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President John Magufuli (2015-present) suspends the China-backed \$10 billion Bagamoyo port project citing investors' "exploitative and awkward" financing terms. This will improve Magufuli's relations with Western governments, which have gradually distanced themselves from him since he came to office. United Kingdom (UK)-based Acacia Mining rejects a takeover bid by its majority shareholder, Canada-based Barrick Gold. The UK's Panel on Takeovers and Mergers agrees to extend the bidding deadline until 19 July. Political and trade relations between Tanzania and Kenya improve significantly following President Uhuru Kenyatta's (2013-present) two-day visit to Magufuli's home. The leaders have agreed on a natural gas trade arrangement, to revamp the Lake Victoria Ferry Services, and to deal firmly with insecurity as well as enhancing cross-border investments.

Magufuli suspends China-backed Bagamoyo port project

President **John Magufuli** (2015-present) told a delegation of business people at **State House** in **Dar es Salaam** on 14 June that he has suspended construction of the **China**-backed \$10 billion **Bagamoyo** port project because of "*exploitative and awkward*" financing terms presented by the investors.¹ Magufuli's sudden move jeopardises China's plans for regional connectivity through its **Belt and Road Initiative (BRI)** and might endear Magufuli to Western governments once more after recently falling out of their favour for his authoritarian tendencies.² China is yet to issue a statement on the suspension of the port project.

Magufuli said the "*tough [financial] conditions...can only be accepted by mad people.*" Magufuli told State House that the Chinese backer said, "*once they build the port, there should be no other port to be built all the way from **Tanga** to **Mtwara** south.*"

*"They want us to give them a guarantee of 33 years and a lease of 99 years, and we should not question whoever comes to invest there once the port is operational. They want to take the land as their own but we have to compensate them for drilling construction of that port."*³

Magufuli said the \$50m compensation allowance for displaced people in the Bagamoyo port project "*did not reach the beneficiaries in Bagamoyo but was diverted to benefit a few individuals in Dar es Salaam.*" Magufuli also argued that the construction of Bagamoyo port would undermine the ongoing \$522m expansion of Dar es Salaam port. The expansion will triple the current capacity of Dar es Salaam port when complete by the end of 2019.

Tanzania Ports Authority director general **Deuseddit Kakoko** has said that China asked the Tanzanian government to guarantee compensation for any losses during the project implementation and several tax waivers including lands tax, workers' compensation tax, skills development levy and customs duty, and Value Added Tax:

*"Tax calculations and audits were set to be undertaken in China and this would have been possible because they would be controlling all cargo, port and logistics."*⁴

¹ The Telegraph, 27 Jun 2019

² Source, analyst, London

³ President John Magufuli quoted in The Telegraph, 27 Jun 2019

⁴ Deuseddit Kakoko quoted in The Telegraph, 27 Jun 2019

The project is expected to result in the largest gateway in **East Africa** and is a key component in China's \$900 billion Belt and Road Initiative, the country's global infrastructure building programme. An initial agreement was signed in March 2013 during the visit of China's president **Xi Jinping** (2012-present) as part of a \$556m infrastructure package deal. The agreement provided that at least \$500m of the package be set aside in 2013 to kick-start the project. An initial project brief indicated the port was planned to occupy 800 hectares and set aside another 1,700 hectares for a **Portside Industrial Zone**, which would be developed under tripartite agreement of the Tanzania government, **China Merchants Holdings International Co. Ltd (CMHL)** and the **Omani State Government Reserve Fund**. The port would have handled nearly 20 times more cargo than the Dar es Salaam port, with the first phase initially slated for completion in 2017.

Former **World Bank** lead transport specialist **Anil Bhandari** has said that the Bagamoyo port project is not sustainable under its current structure and can only attract business if developed as a regional maritime initiative:

*"Bagamoyo port is too big for Tanzania and is too close to Dar es Salaam but because of the deep natural harbor at **Mbegani** site, the port can still make sense if it is developed as a regional port to be owned by the **East African Community** members of **Kenya**, **Tanzania**, **Uganda**, **Rwanda** and **Burundi** through an authority or agency. Kenya is currently modernising **Mombasa** port and constructing a 32-berth **Lamu** Port at **Manda** bay as part of the **Lamu Port South Sudan-Ethiopia Transport [LAPSSET]** corridor, while Tanzania is upgrading Dar es Salaam, expanding Mtwara port and now planning a new one at Bagamoyo, yet both countries are targeting same markets of Uganda, Rwanda, Burundi and parts of **Democratic Republic of the Congo**. The strategy is to divide traffic into and out of these markets which in my view is not viable in the long term."*⁵

Barrick moves to buy out Acacia Mining to end dispute with Tanzanian government

United Kingdom (UK)-based **Acacia Mining** rejected a takeover bid by majority shareholder **Canada**-based **Barrick Gold** on 27 June and the UK's **Panel on Takeovers and Mergers** agreed to extend the bidding deadline until 19 July.⁶ Barrick has said that the buyout is the only way to end the company's two-year dispute with the Tanzanian government over unpaid taxes (see *ARC Briefing Tanzania January 2019* and *ARC Briefing December 2018*). Acacia's share price on the UK's **London Stock Exchange (LSE)** has steadily increased since 5 July and currently stands at 187p at time of writing.⁷

Barrick made an offer worth 196p per share on 21 May to buy the 36.1% stake of Acacia it does not already own.⁸ However, the offer was opposed by several Acacia minority shareholders on the grounds that the proposal ignored the value of Acacia's exploration and development assets, as well as the rights it holds over any future investment by Barrick in **Africa**. UK-based hedge fund **Odey Asset Management (Odey)**, a minority shareholder at Acacia, said on 10 July that it would reject any offer that is not higher than 271p per share, thus increasing the pressure on Barrick to raise its offer for Acacia.

Acacia released a study by **SRK Consulting (SRK)** on 9 July which said the "*preferred value*" for Acacia was 271p a share. Acacia said the SRK report was based on eight months of work and a gold price of \$1,300 an ounce. Odey said the gold price used was an "*arbitrary number*" since gold is currently trading closed to \$1,400 a troy ounce, which would imply an even higher valuation for Acacia. Analysts at **United States (US)**-based investment banking company **Jefferies** said that a valuation of 271p would require Barrick to offer 0.211 Barrick shares per Acacia share, compared to Barrick's original offer of 0.153 shares for each Acacia share.

⁵ Engineering News Record, 25 Jun 2019

⁶ The Citizen, 27 Jun 2019

⁷ www.londonstockexchange.com

⁸ FT, 10 Jul 2019

Acacia announced on 8 July a 51% increase in output at its **North Mara** mine to almost 159,000 ounces of gold in the three months to June, up from 105,000. Acacia also announced a 13% increase in mineral reserves at North Mara mine. The timely announcements are intended to push up the price of Acacia during the buyout process. However, Barrick later issued a statement questioning the sustainability of Acacia's reported improved production capabilities.⁹

*"The improved production results...were achieved principally by developing and mining in the very high-grade **Golden Banana 2** portion of **Gokona** underground mine, which at 27.5 grams [of gold] per tonne is far above the corresponding Gokona underground proven and probable mineral reserve grade of 5.53g/t...Accordingly, it is unsustainable to maintain the underground mined grade of second quarter production, especially when probable mineral reserve replenishment is only being added at a grade of 4.74g/t."*¹⁰

Barrick says that the buyout will end its two-year dispute with the Tanzanian government. The dispute stemmed from a \$190 billion penalty issued by the government for under-declared export revenue since 2000. A deal was reached on 20 February in which Acacia paid a fine of \$300m to resolve the outstanding tax claims.¹¹ However, recently appointed mining minister **Dotto Biteko** subsequently threatened Acacia's North Mara mine with closure in March for a water spillage.¹² Acacia has since reported that the water spill has stopped.¹³ Acacia issued a statement on 24 June blaming Barrick for the company's poor relations with the government:

*"Barrick's intervention in Acacia's negotiations with the government of Tanzania, the length of time Barrick's negotiations... have taken, and the way they have managed their direct negotiations, have had the effect of undermining Acacia in Tanzania...Further, Acacia believes the perception that Acacia has been the roadblock to the settlement has led to a material deterioration of Acacia's operating position in Tanzania."*¹⁴

Trade relations with Kenya are on the up

President John Magufuli and Kenya's President **Uhuru Kenyatta** (2013-present) agreed on four trade deals during Kenyatta's two-day private visit to Magufuli's home in **Mlimani, Chato**, between 5 and 7 July.¹⁵ The deals include establishing a natural gas trade arrangement, revamping the **Lake Victoria Ferry Services**, and dealing firmly with insecurity as well as enhancing cross-border investments. A joint statement said that the energy ministries of both countries will start talks on required policies and infrastructure. The move indicates that both leaders intend to improve political and trade ties which have deteriorated over the past few years. With the **African Continental Free Trade Agreement (AfCFTA)**, the world's largest trading bloc, having come into force in May, Tanzania and Kenya's agreements could not have come at a better time for both countries.¹⁶

A major outcome of the visit was Magufuli and Kenyatta's agreement to explore trading in natural gas. Tanzania has so far discovered more than 56 trillion cubic feet (Tcf) of natural gas and is currently engaging international oil companies individually on the terms of developing a \$30 billion liquefied natural gas (LNG) project. **Norway-based Equinor ASA, Netherlands-based Royal Dutch Shell Plc (Shell)** and UK-based **Ophir Energy Plc** own natural gas blocks in Tanzania. Magufuli said,

*"We have natural gas, a lot of gas. We know Kenya needs gas. Instead of Kenya importing gas from outside East Africa, they should buy from here."*¹⁷

⁹ FT, 10 Jul 2019

¹⁰ Press Release - Further Update Concerning Acacia Mining plc, Barrick, 9 Jul 2019

¹¹ Mining Review, 11 Mar 2019

¹² Financial Times, 8 Mar 2019

¹³ Financial Times, 8 Mar 2019

¹⁴ FT, 10 Jul 2019

¹⁵ Standard Media, 8 Jul 2019

¹⁶ Source, analyst, London

¹⁷ World Oil, 7 Jul 2019

Shell said on 9 July that Tanzania's natural gas has the benefit of having the lowest carbon intensity in the multinational corporation's entire portfolio.¹⁸ Shell said that, once complete and fully operational, Shell's **Tanzania LNG** plant will be unique in the oil and gas industry with respect to carbon footprint. This will improve the attractiveness of Tanzania's natural gas and increase investments and demand in the sector. Following this news, Kenya is likely to be one of many countries with a keen eye on Tanzania's abundant natural gas.

Tanzania's government said on 5 July that it has agreed to sell surplus maize to Kenya after Kenya announced it would open a window for duty-free importation of 12.5 million bags.¹⁹ The deal is aimed at bridging a shortfall in production in Kenya. Imports are expected to start at the end of July and last until the end of October. In addition, Magufuli and Kenyatta agreed to revive the regional ferry service and noted that regular maritime travel from **Kisumu, Mwanza, Bukoba** and other ports would help create employment, enhance connectivity and spur related economic activities.

Magufuli's invitation to Kenyatta is seen as an end to simmering trade hostilities between the two countries. The rapprochement comes after Tanzania and Uganda imposed duties on Kenyan confectionery and sweets last year (see *ARC Briefing Kenya July 2018*). While both Kenya and Tanzania are part of the **East African Community's (EAC) Common Market**, which provides for the free movement of locally manufactured goods between member states, this has not prevented the tit-for-tat imposition of duty fees. Kenyan manufacturers are frustrated by Tanzania's push-back over duty-free sugar imports after the country slapped the commodity with a 25% duty. Kenya had in return banned gas imports from Tanzania. Tanzania has also been faulted for charging Kenyan businessmen \$500 for work permits, while Kenyan retailers doing business in the region, including **Uchumi** and **Nakumatt**, have folded without settling their supplier debts.

Trade disputes have incurred heavy costs for the manufacturing sector in both Tanzania and Kenya, particularly for metal and automotive companies (see *ARC Briefing Tanzania March 2019*).²⁰ In 2018, Tanzania's intra-EAC imports declined by 18.6% to \$243.2m, largely due to reduced imports from Kenya.²¹ In the same year, 20% of EAC trade was between member states, whereas intra-regional trade in the **Southern African Development Community** was at 46% and in the **European Union** it was 67%.²²

Planner

12-13 Jul 2019 **Dar es Salaam (Tanzania)** Tanzania Cashew Nuts Forum;
 Aug 2019 **Dar es Salaam (Tanzania)** Southern African Development Community summit;
 27-29 Sep 2019 **Dar es Salaam (Tanzania)** Tanzania Oil, Gas & Mining Expo;
 7-9 Nov 2019 **Dar es Salaam (Tanzania)** Power & Energy Africa;
 2020 **(Tanzania)** *Africanews*. General elections;

Chronology

11 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. The **Finnish** ministry of foreign affairs and the Tanzanian **Human Rights Center** sign a \$1.69m agreement to strengthen human rights and citizen participation in Tanzania's electoral process;
 10 Jul 2019 **Dar es Salaam (Tanzania)** *Committee to Protect Journalists*. The **Committee to Protect Journalists** demands that the Tanzanian government provide details about missing Tanzanian journalist **Azory Gwanda**;

¹⁸ Tanzania Daily Star, 10 Jul 2019

¹⁹ The Citizen, 5 Jul 2019

²⁰ The East African, 9 Mar 2019

²¹ The East African, 27 Feb 2019

²² www.eac.int, 6 Dec 2018

8 Jul 2019 **Dar es Salaam (Tanzania)** *BBC*. Foreign minister **Palamagamba Kabudi** says that Tanzanian journalist **Azory Gwanda** is dead;

8 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. A **Chinese** delegation led by the vice chairman of the **China Council for Promotion of International Trade, Liu Xiaojiang**, visits Dar es Salaam for two days;

7 Jul 2019 **Dar es Salaam (Tanzania)** *Tanzania Daily News*. The **National Malaria Control Program** says Tanzania is set to eliminate malaria by 2030;

7 Jul 2019 **Dar es Salaam (Tanzania)** *Bloomberg*. President **John Magufuli** and President **Uhuru Kenyatta** agree on four key deals, including plans to explore natural gas trading;

7 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. The **Tanzania Meat Board** says the country has cut meat imports by almost three times from 1,402 to 517 tonnes this year;

6 Jul 2019 **Dar es Salaam (Tanzania)** *The East African*. Parliament amends the punitive **Statistics Act** that criminalised the publishing of non-official data;

6 Jul 2019 **Dar es Salaam (Tanzania)** *The East African*. Foreign affairs minister **Palamagamba Kabudi** says **China** has declared its intention to finance Tanzania's flagship **Standard Gauge Railway** project;

5 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. Government says it will sell surplus maize to **Kenya** after Kenya announced it would open a window for duty-free importation of 12.5 million bags;

4 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. Latest **National Bureau of Statistics'** figures show national electricity connectivity of 30% in 2017/18, which is behind target;

1 Jul 2019 **Dar es Salaam (Tanzania)** *The Citizen*. Government announces it will develop a publicly accessible portal of mining contracts to boost transparency around agreed-to terms in the sector;

27 Jun 2019 **Dar es Salaam (Tanzania)** *The Citizen*. **United Kingdom**-based **Acacia Mining** rejects a takeover bid by majority shareholder **Canada**-based **Barrick Gold**;

24 Jun 2019 **Dar es Salaam (Tanzania)** *The Citizen*. **Air Tanzania** resumes flights to **OR Tambo International Airport (South Africa)** to attract tourists and business travellers;

24 Jun 2019 **Dar es Salaam (Tanzania)** *The Citizen*. **Bank of Tanzania** (central bank) announces that interested parties can now apply for a foreign exchange bureau licence under new regulations;

17 Jun 2019 **Dar es Salaam (Tanzania)** *The East African*. Deputy minister for industry and trade, **Stella Manyanya**, tells parliament that Tanzania has secured a market for its rice and maize in seven countries;

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