

MOZAMBIQUE 179

News reports & clippings

30 June 2011

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APOLOGIES to readers. I have been doing fieldwork in Zimbabwe and also been in South Sudan and have not had time to do "News reports and clippings". Over the next two weeks I will do several newsletters catching up news of the past 3 months. *jh*

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NOTE OF EXPLANATION:

This mailing list is used to distribute two publications, both edited by Joseph Hanlon. This is my own sporadic "News reports & clippings", which is entirely my own responsibility. This list is also used to distribute the *Mozambique Political Process Bulletin*, published by CIP and AWEPA, but those organisations are not linked to "News reports & clippings"

Joseph Hanlon

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Attached file: This newsletter in pdf.

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Energy exports taking off:

Coal, gas

Liquid fuels

Other mining

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Energy exports taking off

Energy and mineral exports could make aid unnecessary within a few years. Coal exports start this year and a major gas field could come on line later in the decade. Other mineral exports are also growing, and biofuel production is increasing. This issues of *News reports & clippings* concentrates on mining and energy. Unless noted, all material is based on AIM reports.

Coal mining starts in Tete

Tete contains the world's largest known and unexploited reserve of coking coal in the world. Estimates put reserves in the billions of tonnes, with coking and thermal coal exports exceeding 100 million tonnes a year by the end of the decade.

Coal production began 8 May at the large open-cast mine in Moatize, Tete, owned by the Brazilian mining giant Vale, the second largest mining company in the world. The chair of Vale,

Roger Agnelli, said they hope to begin exporting next month (July), with exports starting at 1 million tonnes the first year, 4 million tonnes the second year, and rising to 11 million tonnes of coking and thermal coal a year. Agnelli said that so far Vale has invested \$2 billion in Mozambique, and intends to invest a further \$4 billion over five years. Vale-Mozambique employs about 8,000 workers, 85% Mozambican, and this could increase to 15,000 workers if production rises to 25 million tonnes per year, said Agnelli. Vale expects to export to Asian markets, notably China, to the Middle East, and only later to Brazil.

The only current production is from Minas de Moatize, a small underground mine dating from colonial times. The British company Beacon Hill Resources took management control in May 2010 and increased production from 2,000 to 8,000 tonnes of coal a month. The coal is used domestically and exported by road to Malawi. Beacon Hill has also started a large open cast mine and said yesterday that it will initially be producing 15,000 tonnes of coal per month, but soon expects to export 1.8 million tonnes per year. Beacon Hill in April also paid \$45 mn for a coal exploration licence owned by the US company Global Minerals and Metals.

Rio Tinto has formally taken over the Australian company Riversdale Mining, which has two projects in Tete. It announced on 24 June that it would appoint its own management, naming Eric Finlayson as the new chief executive officer (CEO) of Riversdale and country manager in Mozambique, effective from 1 July. Riversdale's Benga project at Moatize is a 65%/35% joint venture with Tata Steel of India, with coal due to be exported before the end of the year, and exports could reach 5 million tonnes in 2013 and rise to 10 million tonnes of coal a year. The second Zambeze project is entirely owned by Riversdale, and much of it is within the boundaries of Tete city itself. It could begin producing in 2014 and exports could rise to 25 million tonnes of coal per year.

Finally, the British based Ncondezi announced that it hopes to begin exporting coal from its concession in Tete in the second half of 2014, and hopes to export 10 million tonnes per year.

But how to move the coal?

Coal was expected to be exported via the 600 kilometre Sena railways line to a new coal terminal in the port of Beira. The Sena line was destroyed by Renamo during the war – local people were forced at gunpoint to take up the railway line by hand. The railway was to be rebuilt under a World Bank loan which required a foreign company to do the job. A consortium of Indian state companies, Rites and Ircon (Ricon), won the tender and promised completion by 2009. The line is still not complete, and will not be ready until September at the earliest. Riversdale/RioTinto is importing 11 locomotives and 200 wagons to move the coal.

The delays and the realisation that even when finished the Sena line will only carry 5 million tonnes of coal per year (perhaps rising to 12 million tonnes with more improvements) has led the mining companies to look for alternatives.

Riversdale wants to send coal down the Zambeze River by barge and then load the coal onto ships off shore. The coal would be transported in a “train” of eight barges, each carrying 2,500 tonnes of coal. This would require the river to be dredged for 180 of the 500 kilometres between Benga and Chinde in the Zambezi Delta (at a cost of \$100 million) to guarantee a minimum depth of 3.5 metres in the dry season. Dredging will be particularly necessary through the sandbank near the river estuary at Chinde to allow the barges to leave the Zambezi to reach the larger ocean-going vessels.

A draft environmental report has been given to civil society, which suggests that the project would not cause significant environmental damage. There are two issues. One is erosion and the changing of patterns of sediment carried down the river, which the report considers acceptable. The other is coal and coal dust spillage, which seems not a serious problem, and the possibility of fuel spills, which would need special controls.

Meanwhile Vale prefers a new railway 900 km to the port of Nacala, and on 18 April signed a memorandum of understanding with Malawi to build a new railway across that country. In Mozambique Vale would upgrade the existing Nacala line. Nacala is the best natural deep water port in East Africa, and unlike Beira or Maputo does not need any dredging even for very large bulk carriers. Vale's Agnelli said that the railway project would take five years and \$4 billion. He also sees Nacala being used for mineral exports from Zambia and the Democratic Republic of Congo.

Beacon Hill says it will begin moving coal to Beira by road, but hopes to use the Sena railway line for the higher volumes.

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Alternative liquid fuels

The push to cut oil imports by producing alternative liquid fuels led to several announcements in recent months, relating to converting gas and coal, and the production of biofuels.

Liquefying high ash coal

Vale is going into partnership with the Portuguese company SGC Energia and an unnamed US company to build an industrial unit to convert coal into liquid fuel, according to the Portuguese "Diario Economico" (21 June). Vale will export coking coal and high quality thermal coal, and plans to burn medium quality thermal coal at a planned 300 megawatt power station.

The remaining, low grade, high ash coal will be converted into 300 million litres of liquid fuel a year, of which half would be used by Vale in Mozambique.

SGC Energia is already working in Mozambique in the Enerterra project, to produce biodiesel from 19,000 hectares of jatropha in Cheringoma, Sofala.

Natural gas

The rapidly growing Mozambican company Insitec and the Germany company GigaMethanol, are proposing a \$3 billion project to convert natural gas to methanol, of which 60% would be exported directly, 25% converted to gasoline, and 5% used to make inputs for Mozambican companies and create the beginnings of a petrochemical industry, according to Savana (3 June). The project would use gas from the Vilankulos gas field, which is already producing.

Methanol can also be used as fuel, and natural gas can be used directly. Energy Minister Salvador Namburete told parliament on 6 May that Maputo has two natural gas fuel stations and

three centres to convert vehicles to natural gas; 283 vehicles have been converted, mostly minibus-taxis ("chapas")

The Maputo bus company, TPM, recently ran two gas-powered buses for 12 days on one of the longest routes in the city, each driving 2,373 kilometres at a cost of 25,000 meticaís (\$820). A diesel bus on the same route cost twice as much to run. As a result, TPM is importing 150 gas-powered buses from Tata in India; 50 have already been delivered and the remainder should arrive by August. A further 20 are being imported by the private sector. To guarantee maintenance, TPM has sent engineers and mechanics for training in India

Biofuels in petrol, diesel

Petrol sold in Mozambique must be 10% ethanol and diesel 3% biodiesel from next year, the Council of Ministers decided earlier this month. It is a small first step, but could reduce fuel imports by \$22 million per year.

Ethanol will be mainly from sugarcane. Jatropha has been promoted as a good crop for biodiesel, but it is not proving to be the miracle crop which was billed. Finding the right varieties has proved difficult. The Italian company BioEnergy reports it has been experimenting in Moamba since 2008, and still is using only 70 hectares. AIM reports that the company tested seeds from Brazil, India, the Dominican Republic and Tanzania, but the best seed is a Mozambican variety which produces two kg per plant.

President Armando Geubuza several years ago in his "open presidency" tours promoted peasant production of jatropha -- but a market was never created. Savana (3 June) reports that when the President was in Ribaue district peasants complained that they had been tricked into growing jatropha and now have storehouses full of it, which they cannot sell. The government told them to grow jatropha, so the government should buy it, they said.

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More gas in the north

The Houston-based oil and gas company Anadarko has found enough gas that it is proposing a Liquefied Natural Gas (LNG) facility which could process a billion cubic feet of gas a day. The gas field is in the Rovuma basin, just south of the border with Tanzania, and is 40 km offshore under 1,500 metres of water. Total investment could reach \$15 billion by 2018.

LNG is produced by cooling the gas to minus 162 degrees centigrade, which reduces the product to one six-hundredth of its volume as a gas. The LNG is then shipped in special tankers. The likely market would be Asia.

Are there diamonds?

27 companies looking for diamonds in Mozambique, Minister of Mineral Resources Esperanca Bias said on 10 June, and Mozambique is applying to join the Kimberly Process. So far, no gem diamonds have been found in Mozambique, which means any diamonds offered for sale there have almost certainly been smuggled across the border from Zimbabwe.

There are exploration licences in Niassa, Sofala, Manica, Inhambane, Gaza and Maputo provinces. Most of the companies are owned by Mozambicans

Chibuto heavy sands

Rock Forage Titanium Lda has won the rights to the Chibuto heavy sands, which had been granted to BHP Billiton, which started work but then stopped. The concession was withdrawn in 2009. The Chibuto concession covers 10,840 hectares. Studies show 72 million tonnes of ilmenite (iron titanium oxide), which is used for white pigment.

The 18 April announcement by the Ministry of Mineral Resources says the company is a joint venture of a Canadian firm, Rock Forage Mining, and Mozambican partners. Rock Forage Titanium was only registered as a company on 7 June 2011, and the registratin identifies only two owners, Mozambicans Carlos Amado Agostinho Manjate and Milton João Mahumane. The latter is one of the owners of the another mining company Fm Sim Empreendimentos, Lda, which was also created this year. Rock Forage's own website (rockforage.com) gives Joao Jaime Muhamane as CEO of Rock Forage Titanium Moçambique; it says he is President of Associação dos Trabalhadores Moçambicanos na Africa do Sul (ATMAS) which it says represents Mozambican mine workers in South Africa.

Other mining

+ The rivers Pungue, Lucite, Revue, Zambuzi, Nhacuarara and Chimeza in Manica and Sussundenga districts are heavily polluted and have now taken on the colour of earth, as a result of the process to separate minerals used by artisanal miners, accoridng to the Beira daily *Diario de Moçambique*. Gold miners are the main problem, but Manica is also a source of tourmaline, garnets, corundum, stone for construction, and clay for bricks.

+ An Indian company, Essar Africa Holdings, which is taking over the state-owned Zimbabwe Iron and Steel Company (Zisco), has revived the idea for an iron ore slurry pipeline, in this case from Zimbabwe to the port of Beira. A similar proposal to export iron ore from South Africa to Maputo has been abandoned several times because of problems relating to the large amounts of water required to transport the iron ore – where would the water come from, and how would waste water be disposed of?

+ The governments of Mozambique, Zimbabwe and Botswana on 15 April initialled a memorandum of understanding ona project to develop a deep water mineral port at Techobanine, off the coast of Mozambique's southernmost district, Matutuine. The port and rail link would cost \$7 billion and take 10 years to build.

+ There are now 36 mining companies operating in Moatize district, Tete, with 10,811 jobs, according to the district administrator, Manuel Guimaraes.

New power line

The electricity transmission line from Tete to Maputo, known as the north-south spine, was agreed by donors at the annual energy consultation meeting on 8 June. Further detailed reports are due this year; construction could begin in 2014 and be completed by 2017. The transmission line would carry electricity from the Mpanda Nkua dam, the proposed Cahora Bassa North bank power station, and the coal power stations at Moatize and Benga in Tete.

Current power lines from the Cahora Bassa dam to South Africa and Zimbabwe have reached maximum capacity.

There would be two high tension lines, the first with 800 kV of direct current (best for long distance transmissin, as with the present line from Cahora Bassa to South Africa) carrying a maximum of 2650 MW directly to Maputo, and the second with 400 kV of alternating current (1100 MW) which could also serve Tete, Manica, Sofala, Gaza, Inhambane, and Maputo provinces.

Energy Minister Salvador Namburete said "We already have promises for funding from the World Bank, Norway, France, European Investment Bank, African Development Bank, Electrobras, and Redes Energeticas Nacionais". The line would cost between \$1.7 and \$2 billion.

+ The Mozambican state will receive its first dividend from the Hidroelectrica de Cahora Bassa (HCB), \$25.2 million. The company has already been paying the government a monthly concession fee which totals nearly \$100 million over the last three years. In 2007, the Mozambican state took a majority holding in HCB, buying most of the Portuguese shares for \$700 million (obtained as a loan from a banking consortium), giving it 85% ownership.

Next step to EITI

Mozambique is a candidate country for the Export Industries Transparency Initiative, and had until 14 May 2011 to complete the validation process. It did submit the final document, but missed the deadline by several days so it was not considered by the EITI board at the June meeting. It should be considered in July, according to EITI.

Control de Integridade Publica (CIP) has published an analysis of the first year to be covered by the process, 2008. It is available on http://www.cip.org.mz/cipdoc/84_ANALISE%20ITIE%20MO%C3%87AMBIQUE_English.pdf
EITI covers only mineral (including gas and oil) exports, and not electricity or megaprojects such as Mozal. Mozambique appears to have received about 175 million meticaais, only about \$5 million in 2008, mainly royalties from Sasol for gas.

The report is highly critical of many aspects of the way Mozambique deals with the extractive industries, notably its refusal to publish contracts, even though countries such as East Timor and Liberia do so

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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

<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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