CENTRO DE INTEGRIDADE PÚBLICA
Anticorrupção - Transparência - Integridade

EXTRACTIVE INDUSTRY

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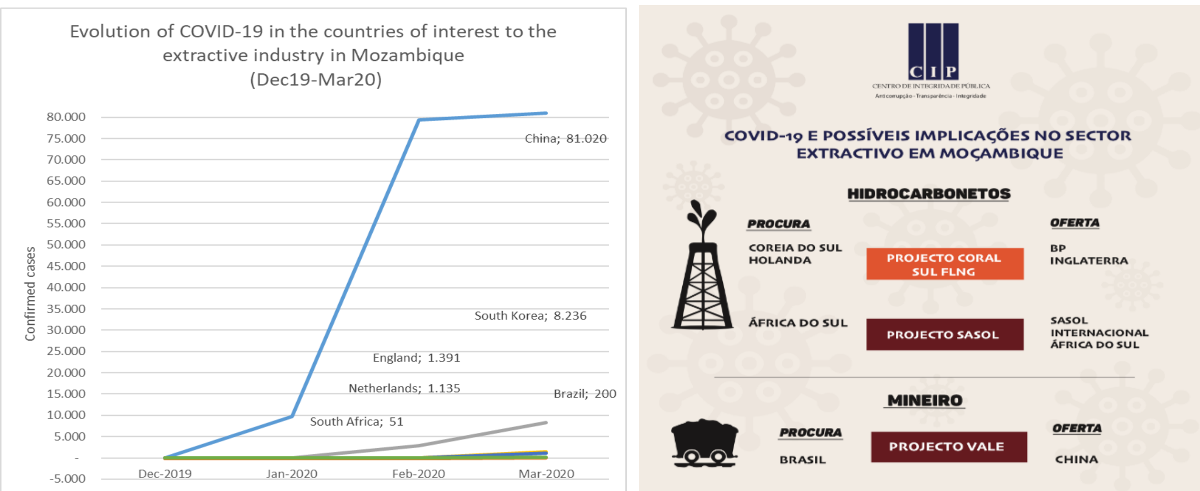
Possible Implications of COVID-19 for the Extractive Industry Sector in Mozambique

Covid-19 poses a significant threat to the extractive industry sector in Mozambique. The most direct impact is on employees, who, once infected, would have to suspend activities causing a profound fall in production in the sector.

It is important to highlight that the measures that are being adopted by the countries affected by the disease, such as the closure of borders (restriction of exits and entries) and "mandatory quarantine", have an impact of reducing activities in these countries with negative implications on the demand and supply of goods and services necessary for the success of projects in the extractive industry sector in Mozambique, especially those in the production phase. See below the evolution of the disease in the countries of greatest relevance to the extractive industry in Mozambique.

Figure 1: Evolution of COVID-19 in the countries of greatest relevance to the extractive industry in Mozambique



Source: www.ecdc.europa.eu (consulted on 16/03/2020)

Possible implications of Covid-19

Supply side effects

On the supply side, the destination countries for natural gas, coal and other extractive resources from Mozambique have been the most affected by the disease so far (see the figure above).

They are China (where the virus broke out in December 2019); South Africa, which currently has the highest number of infected people in southern Africa (51), with an increasing trend; and England.

For example, the South Coral FLNG concessionaires have signed a 20-year liquefied natural gas contract with BP plc. England is so far the 11th most infected country in the world.[1]

Demand side effects

On the demand side, projects such as Coral Sul FLNG, which is not yet in the production phase, may be affected by the fall in prices of the products offered that support the functioning of the project activities, by the increase in the price of goods and services, and/or by the change in the deadlines for the delivery of goods and services that impact the entire production chain of the sector. The countries highlighted on the demand side are South Korea (responsible for the construction of the project's floating platform in area 4 of the Rovuma Basin), which is currently the 4th most affected country[2], and the Netherlands, the 10th most affected country[3] by Covid-19.

Fiscal Implications for Mozambique

It is important to remember that in 2014 Vale and the Mozambican Government discussed the competitiveness of the coal value chain in Mozambique. Vale's most pressing argument was that the costs in Mozambique, in the wake of the fall in the international price of coal at the time, did not allow Vale to operate under acceptable conditions of productivity.

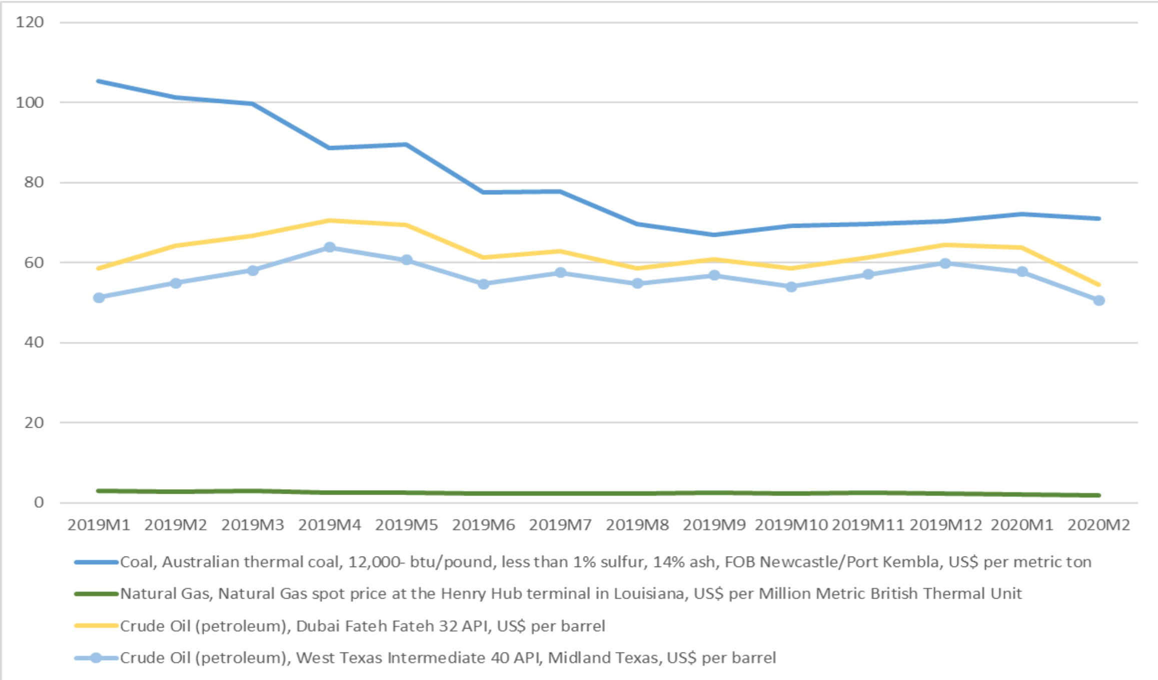
In this context, the mining company suggested an analysis of the tax burden on its entire cost base. The discussion specifically involved the reduction of taxes levied on inputs, such as explosives and diesel fuel, and the renegotiation of tariffs with the public railroad company CFM. The analysis also included royalties and income taxes.

Therefore, if the situation prevails, companies in the sector can take advantage of the moment to demand tax benefits similar to what happened with Vale in 2014, as mentioned

1 https://www.ecdc.europa.eu/sites/default/files/documents/COVID-19-geographic-disbtribution-worldwide-2020-03-16.xls (Consultado no dia 16/03/2020)
2 idem
3 idem

above. This has an impact on the reduction of revenues for the Government that, associated with the fall in the price of the product offered on the international markets, such as natural gas, coal and others (see graph 2), may compromise the earnings projections for the country.

Figure 2: International Price Trends of Primary Goods



Sources: www.imf.org , consulted on 16/03/20

Recommendations

Therefore, **CIP recommends that the Government carry out a thorough analysis of the break-even point of each of the variables of the extractive industry companies in order to avoid granting redundant benefits.**

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