

# THE LAWYER

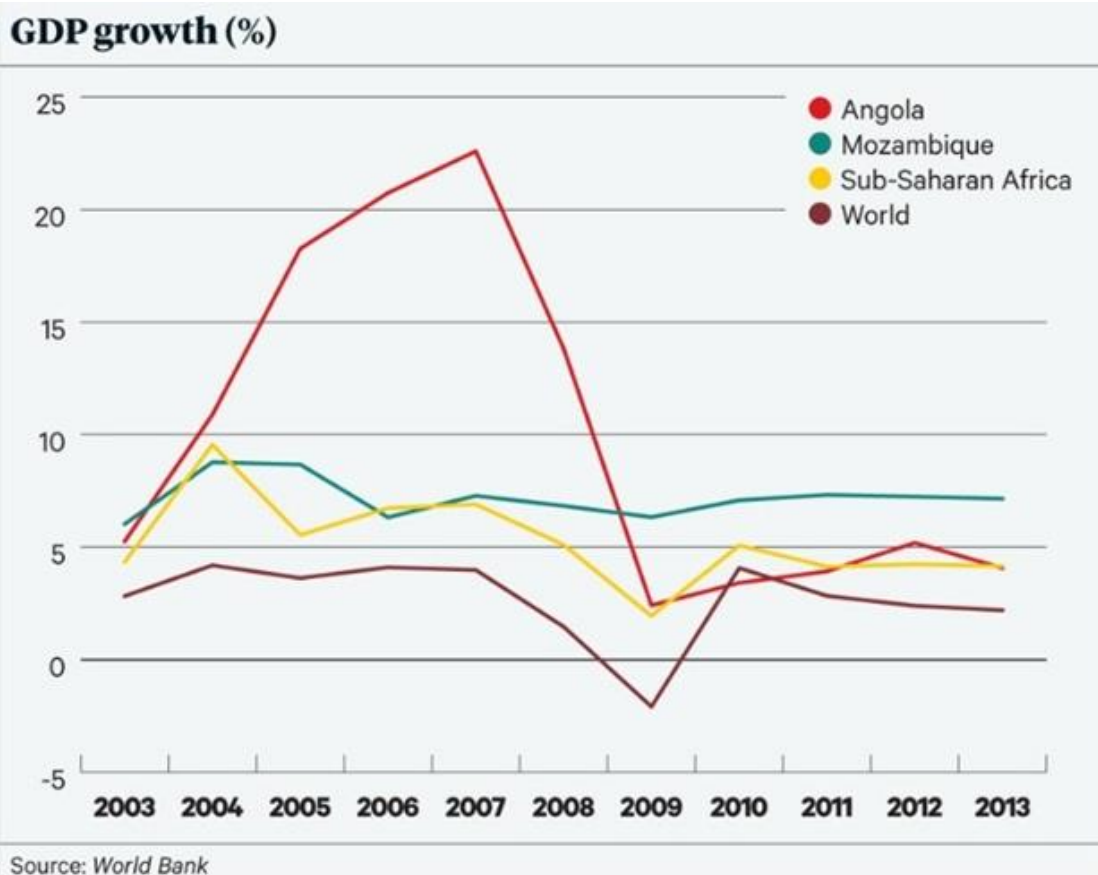
## Angola and Mozambique: Dual fuel pipeline

8 September 2014 | By [Joanne Harris](#)

Angola and Mozambique both benefit from oil and gas exploration but their by-product of needing modern and extensive infrastructure is creating new investment sources

The energy-rich, Portuguese-speaking nations of Angola and Mozambique have consistently shown their potential over the past years. GDP growth in both countries has outstripped both the global average and also the regional trend in recent years – although with Mozambique's average annual increase hovering around 7 per cent for the last five years, compared to just under 4 per cent for Angola, the smaller nation is doing a little better than its larger economic rival.

Both countries have grown rapidly on the back of oil and gas exploration. But here the similarities end, for Mozambique lags Angola in terms of its development.



## ANGOLA

Angola is one of the 12 members of Opec (the Organization of the Petroleum Exporting Countries). It has become steadily more important among that group, which also includes Algeria, Libya and Nigeria in Africa, over recent years.



However oil production has stalled in recent months, prompting talk that the country may not hit its stated aim of producing two million barrels of crude oil a day by 2015. A number of projects are yet to come onstream with several large oil companies expected to start producing from new oilfields in the next three years.

Anyone wanting to invest in Angola must meet “local content” rules, requiring a majority of Angolan employees and a need to use Angolan products and services.

Since last year and the introduction of foreign exchange controls, bills paid in Angola must be made in the local currency, the kwanza. Although the kwanza is not yet traded internationally, its use has become the norm, say lawyers.

“The culture bit’s done and people understand that if you pay locally you pay in kwanza,” says AVM Advogados partner Claudia Santos Cruz.

“In some areas now people would prefer to get paid in kwanza than dollars,” says Fátima Freitas partner Chindalena Lourenço.

Meanwhile sweeping tax changes implemented this year have seen a reduction in corporate income tax, from 35 per cent to 30 per cent – although this has been accompanied by a rise in withholding tax to 6.5 per cent from 5.25 per cent.

The law is set to be signed into force by president José Eduardo dos Santos soon, but its effect will not be seen for some time.

“One thing is the law, the other thing is to put it into practice,” points out Gabinete Legal Angola (GLA) international senior associate Renata Valenti. “We’re looking forward to understanding the effects of the law.”

“The tax legislation has been under reform for the past two years. From the clients’ point of view it does create some instability,” agrees Santos Cruz.

Another major development on the horizon, linked to the foreign exchange control legislation, is the start of trading on the Angolan stock exchange in 2017, although this date has been put back several times already. Vieira de Almeida (VdA) partner Francisco Amaral points out that the stock exchange has been under discussion for a long time and adds that few companies are preparing to list.

## Urbanisation

Uncertainty over the implementation of new legislation does not seem to be putting off new investors to Angola. China remains the country’s major trading partner, alongside Portugal and South Africa, and is investing not only in oil and gas but also in the infrastructure development associated with the sector.

Lourenço adds that enquiries are increasingly coming from the US.

Development includes the building of refineries and other infrastructure directly associated with the oil and gas sector, as well as roads, railways and general urbanisation. Cuatrecasas Gonçalves Pereira partner Rui Mayer, who heads up the firm's Angolan desk, says urbanisation has become a fact of life – and not always a welcome one – in Angola's capital Luanda.

“In central Luanda they're building office towers and residential towers in streets where there used to be villas,” Mayer reports. “Probably the worst nightmare in Luanda at the moment is traffic. There are a lot of cars being bought – and big cars.”

Santos Cruz agrees, saying that AVM has begun opening its offices on Saturdays for meetings to facilitate clients' journeys through Luanda traffic jams.

Outside the city, agriculture looks like another good bet for future investment and diversification of the economy.

“Angola has one advantage: water,” says Mayer, adding that a number of agriculture projects are on the go in the country's interior.

There has been a slow and gradual increase in the amount of land used for arable production, according to the United Nations, and this is expected to continue rising.

## MOZAMBIQUE

By contrast, Mozambique's reliance on oil and gas remains dominant. The Mozambique parliament passed the first reading of amendments to the country's oil and gas legislation in mid-August with the aim of codifying current practice and making the process for bidding for contracts more transparent.



The legislation will also apply to natural gas as well as oil, and will relate specifically to several upcoming liquid natural gas projects.

Similarly to the Angolan legislation, Mozambique's new law will require foreign companies to establish a local business to trade and exploit oil and gas blocks.

The law is expected to continue through parliament despite the fact that elections are on the horizon – and any uncertainty which investors might be feeling with a possible change in government coming up does not seem to be manifesting itself in a lack of work, with lawyers mostly reporting plenty of enquiries in recent months.

Pimenta Dionísio & Associados managing partner Paulo Pimenta says the first half of 2014 has been good, with plenty of work in the pipeline, while Mozambique Legal Circle partner Paula Duarte Rocha also reports plenty of enquiries relating to natural resources.

Cuatrecasas partner and Mozambique coordinator Rita Roque de Pinho adds: "Mozambique has benefitted from sustainable and steady economic growth in the past decade. That's created a very attractive environment for Portuguese companies and other foreign investors."

Roque de Pinho adds that the elections will verify whether or not Mozambique has truly achieved political stability.

There are three candidates running to replace president Armando Guebuza, who must stand down after two terms in office, including opposition leader Alfonso Dhlakama.

A fair election is important to help end the ongoing conflict between the ruling party and opposition factions, which has affected tourism and risks putting investors off.

### Infrastructure development

Perhaps even more so than Angola, there is plenty for would-be investors to put their money into. As well as natural resource exploration, there is substantial infrastructure development going on to connect remoter parts of Mozambique with the more urbanised south and the capital Maputo.

Lawyers note that Chinese investors in particular are beginning to move into new areas of development, and also that the Chinese are starting to use local advisers more often.

"We've experienced a lot of Chinese investment for quite a while in Mozambique but we've been left with the feeling that the Chinese don't engage Mozambique lawyers," explains Duarte

Rocha. However, she believes that more requests are now coming in directly from Chinese companies. She says they seem to have realised that local lawyers are able to better navigate local bureaucracy and speed up the time it takes to get a project started on the ground.

“We believe that when things really start happening then there comes a need to have local advice,” she adds.

South African lawyers are also making increasingly regular trips to Mozambique, according to locals. There have always been strong trade links between the two countries and closer ties between their legal markets are expected.

“There’s a possibility that South African firms will be more interested in the market and develop partnerships and work,” says PLMJ lawyer Miguel Spinola, who coordinates the firm’s relationship with associated Mozambican outfit Gabinete Legal Moçambique.

To date, South African firms have found the cultural and linguistic gaps, as well as Mozambique’s restrictive bar rules, too much of a barrier to break through. Most of the largest Mozambican firms already have an association with a Portuguese firm – while also working regularly with practices from around the world.

Attempts to liberalise the Mozambican legal profession have, to date, fallen flat. Duarte Rocha speculates that many simply grew tired of having the argument over whether or not opening the profession to foreigners was worthwhile. However changes to the bar rules have just been implemented, requiring firms to register their articles with the bar association.

Any further liberalisation will, many think, require foreign associations such as Portugal’s bar to work more closely with the Mozambican Bar Association to persuade it of the need and benefits of opening up the local market.

Despite hurdles such as the uncertainty over Mozambique’s elections or the stagnation in the growth of Angola’s oil production, the mood remains good in both countries. Buoyed by continuing high growth projections – the two countries are forecast to increase GDP significantly in 2014 and 2015 – lawyers expect that enquiries from around the world will keep flooding in to them.

#### **Key figures: Angola**

**GDP: \$121.7bn**

**Inflation: 7%**

**Population: 19.2m**

**Life expectancy at birth: 51**

**Unemployment: 26%**

**Source: World Bank, Bank of Mozambique, National Institute of Statistics**

#### **Key figures: Mozambique**

**GDP: \$15.3bn**

**Inflation: 3.4%**

**Population: 25.8m**

**Life expectancy at birth: 50**

**Unemployment: 23%**

**Source: World Bank, Bank of Mozambique, National Institute of Statistics**