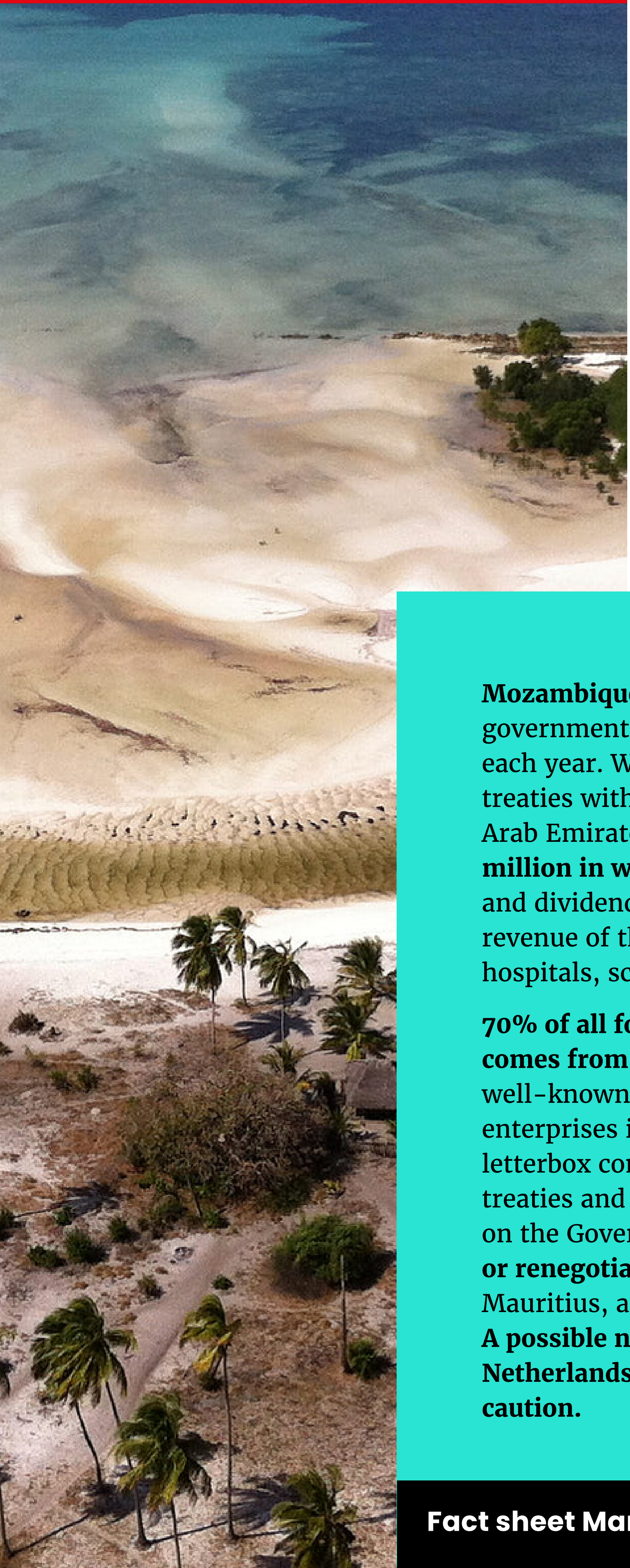


Fueling financial foul play

Mozambique's tax treaty network is depriving the government of millions of dollars in tax revenue each year. We estimate that as a result of its tax treaties with tax havens Mauritius and the United Arab Emirates (UAE), **in 2021 Mozambique lost $ 315[1] million in withholding taxes** on interest payments and dividends. This is 7.4% of the country's total tax revenue of that year, which could have been spent on hospitals, schools and other public infrastructure.

70% of all foreign investment in Mozambique comes from the UAE and Mauritius. These are well-known tax havens that enable multinational enterprises investing in Mozambique to set up letterbox companies to take advantage of its tax treaties and avoid taxes in Mozambique. We call on the Government of Mozambique **to terminate or renegotiate its tax treaties** with the UAE and Mauritius, as well as review its other tax treaties. **A possible new treaty with another tax haven, the Netherlands, should be approached with extreme caution.**

Fact sheet March 2023

1. "$" denotes US dollars throughout this briefing.

Policy recommendations to the Government of Mozambique

1. Be extremely cautious in signing new tax treaties, especially with the Netherlands
2. Terminate and/or renegotiate harmful tax treaties with the United Arab Emirates and Mauritius
3. Include withholding tax rates that are closely in line with Mozambique's statutory 20% withholding tax rate
4. Use the UN Model tax treaty as the basis for treaty negotiations

Treaty shopping in Mozambique

Tax treaties are agreements signed between two countries whose official purpose is to prevent double taxation of income in the two treaty countries. They are therefore also known as 'double taxation agreements'. However, they also contain rules about how certain cross-border income is taxed, such as dividends and interest payments. Because of this, rather than preventing double taxation, tax treaties can heavily reduce the amount of tax multinational companies have to pay.

They are especially harmful to countries that are receiving a lot of foreign investment, such as Mozambique. Mozambique has signed ten tax treaties. The table below gives a list of the treaties and their withholding tax rates. Two of these are with well-known tax havens Mauritius and the United Arab Emirates. These are especially problematic because they enable foreign companies to avoid taxes in Mozambique through what is called 'treaty shopping'. Mozambique's tax treaty with Mauritius reduces withholding tax rates from 20% to 8%, while its treaty with the UAE reduces them completely to 0%.

Because of the low withholding tax rates in these treaties, many foreign companies use letterbox companies in the UAE and Mauritius when investing in Mozambique. Mozambique's gas fields and other natural resources have attracted billions of dollars in foreign investment over the past ten years. Statistics show that 70% of all foreign investment in Mozambique comes from the UAE and Mauritius.

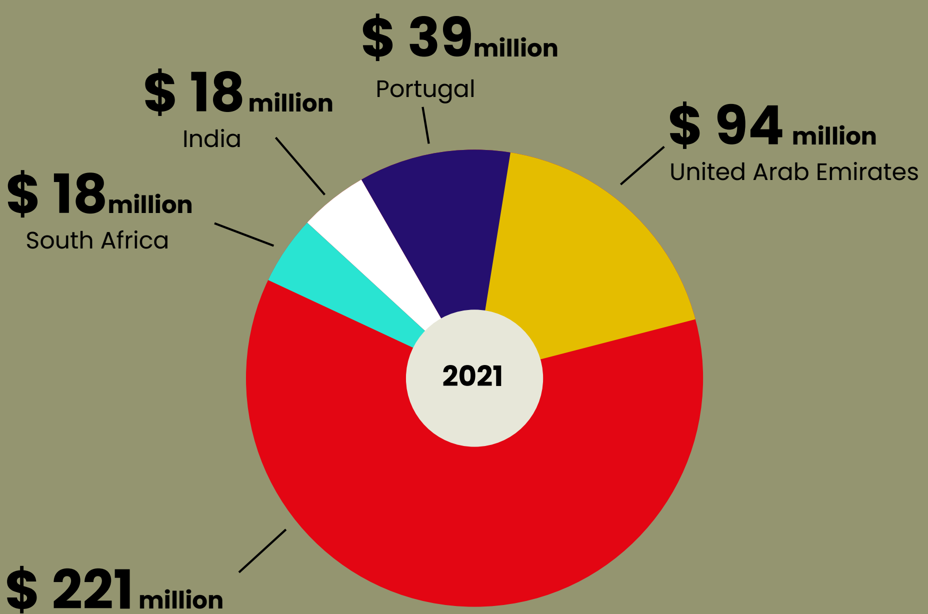
Overview of withholding tax rates in Mozambique's tax treaties

	Dividends	Interest	Royalties
Statutory rates Mozambique	***20%***	***20%***	***20%***
India	7.5%	10%	10%
Italy	15%	10%	10%
Macau	10%	10%	10%
Mauritius	8% (15%)[56]	8%	5%
South Africa	8% (15%)[57]	8%	5%
United Arab Emirates	0%	0%	5%
Vietnam	10%	10%	10%
Portugal	10%	10%	10%
Botswana	0% (12%)[58]	10%	10%
Ethiopia	10%	10%	10%

Red indicates a reduction by more than half of Mozambique's statutory 20% WHT rate

Estimated loss by tax treaty

Estimated loss of dividend and interest withholding taxes due to tax treaties in 2021 (in US$ million)

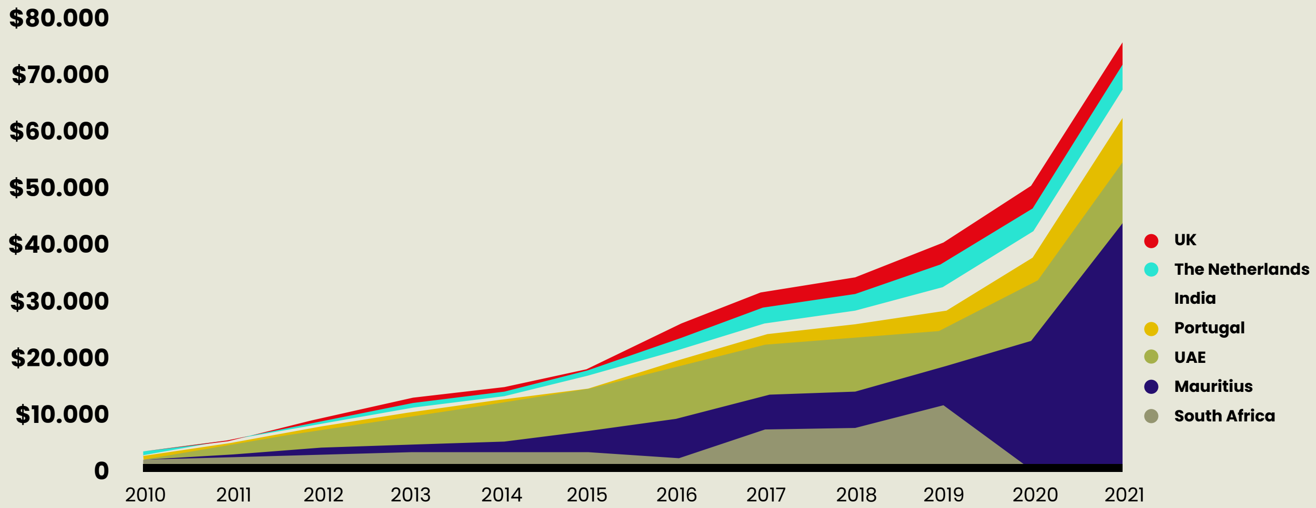


Total

$ 390 million

Incoming FDI stock in million US$

2010–2021



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Because of Mozambique's tax treaties with these two tax havens, Mozambique is losing out on millions in tax revenue over these investments. **We estimate that in 2021 the Mozambican government could have lost approximately $315 million in tax revenue as a result of the reduced withholding tax rates on interest and dividend payments in the treaties with the UAE and Mauritius. This is 7.4% of the country's total tax revenue.**

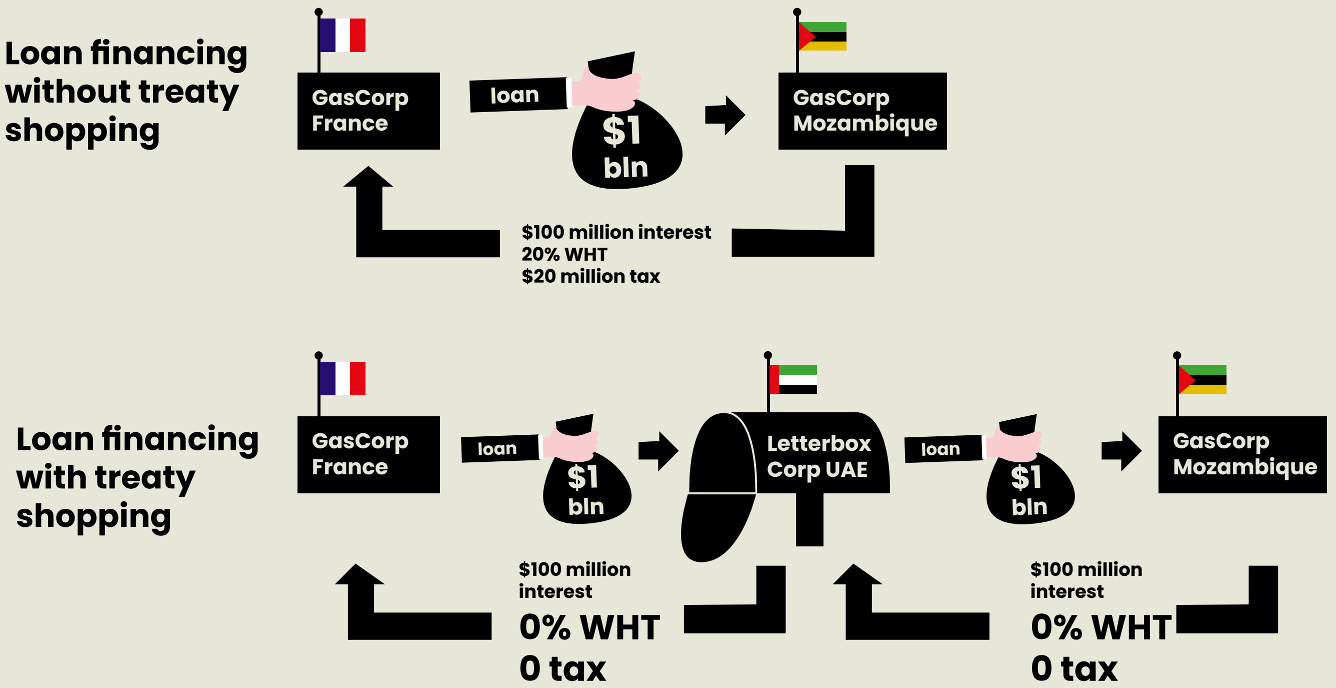
To give a concrete example, European multinationals Total and ENI have set up letterbox companies in the United Arab Emirates to finance their billion-dollar gas concessions. This can allow them to use the 0% interest withholding tax rate agreed in the UAE-Mozambique tax treaty. According to calculations by OpenOil, as a result Mozambique is estimated to lose up to $1.6 billion in interest withholding tax revenue over the lifetime of the two gas projects.[2] Figure 1 below shows how this would work using a fictitious French company, 'GasCorp'.

2. Say no to gas in Mozambique, "Too late to count: a financial analysis of Mozambique's gas sector – Report by OpenOil", July 2022, accessed 16-01-2023, https://stopmozgas.org/report/financial-analysis-mozambique-gas-sector/

Mozambique urgently needs to renegotiate its tax treaties

The amount of taxes lost by Mozambique due to its tax treaties show the urgent need for Mozambique to terminate or renegotiate its treaties with Mauritius and the UAE. In doing so, Mozambique would follow Senegal, Rwanda, Lesotho and Zambia, who have all cancelled or renegotiated their tax treaties with Mauritius. It is important to note that withholding tax rates are not the only treaty clause that harms Mozambique's taxing rights. There are also provisions regarding capital gains tax, permanent establishment and others in Mozambique's tax treaties that severely limit its ability to tax foreign multinationals. We explain these provisions more in depth in the accompanying briefing paper.

Governments often use the argument that tax treaties lead to additional investment and are good for the economy. Research by the IMF has however shown that tax treaties



do not lead to additional investments and are rather used by multinational corporations to avoid taxes over investments they were already committed to, regardless of these tax treaties. Mozambique already provides companies with significant tax incentives and exemptions, and allows companies to use foreign tax credits to prevent double taxation. This brings into question the necessity of tax treaties for Mozambique altogether.

Be extremely cautious in signing a treaty with tax haven the Netherlands

Mozambique is currently also negotiating a tax treaty with the Netherlands, a tax haven notorious for enabling treaty shopping and aggressively negotiating low withholding tax rates in its treaties with African countries. For example, the treaty between the Netherlands and Uganda has come under fire for heavily reducing withholding tax rates. Calculations by Oxfam show that this treaty enables Total, also operating an oil project in Uganda, to avoid millions in tax.[3] The Government of Kenya in 2021 announced that it will not ratify the treaty with the Netherlands and wants to renegotiate because it did not sufficiently reflect Kenya's interests.

The Netherlands is already the fifth biggest source of foreign investment in Mozambique, with $ 4.5 billion in foreign investment coming from the country in 2021. Signing a tax treaty with the Netherlands will likely lead to a similar situation as the UAE and Mauritius, costing Mozambique millions in tax revenue. We estimate that signing a treaty with reduced withholding tax rates with the Netherlands could potentially cost Mozambique up to US$ 20 million a year. It is therefore of utmost importance that Mozambique is extremely cautious in signing a treaty with the Netherlands.

$ 4.5 billion

The Netherlands is already the fifth biggest source of foreign investment in Mozambique, with $ 4.5 billion in foreign investment coming from the country in 2021.

For further background behind the findings explained above and an in-depth explanation of tax treaties and our recommendations, please refer to the full-length briefing report 'How Mozambique's tax treaties enable tax avoidance'.

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3. https://uganda.oxfam.org/latest/publications/money-pipeline?q=latest/policy-paper/money-pipeline

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KNSM-laan 17
1019 LA Amsterdam
The Netherlands
Tel: + 31 (20) 6391291
Email: info@somo.nl
Website: www.somo.nl

CDD

Nº 279 Rua de Dar-Es-Salaam
Maputo
Mozambique
Tel: +258 21 085 797
Email: info@cddmoz.org
Website: www.cddmoz.org