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Talks between the government and the main opposition Resistência Nacional Moçambicana (Renamo) continue, but at a slow pace. President Filipe Jacinto Nyusi (2015- present) appoints new heads of the government-owned oil and gas company Empresa Nacional de Hidrocarbonetos (ENH) and the oil and gas sector regulator Instituto Nacional de Petróleo (INP). Government releases details of 5th oil & gas licensing round. A coal stacker collapses at Nacala port. Economic growth slows down. Moody's downgrades Mozambique's rating.

Talks between government and Renamo continue but remain slow

Talks between the government and main opposition **Resistência Nacional Moçambicana (Renamo)** delegations aimed at ending the on-going political crisis have focused attention on economic issues, but still not reached an agreement¹ (see *ARC Briefing Mozambique July 2015*). Renamo defended its call for sharing senior management of the state-owned enterprises between the political parties represented in parliament – **Frente de Libertação de Moçambique (Frelimo)**, Renamo and the smaller **Movimento Democrático de Moçambique (MDM)**.²

"The government delegation rejected categorically Renamo's proposal, saying that its principle is similar to those of other proposals discussed in earlier debates which were also rejected by the government. The team of national observers also disagrees with Renamo's proposal, although they recognise the need for more sharing of the resources among nationals. For the national observers, economic issues are something that need to be widely discussed, by all Mozambicans, without distinction of political party."³

Both Renamo and the government have toughened their rhetoric. It is uncertain whether they will reach a solution soon, although representatives of President **Filipe Jacinto Nyusi** (2015- present) and Renamo leader **Afonso Dhlakama** are reportedly in talks to hold a face-to-face meeting between the two leaders soon.⁴

"Afonso Dhlakama says a face-to-face meeting will only be fruitful when there is a guarantee that the government will consent to his demands. However, Nyusi says it is important to meet so that they can understand each other and together find solutions for the differences."⁵

Nyusi appoints new head of ENH

Nyusi appointed **Omar Mitha**, a "respected"⁶ former bank economist and immediate past deputy trade and industry minister, as head of Mozambique's state owned oil and gas company **Empresa Nacional de Hidrocarbonetos (ENH)**.⁷ ENH is important as the government-owned vehicle for holding stakes in oil and gas sector projects.

¹ Source, political analyst, Maputo

² Source, political analyst, Maputo

³ Source, political analyst, Maputo

⁴ Source, political analyst, Maputo

⁵ Source, political analyst, Maputo

⁶ Source, political analyst, Maputo

⁷ Multiple sources: Bloomberg, 8 Aug 2015; Source, political analyst, Maputo

Nyusi appointed Mitha deputy trade and industry minister in January 2015, after he won the October 2014 presidential election. Mitha is a native of **Cabo Delgado Province**, which is Nyusi's home region and also the location of gas projects that **United States (US)**-based **Anadarko Petroleum** and **Italy**-based **Eni** are developing. Mitha was previously chief economist at **Millennium Bim**, Mozambique's largest commercial bank.⁸

*"Mitha is from **Mocimboa da Praia District**, close to the Filipe Nyusi home district of **Mueda** and just few hours away from the resource-rich **Palma District** in the northern Cabo Delgado Province. His appointment is seen as [ethnically-motivated] as both Mithá and Nyusi are **Macondi**, a small but very popular Mozambican ethnical group from Cabo Delgado. Many Mozambican analysts regard Mithá's appointment as a sign that Nyusi is putting his [own] men to watch over the oil and gas business. Nyusi is the first Mozambican president from the north and for years there have been claims that people from the north have been excluded from business opportunities."*⁹

Mitha replaces **Nelson Arnaldo Ocuane**, chairman of ENH from November 2007. Ocuane's removal

*"... is seen as more controversial as he was in the middle of his four-year term in office while no bad reputation is known about him. He is regarded as a competent manager who was able to enhance ENH's financial strength and public image during the seven years he served the state company."*¹⁰

Ocuane, a trained geologist,¹¹ was a technocrat and previously director for studies and a board member at the **Instituto Nacional de Petróleo (INP)** (national petroleum institute), overseeing its exploration and licensing division between 2005 and 2007.¹² Mozambique's former national oil company **Empresa Nacional de Petróleo (ENP)** split from the INP in 2005 to become ENH. Ocuane played a key role at INP in Mozambique's second licensing round, launched in July 2005, as well as in preparations for the third licensing round in 2007.¹³ Ocuane also oversaw negotiations for the **Rovuma Basin** concessions that the government granted between 2005 and 2007. Ocuane has "gained respect for his competence and for his drive"¹⁴, notably for transforming ENH from

*"... a cash strapped undeveloped entity to an organisation that looks set to dominate Mozambique's investment scene. For a relatively small company, it has considerable power when it comes to dealing with investors."*¹⁵

Ocuane has never demonstrated political ambitions but his power at ENH suggests that he is well positioned should he choose to forge a political career.¹⁶ He is not known as owning any hidden business and "there has not been any news associating him with corrupt practices".¹⁷ Ocuane's departure from ENH could trigger concerns about the company's governance trajectory.

Nyusi appoints new head of INP

Mozambique's council of ministers confirmed the appointment of **Carlos Zacarias** as head of national petrol institute INP on 11 August.¹⁸ The INP regulates Mozambique's oil and gas sector. As INP head Zacarias is responsible for the launch and management of oil and gas exploration licensing rounds.¹⁹

⁸ Bloomberg, 8 Aug 2015.

⁹ Source, political analyst, Maputo

¹⁰ Source, political analyst, Maputo

¹¹ Source, ENH employee, Maputo

¹² www.mozambique-gas-summit.com

¹³ www.mozambique-gas-summit.com

¹⁴ Africa Confidential, 8 Aug 2014.

¹⁵ Africa Confidential, 8 Aug 2014.

¹⁶ Source, senior businessperson, Maputo

¹⁷ Source, business analyst, Maputo

¹⁸ www.opais.sapo.mz

¹⁹ www.opais.sapo.mz

Zacarias is an INP veteran who has worked for the regulator since 2004 and was recently head of INP's exploration division.²⁰

Government releases details of 5th oil & gas licensing round

The INP released details of bid applications for Mozambique's fifth oil and gas licensing round on 3 August.²¹ The INP launched the licensing round on 23 October 2014 and closed it after six months delay on 30 July with applications received for the following offshore blocks:²²

- **Angoche basin A5-A**
 - **ExxonMobil Exploration & Production Mozambique** with partner **RN-Exploration (Rosneft)**;
 - **Eni Mozambico**, with partners **Sasol Petroleum Mozambique Exploration** and **Statoil**;
 - Also, as a non-operator **Petroinveste Mozambique** and, separately **Namoza Natural Resources**;
- **Angoche basin A5-B**
 - ExxonMobil Exploration & Production Mozambique with partner RN-Exploration (Rosneft);
 - Eni Mozambico, with partners Sasol Petroleum Mozambique Exploration and Statoil;
 - **Total E&P Mozambique** with partner **Sonangol Hidrocarbonetos Internacional**;
 - Also, as a non-operator Petroinveste Mozambique and, separately Namozza Natural Resources;
- **Zambezi Delta Z5-C**
 - ExxonMobil Exploration & Production Mozambique with partner RN-Exploration (Rosneft);
- **Zambezi Delta Z5-D**
 - ExxonMobil Exploration & Production Mozambique with partner RN-Exploration (Rosneft)
 - Also as a non operator Namozza Natural Resources.

Applications were also received for onshore areas from:²³

- **Troisade Energia Mozambique** (Onshore areas PT5-B and PT5-C);
- **Shoreline Canoverseas Petroleum Development**, with partners **Bluegreen Investments** and **Indico Dourado** (Onshore area PT5-B);
- **Sasol Petroleum Mozambique Exploration** (Onshore area PT5-C);
- **Delonex Energy** with partner **Indian Oil Corp** (Onshore area P5-A).

There were also applications for areas not included in the fifth round from:²⁴

- **Eni Mozambico** (Reconnaissance - Angoche area)
- **Delonex Energy** (EPCC - Palmeria Northern Extension)

ENH will have a minimum 10% and up to a 30% interest in all fifth round licences.²⁵ INP will now evaluate the submitted applications on defined criteria, which include the health, safety, environment, financial strength, technical competence, capability and economic terms offered to the government. INP anticipates that it will announce the results within the next three months.²⁶

²⁰ www.opais.sapo.mz

²¹ www.oedigital.com

²² Unless otherwise noted - www.oedigital.com

²³ Unless otherwise noted – Multiple sources: www.oedigital.com; Source, political analyst, Maputo

²⁴ Unless otherwise noted – Multiple sources: www.oedigital.com; Source, political analyst, Maputo

²⁵ Source, political analyst, Maputo

²⁶ www.oedigital.com

Coal stacker collapse at Nacala port

A coal stacker collapse at the **Port of Nacala** will delay the efforts of **Brazil-based Vale** to start coal shipments from Mozambique in the third quarter of 2015.²⁷ The coal stacker, used to handle coal and other bulk materials, buckled in early August. Vale confirmed that the coal stacker was in the final stages of construction and could take up to a month to fix.²⁸ The contractors are investigating and an official report is expected imminently.²⁹

Vale is reliant on the port and connecting railway, together known as the **Nacala Corridor**, to reach capacity at its **Moatize** coal mine in **Tete Province** (see Mozambique map below). The railway runs for 900 km through land-locked **Malawi** to the Port of Nacala.³⁰ Vale expects Moatize's production to reach 11 million tonnes of coal per year in mid-2016 and 22 million tonnes in 2017. Current output is around 7 million tonnes. Vale was reportedly experiencing problems with its wash plant at the Moatize mine site, an issue that could see it miss its production target for this year.³¹

In December Vale sold a stake in the project to **Japan-based Mitsui & Co Ltd** in order to share the cost of getting it up and running. Mitsui bought a stake of just under 15% in the mine and 35% in the rail and port corridor operating company.³²

Vale may have the opportunity to attract coal customers closer to the mine site. **South Africa** government-owned power utility **Eskom** has said it plans to install an additional 6,250 MW of coal-based power after the completion of two new coal plants in **Medupi** and **Kusile**.³³

Economic growth slows down

The **Banco de Moçambique (BdM)** (central bank) stated on 24 July that Mozambique's economy grew 5.9% in the first three months of 2015 after expanding 8% in the preceding quarter.³⁴ The economy, which the government expects to grow at 7.5% this year, showed strong growth in the electricity and gas sector of 12.6% in the first quarter, along with 16.6% expansion in the mining sector.³⁵ Despite the positive economic growth figures, there is downside risk due to the weak demand for Mozambique's main exports. However, **NKC African Economics** said,

*"Nevertheless, real GDP growth is still projected at a healthy 7.1% this year, before accelerating to 7.5% in 2016, driven by the country's natural resource boom and infrastructure investment."*³⁶

South Africa-based **Standard Bank** has a less optimistic outlook,

*"... projections of slower economic growth this year at around 6.5% against a forecast of 7.5% from the Government of Mozambique, signaling a possible drop in the economic growth rate to 5.5% in 2016, as a result of the negative impact of a coal price drop, even considering the possible start of exports by mining company Vale Moçambique through the Nacala corridor. This forecast also reflects a temporary reduction in foreign direct investment and the need for a slower expansion of monetary aggregates to stabilise the metical and keep inflation under control ... reflecting the need to maintain fiscal consolidation measures by the government."*³⁷

²⁷ www.marinelink.com

²⁸ www.marinelink.com

²⁹ www.marinelink.com

³⁰ www.marinelink.com

³¹ www.marinelink.com

³² www.marinelink.com

³³ www.miningweekly.com

³⁴ Reuters, 24 Jul 2015.

³⁵ Reuters, 24 Jul 2015.

³⁶ Reuters, 24 Jul 2015.

³⁷ www.macauhub.com.mo

Despite the less optimistic outlook, the BdM monetary policy committee (MPC) on 13 August decided not to lower rates and to keep its benchmark-lending rate unchanged at 7.5%.³⁸ The MPC said the strength of the **United States (US)** dollar and the impact of falling commodity prices on the balance of payments posed risks to the economy.³⁹ The last MPC rate change was from 8.25% to 7.5% in November 2014.⁴⁰

Moody's downgrades Mozambique's rating

Moody's Investors Service downgraded Mozambique's government issuer rating to B2 from B1 and changed the outlook to negative on 7 August.⁴¹ The key driver for Moody's decision to downgrade Mozambique is the underperformance of its fiscal and debt metrics against its peers, which is expected to continue over the medium-term.⁴² The negative outlook reflects uncertainties over the government's strategy for covering its increasing external debt payments in foreign currency. The foreign currency deposits ceiling was lowered to B3 from B2, the foreign currency bond ceiling was changed to B1 from Ba3 and the local currency bond and deposits ceilings were lowered to Ba3 from Ba2.⁴³

Moody's has also downgraded the senior unsecured foreign-currency rating of government-owned **Mozambique EMATUM Finance 2020 BV** to B2 from B1 and changed the outlook to negative from stable.⁴⁴ The EMATUM bond takes the form of an \$850m loan participation note issued in September 2013 under a special purpose vehicle of the Mozambican government-owned fishing company **Empresa Moçambicana de Atum SA (Ematum)** (see previous ARC briefings for Mozambique).⁴⁵

Implications

Talks between the government and Renamo are progressing slowly. Renamo is unlikely to return to its low level insurgency of the past, and it is only a matter of time before a comprehensive political agreement is reached.

The impact of Nyusi's appointment of Mitha and Zacarias as head of ENH and INP respectively, is not known at the moment. However, it is clear that Nyusi has put individuals that he can trust in key agencies to guide the development of the strategic oil and gas sector.

The coal stacker collapse at Nacala port will delay the export of coal from Vale's Moatize mines and negatively impact Mozambique's overall coal export figures for 2015.

Moody's sovereign credit rating downgrade is the signal the slower economic growth will impact tax revenue and possibly affect the ability of the government to repay international creditors. There is an increased chance of the need for debt restructuring or an isolated sovereign default, particularly with regards to Ematum's outstanding debt.

Forthcoming political and business events

29 August - 6 September - **Maputo International Trade Fair**

³⁸ En.starafarica.com

³⁹ En.starafarica.com

⁴⁰ En.starafarica.com

⁴¹ www.moody's.com

⁴² www.moody's.com

⁴³ www.moody's.com

⁴⁴ www.moody's.com

⁴⁵ www.moody's.com



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