

AFRICA RISK CONSULTING

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Mozambique Summary 23 March 2018

Russian foreign minister Sergey Lavrov meets with President Filipe Nyusi (2015-present) and Mozambique's foreign minister, Jose Pacheco, during a visit to Maputo, telling reporters that Russia and Mozambique plan to form a working group to develop military cooperation. The Global Group of Mozambique Bondholders (GGMB), which represents international creditors of Mozambique's debt, dismisses Mozambique's proposals to restructure its debt as a "non-starter". Australia-based Mustang Resources managing director Bernard Olivier announces that the Montepuez ruby project is expected to meet its targets. Australia-based Triton Minerals acquires Gregory James Sheffield's 20% stake in the Grafex graphite project, giving Triton a 100% stake in the mine.

Russia to increase military cooperation with Mozambique

Russian foreign minister **Sergey Lavrov** met with **Mozambique's** President, **Filipe Nyusi** (2015-present) and foreign minister **Jose Pacheco** during a visit to **Maputo** on 7 March.¹ Lavrov told reporters that Russia and Mozambique plan to form a working group to develop military cooperation,

*"[W]e have common positions with our Mozambican partners that a global priority is to create a front in the fight against terrorism. The terrorist threat continues, despite the efforts many countries make."*²

The military cooperation will be in addition to the five-year agreement Russia and Mozambique signed in January 2017 according to which Russia will provide Mozambique with arms and military equipment.³

In particular, Mozambique wishes for help in fighting militants in **Mocimboa da Praia** in northeast Mozambique, where reported **Islamic** militants have targeted police stations and civilians in armed raids since November 2017.⁴ The attacks have taken place near the **Rovuma Basin**, the area in which international oil companies, including Russia's largest oil producer, **Rosneft PJSC**, operate.⁵ The Mozambican government awarded three licences for offshore blocks to Rosneft in partnership with **United States (US)**-based **ExxonMobil** in 2015.⁶ However, it is unclear whether Exxon plans to continue with this partnership, having exited some joint ventures with Rosneft due to sanctions imposed in 2014.⁷ Lavrov did not seem aware that Exxon had ended its partnership with Rosneft in Mozambique, according to a source at Russia's ministry of foreign affairs:

*"Last I heard, the consortium is working with the corresponding entities of the government of Mozambique to formalise legal paperwork. If ExxonMobil has problems, they need to be sorted out."*⁸

¹ Bloomberg, 7 Mar 2018.

² Bloomberg, 7 Mar 2018.

³ TASS, 7 Mar 2018.

⁴ Bloomberg, 7 Mar 2018.

⁵ Bloomberg, 7 Mar 2018.

⁶ Bloomberg, 7 Mar 2018.

⁷ Reuters, 1 Mar 2018.

⁸ Source, ministry of foreign affairs of the Russian federation, 7 Mar 2018.

The same source noted that Russia's negotiations with the Mozambican government are underway, notwithstanding the US sanctions against Russia:

*"...as, prior to the bidding process, ExxonMobil and Rosneft agreed the terms and conditions of their relations in the block and these are not affected by the sanctions."*⁹

Lavrov also noted that trade and economic cooperation would correspond to the political dialogue.¹⁰ A bilateral commission on trade and economic cooperation is due to meet for the first time in April in Maputo.¹¹ Lavrov also visited **Angola, Namibia, Zimbabwe** and **Ethiopia** during his visit.¹²

Further details on the proposed military working group, or how it differs from previous military agreements between Russia and Mozambique, are not available.¹³ It is likely, however, that Russia plans to increase its presence and influence in the southern **African** region, and in the rest of Africa, to counter the vast influence of **China** and growing influence of **India** and **Turkey**.

Mozambique to present debt restructure proposal to creditors on 20 March

The **Global Group of Mozambique Bondholders (GGMB)**, which represents international creditors of Mozambique's debt, have dismissed Mozambique's proposals to restructure its debt as a "non-starter".¹⁴ Mozambique's economy and finance ministry presented its debt restructuring proposal and gave a fiscal and macroeconomic update to creditors at a meeting in **London (United Kingdom)** on 20 March.¹⁵ The government is hoping to gain better terms on the debt repayment, while creditors want payments to begin again. The finance ministry borrowed the funds, comprised of \$726m in bonds and approximately \$1.2 billion in loans, in a series of irregular deals in 2013 and 2014 that are now subject to a US justice department investigation.¹⁶ The finance ministry stated that:

*"The government remains committed to finding a consensual and collaborative resolution to the current debt situation through dialogue with the holders of the republic's direct and guaranteed external commercial obligations."*¹⁷

France-based asset management company **Lazard Frères SAS** is coordinating the talks between the government and the creditors, who have wanted talks on debt restructuring since Mozambique stated in October 2017 that it could not afford to service its commercial debt obligations.¹⁸ Mozambique has not met its debt obligations since January 2017.¹⁹

According to a source familiar with the talks, the government presented three possible scenarios to restructure the debt:

"Scenario one has the longest repayment schedule and the principal would only be repaid in year 14 and 16. So, assuming year one is 2019, no principal would be repaid until 2033 and interest would start at 2% and rise to 6%.

Scenario two has a shorter repayment period and the principal would be repaid in 10 to 12 years, with interest at 1.5% and rising to 5%. Creditors would also be expected to take a further 10% loss.

⁹ Source, political analyst, Maputo.

¹⁰ TASS, 7 Mar 2018.

¹¹ TASS, 7 Mar 2018.

¹² Club of Mozambique, 7 Mar 2018.

¹³ Source, political analyst, Maputo.

¹⁴ Reuters, 20 Mar 2018.

¹⁵ Reuters, 22 Feb 2018.

¹⁶ Wall Street Journal, 22 Feb 2018.

¹⁷ Reuters, 22 Feb 2018.

¹⁸ Bloomberg, 22 Feb 2018.

¹⁹ Bloomberg, 22 Feb 2018.

Scenario three was to be repaid in 8 years with a 2.8% interest throughout, though it would also mean a 20% haircut.”²⁰

The negotiations are likely to continue. The GGMB said on 21 March that it hoped that with some adjustments there could be “*good faith negotiations to reach a fair and equitable solution*”.²¹ Talks are scheduled to resume in four weeks on the sidelines of the **International Monetary Fund (IMF)/World Bank Group** spring meetings in mid-April.²² The refusal to restructure the debt caused Mozambique’s bonds to drop 4.6%, the biggest drop in a year.²³ The initial announcement of the debt restructuring had helped the bond gain 2%, which was the highest level since April 2016 when the bonds were first sold.²⁴

A Maputo economist believes that civil society organisations in Mozambique would prefer the government to pay nothing to the creditors,

“... and to renounce the entire \$2 billion debt as ‘odious’. They do not see why Mozambique should pay anything at all for a deal that was always illegal and has brought no benefit.”²⁵

However, the government is unlikely to do so:

“Mozambique would then be labelled as a bad payer and have limited access to financial markets and no way to deal with its mounting public debt and decreasing economic growth rate.”²⁶

While creditors rejected the initial offer, it is likely that they do not want to push the government into a place where there is political pressure to renounce the debt. This makes an interest write-off more likely, though it is unclear at this point what interest loss the creditors will accept.

Mustang Resources meets targets at controversial Montepuez ruby mine

Australia-based **Mustang Resources’** managing director, **Bernard Olivier**, announced on 18 February that the **Montepuez** ruby project is expected to meet its targets.²⁷ Mustang Resources’ ability to hit its targets may signal to other mining companies that Mozambique’s mines hold significant commercial opportunities, potentially increasing mining investment. Olivier stated that Mustang Resources developed 69 sampling pits during the final quarter of 2017 and is now implementing the plant optimisation programme.²⁸ Mustang Resources recovered 7,495 carats from the samples and, as of 31 January, has an inventory of 302,028 carats available for sale.²⁹

Mozambique’s minerals and energy ministry granted Mustang Resources a mining concession at Montepuez in October. The concession is close to those mined by UK-based **Gemfields** and its subsidiary, **Montepuez Ruby Mining Limitada (MRM)**.³⁰ Gemfields CEO **Sean Gilbertson** released a statement on 11 February announcing that UK-based human rights law firm **Leigh Day** has filed a claim against Gemfields and MRM alleging mistreatment of artisanal miners and seizure of land without due process in collusion with military forces at its Montepuez ruby mines.³¹ Mustang Resources is not named in the lawsuit.³²

²⁰ Source, analyst, Maputo.

²¹ Reuters, 21 Mar 2018.

²² Reuters, 21 Mar 2018.

²³ Bloomberg, 20 Mar 2018.

²⁴ Bloomberg, 22 Feb 2018.

²⁵ Source, economist, Maputo.

²⁶ Source, economist, Maputo.

²⁷ Mining Review, 18 Feb 2018.

²⁸ Mining Review, 18 Feb 2018.

²⁹ Mining Review, 18 Feb 2018.

³⁰ ABN Newswire, 28 Feb 2017.

³¹ Business Day, 13 Feb 2018.

³² Business Day, 13 Feb 2018.

Triton Minerals gains full ownership of Grafex graphite mine

Australia-based **Triton Minerals** has acquired **Gregory James Sheffield**'s 20% stake in the **Grafex** graphite project, giving Triton a 100% stake in the mine, according to reports on 23 February.³³ Triton plans to use the mine to raise more funds for further exploration in Mozambique. Triton will pay \$1.5m to Sheffield for the 20% stake in the mine, which is located 60 kilometres west of **Pemba** in northern Mozambique.³⁴ Triton's managing director, **Peter Canterbury**, said the acquisition of full ownership would assist Triton in its efforts to secure approvals in Mozambique as well as off-take and financing negotiations to support an investment decision in the second quarter of 2018.³⁵ The transaction was finalised on 13 March.³⁶ Canterbury stated that the company still needed the Mozambican government to formally approve the transfer of the legal title, but Triton would enjoy full economic benefit to the shares until a formal approval is received.³⁷

Planner

2019 **(Mozambique)** Scheduled national elections
 15 Oct 2018 **(Mozambique)** Scheduled municipal elections;
 25-26 Apr 2018 **Maputo (Mozambique)** 6th annual **Mozambique Mining, Oil & Gas, and Energy Conference and Exhibition (MMEC 2018)**

Chronology

21 Mar 2018 **(Mozambique)** *Reuters*. Creditors reject **Mozambique**'s proposal to restructure its debt;

20 Mar 2018 **(Mozambique)** *Reuters*. Mozambique's economy and finance ministry meets with creditors to present its debt restructuring proposal;

17 Mar 2018 **Maputo (Mozambique)** *IOL*. **South Africa**'s President **Cyril Ramaphosa** begins a working visit to Maputo as part of his duties as chair of the **Southern African Development Community (SADC)**;

13 Mar 2018 **(Mozambique)** *Journal du Cameroun*. Mozambique's inflation slows to 2.93% year-on-year in February from 3.84% in January;

7 Mar 2018 **(Mozambique)** *Bloomberg*. **Russia**'s foreign minister, **Sergey Lavrov**, meets with Mozambican President **Filipe Nyusi** to form a working group to develop further military cooperation;

5 Mar 2018 **(Mozambique)** *World Oil*. **Anadarko Petroleum Corporation** announces that the **Mozambican** government has approved the **Golfinho/Atum** LNG project which will be Anadarko's first onshore development in Mozambique;

5 Mar 2018 **Malabo (Equatorial Guinea)** *Oil Voice*. Mozambique and Equatorial Guinea sign a memorandum of understanding to promote the exchange of information and experience in respect to petroleum and mining policy;

23 Feb 2018 **(Mozambique)** *Reuters*. **Australia**-based **Triton Minerals** acquires **Gregory James Sheffield**'s 20% stake in the **Grafex** graphite project, giving Triton a 100% stake in the mine;

³³ Mining Technology, 23 Feb 2018.

³⁴ Mining Technology, 23 Feb 2018.

³⁵ Mining Technology, 23 Feb 2018.

³⁶ Mining Weekly, 13 Feb 2018.

³⁷ Mining Weekly, 13 Feb 2018.

18 Feb 2018 (**Mozambique**) *Club of Mozambique*. **Australia**-based **Mustang Resources** announces that the **Montepuez** ruby project is expected to meet its targets;

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