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A trader's view

Angola's fiscal incentive: the import duty tariff for clinker

At the end of 2008 I had to cancel an approved US$25m terminal project in Ukraine to supply cement and other dry bulk commodities to the CIS markets. I had cement but, during the first six months of 2009, I didn't know where to sell it to. The whole world economy was adrift and we were all in free fall.

They say a crisis creates new opportunities but it depends on which side you stand. With freight prices to West-Africa overcooking to more than US$120/t in 2008, for Africa the global crisis seemed rather a blessing than a drama. The region saw cement prices FOB in Turkey drop from US$110/t to below US$60/t and sea freight to a third of the historic peak prices. With the same buying power in cash and not dependent on credit lines, traders in West-Africa could receive in 2009 double quantities compared to 2008. Cheaper cement certainly contributed to the fact that Africa was the only continent to book up to 3% economic growth compared to the other continents going deep into the red.

It was also in 2009 that I started to receive the first inquiries for cement, I remember it was for Matadi in Democratic Republic of Congo. This was accelerated by the destruction that a tropical storm had caused at the 'La Cilu' cement plant. Whereas, at first, all looked good for me, I soon found that I was losing tender upon tender to the Chinese and some to the Turks. Quite frustrating.

I planned to settle down in Africa, that was a fact. According to economic bulletins, Angola seemed like a kind of 'Promised Land.' After the civil war ended 10 years ago, that country had turned into a building site almost similar to Dubai. Building cranes were everywhere you could look in Luanda. As a member of the Belgian-Luxemburg Chamber of Commerce for ACP-countries I joined its economic delegation to Luanda.

Wow, what a difference compared to Europe where everything was standing still. I was 100% sure; Angola was the country where I would realise my dreams. What could go wrong with prices ex-works at Nova Cimangola of US$205/t?

The 430km haulage to the largest project in the country, namely the Chevron LNG Terminal in Soyo, added US$150/t to the total so that cement in Soyo ended up costing US$350-380/t.

All of my attempts to settle down somewhere along the coastline of Angola and try to develop a cement terminal, failed. This was partially because all strategic spots were already taken by Sonangol. Whatever you do in Angola, you will always come across Sonangol.

Also, myself (and the Turkish traders) were beaten by the Chinese who distorted the market prices. Having negotiated 0% customs duty for cement destined for Chinese projects, they then import more than was needed. The extra cement ended up on the black-market, while our clients had to pay customs duties at 27.5%. For importation of bulk cement, the import duty drops to 17.5%, but there are no bulk cement terminals. In 2010 and 2011 the Ministry of Urbanisation and Construction distributed 15 import licenses for a total quota of 4.5Mt but some license holders did not manage to import a single kilo. Ridiculous!

A special import duty tariff was issued for clinker at 2.5%. This was actually done for the 'old' Nova Cimangola, to protect a local industrial player but today I would rather consider investing in the 'Plug & Grind' system of Cemengal and grind clinker to produce up to 90,000Mt of bagged cement. Compared to a cement terminal this investment is cheaper and just the fiscal incentive with a saving of 15% compared to bulk cement pays back your investment after 2.5 years. If you blend the clinker with 5% gypsum and 25% limestone from domestic quarries, the return is less than a year. Selling 90,000Mt is barely 1.6% of the current market and does not even scratch the surface of the growing demand. Cement consumption in Angola is set to rise to 8.4Mt in 2014.

I would dare to even go one step further. Grind the clinker deep inland where you enjoy another fiscal incentive, namely exemption of corporate taxes for eight to 12 years in provinces further away from the coastline. These regions have seen prices much higher than the capital: in Namibe Kwanza = US$235/t, Lobito = US$255-315/t. and Huambo = US$242/t (Chinese distribution).

The conclusion...? Corporate tax incentives combined with lower import duties for clinker make me conclude that grinding clinker more than 500km away from the coastline is highly profitable, provided that you have a fleet of 10 trucks to pick up the clinker and to distribute the bags in a 300km radius around your grinding plant. With diesel only costing US$0.40/l it should be no problem at all to achieve great results under your own brand of cement that is 'Made in Angola!'