TAX JUSTICE NETWORK AFRICA

CDD Centro para Democracia e Direitos Humanos

Taxation as a Fossil Fuel Phase-Out Strategy

Mozambique policy brief

2026

01 Executive Summary

Mozambique's energy economy is shaped by fossil fuels, both as a major exporter and as a net importer. Coal from Tete and natural gas from the Rovuma Basin account for over 50% of total exports and a growing share of foreign exchange earnings.

The country is at a pivotal moment in its effort to leverage its vast natural gas reserves for economic development while navigating climate risks and global energy transition pressures. Although large-scale investments in liquefied natural gas (LNG) and coal have positioned the country as an emerging fossil fuel exporter, its fiscal framework continues to provide extensive incentives and exemptions that significantly limit public revenue mobilisation.

This policy brief draws on findings from the Centre for Democracy and Development (CDD) and TJNA report which assesses the structure, costs, and impacts of tax incentives in Mozambique's fossil fuel sector. The report finds that despite substantial capital inflows particularly in LNG projects, fiscal returns to the State remain disproportionately low owing to generous tax exemptions, weak revenue capture mechanisms, and governance challenges.

Key findings:

- Mozambique provides extensive tax exemptions and preferential fiscal treatment across gas and coal sectors
- Large-scale investments generate limited fiscal returns, owing to excessive fiscal incentives and weak revenue capture mechanisms.
- Significant revenue is foregone from Value Value Added Tax, customs duties, and corporate taxation in LNG projects
- Fiscal policy remains misaligned with both climate commitments and energy transition priorities.
- Continued reliance on LNG risks locking the country into long-term fossil fuel dependence and global market volatility.

Urgent priorities include

- Phase out unnecessary VAT/customs exemptions and stability clauses for coal/gas projects.
- Introduce targeted environmental taxes (carbon, methane, flaring) and align with the European Union Carbon Border Adjustment Mechanism (CBAM) via an aluminium-sector carbon tax.
- Earmark fossil revenues for a sovereign Green Fund to finance solar, hydro, and social protections.
- Align fiscal policy with climate commitments and energy transition strategies
- Enhance EITI transparency on all extractive incentives.

02 Background and context

Mozambique's economy has become increasingly anchored in extractive industries, particularly natural gas and coal. The discovery of vast offshore gas reserves in the Rovuma Basin has driven large-scale investments, positioning the country as a future global LNG exporter. Projects such as TotalEnergies' Mozambique LNG represent some of the largest investments in Africa, valued at over USD 26 billion.

Mozambique's fiscal framework has been designed to attract foreign investment into high-risk extractive sectors through generous incentives, including tax exemptions, reduced royalty rates, and preferential treatment under specific petroleum and mining fiscal regimes. Global energy systems are shifting toward decarbonisation, and Mozambique faces increasing climate vulnerability alongside rising fiscal pressures.

Despite this, the current fiscal regime continues to prioritise fossil fuel expansion, creating a structural contradiction between development ambitions, fiscal sustainability, and climate commitments. This contradiction is particularly acute given Mozambique's: heavy reliance on extractive-led growth; high public debt and structural budget deficits; exposure to volatile global LNG markets; and significant climate vulnerability.

In this context, the energy transition has a dual meaning for Mozambique.

As an exporter, the transition implies progressively reducing the weight of fossil fuels in exports and public revenue, while investing in value-added industries and renewable energy infrastructure.

As an importer, and domestic consumer, the transition requires reducing dependence on petroleum-based fuels in transport, manufacturing, and services sectors that remain almost entirely fossil-dependent.

The transition therefore, requires both economic diversification and technological transformation, ensuring that decarbonisation contributes to growth, employment, and energy access rather than constraining these objectives. Fiscal policy has therefore become a central lever in determining whether Mozambique deepens its reliance on fossil fuels or transitions toward a more resilient and sustainable development pathway.

03 The cost of tax incentives

3.1. Extensive Tax Incentives

Mozambique provides a wide range of fiscal incentives within the fossil fuel sector, particularly in natural gas and coal operations. These incentives are embedded within the legal framework governing petroleum and mining activities and include exemptions from VAT, customs duties, and other preferential tax treatment arrangements.

In the LNG sector, large-scale projects benefit from VAT and customs duty exemptions on imported equipment and infrastructure, preferential corporate tax treatment during early project phases, and reduced or delayed taxation on capital-intensive investments. For example, the Mozambique LNG project benefited from over USD 700 million in foregone VAT and customs duties on drilling activities, approximately USD 560 million in exemptions on subsea infrastructure, and partial taxation of capitalised interest valued at USD 3.6 billion, resulting in significant additional foregone revenue.

Similarly, coal operations in Tete province, such as Vulcan's Moatize concessions, generate limited fiscal returns, owing to low royalty rates (3%) and exemptions from VAT, customs duties, excise taxes on equipment- alongside 25% corporate income tax reductions for the initial profitable years and 50% cuts in property transfer tax (SISA) (Langa 2013; Langa and Mandlate 2013). Although such incentives are frequently justified as necessary to attract investment into high-risk sectors, they significantly reduce the State's ability to capture value from its natural resources, as illustrated by the USD 4.93 million from TotalEnergies in 2023 despite billions in investments (TotalEnergies, 2024).

3.2. Legal and Financial Risks

Another major cost of tax incentives in Mozambique's fossil fuel sector is the heightened financial and legal risk from stability clauses and investor-state dispute settlement (ISDS) provisions in project agreements. These lock in favorable terms for up to 30 years, potentially exposing the state to multi-billion-dollar arbitration claims if fiscal reforms are pursued.

Estimates show up to USD 29 billion in ISDS risks from projects like TotalEnergies' LNG which is equivalent to nearly a decade of spending on poverty, health, and education. This "chilling effect" discourages policy changes for environmental protection, just transition, or revenue recovery, perpetuating low fiscal returns amid global decarbonization.

3.3. Economic and Development Trade-Offs

Generous tax incentives in Mozambique's fossil fuel sector perpetuate a "resource curse," where volatile commodity revenues fail to drive broad development, instead fuelling macroeconomic instability, inequality, and social conflict.

Despite billions in FDI, extractives contribute modestly to GDP growth while exposing the economy to price shocks coal production peaked at 12.9 million tonnes in 2019 but fluctuated due to logistics and markets, leaving public debt over 100% of GDP and underfunded social services. These incentives crowd out investments in diversification, with foregone revenues limiting funding for renewables,

Local impacts exacerbate trade-offs: Moatize resettlements displaced thousands with inadequate compensation, causing livelihood losses, protests, and environmental degradation; Cabo Delgado gas projects have been linked to heightened insecurity amid longstanding grievances over exclusion from benefits. Collectively, this development model entrenches fossil fuel dependence, delaying a just transition to resilient, low-carbon growth. infrastructure, and human capital- electricity access stands at only 55% (END, 2025), and persistent rural poverty despite the coal boom in Tete province.

3.4. Climate & Transition Misalignment

Tax incentives for fossil fuels directly undermine Mozambique's energy transition goals, locking in carbon-intensive infrastructure amid global decarbonization and domestic climate vulnerability. Under the National Renewable Energy Plan (PNER), the country targets 62% renewables by 2030 and universal access via solar, wind, and hydro. However, fragmented fiscal support leaves public electricity investment stagnant between 2015 and 2023 .

The EU's Carbon Border Adjustment Mechanism (CBAM) adds an external layer to this misalignment by imposing a carbon price on imports of emission-intensive products such as aluminium, with the resulting revenues accruing to the European Union unless Mozambique adopts a targeted domestic carbon levy. In Mozambique's case, Mozal's relatively low-carbon profile improves its competitive position under CBAM, but without a domestic carbon-pricing framework the country forfeits a potential source of green fiscal revenue that could be reinvested in its own energy transition. At the same time, Mozambique's economy remains structurally dependent on fossil fuels. In 2023, coal and liquefied natural gas were Mozambique's two largest export products by value, ahead of aluminium and electricity, highlighting the centrality of fossil fuels in the country's export basket (World Bank, 2024).Although the country faces significant climate risks and has commitments under the Paris Agreement, fiscal policy continues to incentivise fossil fuel expansion. Large-scale LNG projects involve long-term infrastructure investments designed to operate for decades, effectively locking the country into fossil fuel dependence.

These projects also generate significant environmental and social externalities, including:

- Methane emissions and risks of gas flaring
- Large-scale displacement of communities
- Degradation of marine ecosystems
- Increased insecurity in project regions such as Cabo Delgado

04 Taxation as a tool for structural transition

In Mozambique, taxation plays a decisive role in structuring how value is generated and distributed from large-scale extractive investments, particularly in the LNG sector. The current fiscal framework, characterised by extensive exemptions, deferred taxation, and preferential treatment for large-scale projects, has prioritised investment attraction over revenue capture, limiting the State's ability to translate resource wealth into broad-based development outcomes.

The report demonstrates that taxation can be deliberately reoriented to play a transformative role in Mozambique's development pathway not only by discouraging continued reliance on fossil fuels, but also by improving revenue mobilisation and supporting a just energy transition. To achieve this, it proposes a dual strategy. First, the fiscal regime must be reformed to reduce existing revenue losses by removing excessive tax exemptions, increasing royalty rates, and introducing mechanisms such as windfall taxes to ensure the State captures a fair share of resource revenues. Second, these reforms must be complemented by stronger domestic resource mobilisation efforts, with revenues strategically channelled toward renewable energy investments, rural electrification, and social protection systems.
There is also a strong emphasis on the importance of creating dedicated financing mechanisms, such as earmarking fossil fuel revenues into a Green Fund, to ensure that resource wealth is reinvested into sustainable development The report calls for the introduction of carbon and emissions-based taxation to internalise environmental costs, alongside targeted reconversion incentives to support industries and communities transitioning away from fossil fuel dependence. Together, these measures position taxation as a central tool for driving both fiscal resilience and structural transformation.

The proposed recommendations are grouped into two complementary pillars that respond to Mozambique's dual challenge: reforming the fossil fuel fiscal regime to strengthen revenue mobilisation and linking taxation to the national energy transition agenda.

PILLAR 1:
Fiscal Reform and Revenue Mobilisation
- Rationalise and Reform Fossil Fuel Tax Incentives
- Introduce Environmental and Windfall Taxes
- Enhance Transparency and Governance in Fiscal Management

PILLAR 2:
Linking Taxation to the Energy Transition
- Earmark Fossil Fuel Revenues for Renewable Investment
- Integrate Fiscal Policy with Energy Transition Planning
- Support Inclusive Transition Through Targeted Incentives

05 Policy Recommendations

Short Term: Improve transparency and reduce revenue losses

Mandate EITI disclosure

Mandate EITI disclosure of all tax incentives, exemptions, and revenue flows; strengthen parliamentary and CSO oversight.

Review and phase out unnecessary exemptions

Review and phase out unnecessary exemptions (Value Added Tax, customs, Corporate Income Tax preferences) for new projects and tighten loss carry-forwards or depreciation.

Design progressive fiscal measures

Design progressive fiscal measures for households: tax rebates and subsidies for solar home systems, clean cooking technologies

Medium Term: Revenue and infrastructure scale-up

Introduce environmental taxes

Carbon levies, methane charges, flaring penalties; complement these with a windfall profits tax on LNG and coal revenues during commodity price booms.

Earmark fossil revenues in Green Transition Fund

Earmark fossil revenues in Green Transition Fund for solar, wind, hydro power, storage, rural electrification, and adaptation.

Align fiscal strategy with the PNER (National Renewable Energy Plan)

Introduce time-bound VAT exemptions for clean imports, green investment credits, reduced land charges for renewables energy projects.

Long Term: Systemic phase-out

Channel revenues for inclusive transition:

Introduce investment allowances for public green projects and performance incentives linked to local content, employment, and sustainability outcomes. Establish a dedicated Green Fund to finance the energy transition..

Renegotiate stability clauses to reduce structural fossil fuel dependence:

Negotiate to shorten clause durations to 5-7 years. and implement a full phase-out model incorporating royalty rates of 10–15% and progressive production taxes.

06 Conclusion

Mozambique's fiscal regime reflects a model designed to attract large-scale investment into fossil fuels. This model has resulted in limited revenue capture, increased fiscal vulnerability, and misalignment with climate and development goals. The CDD–TJNA report demonstrates that taxation can serve as a transformative policy tool not only to increase revenue but to reshape incentives, strengthen fiscal resilience, and support a just energy transition.

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