

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing March 2016

#### Mozambique Summary 14 March 2016

**Main opposition Resistencia Nacional Moçambicana (Renamo) leader Afonso Dhlakama said he is willing to resume peace talks only if foreign mediators are present. The European Union (EU) is concerned about the general deterioration of the political and security situation in Mozambique. President Filipe Nyusi (2015- present) appoints new Polícia da República de Moçambique (PRM) (national police) head. South Africa-based SacOil Holdings concludes agreement for the development of a natural gas pipeline from north Mozambique to South Africa. Brazil-based mining company Vale registers an impairment charge on its Mozambique coal assets. The government approves Italy-based ENI's floating liquefied natural gas project.**

#### Renamo to resume peace talks if mediators are present

Main opposition **Resistencia Nacional Moçambicana (Renamo)** leader **Afonso Dhlakama** said on 7 March that he would only resume peace talks with the government if his demand for the presence of foreign mediators is accepted.<sup>1</sup> The government has always stated that there is no need for the presence of foreign mediators to deal with a domestic dispute.<sup>2</sup> The impasse over the accreditation of foreign mediators will delay any eventual political settlement in **Mozambique**. President **Filipe Nyusi** (2015- present) has already appointed a team to prepare for a meeting with Dhlakama, which includes former security minister **Jacinto Veloso**, former justice minister **Benwinda Levi**, and member of the presidential staff **Alves Muteque**. Nyusi asked Dhlakama on 4 March to appoint a team of Renamo representatives for the proposed meeting.<sup>3</sup> Nyusi's request was in a letter to Dhlakama following a meeting on 24 February of the **Conselho Nacional de Defesa e Segurança (CNDS)** (National Defence and Security Council), which recommended the continuation of the government's efforts towards the resumption of dialogue with Renamo.<sup>4</sup>

*"Nyusi called for the National Defence and Security Council which decided to create conditions to resume dialogue with Renamo. Following this, Nyusi formally invited Dhlakama for a face-to-face meeting. Renamo reacted to the invitation with a demand for definition of a specific agenda, the acceptance for the mediation [see below]. Renamo has no other option but to return to dialogue and the main indication is that it has softened its approach, as now it is no longer demanding to rule the six provinces where it claims victory as a condition to resume negotiations with the government."*<sup>5</sup>

However, Dhlakama refused Nyusi's invitation. He said that he would only name his team once the foreign mediators were accredited.<sup>6</sup> Dhlakama said,

*"Renamo proposes that the government publicly accept the accreditation of mediators in order to show the Mozambican people and the world at large its commitment to peace and national reconciliation ... Once the accreditation of the proposed mediators has been accepted, the*

<sup>1</sup> Multiple sources: AIM, 8 Mar 2016; Lusa, 8 Mar 2016.

<sup>2</sup> AIM, 8 Mar 2016

<sup>3</sup> AIM, 8 Mar 2016

<sup>4</sup> Lusa, 8 Mar 2016.

<sup>5</sup> Source, political analyst, Mozambique

<sup>6</sup> AIM, 8 Mar 2016

*Renamo presidency will immediately present the list of members who will join the government team.”<sup>7</sup>*

Dhlakama wants the **Catholic Church**, the **European Union (EU)** and **South African** president **Jacob Zuma** (2009- present) to act as mediators. He claims to have contacted all three and to have received favourable responses to the idea.<sup>8</sup>

Mozambican mediators participated in the dialogue between the government and Renamo, which ran from April 2013 to August 2015. These mediators included prominent academic **Luourenço do Rosario**, Anglican bishop **Dinis Sengulane**, Catholic priest **Filipe Couto**, Methodist pastor **Anastacio Chembeze** and Muslim cleric **Sheikh Saide Abibo** (see previous ARC Briefings for Mozambique).<sup>9</sup>

### EU calls for end to attacks along roads

The EU is concerned about the “*general deterioration*” of the political and security situation in Mozambique and has said it wants an immediate end to the attacks attributed to Renamo in the centre of Mozambique, particularly along key national roads and highways.<sup>10</sup>

*“... there are still armed confrontations in some parts of the central region, and the number of military attacks to vehicles circulating in the main south-north highway has increased. One military convoy was added in the main road, and there are a number of schools, which were closed due to the conflict in some regions. The health, transport, tourism and trade sectors are some of the most affected. For instance, the number of vehicles travelling from south to north has reduced significantly and no one dares to travel for tourism.”<sup>11</sup>*

The call came ahead of EU foreign affairs commissioner **Frederica Mogherini**’s visit to Mozambique on 24 February. The EU has called on all parties to refrain from violence and to focus on rebuilding mutual trust.<sup>12</sup> As an immediate response, the government reinstated mandatory military escorts for vehicles travelling along the main **N1** highway between **Save** and **Muxungue**.<sup>13</sup> **Polícia da República de Moçambique (PRM)** (national police) spokesperson **Sofala Sididi Paulo** said,

*“This section was the scene of such incidents before [see previous ARC Briefings for Mozambique], and in the face of these latest developments, we decided to go back to the convoy system to protect the population.”<sup>14</sup>*

Mozambican media also reported clashes between Renamo and government security forces on 17 February and 23 February in **Gorongosa (Sofala Province)** and **Chimuará (Zambezia Province)** respectively.<sup>15</sup> The ongoing clashes between security forces and Renamo are signs that a peaceful solution to the political impasse (see previous ARC Mozambique briefings) is unlikely to come to fruition in the short term.<sup>16</sup> The 17 February clashes took place when armed Renamo gunmen attacked a **Forças Armadas de Defesa de Moçambique (FADM)** (armed forces of Mozambique) checkpoint. There were reports after the attack that the FADM killed one Renamo fighter.<sup>17</sup> The 23 February incident occurred when security forces opened fire on a suspected Renamo gunmen moving near the **Zambezi River** bridge. Neither the government nor Renamo reported any casualties.<sup>18</sup>

<sup>7</sup> Multiple sources: AIM, 8 Mar 2016; Lusa, 8 Mar 2016.

<sup>8</sup> Multiple sources: AIM, 8 Mar 2016; Lusa, 8 Mar 2016.

<sup>9</sup> AIM, 8 Mar 2016

<sup>10</sup> Lusa, 18 Feb 2016.

<sup>11</sup> Source, political analyst, Mozambique

<sup>12</sup> Lusa, 18 Feb 2016.

<sup>13</sup> www.clubofmozambique.com

<sup>14</sup> www.clubofmozambique.com

<sup>15</sup> Multiple sources: DW Moçambique, 18 Feb 2016; www.clubofmozambique.com

<sup>16</sup> Multiple sources: DW Moçambique, 18 Feb 2016; www.clubofmozambique.com

<sup>17</sup> Multiple sources: DW Moçambique, 18 Feb 2016; www.clubofmozambique.com

<sup>18</sup> Multiple sources: DW Moçambique, 18 Feb 2016; www.clubofmozambique.com

## Nyusi appoints new head of police

For reasons not yet clear, President Nyusi has replaced national police PRM head **Jorge Khalau** with **Julio Jane**, a former commander of the civic service in the FADM.<sup>19</sup> The new appointment took effect on 3 March. Khalau served as PRM head for seven years. It was widely perceived that he was unable to control organised crime and corruption with the PRM ranks.<sup>20</sup> The chairman of the **Ordem dos Advogados de Moçambique** (Mozambican Bar Association), **Tomas Timbane** said that the PRM constituted

*“... one of the weakest links in the Mozambican state ... The police do not exist to show service; they are there to serve us. We see the police detain citizens without any kind of proof, we see detainees with obvious signs of violence, arrested without warrant ... If we do not want the alternative to the rule of law to prevail, that is, that arbitrariness reigns, we urgently need to reform the police...”<sup>21</sup>*

## SacOil concludes agreement for Rovuma-Gauteng gas pipeline

South Africa-based **SacOil Holdings Ltd** along with Mozambique’s state-owned oil and gas company **Empresa Nacional de Hidrocarbonetos E.P (ENH)**, Mozambique-based **Profin Consulting Sociedade Anónima (Profin)** and **China Petroleum Pipeline Bureau (CPPB)** concluded a cooperation agreement on 1 March for the development of a natural gas pipeline from northern Mozambique to **Gauteng Province** (South Africa).<sup>22</sup> The cooperation agreement will lead to the construction of a 2,600km, large-diameter natural gas pipeline from Mozambique’s **Rovuma Basin** to Gauteng, which is expected to cost approximately \$6 billion.<sup>23</sup> The pipeline will deliver gas throughout Mozambique, which will help stimulate industrial development and provide affordable cleaner energy to consumers and reduce Mozambique’s overall energy import bill.<sup>24</sup> The pipeline will also allow SacOil to become a leading pan-African oil and gas company with upstream, midstream and downstream assets.<sup>25</sup>

A joint venture company will develop and manage the initial activities of the project including requisite pre-investment studies, which CPPB will conduct.<sup>26</sup> CPPB will pre-finance the studies up to bankable feasibility.<sup>27</sup> CPPB will also become lead arranger and have responsibility for procuring the debt-financing equal to 70% of the total project cost from **Chinese** financial institutions. South Africa-based **Public Investment Corporation (PIC)**,<sup>28</sup> which took part in the initial 2015 joint development agreement with SacOil that set out the terms for an evaluation of the technical and commercial feasibility of the construction of a gas pipeline and distribution facility,<sup>29</sup> is expected to make commitments to the project, but will not take part in the pre-investment stage.<sup>30</sup>

## Vale writes down value of Mozambique coal assets

**Brazil**-based international mining company **Vale** announced on 25 February that the company took an impairment charge on the book value of its coal assets in Mozambique in 2015.<sup>31</sup> Vale said the value of its assets declined from \$2.403 billion to \$1.729 billion.<sup>32</sup> The impairment on the asset is due

<sup>19</sup> Folha de Maputo, 4 Mar 2016.

<sup>20</sup> Lusa, 3 Mar 2016.

<sup>21</sup> Lusa, 3 Mar 2016.

<sup>22</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>23</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>24</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>25</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>26</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>27</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>28</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>29</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>30</sup> Multiple sources: www.esi-Africa.com; Oil Voice, 1 Mar 2016.

<sup>31</sup> AIM, 26 Feb 2016.

<sup>32</sup> AIM, 26 Feb 2016.

to lower coal prices and the increase in the costs of logistics in 2015.<sup>33</sup> An impaired asset is defined as one the market value of which falls below its book value, and is not expected to recover. Vale said that its earnings before interest, taxes, depreciation and amortisation (EBITDA) for its Mozambique operations recorded a loss of \$508m in 2015.<sup>34</sup>

Despite heavy losses, Vale has continued to invest in Mozambique.<sup>35</sup> In the last quarter of 2015, Vale spent a total of \$196m to expand its coal mine in **Moatize (Tete Province)** and spent a further \$259m on the **Nacala Logistics Corridor**, through which it will transport its coal through southern **Malawi** to a new coal terminal at the **Port of Nacala**<sup>36</sup> (see previous ARC Mozambique briefings).

Vale's production was 1.214 million tonnes in the fourth quarter of 2015, 108,000 tonnes lower than in third quarter of 2015.<sup>37</sup> Production of metallurgical coal increased by 8.9%, while production of thermal coal decreased by 12.6%. The share of metallurgical coal reached 72% in 2015.<sup>38</sup> The upgrade of the railway, connecting the Moatize site to the port of Nacala was completed at the end of 2015 with four coal shipments delivered as of January 2016.<sup>39</sup>

### Government approves Eni offshore Coral gas discovery

Mozambique's council of ministers approved, on 25 February, the development plan for **Italy**-based **Eni's Coral** discovery in offshore **Area 4**. The approval relates to the first phase of development of 5 trillion cubic feet of gas offshore for which Eni plans to develop a \$9 billion 3.4 million metric tonnes per annum (mtpa) floating liquefied natural gas (FLNG) plant.

*"This is a great step for the implementation of the Rovuma Basin gas projects ... however the LNG project will not transform Mozambique's economy quickly, as it will have a very limited impact in the economy in the short term ... this project is expected to create only around one thousand jobs."*<sup>40</sup>

The approval of Eni's FLNG project bodes well for the approval of **United States**-based **Anadarko Petroleum's** LNG project in Mozambique (see previous ARC Briefings for Mozambique). However,

*"Anadarko has not yet submitted its development plan for the project and still has to conclude the resettlement plan for the communities to be affected by the project in **Palma District** and secure enough sales agreements for its LNG, but this is a very challenging task due to the current environment of low oil prices."*<sup>41</sup>

Anadarko's project

*"... could fall into the list of non-urgent LNG projects due to the difficulties it is facing to close sales agreements. If this happens, the Mozambican government will have to reschedule its initial projections for dramatic GDP growth from the early 2020's."*<sup>42</sup>

### Implications

The government has always stated that there is no need for the presence of foreign mediators to deal with a domestic dispute. The impasse between the government and Renamo over the accreditation of foreign mediators will delay any eventual political settlement, which is not a positive sign with regard to the government's ability to promote Mozambique as a stable investment environment. The EU's

<sup>33</sup> AIM, 26 Feb 2016.

<sup>34</sup> AIM, 26 Feb 2016.

<sup>35</sup> AIM, 26 Feb 2016.

<sup>36</sup> AIM, 26 Feb 2016.

<sup>37</sup> www.minelistings.com

<sup>38</sup> www.minelistings.com

<sup>39</sup> www.minelistings.com

<sup>40</sup> Source, economist and mining industry specialist, Mozambique

<sup>41</sup> Source, government employed energy specialist, Mozambique

<sup>42</sup> Source researcher working for a local NGO concerned in the development issues, Mozambique

concern about the general deterioration of Mozambique's political and security situation will not help in attracting foreign direct investment beyond the extractive sector. Nyusi's appointment of a new PRM head is not expected to significantly improve Mozambique's short-term security situation.

The development of the SacOil pipeline will have a longer-term impact on Mozambique. It will help stimulate industrial development and provide affordable cleaner energy to consumers and reduce Mozambique's overall energy import bill.

The approval of ENI's FLNG project is a positive sign for Mozambique's offshore gas sector. The project will have limited short term impact and may, like other LNG projects in Mozambique, face delays due to the low commodity price environment.

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