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Nkaya Nacala Rail: Sustainable means
for Malawi to generate possible USD100
million annually**

Phiri Kampanje, Brian

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Exploring Carbon Tax on the Moatize – Nkaya Nacala
Rail: Sustainable means for Malawi to generate possible
USD100 million annually

By

Brian Phiri Kampanje

Abstract

This paper briefly analysed the social costs and environment impact of the Moatize- Nkaya Nacala Rail on the Malawian communities as well as the economic impact on the country. The findings are that Malawi is worse off than before in view of poor negotiations and failure to enter into agreement with Mozambican Government. It is recommended that Malawi must introduce a carbon levy of USD5.00 per tonne and earn at least USD100,000,000.00 in each fiscal year. This money should be used for restoration of the environment across the country but also serve the affected communities. This will be a guaranteed source of much needed forex as well.

Type of Paper: Conceptual Paper

Key words: Carbon; Tax; Rail; Coal; Malawi; Forex

1.0 Introduction

There is a rail which passes through Malawi connecting Nacala Port located to the eastern coast of Mozambique on the Indian Ocean and Moatize in Tete to the Western side of Mozambique thereby passing through Malawi through a 136 kilometre stretch – Chikoko (2015). Chikoko (2015) further stipulates that Malawi forego taxes on the rail project including withholding tax, minimum corporate tax and instead settled for annual concession fees of USD2 million. Whether the concession fees are paid or not is another sticky issue because of the secrecy surrounding that issue since annual rail concessions on the other routes were not paid for out twelve years between 2005 and 2016 – Malawi Extractive Industries Transparency Initiative Report (2016/2017:58).

2.0 Concrete benefits on the Moatize-Nacala Rail?

It appears Malawi failed to negotiate for better terms with the counterparties and there is not much which can be done. It was envisaged that Malawi would save annual transport costs of about USD120 million once the rail was completed but immediate benefit was employment of 4,500 of which seventy percent would be Malawians – Nyasatimes (2012). The transport cost savings are not quantifiable benefits such as the concession fees and therefore the counterparties benefit more by erecting a rail passing through Malawi as a shortcut as noted by Chikoko

(2015) who stated that the Beira route would have cost more and the port not deep enough to handle large cargo in a year.

The rail concession agreements were made between Malawi and Vale Logistics Limited and not Mozambican Government. It would have been an ideal situation for a tripartite agreement to include other issues such as energy through electricity powerline interconnection deals and other pertinent issues to the benefit of the two neighbouring countries.

3.0 Social Costs of Moatize-Nacala Rail

The obvious cost is the social disruption in the societies in which the rail passed through as communities were split to give room to a highway speed train system. Much as the affected households were given one-off compensations, the social effects on families and villages will last for centuries to come with no benefit accrued to them whatsoever. Centre for Environmental Policy Advocate (2014) noted that those who were relocated and compensated on the rail project in Mwanza and Neno became worse off than before as the land became more expensive and that included the cost of general livelihood.

The noise pollution and dangerous vibration frequency (ground shaking) whenever the freightliner train passes by is a nuisance to affected communities and a risk for the

livelihood as their houses are prone to develop cracks and not last long. Constant compensation would have been an ideal solution since the communities did not choose to settle along the rail route but it was planted long after the communities had settled for generations.

Injuries and deaths have been reported on the rail route with the company managing the rail operations giving disclaimers that it is not responsible as communities have to take extra caution when in contact with rail as trains can pass any time and without warning.

4.0 Environmental Costs of Moatize-Nacala Rail

The rail route has the capacity to handle between eighteen and twenty two million tonnes of coal per annum from Moatize Coal Mines to Nacala Deep Ocean Port. The tonnage of backload cargo is not currently in the public domain. The results of the environment impact assessment are not readily available but what is certain is that the freightliner trains consume a lot of diesel and releases substantial amount of carbon dioxide and several noxious gases such as carbon monoxide, sulphur dioxide, nitrogen oxides etc. There has not been an attempt to quantify the environmental damage thereof. The carbon footprint on annual basis is quite substantial for the capacity of the rail and more or so the fact that the product being principally transported is coal which produces a lot of greenhouse gases. The Malawian environmental is constantly being

damaged by the passing of each train hauling the coal on its way to Nacala Port and so far no mitigation factors have been put in place to absorb the carbon emission.

5.0 Carbon levy considerations - Moatize-Nacala Rail

Carbon tax levy is at MWK5.00 per litre on petrol and diesel in Malawi since June 2020 – Malawi Revenue Authority (2020). Malawi has now two functioning tollgates between Dedza and Chingeni on the M1 Road which motorists pay to use the road. More tollgates will be constructed very soon across many parts of the country. It should therefore not be a significant issue to consider introduction of the carbon tax on the Moatize-Nacala Rail which should be paid by both local rail operator and the Mozambican company. The carbon tax should be at USD5.0 per tonne as the minimum target. This should be paid by each passing train and can be done in arrears. Malawi can collect not less than USD100,000,000.00 in a fiscal year. This can be enhanced in the near future after taking consideration of the parties involved and international practices. This is not a new initiative in the region as there are about five toll bridges between Maputo and South Africa and Malawian trucks involved in that trade route already pay levies and therefore Malawians need a fair share of the mega millions of coal passing through this country from Mozambique on its way to Brazil and other parts of the world.

The carbon tax levy can be used for restoration of the environment across the country by promoting economic activities of the communities to spur sustainable economic growth and part of the funds should be channelled to the communities directly affected by the rail in form of social amenities. To Malawi as a whole, there is a guaranteed source of forex as it would be the top three forex earner for the country.

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