johann Padioleau and Philippe Michel, two French upstream oil experts. Padioleau, Michel and Goma are all former employees of various arms of the Geneva-based private investment firm, Addax and Oryx Group. The idea was that Swiss Upstream would bring the technical expertise to Coastal, while Conrad Clauson, Coastal's CEO, would source the funds.

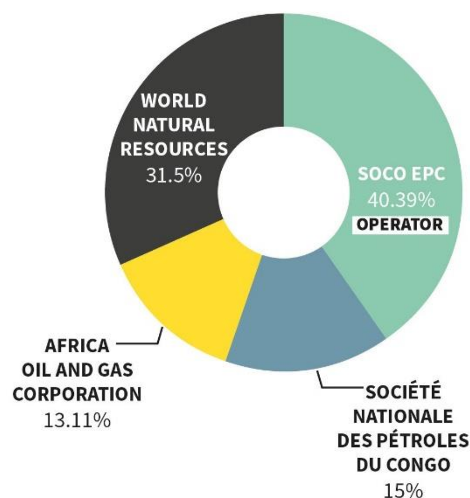
However, in November 2018 Swiss Upstream withdrew from the arrangement. Michel told Global Witness that this was due to "*systematic non-payment*" by Coastal, while Coastal said (two months later) that "*Swiss Upstream has been paid in full for its services […] connected with the transaction.*"

Shortly after Swiss Upstream's withdrawal, Congo's ministry of hydrocarbons issued the conclusion of its investigation, according to a letter sent to SOCO International and Coastal and seen by Global Witness: Coastal has failed to prove its technical and financial capacity, and the Congolese government does not therefore authorise the change in control.

Rather than revoking the licence directly on this basis, the ministry gave SOCO and Coastal another chance and requested that they present themselves "*as soon as possible*" to resolve matters.

Unanswered, the ministry sent a second request on 16 January 2019 for a meeting on 21 January 2019, this time threatening to revoke the permit. Neither company showed

MARINE XI OIL BLOCK INTERESTS



up, according to a source familiar with the affair.

Coastal told Global Witness that the situation is "*complicated*", that "*the Congolese law position is unclear*" and that it is "*currently exploring options to resolve the situation.*" SOCO said that its handling of the Marine XI deal had been transparent and legally compliant in all regards.

Congo's ministry of hydrocarbons declined to comment, citing confidentiality relating to an ongoing negotiation process.

Global Witness wrote to and called the DGH and Congo's national oil company, SNPC, which is a partner in the block, but did not receive a response.

What happens next is anyone's guess. The authorities could revoke the operatorship, as threatened, and either allocate it to another company or launch a public tender process. Or Coastal could sell its interest in SOCO EPC on – a classic 'asset flipping' procedure – but to whom, how and at what price?

"SUSPICIOUS" SUMS TRANSFERRED TO RELATED PARTIES

In the meantime, under Coastal's ownership SOCO EPC has been demanding suspicious sums in the form of 'cash calls' (see explainer opposite) from its partners in Marine XI, according to two sources with direct knowledge of the transactions.

In July 2018, for example, the sources told Global Witness that SOCO EPC transferred hundreds of thousands of dollars to two companies connected to Coastal's CEO – Viking Production Storage Solution and Thome Oil and Gas – for tasks that were not defined and agreed upon by partners beforehand.

Coastal's CEO Conrad Clauson is also CEO of Marshall Islands-incorporated Viking Production Storage Solution and his father-in-law, Olav Eek Thorstensen, is the executive chairman of Thome Oil and Gas, a ship management services company.

EXPLAINER: 'CASH CALLS'

Oil blocks are often run ('operated') by one company, but managed and financed by a group, known as a 'joint venture.' Together, the joint venture partners agree on a work plan and budget, and regularly pay 'cash calls' into a joint account to fund operations. SOCO EPC, as operator, is in control of the joint venture partners' joint account.

Coastal is "*raiding the accounts*" of the joint venture for the benefit of its CEO, Clauson, commented a source with knowledge of the transactions. "*Viking, it's himself, so he's charging fees to his own company!*"

> "[COASTAL IS] RAIDING THE ACCOUNTS [...] HE'S CHARGING FEES TO HIS OWN COMPANY!"
>
> **– Source with close knowledge of the transactions.**

Coastal told Global Witness that the cash calls related to the proposed strategy to develop the block for oil production, and were below the budget that was approved by partners prior to Coastal's involvement. The

BOX 1: THE CLAUSONS

Congo is not the first country with problems relating to a Clauson-owned company in its oil sector.

In July 2017, Tunisia's minister of energy issued a decree terminating the rights of Conrad Clauson's Viking Exploration and Production Tunisia Limited relating to its 'Isis' oil concession, citing an "absence of all contact" with the company [Isis is the name of the oil concession and has no relation to the so-called 'Islamic State'].

Four and a half years earlier in December 2012, the same company entered into a "farm-out" agreement with New York Stock Exchange listed Sonde Resources Corp for an offshore oil block straddling Tunisian and Libyan waters in the Gulf of Gabes. However, the agreement was terminated in November 2013 "*due to Viking's inability to fund*" its portion of the financial guarantee.

The Clausons' inability to source funding for their corporate ventures stands in stark contrast to their reported personal wealth. In 2006, three journalists published an in-depth report on the Clausons' connections to the Norwegian telecoms giant, Ventelo. Through their investigation, the journalists found millions invested in private jets, a luxury yacht and real estate, including in London.

Conrad Clauson is described in a 2013 announcement to the Toronto Stock Exchange as an "*entrepreneur with 20 years of experience in investment banking, shipping and oil & gas in Asia*," having held "*senior positions at Merril Lynch (Head of Norway) and Donaldson, Lufkin & Jenrette (Head of Scandinavia).*"

Clauson's wife and the owner of Coastal, Camilla Eek Clauson, is a daughter of Olav Eek Thorstensen, executive chairman of Thome Group, a frequent business partner of the Clausons' companies.

Coastal told Global Witness that Viking "*chose to withdraw*" from Tunisia's 'Isis' oil concession "*for commercial reasons.*" Viking "*took the decision not to proceed with the transaction*" with Sonde due to "*adverse technical findings in respect of the highly fractured nature of the field*," Coastal said.

company said that the service providers were selected as "*specialists in their fields*," that the contracts were struck on standard industry terms and at market price. "*Thome has not been paid any sums and/or received any form of compensation,*" Coastal added.

THE DEAL: SOCO'S SHAREHOLDERS APPEAR TO BE MISSING OUT

Back in London, things have gone from bad to worse for SOCO International's shareholders.

In June 2018, SOCO announced completion of the transaction (meaning the transfer of

its shares) without receiving any money. Whether SOCO will ever receive any money from the deal is conditional on certain events.

In September 2018 – well before the Congolese oil minister's judgment that Coastal is not qualified to operate the block – SOCO reported that the "*probability of success*" of the payment terms being met was between two and twenty per cent. In light of the oil minister's judgment, this chance has plummeted from unlikely to nigh impossible.

> "THE PROBABILITY OF SUCCESS [...] RANGES FROM 20% [...] to 2%"
>
> **– SOCO International 2018 Interim Results, September 2018.**

Global Witness has further seen documents showing that SOCO received at least one better, unconditional offer, which it declined.

Instead, the deal SOCO chose to sign involved a cash consideration of US$10 million conditional upon certain events, plus a royalty interest of up to US$1 per barrel on all future production from Marine XI. The US$10 million cash consideration was broken down into three tranches, as follows:

- US$1 million is due upon "*execution of the first agreement relating to the bonus payable*" for any of Marine XI's four exploitation permits. To date, none of the bonuses relating to the four permits issued in 2016 and 2017 have been paid.

- US$5 million is due within 10 days of "*formal approval of the first development plan on any of the exploitation permits*" in the block. In light of the oil minister's recent conclusion that Coastal is not qualified to operate the block, it seems unlikely that any development plan the company submits on behalf of the joint venture will receive the minister's approval.

- US$4 million is due within 20 days of either first commercial production or 31 December 2019. The Marine XI licence was issued in 2005, but 14 years later, it is yet to enter production despite proven reserves. This criterion too seems unlikely to be met before the end of the year.

SOCO EPC's office in Pointe-Noire, Republic of Congo.

"*If I retrace the story, [...] it really is astonishing that [SOCO International] did not demand more financial guarantees,*" commented Michel of Swiss Upstream.

> "IT REALLY IS ASTONISHING THAT [SOCO] DID NOT DEMAND MORE FINANCIAL GUARANTEES"
>
> **– Philippe Michel, founder and director, Swiss Upstream Advisors.**

Coastal told Global Witness that negotiations surrounding the deal took place "*on an entirely arms' length basis*" and that the deal was approved by SOCO International's board of directors following a "*confidential auction process*."

QUANTIC'S GIFT

Prior to the sale, SOCO International held 85 per cent of SOCO Congo via SOCO Exploration. The remaining 15 per cent was held by the nebulous "*Quantic group of companies,*" of which long-time executive of SOCO International, Rui De Sousa, is a 50 per cent beneficial owner, according to SOCO International's annual reports (see box 2).

SOCO made no mention of what happened to Quantic's shares in its June 2018 announcement of the sale.

In response to questions from Global Witness, Coastal and de Sousa independently stated that Coastal acquired the entire issued share capital of SOCO Congo, including Quantic's 15 per cent. However, while SOCO International's 85 per cent was to be delivered based on the terms outlined above, Quantic's shares were transferred for nil consideration, they said.

In other words, Quantic's shares were gifted to Coastal.

Quantic's "*B ordinary*" shares had ceased to have any meaningful value by the point of sale, de Sousa said. He specified that the shares had been held by a company called Quantic Limited, a member of the Quantic group.

Global Witness was unable to identify the owners of the other 50 per cent of Quantic group using open source information. De Sousa informed us that these shares were held by Mr. Maroun, who passed away in February 2018, and that they are now administered by his estate.

Through the ICIJ Offshore Leaks Database and open source information, Global Witness has identified at least eight "Quantic" companies connected to de Sousa, of which four are registered offshore in the British Virgin Islands, three in Lebanon and one in an unknown jurisdiction.

OUTSTANDING QUESTIONS

Why did SOCO International choose Coastal and in so doing not accept the better, unconditional offer? How could SOCO's management be so confident in June 2018 that the payment conditions would be met, which in fact looks extremely unlikely? And why were Quantic's shares simply gifted to Coastal?

SOCO International does not appear to be acting in the best interests of its shareholders.

The company's asset was sold under "*highly irregular*" conditions, in the words of an independent London-based oil financier. It received an unconditional offer, but instead chose a conditional one with what it has since reported as an 80 to 98 per cent chance of failure. The shares of its non-executive chairman, Rui de Sousa, held via his private company Quantic, were gifted to Coastal. And it now appears clear that SOCO will never receive any money from the deal, despite having transferred its shares.

> "[SOCO'S] ASSET WAS SOLD UNDER "HIGHLY IRREGULAR" CONDITIONS
>
> **– Independent London-based oil financier.**

BOX 2: RUI DE SOUSA AND QUANTIC

Rui de Sousa, a Portuguese oil trader, joined SOCO International in 1999, two years after the company was floated on the London Stock Exchange. He was accompanied at the time by the late Patrick Maugein, a friend of former French president Jacques Chirac. De Sousa became chairman of SOCO in 2006, a role he holds to this day.

After joining SOCO, Maugein and de Sousa became embroiled in corruption allegations surrounding Iraq's UN-supervised 'oil-for-food' programme. The programme was intended to alleviate the effects of sanctions on Iraqi civilians, but was instead used as a cash cow by Saddam Hussein's regime. Both men were reported to have been given lucrative oil allocations by Iraq. De Sousa was linked by an official inquiry and an investigative report in the Wall Street Journal to the smuggling of over 400,000 barrels of oil out of Iraq in 2001 in contravention of UN sanctions.

Maugein told the Wall Street Journal at the time that his dealings in Iraq "*were conducted in a perfectly legal manner*." De Sousa said that he simply "*went [to Iraq] to discuss potential investments*" and that the corruption scandal was "*a big hypocrisy*." Both individuals denied any wrongdoing.

In addition to his chairmanship at SOCO, de Sousa is a 50 per cent beneficial owner of the 'Quantic group of companies,' a director of Quantic Limited, which is part of the Quantic group and until 25 June 2018 held a 15 per cent interest in SOCO Congo, and former president of Quantic Mining.

Since July 2004, Quantic Limited received up to US$600,000 per year from SOCO International for vaguely defined consulting services. Global Witness first flagged these fees in 2014, which we noticed while investigating SOCO's attempt to explore for oil in UNESCO-protected Virunga National Park in DR Congo. The consultancy agreement was terminated following SOCO International's decision to exit West Africa, de Sousa told us in January 2019.

A British Virgins Islands-incorporated company called Quantic was caught up in a scandal of its own, having reportedly secured undervalued oil cargoes in 2003 from SNPC UK, the trading arm of Congo's national oil company SNPC. Global Witness understands that Denis Gokana, current oil advisor to Congolese president Sassou Nguesso, was responsible for marketing SNPC's oil at the time. As head of SNPC, Gokana also oversaw the 2005 Marine XI bidding process in which SOCO and eventually Quantic, via SOCO EPC, received an interest (see box 3). De Sousa was an owner and director of Quantic, and director of SOCO International at the time.

The whole thing is an "*enigma … a mystery*," said a source close to the deal.

Clauson and de Sousa are "*business acquaintances,*" the former told Global Witness. However, both individuals assured

us that there was no conflict of interest related to the deal. Clauson said that the two have “*no common direct or indirect interests in any business venture, nor have [we] ever entered into any transaction with one another.*” De Sousa added that the transaction was conducted on an “*entirely arm’s length*” basis.

Coastal “*strongly denies*” any allegations of corruption in respect of the transaction entered into between SOCO and Coastal in June 2018.

In response to a series of detailed questions from Global Witness, SOCO said that it “*strongly rejects*” any “*insinuation*” that it has been “*less than transparent and legally compliant in its handling of the transaction*” with Coastal Energy.

MARINE XI’S TAINTED PAST

The Marine XI oil block has weathered its fair share of controversy since the licence was first awarded in 2005.

That year, SOCO acquired the licence after it had already been awarded to a Canadian company called Energem Resources Inc. A contest over signature bonus bids between the two companies followed and SOCO won, despite offering US$15 million less than Energem.

Uproar ensued and an audit mandated by the IMF, which was in the process of negotiating Congo’s debt relief at the time, found the licensing process flawed and conflicts of interest rife (see box 3).

In March 2013 – five years before Coastal arrived on the scene – another company with no experience or major assets, financially backed by a major Swiss trading company

BOX 3: DENIS GOKANA, AOGC AND THE MARINE XI LICENSING PROCESS

One key conflict of interest flagged in the Marine XI audit surrounded Denis Gokana. Gokana was both head of Congo’s national oil company, SNPC, and owner of 90 per cent of local oil company AOGC when the Marine XI licence was allocated to SOCO in August 2005.

As head of SNPC, Gokana was in charge of overseeing the bidding process for Marine XI – the same block in which his company, AOGC, was awarded its first ever licence interest. AOGC received a 10 per cent interest alongside SNPC (15 per cent) and SOCO (75 per cent).

A few months earlier, AOGC made substantial payments to Long Beach, a company beneficially owned at the time by the Congolese president’s son Denis Christel Sassou Nguesso and that paid off his credit card bills, Global Witness revealed.

Gokana told Global Witness that he divested his interest in AOGC in November 2005, but at least one family member continues to occupy a position of control in the company. Gokana’s cousin Dieudonné Bantsimba is chairman of the board of directors (Bantsimba is also chief of staff to Congo’s minister of spatial planning and major projects (‘*ministre de l'aménagement, de l'équipement du territoire et des grands travaux*’), Jean-Jacques Bouya). Other news outlets continue to report Gokana as AOGC’s owner.

keen to remain in the shadows, managed to secure almost a quarter of the block. This deal, which was struck in secret and involved AOGC, a Congolese company connected to senior state officials (see boxes 2 and 3), is at the heart of a corruption probe led by Milan prosecutors into the business dealings of Italian oil major, ENI.

This story unravels in Congo, but its tentacles touch London, Geneva, the Marshall Islands, Jersey and the Cayman Islands, a British Crown dependency and British Overseas Territory, respectively. It has featured PEPs, anonymous shell companies, secrecy jurisdictions and London's main stock exchange – all regular features in Global Witness's two decades of investigating and exposing corruption linked to deals for natural resources.

It comes as Congo is on the brink of bankruptcy. For the second time in less than a decade, the country is negotiating another round of support from an international finance institution, the International Monetary Fund (IMF). Despite ranking as Sub-Saharan Africa's third largest oil producer, the country is one of just eight others worldwide in 'debt distress.' Congo's oil revenues do not appear to be making it into the coffers of the state: the country is struggling to repay and cover the costs of its debt, which currently exceeds GDP.

SOCO and Coastal's floundering features against this backdrop. This report has scrutinised a deal that does not appear to make commercial sense for SOCO's shareholders, which include major pension providers. The deal makes even less sense for Congo, which is yet to see Marine XI enter production and therefore yet to see any revenue from the block.

The IMF should take note of potential wrongdoing in the country's oil sector, its primary source of domestic revenue. Oil companies – already facing a global crisis of legitimacy – must adopt the highest standards in exploiting the sovereign resources of foreign countries, and those that fail to do so must be held to account.

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