MOZAMBIQUE 174

News reports & clippings

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Minerals & global partners:
+ Brazil, China, Qatar
+ Coal & Gas
+ Tax breaks & Mega-projects

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Keeping options open

Historically, Frelimo has never become dependent on one sponsor. During the liberation war, it won backing from both China and the Soviet Union. In recent years it joined both the British Commonwealth and the Portuguese equivalent, the CPLP (Comunidade dos Países de Língua Portuguesa). In dealing with foreign investors and partners it is now following the same pattern. In this *News reports & clippings*, we look at recent reports relating to gas, coal and other minerals; specific links with Brazil, China and Qatar; and thinking around mega-projects and taxes.

China in check

China does not have a big presence in Mozambique. In November, Chinese Vice President Xi Jinping visited South Africa, Botswana and Angola, but not Mozambique. Mozambican Prime Minister Ares Ali attended the Macao Forum (for Chinese links with Portuguese speaking countries) meeting in Macao 18-19 November and had already visited China in June. In June China promised a further $200 million at 3% interest per year for infrastructure, including $64 million for the second phase of the Mozambique airport international terminal . Shanghai businesses visited Mozambique in August and discussed investment of up to $13 billion.

The Washington-based Center for Strategic and International Studies (CSIS) in an undated blog post (probably 2008) claimed that in 2007 Mozambique signed a deal to allow up to 10,000 Chinese settlers in the Zambeze valley. It also claimed that “hundreds of white South African farmers have been leasing land in Niassa since 1997” and have “contributed to the development of Niassa”. (http://csis.org/print/18426) Neither of these appears to be true.

Similarly a report by the British company hosting the 2 December Mozambique investment forum in London claimed that “Mozambique has received over US$800mn from China to help improve its agriculture sector” (“Investing in Mozambique 2010) but this also appears exaggerated.

Mozambique’s Investment Promotion Centre (CPI) estimates Chinese business investment between 2000 and 2009 at $115 mn. A study by Sergio Chichava of the Instituto de Estudos Sociais e Económicos (IESE) in Maputo, and presented at a conference in Johannesburg on 18 November, dismisses that CSIS report as a “myth”. He argues that “Chinese investment in African agriculture is still insignificant”. There are two big projects in Mozambique, a $55 million agricultural technology centre in Boane, near Maputo, and $50 million (of which $20 million is to import equipment from China) for three agroprocessing factories in the Zambeze valley. Construction was launched on a $12 million cotton processing factory in Guro, Manica province, on 11 November. The other two will be a maize processing facility in Ulongue, Tete, and a rice processing factory in Namacurra, Zambezia.

There are five known agricultural investment projects by Chinese private and state companies, with total investment so far of $8.5 mn. Potentially the biggest is a bilateral agreement between Gaza and Hubei provinces for a rice project. The pilot has been running for three years on 380 hectares and is producing a respectable 9.5 tonnes per hectare. It has options to extend to 10,000 hectares
(http://www.iese.ac.mz/lib/noticias/2010/China%20in%20Mozambique_09.2010_SC.pdf)

Former Prime Minister Luisa Diogo gave a talk 24 November at the School of Oriental and African Studies (London), and was asked a question about China. She noted that China has a "very specific manner" for cooperation, and thus it is a "non-traditional partner". Traditional partners such as Sweden and Britain do programme and budget support and work though NGOs. Japan is more project oriented. The US does projects plus private sector programmes.

She continued: China does not do budget support but does wider project support, for example building the new foreign ministry and high court. The US, UK, Sweden will not even look at such a project, but China will, she said. Similarly China supports infrastructure and is involved in dams, roads, airports, electricity, and telecoms.

But it is not all good, she continued. China wants Mozambique to give some guarantees, like natural resources, “which we cannot do under Mozambican law”. Any use of natural resources -- minerals, land, fish, timber -- must be based on project proposals. By law, Mozambique cannot set aside resources for anyone, and Mozambique is very careful in following the laws.

"Mozambique is doing its partnership with China in a very smart manner", she concluded. Of course there are "sensitive issues, contradictions", as well as global political issues, notably balancing China and Japan. "We should not close our eyes and forget our traditional partners. But we need cooperation with China and India as well,” Diogo said.

In June a Chinese company signed the first mining agreement, not with the government, but rather to potentially take over part an existing Australian coal mining project (see below).

Looking to Qatar

Qatar is a small Gulf state which will host the World Cup in 2022 and is notable now as the home of the Al-Jazeera TV station and Doha (where the most recent round of trade talks started in 2001). Wikileaks shows that the US is very concerned with Qatar and its relatively independent stance. (See London Independent, 8 December) President Armando Guebuza visited Qatar 8-9 November to promote investment, particularly in the gas sector, where Qatar is a major producer of Liquefied Natural Gas (LNG). There are 99 Mozambican engineers and other skilled personnel working in Qatar

And Brazil

Outgoing Brazilian President Luis Inacio Lula da Silva visited Mozambique 9-10 November. He announced that Brazil is to finance the $80 million new airport in Nacala. Lula also gave the inaugural lecture at the Mozambican National Distance Learning Institute (INED), funded with $32 mn from Brazil. Its first centre is in Maputo and others will be opened in Beira and Lichinga.

On 3 December Mozambique and Brazil signed a technical cooperation agreement to computerize and modernize the Mozambican social security system. Brazilian companies are already involved in the project, including DataPrev, the Brazilian state company in charge of the technical management of social security.

The great coal rush – Australia, India, China, Korea, Brazil

Coal demand and prices are rising rapidly, and this has pushed Mozambique into the headlines. The London Independent (7 December) cites an analyst who says Mozambique has vast untapped coal reserves and the “cheapest and most widely available coal outside Australia.” Mozambique hit the headlines when Rio Tinto made an approach to take over the Australian Riversdale, whose main projects are in Tete. Work is already under way on the Benga coal project (Riversdale 65% and Tata Steel Limited (India) 35%) with reserves of 500 million tonnes. Tata owns 22% of Riversdale, with the Portuguese mineral trader CSN and the US hedge fund Passport Capital each owning 16%.

Further exploration is continuing on Riversdale’s Zambeze coal project, with 9 billion tonnes of reserves, where Riverdale has signed an initial agreement with Wuhan Iron and Steel (WISCO) of China to buy 40% of the Zambeze Coal Project for $800 million, giving it the right to buy at least 40% of the coking coal produced from Zambeze and at least 10% of the coking coal produced from the Benga. Zambeze production could start in 2014.

Riversdale has several other explorations under way, and in October it told the government that Tete city airport is sitting on top of what may be one of the richest coal seams in the country, amounting to billions of tonnes. Riversdale would move the airport, which has only recently been modernised to take account of increased traffic from the mining companies.

Riversdale hopes to begin exports from Benga next year, and the other major coal operation, Vale of Brazil, also hopes to start exports from its Moatize mine next year. The railway to the port of Beira is operated by Rail India Technical Economic Services (RITES) and there have been some intense negotiations over tariffs. Discussions are underway about using barges down the Zambeze river instead of the railway, and of building an entirely new railway to Nacala, which is a much better deep water port than Beira.

Meanwhile, the Nippon Steel Corporation (NSC) of Japan has acquired a 23% interest in Minas de Revuboe from its own affiliate, Nippon Steel Trading (NST), which retains 10%. Other shareholders are South Korea’s largest steelmaker, Posco (8%), and Talbot Group of Australia

(59%). Revobue is close to Benga, Zambeze and Moatize and large quantities of coking coal have been found.

And Coal India Ltd (CIL, 90% owned by the Indian government) plans to start exploratory drilling in western Tete within the next two months, and hopes to start coal production by 2013, according to reports in the Indian press.

(Reports mainly from AIM)

More gas found

The Texas-based Anadarko Petroleum Corporation in November announced a major new discovery of natural gas in the Rovuma Basin, off the coast of Cabo Delgado. Enough gas has been found to develop a project to liquefy the gas for export.

Anadarko is the operator of Offshore Area 1 and holds a 36% share of the fields. Its co-owners are Mitsui of Japan (20%), BPRL Ventures and Videocon (both of India, with 10% each) and Cove Energy of Britain (8%), AIM reports. The Mozambican government is represented by Empresa Nacional de Hidrocarbonetos (ENH) which holds a 15% interest in the fields. ENH and the South Korean company KOGAS on 3 November signed a memorandum of understanding to maximize the use of natural gas in Mozambique. KOGAS is the largest buyer of liquefied natural gas in the world and the only retailer of gas in Korea.

Oil has also been found in the Rovuma Basin, but it remains unclear if there are commercial quantities. Gas from offshore of Inhambane is already being piped to South Africa and Maputo; only 5% of the gas is actually used in Mozambique.

Calls to renegotiate tax breaks for mega projects

There are nine official “mega-projects” including the Mozal aluminium, Sasol gas, two coal mines, and Moma titanium, with a total investment so far of $10 billion. But all have been given a range of tax and fiscal incentives, so there is growing criticism that they do not contribute enough to the economy.

Prof Paul Collier, Director of the Centre for the Study of African Economies at Oxford University, and who usually represents the World Bank line on such matters, called for increased taxation of mining companies in a speech in Maputo on 20 October. “Tax them. Capture the rents.” It only costs $7 to get a barrel of oil out of the ground, and governments should get as much as possible of the rest as tax.

Extraction companies have their own interests and have the best accountants in the world, so it is not practical to just tax profits – there must be royalties too. And he warns that mineral revenues are not sustainable and eventually run out. He said Mozambique should use the money for capital investments.

And Collier called for Mozambique to renegotiate with mining companies to increase revenues to reflect higher mineral prices.

Meanwhile, at a meeting in London on 8 December, an International Monetary Fund team which wrote the recent report “Emerging from the Global Crisis—Macroeconomic Challenges Facing Low-Income Countries” said that low income countries had to increase revenues and they should get more money from the extractive industries.

Within Mozambique, Carlos Nuno Castel-Branco notes that the foreign owned mega projects pay much less tax than Mozambican small and medium enterprises (SMEs) If they paid tax at the same rate, Mozambique would get as much revenue as it receives now in budget support from donors. Furthermore, Mozambique collects nothing in royalties and collects no land taxes from the big agricultural plantations. Castel-Branco is head of IESE (Instituto de Estudos Sociais e Economicos) and was writing in IESE’s new book “Economia Extractiva” on the extractive industries in Mozambique. (www.iese.ac.mz; the whole book can be downloaded.)

Castel-Branco and others note that new investors do not get the extreme exemptions given to the initial mega-projects, and are calling for them to be renegotated.

So far, the government has not responded to calls from the IMF, World Bank, Collier and Mozambican economists to renegotiate the deals with the mega projects to extract more revenue. Indeed, in answering parliamentary questions on 23 November, the Minister of Planning and Development, Aiuba Cuereneia, declined to answer a question on how much tax the mega-projects pay. Instead, he justified them by their spending in Mozambique, the jobs created, and social expenditure. But critics say these are small.

Cuereneia said Mozal’s $2.3 billion which created 1,400 direct jobs, or $1.6 mn per job, while $500 mn in Moma titanium sands created 560 jobs, or $900,000 per job, which is typical for capital intensive projects but a very expensive way to create jobs. He also said Mozal spends $2 million per year on corporate social responsibility projects, which is one tenth of one percent of the value of its exports.

Castel-Branco and other argue that corporate social responsibility cannot be seen as an alternative to paying taxes and royalties to Mozambique for using its land, minerals, and energy.

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Two working papers on the web

Poverty is not being reduced in Mozambique

LSE Crisis States Research Centre Working Paper No. 74 (series 2)
Benedito Cunguara and Joseph Hanlon, June 2010 t
http://www.crisisstates.com/download/wp/wpSeries2/WP74.2.pdf
Tambem em Portugues:
http://www.crisisstates.com/download/wp/wpSeries2/WP74.2portuguese.pdf

Mozambique's Elite – Finding its Way in a Globalized World and Returning to Old Development Models

Joseph Hanlon and Marcelo Mosse September 2010
WP/105 UNU-WIDER: The Role of Elites in Economic Development project
http://www.wider.unu.edu/publications/working-papers/2010/en_GB/wp2010-105/

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Mozambique media websites:

Noticias: www.jornalnoticias.co.mz
O Pais: www.opais.co.mz
Savana: www.savana.co.mz
Canal de Moçambique: www.canalmoz.com
AIM Reports: www.poptel.org.uk/mozambique-news

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