

AFRICA RISK CONSULTING

Mozambique Monthly Briefing December 2017

Mozambique Summary 19 December 2017

President Filipe Nyusi (2015-present) dismisses four ministers, including the foreign minister and energy minister. The assembly of the republic passes two bills that change the tax rules for the extractive sector. Finance minister Adriano Maleiane announces the government will cut housing and vehicle benefits for some top officials to save \$120m in 2018. Brazil-based global mining company Vale and Japan-based Mitsui & Co. Ltd sign a \$2.73 billion joint venture deal to finance the Nacala Logistics Corridor (NLC) project that will connect coal mines in Moatize to the Nacala port. The Netherlands-based brewery, Heineken N.V. announces that it will open a \$100m brewery in Mozambique in 2019. Italy-based ENI Group secures \$4.67 billion in financing for the Coral Sul natural gas project in the Rovuma Basin in northern Mozambique. United Kingdom (UK)-based Savannah Resources completes the commissioning of a pilot processing plant at the Mutamba Mineral Sands Project.

President Filipe Nyusi reshuffles his cabinet

President **Filipe Nyusi** (2015-present) dismissed four ministers on 13 December, including the foreign minister and trade minister. Nyusi dismissed the mineral resources and energy minister, **Leticia da Silva Klemens**, who had no previous government experience.¹ Nyusi moved **Ernesto Elias Max Tonela** from the industry and trade portfolio to replace Klemens as energy minister. Tonela, an economist by training, was previously the commerce minister and was on the board of the **Hidroelectrica de Cahora Bassa**, which was responsible for building a 2,000 megawatt hydroelectric dam.²

Klemens dismissal is unsurprising. Sources inside the ministry say she was “*very arrogant and did not listen to others’ opinions*”:

*“Klemens arrived at the ministry at the peak of Mozambique’s oil and gas sector, where strategic decisions had to be made, especially regarding the liquefied national gas (LNG) projects. For instance, she appeared to be excluding **Empresa Nacional de Hidrocarbonetos (ENH)** – the national commercial branch in the oil and gas sector – in [The Netherlands-based] **Shell’s** \$5 billion gas-to-liquid project; she accepted agreements with [United States (US)]-based **Anadarko** and [Italy]-based **Eni**, but did not make clear how other gas projects will access the sea; and it seems she failed to promote inclusive discussions of the Plan of Development for the **Area 1** LNG project, and the Exploration and Production Concession Contracts (EPCCs) concerning the new blocks tendered in October 2014.”³*

Additionally, Nyusi dismissed **Oldemiro Baloi** as foreign minister and replaced him with **Jose Condugua Antonio Pacheco**, who was previously the agriculture and food security minister.⁴ Nyusi appointed **Higino Marrule**, an agronomist, as the new agriculture and food security minister.⁵ Nyusi

¹ eNCA, 13 Dec 2017.

² Mozambique Mining Post 13 Dec 2017.

³ Source, trade and industry ministry bureaucrat, Maputo

⁴ IOL, 13 Dec 2017.

⁵ Club of Mozambique, 13 Dec 2017.

has yet to appoint a new industry and trade minister.⁶ Nyusi stated that the reshuffle aims to “strengthen the government’s capacity to respond to the challenges facing the country”.⁷

This was the first government reshuffle after the ruling **Frente de Libertação de Moçambique (Frelimo)** party’s congress in September. Some of the reappointments are seen as potentially controversial, particularly the appointment of Pacheco as foreign minister:

*“Pacheco, a senior Frelimo member, had been interior minister from 2005 to 2009 and agriculture minister from 2010 to 2018 under former President **Armando Emilio Guebuza** (2005-2015). His performance in both ministries was contested. Pacheco also led the government delegation in the peace negotiations joint committee with **Resistência Nacional Moçambicana (Renamo)**, which did not produce any results.”⁸*

According to a senior journalist in Maputo,

*“[Pacheco] spent more time in the party and did too little for agriculture sector. His name was once associated with timber trafficking with a **Chinese** company, but no further investigation was carried out to prove his involvement in such practices. On the other side, as the agriculture minister, he was ultimately responsible for the **Agriculture Development Fund (FDA)**, where almost 170 million Meticaís (\$2.8m) were stolen in more than 80 transactions, including financing fake agricultural projects led by the FDA’s CEO, **Cetina Titosse**. There is no indication that Pacheco may have benefited from the money stolen, but it is strange that he could not sniff out the embezzlement of the Fund which lasted over three years.”⁹*

Despite the allegations and poor performance in previous ministries, Nyusi is likely to have promoted Pacheco to foreign minister to signal that he is

“...not vengeful against Guebuza, his predecessor who challenged Nyusi’s candidacy in Frelimo’s internal election for the party’s presidential candidate. Other political circles predict that Pacheco may be the party’s presidential candidate for the 2024 elections, and putting him in front of the country’s diplomacy will help him reshape his image among the international community.”¹⁰

International energy companies are likely to be pleased with the change, replacing a relative unknown and inexperienced minister with a proven technocrat like Tonela. Pacheco’s promotion may be controversial with some inside Frelimo, though many may fall in line if the politically experienced Pacheco seems likely to become the next party leader in 2024.

Assembly passes new extractive industry regulations to attract investment

Mozambique’s assembly of the republic passed two bills on 16 November that change the tax rules for the extractive sector.¹¹ The government instituted the tax changes to improve the business environment and attract more investment in the extractive sector.¹² It is still too early to gauge the effects of the changes, though the more business-friendly tone should help to improve foreign investments in the extractive sector.

Key changes include:

- Increasing the amount the Mozambican government can receive from capital gains tax charged on transactions in the extractive sector. The capital gains tax rate is, in theory, 32%. However, in practice, it was much less because extractive sector companies were able to treat their sales of shares as if they were selling assets on a stock exchange. The regulations give

⁶ Club of Mozambique, 13 Dec 2017.

⁷ Club of Mozambique, 14 Dec 2017.

⁸ Source, political analyst, Maputo

⁹ Source, senior journalist, Maputo

¹⁰ Source, journalist, Maputo

¹¹ AIM. 16 Nov 2017.

¹² AIM. 16 Nov 2017.

capital gains tax “*autonomy*” – it is not dependent on any other taxes or gains, and the companies will have to pay the same rate regardless of whether the transaction takes place inside or outside Mozambique. Furthermore, companies cannot deduct the cost of paying capital gains tax against other tax liabilities such as corporate tax;

- For holders of mining certificates, the surface tax was cut by 17,500 meticaís (M) (\$286) to M30 (\$0.50) per hectare for the first five years of operation and from M25,000 (\$409) to M50 (\$0.82) per hectare from the sixth year onward. This is a 99.8% tax cut, because the old surface tax rate discouraged operators from using their mining certificates and the government believes that the tax reduction will encourage legitimate small-scale mining;
- The bills guarantee “*fiscal stability*” for extractive sector companies but only to those with a minimum investment of \$5m, in the case of mining companies, and \$100m for oil and gas companies. This is different from the previous regulation which granted fiscal stability for a 10-year period to any extractive company, regardless of the size of its investment;
- The mining production tax levied on the extraction of sand and stones is increased from 1.5% to 3% - the same rate charged on base metals and coal. The government claims that taxing quarries and sandpits at the same rate as mines will increase the amount of money that local communities obtain from this tax.¹³

Government expects \$120m in savings from benefits cuts

Finance minister **Adriano Maleiane** announced that the government will cut housing and vehicle benefits for some top officials to save \$120m in 2018, according to reports on 7 December.¹⁴ The government is attempting to cut its public expenditure due to concerns about public financial management following debt scandals.¹⁵ The benefits cuts should help Frelimo improve its image amongst the population as being anti-corruption. Maleiane said the government is looking to contain spending and that public spending has dropped from 43% of gross domestic product in 2014 to a projected 30.5% in 2018.¹⁶ Maleiane stated that the austerity measures were permanent and that the special allowances were cut after the government “*came to the conclusion that various bonuses and subsidies could be rationalised.*”¹⁷

The cuts include a housing cost ceiling to save funds as the government’s costs escalated after it moved to renting houses for high-ranking government officials.¹⁸ Officials will now receive an allowance to spend on public vehicles, rather than the government purchasing cars that are then sold back to the officials at a discounted price.¹⁹ Maleiane added that communication and fuel costs will also have maximum expenditure limits.²⁰

Vale & Mitsui announce \$2.73 billion Nacala corridor financing agreement

Brazil-based global mining company **Vale** and **Japan-based Mitsui & Co. Ltd** signed a \$2.73 billion joint venture deal on 27 November to finance the **Nacala Logistics Corridor (NLC)** project that will connect coal mines in **Moatize** to the **Nacala** port.²¹ Connecting Mozambique’s Moatize coal basin with the Nacala port will enhance the commercial viability of Mozambique’s coal sector and allow companies to meet coal demand from fast growing **Asian** markets.²² Vale stated that the deal includes a \$1.03m loan from the **Japan Bank for International Cooperation (JBIC)** and a \$1 billion

¹³ Unless otherwise noted – AIM, 16 Nov 2017.

¹⁴ MedAfrica Times, 7 Dec 2017.

¹⁵ MedAfrica Times, 7 Dec 2017.

¹⁶ Club of Mozambique, 6 Dec 2017.

¹⁷ Club of Mozambique, 6 Dec 2017.

¹⁸ Club of Mozambique, 6 Dec 2017.

¹⁹ Club of Mozambique, 6 Dec 2017.

²⁰ Club of Mozambique, 6 Dec 2017.

²¹ Mitsui. 28 Nov 2017.

²² Source, Mozambique analyst, United Kingdom

syndicated loan insured by the **Nippon Export and Investment Insurance (NEXI)**.²³ The syndicate group of lenders includes:

- **Sumitomo Mitsui Banking Corp;**
- **Bank of Tokyo Mitsubishi UFJ Ltd;**
- **Mizuho Bank Ltd;**
- **Sumitomo Mitsui Trust Bank Ltd;**
- **Nippon Life Insurance Co.;**
- **Standard Chartered Bank.**²⁴

The financing also includes \$400m insured load from **Export Credit Insurance of South Africa Ltd** which includes other **South Africa**-based lenders **Absa Bank, Investec Bank, Rand Merchant Bank and Standard Bank**.²⁵ The **African Development Bank (AfDB)** will provide financing for the 237 kilometre (km) stretch of railroad that crosses **Malawi**.²⁶ Vale indicated that financing for the 912 km project will be repaid over 14 years, through tariffs on NLC coal transportation and general cargo services.²⁷ Mitsui said in a press release on 28 November that the Japanese government had raised the promotion of economic structural reform through economic diversification and industrialisation as an area of particular focus at the **6th Tokyo International Conference on African Development (TICAD VI)**:

*“The Japanese Government intends to promote investment in high-quality infrastructure from financing in collaboration with multilateral development banks such as the African Development Bank. Mitsui will continue to contribute to the growth and development of Mozambique, Malawi, and **Africa** by developing related businesses based on infrastructure projects which will become foundations of these areas.”²⁸*

Vale sold a 15% interest in its Moatize coal mine and 70% in NLC to Mitsui in December 2015.²⁹ In a press release on 27 November, Vale thanked the governments of Malawi and Mozambique for their support and cooperation:

“The project finance also demonstrates the institutional maturity and the government support in both Mozambique and Malawi. The authorities at all government levels fully cooperated and enabled all the regulatory, financial and legal frameworks that support the Project Finance, for which Vale and Mitsui are deeply thankful. Vale wishes that the Nacala Project finance becomes a postcard and a benchmark for the attraction of other large scale investments in both countries.”³⁰

Heineken plans to build \$100m brewery in Maputo

The Netherlands-based brewery, **Heineken N.V.** announced on 3 December that it will open a \$100m brewery in **Maputo** in 2019.³¹ The investment highlights Mozambique’s continued attractiveness as a foreign direct investment destination despite its macroeconomic challenges. Heineken opened a marketing office in Mozambique in 2016 and imported products to compete with local beer **2M**, which is produced by **Belgium**-based **AB Inbev**.³² Heineken’s managing director for **East and West Africa, Boudewijn Haarsma**, said the company sees “*promising long-term economic perspectives*” in Mozambique.³³

²³ Vale, 27 Nov 2017.

²⁴ Unless otherwise noted – Vale, 27 Nov 2017.

²⁵ Mining Weekly, 28 Nov 2017.

²⁶ Mining Weekly, 28 Nov 2017.

²⁷ Mining Weekly, 28 Nov 2017.

²⁸ Mitsui, 28 Nov 2017.

²⁹ Mitsui, 28 Nov 2017.

³⁰ Vale, 27 Nov 2017.

³¹ EWN, 5 Dec 2017.

³² EWN, 5 Dec 2017.

³³ EWN, 5 Dec 2017.

The investment is expected to create 200 direct jobs as well as support additional indirect jobs through the supply chain.³⁴ The brewery will have a capacity of 80 million litres.³⁵ Heineken also plans to explore the possibility of locally sourced raw materials to produce its beers, which is in line with its plan to source 60% of its agricultural raw materials in Africa by 2020.³⁶ The former industry and trade minister, Max Tonela, said the project would boost the commercialisation of locally produced products:

“One of the challenges we have is the commercialisation of agriculture products, its acquisition either by the market or the industry. It is our pleasure to announce that in a short term the [plant] will be built and it plans to use locally grown products such as maize and cassava.”³⁷

Haarsma said that the project is progressing well with the support of the Mozambican government and its commitment to bring investments into the country:

“Investing in a new market like Mozambique supports Heineken’s ambition to expand its footprint and be the number one or a strong number two in all markets in which it operates.”³⁸

ENI Group secures financing for Coral Sul FLNG exploration

Italy-based ENI Group announced on 5 December that it has secured \$4.67 billion in financing for the **Coral Sul** natural gas project in the **Rovuma** basin in northern **Mozambique**.³⁹ The further financing will help to facilitate ENI’s commercial development of the Rovuma Basin. The potential discoveries may result in increased interest in exploring the Rovuma basin. ENI obtained loans from five export credit agencies to finance the project, including loans from **China’s Sinosure Export Credit Agency** and **South Korea Export and Import Bank**, as well as commercial loans.⁴⁰ The area 4 block is held by ENI Group (50%), **China National Oil and Gas Exploration and Development Corp** (20%), state-owned **Empresa Nacional de Hidrocarbonetos** (10%), **Portugal-based Galp Energia** (10%) and **South Korea-based Kogas** (10%).⁴¹

Savannah Resources completes commissioning of Mutamba processing plant

United Kingdom (UK)-based Savannah Resources completed the commissioning of a pilot processing plant at the **Mutamba Mineral Sands Project** in Mozambique, according to reports on 8 December.⁴² The processing plant will allow Savannah Resources to test for minerals and determine the feasibility of the project, which may lead to further investment if the project is particularly viable. The pilot plant will allow the Mutamba project, a joint project encompassing Savannah Resources’ **Jangamo** project and UK-based **Rio Tinto’s Mutamba** project, to process samples from the heavy minerals sand and conduct tests for minerals.⁴³ Savannah Resources’ fully-owned subsidiary, Mozambique-based **Anubis Moçambique Limitada (AML)**, was responsible for commissioning the plant, which Rio Tinto originally built and tested in South Africa in 2012 before disassembling and shipping it to Mutamba.⁴⁴ Savannah Resources’ chief executive officer, **David Archer**, stated that there is a potential for several billions of tonnes of heavy minerals sands at Mutamba, which includes minerals such as titanium, tungsten and zirconium.⁴⁵ Archer added that,

³⁴ IOL, 4 Dec 2017.

³⁵ EWN, 5 Dec 2017.

³⁶ IOL, 4 Dec 2017.

³⁷ Xinhua, 5 Dec 2017.

³⁸ IOL, 4 Dec 2017.

³⁹ Macau Hub, 7 Dec 2017.

⁴⁰ Macau Hub, 7 Dec 2017.

⁴¹ Macau Hub, 7 Dec 2017.

⁴² Mining Review, 8 Dec 2017.

⁴³ Mining Review, 8 Dec 2017.

⁴⁴ Mining Review, 8 Dec 2017.

⁴⁵ Journal du Cameroun, 8 Dec 2017.

“... about \$200m will be invested in the construction of the unit, which will employ more than 100 people in the construction phase and more than 400 workers during the operation phase.”⁴⁶

Planner

25-26 Apr 2018 **Maputo (Mozambique)** 6th annual **Mozambique Mining, Oil & Gas, and Energy Conference and Exhibition (MMEC 2018)**;

24 Jan 2018 **(Mozambique)** **Nampula** municipal by-elections

Chronology

15 Dec 2017 **Calgary (Canada)** *Oil and Gas 360*. Canada-based **Canadian Overseas Petroleum Ltd** announces its 50% owned subsidiary, **ShoreCan**, awarded onshore block PT5-B;

14 Dec 2017 **Maputo (Mozambique)** *IMF*. The **International Monetary Fund** completes its Article IV mission to Mozambique;

14 Dec 2017 **Maputo (Mozambique)** *AllAfrica*. The Assembly of the Republic passes the 2018 budget;

13 Dec 2017 **Maputo (Mozambique)** *EWN*. President **Filipe Nyusi** (2015-present) reshuffles his cabinet, dismissing the energy and finance ministers;

13 Dec 2017 **Maputo (Mozambique)** *Rigzone*. **ExxonMobil Development BV** acquires a 25% interest in block 4 from **Italy**-based **ENI** and assumes operations of the block;

12 Dec 2017 **Maputo (Mozambique)** *AfricaNews*. **China** will build a \$60m airport in the southern port city of **Xai Xai** in Mozambique;

8 Dec 2017 **Maputo (Mozambique)** *Mining Review*. **Savannah Resources** announces that the **Mutamba Consortium** has completed the commissioning of a pilot processing plant;

7 Dec 2017 **Maputo (Mozambique)** *Macauhub*. **Italy**-based **ENI Group** secures funding to develop **Coral Sul** natural gas project in the **Rovuma Basin**;

5 Dec 2017 **Maputo (Mozambique)** *EWN*. **Heineken** announces it will open a \$100m brewery in Mozambique;

28 Nov 2017 **Maputo (Mozambique)** *Poptel*. Finance minister **Adriano Maleiane** urges commercial banks to cut interest rates;

22 Nov 2017 **Maputo (Mozambique)** *Mining Global*. **Battery Minerals** receives \$20m funding for graphite projects in Mozambique;

16 Nov 2017 **Maputo (Mozambique)** *AllAfrica*. The Assembly of the Republic passes two bills changing the tax regime for mining and petroleum activities.

⁴⁶ Journal du Cameroun, 8 Dec 2017.

About Africa Risk Consulting:

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