

AFRICA RISK CONSULTING

Country briefing – Mozambique

22 December 2013

Summary

Frelimo shortlists agriculture minister Jose Pacheco, defence minister Filipe Nhusse and prime minister Alberto Vaquina to succeed President Armando Emilio Guebuza (2005 – present) in 2014. The government approves a new mining policy and moves towards ending oil gas sector contract secrecy. South Africa based Sasol expects to start Mozambique's first commercial oil production in 2014. Brazilian mining company Vale plans to sell off some of its stake in Mozambique's Nacala Corridor rail transport project. The government signs two agreements for the construction of a new mineral port at Macuse (Zambezia Province) and a railway to link Macuse to the Moatize coal basin in Tete Province. Renamo gunmen attack two convoys in Sofala Province. Renamo misses another dialogue session with the Frelimo government. Fitch affirms Mozambique's 'B+' long-term foreign and local currency.

1.1 Frelimo shortlist three candidates to succeed Guebuza

The ruling **Frente de Libertação de Moçambique (Frelimo)** political commission has short-listed three candidates to replace President **Armando Emilio Guebuza** (2005 – present) as the party's candidate for the 2014 presidential election. The three candidates are agriculture minister **Jose Pacheco**, defence minister **Filipe Nhusse** and Prime Minister **Alberto Vaquina**.¹

"[There is]... not much policy debate inside Frelimo. Whoever is chosen will not adopt major policy changes ... there is less internal debate within Frelimo under Guebuza than under former president Joaquim Chissano." ²

Several factors play a role in the choice of Guebuza's successor.³

"Some say the next candidate should be from central or northern Mozambique as Frelimo is seen as a southern party and that is a stick the opposition can beat the government with. Some believe

¹ Multiple sources: www.bdlive.co.za; www.bloomberg.com

² Source, senior diplomat, Maputo.

³ *ibid*

there has to be a generation shift from elder to young. Moreover there are also those who want a candidate who will protect Frelimo's business spoils, or individual political spoils which makes the succession debate more complicated..."⁴

All three candidates are Guebuza loyalists from central or northern Mozambique.

- Pacheco is a trained agronomist from **Sofala Province**, the main region of support for rebel group **Resistência Nacional Moçambicana (Renamo)**. Guebuza and Pacheco are close – Guebuza allegedly favours Pacheco and started grooming him to take over soon after appointing him interior minister in 2005.
- Nhuse comes from Mozambique's far north **Cabo Delgado Province**. As a member of Frelimo's central committee who fought in Mozambique's war of independence from **Portugal** he enjoys a high level of respect inside the military establishment.
- Vaquina, born in Sofala Province, is a **Portuguese** trained doctor and former governor of the coal rich **Tete Province**.⁵

Frelimo was expected to make its final decision during a two-day 160 member central committee meeting scheduled for 22 December.⁶ However, Frelimo's political committee issued a press release on 18 December saying the central committee meeting would take place from 27 February to 2 March 2014. Frelimo members are not obliged to pick any of the shortlisted candidates and the gap until the central committee meeting is long enough for new candidates to emerge.⁷

"The great unanswered question is who will succeed Guebuza... Most people thought Frelimo would announce Guebuza's successor at its 10th congress in 2012, but it did not happen. There is no clear sign of who will succeed Guebuza. It is all speculation at the moment. Frelimo only had a transition once before from Chissano to Guebuza ... Guebuza was chosen over a year in advance... so all we can say is that they are not doing it the same way as before."⁸

⁴ Source, senior diplomat, Maputo.

⁵ Multiple sources: www.bdlive.co.za; www.bloomberg.com

⁶ ibid

⁷ AIM, 19 Dec 2013.

⁸ Source, senior diplomat, Maputo.

1.2 Renamo misses another dialogue session

Renamo failed to attend scheduled talks with agriculture minister Jose Pacheco (see above) at the **Joaquim Chissano Conference Centre** in **Maputo** on 9 December. The Renamo boycott was not a surprise as Renamo has refused to enter into talks with the government unless international mediators are present. The Frelimo government has allowed Mozambican observers to attend but has so far refused to allow international mediators. Renamo is now waiting for a response from a letter to Guebuza regarding their request for international mediators. Between May and September there have been 24 rounds of talks but Renamo refused to move beyond the first point on their agenda, electoral legislation reform.

Due to the stalled talks and Renamo's poor showing in the recent municipal elections, the rebel movement and opposition party may face an internal division between its so called 'military' and 'political' wings.⁹ The military wing does not have the resources, backing or will to embark on an effective long drawn out guerilla campaign (see *ARC Mozambique November 2013 Briefing*). Renamo MPs and local councillors who are an important component of Renamo's organisational base, "...are worried about their jobs and careers... and some feel [*Renamo leader Afonso*] **Dhlakama** led Renamo up a blind alley".¹⁰ However, there is no overt communication with Dhlakama, making it difficult to ascertain Renamo's internal political power dynamics.¹¹

1.3 Cabinet approves new mining policy

Deputy mineral resources minister **Abdul Razak Noormahomed** said on 17 December that cabinet approved a new mining policy, replacing the last policy adopted in 1998.¹² Parliament still has to vote on the policy which will increase minimum participation of state companies in new mining projects from 5% to 25%.¹³ The aim of the new policy is to ensure more citizens benefit from the development of Mozambique's mining sector.¹⁴

"Fiscal aspects of the mining policy are being discussed ... we have not seen the terms yet. They are very important to mining especially coal ... If the numbers do not add up it could be bad for investors ... Particularly for coal ... the key issue is are they going to tax coal production or coal sales.. In an

⁹ Source, senior academic, Maputo.

¹⁰ Source, senior Western diplomat, Maputo.

¹¹ *ibid*

¹² Multiple sources: www.reuters.com; www.miningweekly.com; www.jornalnoticias.co.mz

¹³ Multiple sources: www.reuters.com; www.miningweekly.com.

¹⁴ Business Monitor, 19 Dec 2013.



earlier mining policy draft the government said it would tax production ... international coal mining companies did not like this and it did not necessarily follow international best practice...”¹⁵

1.4 Fitch affirms Mozambique’s rating

On 29 November rating agency **Fitch** affirmed Mozambique’s ‘B+’ long-term foreign and local currency issuer default rating (IDR) with a stable outlook. Fitch says the drivers for the affirmation are the government’s demonstrated track record of prudent economic policy and reform, notably in the conduct of monetary policy, revenue collection and public financial management. Fitch forecasts Mozambique’s economy will grow 7% in 2013 and 8.3% in 2014, due to strong growth in the mining sector and financial services sectors.¹⁶ IDRs rate an entity’s relative vulnerability to default on financial obligations. The highest rating is ‘AAA’ while the lowest is ‘D’ for default.¹⁷

1.5 Government moves towards ending oil gas sector contract secrecy

Parliament is currently discussing a new hydrocarbons law. *“The idea is to have another oil and gas licensing round, but the government was advised to pass the new oil and gas legislation first.”¹⁸* A new oil and gas round is expected early in 2014.¹⁹ In the meantime, the government is working towards ending oil and gas sector contract secrecy and has asked companies to waive confidentiality agreements signed before legislation changed in 2011. Speaking in parliament on 3 December, mineral resources minister **Esperanca Bias** said the government has started to publish contract and concession agreements on their website. Bias said the decision came out of the law on public-private partnerships, mega-projects and business concessions passed in August 2011 which envisaged the publication of all contracts signed after that date.

South Africa based petrochemicals company **Sasol**, operating in **Inhambane Province**, has announced it will publish all contracts signed with the Mozambican government. **Companhia Moçambicana de Hidrocarbonetos (CMH)**, an affiliate of government owned oil and gas company **Empresa Nacional de Hidrocarbonetos de Mocambique (ENH)**, owns a 30% interest of **Sasol Petroleum Temane**, Sasol’s subsidiary operating in Inhambane.²⁰

¹⁵ Source, senior diplomat, Maputo.

¹⁶ www.reuters.com

¹⁷ www.fitchratings.com

¹⁸ Source, senior diplomat, Maputo.

¹⁹ *ibid*

²⁰ AIM, 6 Dec 2013.

1.6 First commercial oil production expected in 2014

Sasol announced on 28 November that it expects to start producing oil commercially in Mozambique in 2014. The production in the onshore **Inhassoro** field in the southern Inhambane Province is small and only expected to produce 2,000 barrels per day. The field is already producing natural gas.²¹ Sasol is described as a first mover in oil and gas exploration in Mozambique and produced over 236,000 barrels of light oil to the end of March this year as part of its field appraisal program. It plans to invest \$2.4 billion in Mozambique in a range of oil and gas projects into 2018, when Mozambique is expected to export its first cargoes of liquefied natural gas (LNG).²²

1.7 Vale wants to sell a stake in the Nacala corridor

Brazil based international mining company **Vale** plans to sell off some of its stake in Mozambique's **Nacala Corridor** rail transport project. Vale currently holds a 70% interest and is allegedly looking to sell a 35% stake. State owned **Portos e Caminhos de Ferro de Moçambique (CFM)** owns the remaining 30%. The Nacala Corridor project is focused on the construction of a railroad to transport coal from **Moatize** in central Tete Province to the Nacala port coal export terminal in **Nampula Province**. Vale is expected to retain control of the \$4.4 billion project.²³

1.8 Government signs new port and railways construction agreements

Transport minister **Gabriel Muthisse** and **Thai Moçambique Logística (TML)** signed two concession agreements on 14 December. The two concession agreements are for the construction of a new mineral port at **Macuse (Zambezia Province)** and a railway to link Macuse to the Moatize coal basin in Tete Province.²⁴ The 525km railway line is shorter than the existing 578km **Sena** railway from Moatize to **Beira** port. The new line will provide a much-needed alternative route for coal exports. The current capacity of the Sena railway is just 6.5 million tonnes a year. With upgrades this could increase to 20 million tonnes a year in 2015. However, mining company projections indicate that within the next decade coal exports will reach 100 million tonnes a year.²⁵ Construction is expected to start in 2016.²⁶

²¹ www.allafrica.com

²² www.voanews.com

²³ www.clubmozambique.com

²⁴ AIM, 15 Dec 2013.

²⁵ *ibid*

²⁶ *ibid*

The **Italian Thai Development Company** holds 60% interest in TML. Mozambique based private consortium **Zambezia Integrated Development Corridor (Codiza)** owns 20% and state owned CFM the remaining 20%.²⁷

1.9 Renamo attacks continue

Renamo gunmen attacked a bus travelling from the town of **Muxungue** (Sofala Province) to **Save River** along Mozambique's main north-south highway on 15 December. The attack took place on a bridge over the **Ripembe River**. Although the convoy had **Armadas de Defesa de Moçambique (FADM)** security escorts Renamo was able to kill one civilian and injure five others. Almost all Renamo attacks on the main north-south road have occurred along this 100 kilometre stretch of road.²⁸ This followed a similar attack on 1 December where Renamo gunmen killed two government soldiers in an ambush. FADM security escorts had engaged Renamo to protect the convoy and suffered two casualties.²⁹

2 Implications

The debate over who will succeed Guebuza will dominate the political arena until the decision is finalised at the Frelimo central committee meeting in late February 2014. All three short listed candidates maintain Frelimo continuity. There is little policy debate within the Frelimo leadership race and none of three candidates represents any significant Frelimo policy shift.

Parliament will now have to review and pass the new cabinet approved draft mining policy into law. Investors are advised to wait until the new draft policy is presented to parliament for debate and passed into law, ahead of making new investment decisions as little information on the new draft policy is known at the moment.

Sofala Province is Renamo's stronghold and main area of operation. Renamo continues to pose a security threat in Sofala Province, but is unlikely to represent a wider risk to Mozambique's overall security and stability. Renamo's boycott of the talks may signal divisions within the party which, if true, will further complicate the negotiations and possibly weaken any eventual deal.

²⁷ AIM, 15 Dec 2013.

²⁸ AIM, 16 Dec 2013.

²⁹ www.clubmozambique.com



The construction of new railways and ports are positive developments but will take years to complete. Mozambique's export capacity, and therefore its economic potential, will remain constrained. The unchanged Fitch rating affirms Mozambique's upward economic trend and that will be enhanced with the start of commercial oil production in 2014.