

**Global Risk Forecast**  
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## Africa

- Mozambique** **Contract Frustration/Civil Unrest: The construction of the Nacala railway corridor is likely to face exclusive use disputes and local unrest risks.**
- On 11 January 2012, the Malawian government signed an agreement with Brazilian-based miner Vale allowing the company to construct a 138km railway line through Malawian territory, to connect its Moatize coal project in Mozambique's Tete Province to Mozambique's Nacala Port. The extension of the 912km Nacala Corridor, which is expected to cost \$1 billion, is likely to reduce the time to port from the current five to seven days to 38 hours. Vale is the largest coal mine operator in Mozambique, producing some 620,000 tonnes of coal in 2011. Of these, only 140,000 tonnes were exported, mainly to China and India via Dubai, due to the poor condition of the existing and longer Sena railway link to Beira Port.

However, Mozambican plans to use development in the mining

sector to expand the broader economy, is likely to pull into question Vale's right of exclusive use of the railway line, which the company is likely to set as a condition for the deal to be able to control its export capacity. Mozambique still owns 49% of the Northern Development Corridor, which holds the lease for the railway and port. In exchange for allowing Vale to construct and operate the Malawian track, Vale was obliged to allow Malawi to utilise the line.

Additionally, land-locked Malawi has lobbied to export its agricultural produce on the Zambezi River Corridor, but the Mozambican government has so far denied the navigability of the river, triggering a dispute between the two countries. In the event of deteriorating relations with Mozambique, the Malawian government would be likely to suspend the transit of goods along the Nacala line, forcing Vale to use the existing Sena line through Mozambique. This would incur delays and substantial penalties for the Mozambican government, Vale and other miners such as Beacon Hill, India's NDMC and Globe Metals & Mining.

Moreover, ongoing disputes over forced relocations in 2009 raise risks of protest action. Relocated residents have no official land titles with a clearly stipulated purchase or sale value, making the resolution of the dispute less likely in the first half of 2012. In January 2012, residents in Moatize blockaded the Sena public railway line, preventing a coal consignment from being transported to Beira Port. Local residents will be likely to prolong the dispute to extract a larger settlement from Vale. Further deployments of the Rapid Intervention Force to disperse protesters are likely to raise the probability of violent confrontations and potentially spark retaliatory sabotage of mine operations and the Sena line.

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## Senegal

### **Contract Frustration/Civil Unrest: Closely contested presidential polls will heighten protest risks, and contract risks if the opposition wins.**

On 26 February, presidential elections are due in which President Abdoulaye Wade will run for a third term, if the Constitutional Court rules Wade's candidacy is legal, which is likely. Wade will be able to mobilise rural support, but he is unlikely to win the endorsement of all the influential Sufi brotherhoods. He also faces growing unpopularity, particularly amongst youths and in urban areas, due to the rising cost of living and economic mismanagement. The elections are likely to go to a run-off, increasing chances of an opposition win. This would heighten contract risks in the construction, transport and tourism sectors.

Divisions within the opposition and the lack of a nationwide base for most of the candidates will limit their chances of a win in the first round. However, the growing importance of the urban vote and a very likely rallying behind the leading opposition candidate after the first round - expected to be Moustapha

Niasse, Macky Sall, Idrissa Seck or Tanor Diang - would increase their chances in the second round. Popular singer Youssou N'dour, who announced his candidacy on 2 January, is unlikely to win political support among the elite but is popular amongst the youth, making him a likely kingmaker for the opposition in the second round.

An opposition victory would increase risks of corruption investigations and contract cancellations targeting major infrastructure contracts pursued by Wade and his son, powerful Transport and Infrastructure Minister Karim Wade. These include the new airport in Dakar or Dubai Ports World's contract for Dakar Port's development. Tourist resorts owned by consortiums in which Karim Wade is involved would also be at risk. Revisions would be likely to contracts recently signed by the Wade government, including the award of two oil exploration licences to African Petroleum in late November 2011. While contract and regulatory risks would be lower under another Wade term, he would likely promote populist policies like increasing subsidies and revising contracts in the ailing power sector.

Protest risks will be high during these closely-contested elections, especially in the event of voting fraud allegations, further arrests of opposition leaders and Wade's re-election. Risks will be highest in Dakar, Thies, Thivaouane and Kaolack. Protests risk escalating into riots, posing high risks of damage to government buildings, public transport and public utilities assets. Fighting between opposition and ruling party supporters will also pose moderate risks to individuals. On 22 December, a Wade supporter was shot dead in fighting between youths outside the Mermoz-Sacre Coeur city council.

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## Americas

### Argentina

**All Risks: Argentina is stepping up efforts to isolate the Falklands economically, in hopes of forcing the UK to negotiate the islands' sovereignty.**

The Cristina Fernandez government's strategy of pursuing the isolation of the Falkland Islands (FI), in the hope of persuading the UK to negotiate their sovereignty, is being stepped up prior to the 30th anniversary of the Falklands War (2 April-14 June 1982). Fernandez insists Argentina will only use peaceful means to achieve its objective; it does not have the military capability to take the FI against the current deployed UK force level.

Argentina's diplomatic offensive began in earnest in early 2010, when several UK-based oil firms (Rockhopper, Borders & Southern, Falkland Oil and Gas) started exploration campaigns in disputed FI waters. This led Argentina to pass a law barring any company with commercial involvement in the FI from doing business in Argentina; however, this law has still to be enforced.

In 2011, Argentina secured Organisation of American States

(OAS) support for pressure on the UK to comply with a UN resolution calling for a negotiated settlement. Significantly, this included a shift in US policy in favour of a negotiated solution. In December 2011, the leaders of the Mercosur bloc (Argentina, Brazil, Paraguay and Uruguay) adopted an Argentine resolution barring FI-flagged vessels from their ports. Chilean President Sebastián Piñera also endorsed the ban. This is significant, given Chile's support for the UK in the 1982 Falklands War.

While the Mercosur ban does not apply to merchant vessels flying the British flag, Uruguay, like Brazil, already bars access to its ports by Royal Navy warships in transit to and from the FI. However, Uruguayan support for Argentina has been selective, and until now largely symbolic, complicated by difficult bilateral relations as a result of Argentine protectionism. Uruguay also resents Argentine interception of Spanish fishing vessels with FI fishing licences within the 'common use' waters of the River Plate estuary.

On 18 January 2012, the Argentine opposition parties offered President Fernandez full support in the dispute, following a statement by UK Prime Minister David Cameron that the UK was ready to reinforce the FI in the face of Argentine provocation. We assess that, in addition to increased Argentine diplomatic pressure in international fora, in the run-up to the 30th anniversary of the war there will be further calls in the Argentine Congress for enforcement of the 2010 law applying sanctions to foreign companies with alleged business interests in the FI.

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## Venezuela

### **Contract Risks: Natural gas projects are likely to be delayed beyond 2013 despite recent incentives to accelerate production.**

The government is aiming to incentivise investments in the natural gas sector, particularly with regards to the \$1.5 billion Perla field project, which is estimated to hold reserves of 16.3 trillion cubic feet. This project is 100% owned by Italy's Eni and Spain's Repsol with each having a 50% stake, and state-run PDVSA having a 35% back-in right. In December 2011, the three companies signed an agreement for the purchase of the Perla gas at a \$3.69 per million BTU price. This price is four times higher than what PDVSA had proposed years earlier. Both companies also agreed to ship the initial output to PDVSA which will distribute it in the subsidised domestic market.

The willingness to propose a new price and move forward with the Perla project lies in the fact that Venezuela currently has a 2 million cubic feet per day (mcf/d) gas deficit. States such as Zulia, Táchira and Merida are facing the highest shortages and the new gas is required to generate electricity at the Termozulia and Ramon Laguna plants and source the petrochemical industry. Larger quantities of natural gas output are also needed to develop Venezuela's vast heavy oil reserves at the Orinoco Belt; heavy oil projects require gas re-injection and secondary

recovery.

However, an EA source indicates that there are constraints that will likely lead to the delay of the project. The source indicates that there is no infrastructure in place to support the Perla project. Both Eni and Repsol will require building a pipeline to source PDVSA with the gas output, but the current pipeline system lacks the capacity to handle beyond its current 3.7mcf/d capacity. PDVSA has promised to increase pipeline capacity to 5.6mcf/d by 2015. This is highly unlikely as the firm currently lacks the resources or expertise to do so. This will likely force the project to lower its initial 80mcf/d estimated output.

With reference to other projects, the Deltana Platform, in which Chevron operates, faces the highest delay risks. The project is still waiting for an unitisation agreement with Trinidad. If gas shortages intensify, the government is likely to press for the modification of the current contract, which states that only 10% of the gas will be destined for the domestic market. PDVSA has not been able to find a partner for the Mariscal Sucre project as no firm seems willing to accept the \$0.9 per million BTU price the government is offering.

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## Asia

### Pakistan

#### **Terrorism: Increasing factionalisation within the TTP will further reduce risks of large-scale attacks on western assets in major cities.**

On 12 January, the US renewed UAV attacks in Pakistan's tribal areas, after a 55 day hiatus following a breakdown in US-Pakistani relations over the killing of 24 Pakistan troops by ISAF fire. The US says its UAV killed Hakimullah Mehsud, the leader of the Tehreek-i-Taliban Pakistan (TTP) group responsible for numerous IED attacks inside Pakistan, and named in the failed May 2010 IED plot targeting Times Square, New York. The TTP has so far denied Hakimullah's death, but the timing suggests the intelligence on a high value target was sufficiently compelling to risk a further deterioration in relations with Pakistan. If true, Hakimullah's death will exacerbate existing factionalisation within the TTP, reducing risks of large-scale attacks in major cities like Karachi and Lahore.

Over the past year, the TTP, which is in coalition with diverse groups like core al-Qaeda, the Punjabi Taliban, the Haqqani Network and Sunni extremist groups like Lashkar e-Jhangvi (LeJ), had already changed its traditional patterns of targeting luxury hotels, foreign embassies, and westerners. Instead it has been attacking Pakistani security forces and religious targets, like Shia processions and Sufi shrines. This reflects increased security at embassies and hotels as well as greater sectarian influence within the TTP. There has also been internal friction over whether to continue attacks on Pakistani security forces, or to negotiate with the government. Over the past two months, announcements by senior TTP commanders that negotiations

have started have been quickly followed by attacks on security forces, pointing to internal divisions. This pattern accounted for a sharp increase in attacks in the first two weeks of 2012.

EA sources with access to the militants have claimed that al-Qaeda, the Afghan Taliban and Pakistani militants held meetings over the last two months to contain a dispute between Hakimullah and his deputy, Waliur Rehman, who leads a hardcore group opposed to negotiations. There have also been differences over the role of foreign fighters and their closeness to sections of the TTP leadership. These divisions, which Hakimullah's death will likely heighten, will make it harder to coordinate and execute large-scale operations against hard targets like hotels or embassies, further reducing the risks to such assets. They will also hinder recruitment of new militants and disrupt militant movement between safe havens, although smaller operations such as kidnappings of NGO workers and attacks on police stations in Khyber Pakhtunkhwa province are likely to continue.

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## Eurasia

### Poland

**Regulatory Risk: As foreign banks with exposure to PIIGS debt consider exit, the government is likely to increase its share in the banking sector.**

Foreign banks with exposure to the debt of Portugal, Ireland, Italy, Greece and Spain (PIIGS) are increasingly looking to sell their Polish subsidiaries in order to raise capital by June 2012 as directed by the European Banking Authority. The Chairman of the Financial Supervision Authority Andrzej Jakubiak and the Head of the National Bank Marek Belka, see the Eurozone crisis as an opportunity to 'Polonise' the banking sector by injecting capital into (or part nationalising) these subsidiaries of Eurozone banks, some of whom they consider to be a risk to financial stability. The Central Bank governor told the press in November 2011 that Eurozone banks were the weakest links in the Polish banking sector and suggested the possibility of takeover plans if they are put up for sale.

Some 70% of the Polish banking sector is controlled by foreign financial institutions, including nearly 25% owned by German banks (Deutsche Bank, Commerzbank, Allianz, DZ Bank and Volkswagen Bank). With a capital ratio of over 13%, the banking sector is now better capitalised than in 2008-2009, when the ratio dropped just below 11%. However, the new requirements imposed on the European banks in response to the Eurozone crisis have already forced Belgium's KBC Bank and Greece's EFG Eurobank to sell Kredyt Bank and Polbank respectively.

The country's largest bank, PKO BP, remains in Polish hands, with the state controlling 51.2% of its shares. PKO BP's privatisation plans will likely continue to be deferred. On the contrary, the government is likely to increase its ownership of

the Polish banking system through PKO BP acquisitions, such as its current bid for Millennium Bank (sold by Portuguese BCP). PKO BP is also considering forming a consortium with the state-owned insurer PZU SA, copper giant KGHM and open pension funds, to buy back stakes in foreign-owned banks.

Poland is, however, unlikely to be a key source of capital for banks like Commerzbank or Deutsche Bank that need to raise 5.3bn euros and 3.3bn euros respectively by June 2012. An anticipated economic slowdown in Germany, Poland's main trading partner accounting for a quarter of all exports and imports, is very likely to have a significant negative impact on the economy and public finances, tempering the extent of the government's acquisition of international banking assets.

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