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Mozambique Starts the Ball Rolling

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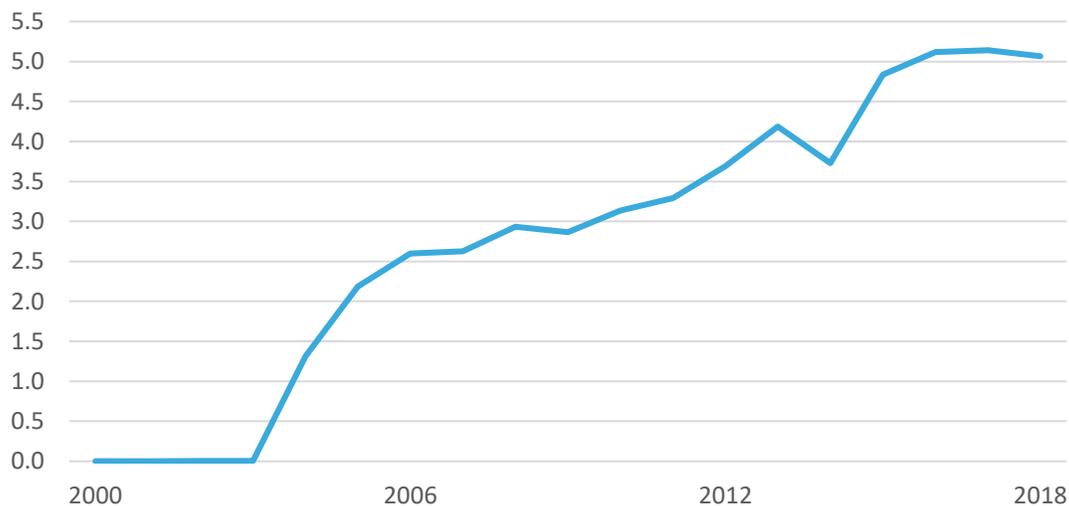
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Mozambique has set ambitious strategic plans to generate more sources of revenue for pushing forward the local economic prosperity. Rich in natural resources, the country is becoming a major emerging LNG producer and exporter in coming years. In this regard, the government decided to review and amend the Petroleum Law 3/2001 of 21 February 2001,¹ in order to prepare a natural gas plan for Mozambique (named as ‘Master Plan’), including different scenarios for exploitation of the country’s natural gas reserves².

Since 2004, Mozambique has been exploiting and exporting natural gas largely to South Africa via a 865 kilometre Mozambique-South Africa Gas Pipeline (Sasol) and the rest has been consumed domestically among different sectors. Mozambique has been South Africa’s major gas supplier with current 3.5 bcm export of natural gas satisfying growing electricity production in the country. In 2018, the country’s natural gas production reached about 5.06 bcm compared to about 1.31 bcm in 2004, representing a constant growth across more than a decade. Figure 1 demonstrates the country’s natural gas production over 2000-2018 period.

Figure 1. Mozambique natural gas production (bcm)



¹ <http://www.eisourcebook.org/cms/files/attachments/other/Mozambique%20Petrol%20Law,%202001.pdf>

² Figure 5 in Annex section, briefly depicts the Mozambique natural gas master plan’s scenario analysis, which focuses on the “northern development area” where Rovuma basin is located.

Source: GECF Secretariat based on data from the GECF GGM

Being the third-largest holder of natural gas reserves in Africa after Nigeria and Algeria, Mozambique draws substantial attention of multinational oil and gas corporations to pour their money into LNG projects over the region. According to the GECF, there are around 2900 bcm of proved natural gas reserves mainly in Rovuma basin. In the past decade, Anadarko, of the US origin, carried out several natural gas discoveries with estimated recoverable natural gas of about 2125 bcm in offshore Area 1 (Golfinho/Atum field).

On June 17th 2019, Anadarko officially sanctioned the first Mozambican onshore LNG facilities including two trains with nominal capacity of 12.88 mtpa. At USD20 bn, this Final Investment Decision (FID) put the Mozambique LNG project as the second most significant oil and gas sanctions performed this year, after Arctic LNG-2 in Russia. The Area 1 project is expected to be commercialized in 2024 and will generate a revenue of USD3 bn per annum for the Mozambican government.

Figure 2. Mozambique LNG projects

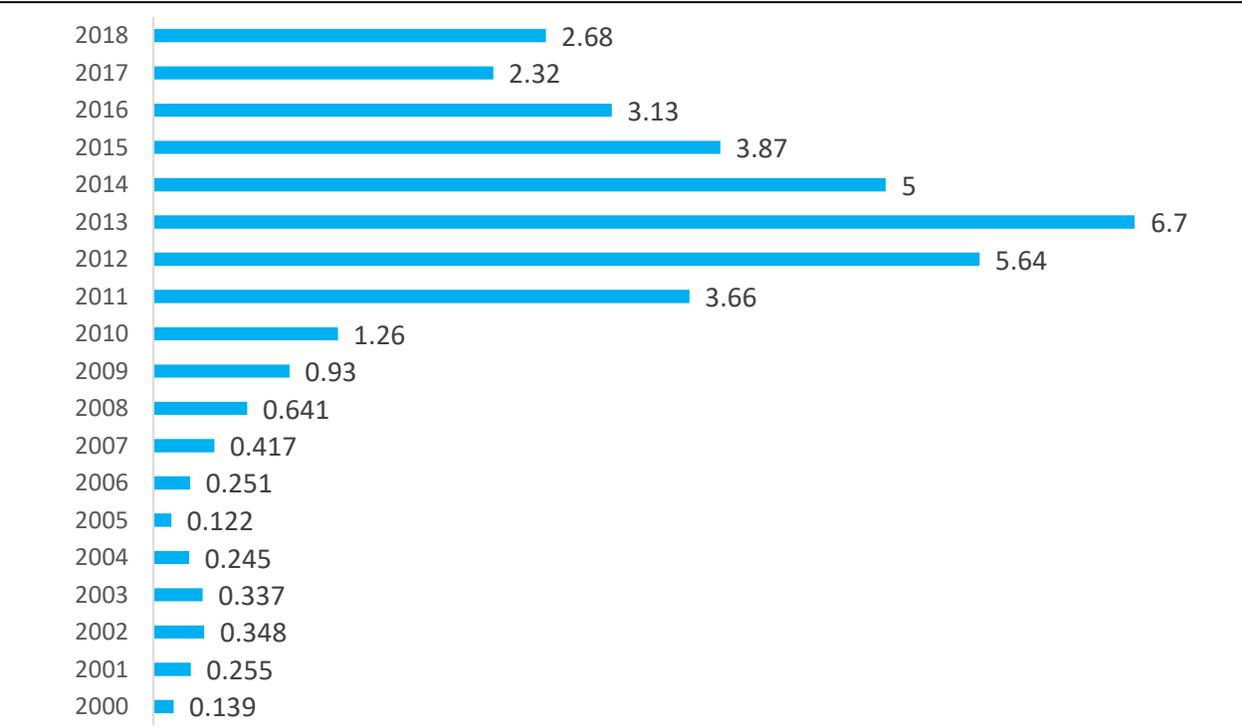


Source: Anadarko and <https://www.offshoreenergytoday.com>

As a strategic decision, Occidental took over Anadarko at USD38.8 bn. Total also agreed to acquire Anadarko's African projects at an USD8.8 bn deal from Occidental creating value not only for the companies, but also for the project and Mozambique. Such business merger and acquisitions along with direct partnerships of Anadarko with Mitsui of Japan and Bahama Oil India have implicitly formed a consortium led by Anadarko to exploit Rovuma basin.

However, this is not the whole LNG investment story in Mozambique. The second USD14.6 bn deal for another LNG onshore trains mega-project is waiting for FID from ExxonMobil across the area 4 offshore gas reserves. If successful, Mozambique LNG will join other mega-projects, which sanctioned in the past year such as the ones carry out by ExxonMobil in US. Golden Pass plant and by Royal Dutch Shell in Canada. Notwithstanding, according to the World Bank LNG has been the largest foregin direct investment to date in Mozambique.

Figure3. Mozambique foreign direct investment, net inflows (Balance of Payments, current bn USD)³



Source: World Bank; International Monetary Fund, Balance of Payments database, supplemented by data from the United Nations Conference on Trade and Development and official national sources.

It is expected that in 2023 the Rovuma LNG facilities’ first production will go to East Asian markets such as China, Japan and India.

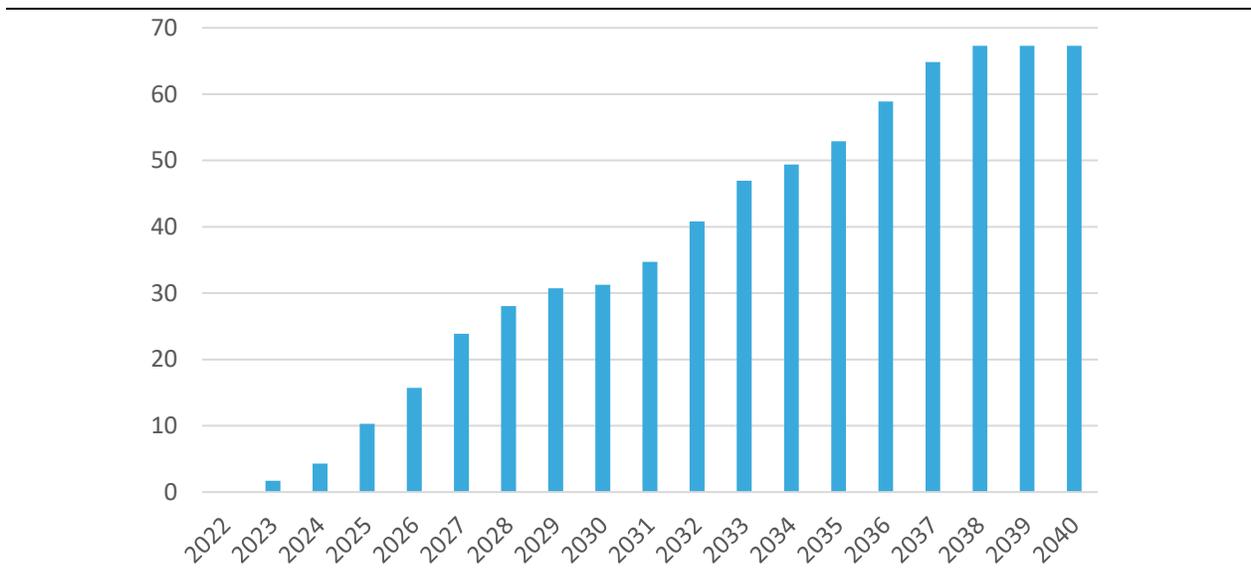
Along with onshore liquefaction facilitates such as Area 1 and Area 4 LNG projects, in 2018, an Italy-based ENI initiated the construction of a Floating Liquefied Natural Gas (FLNG) vessel with the capacity of 3.4 million metric tons per year across seven operational centers worldwide.

In addition to Mozambique LNG projects, it is expected that FLNG project and similar future ones will generate additional revenue for the country contributing to its economic prosperity. It is

³ Foreign direct investment refers to direct investment equity flows in the reporting economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship.

planned that the hull will be launched in 2020, representing the first FLNG vessel ever to be deployed in the coast of African continent. The giant vessel is 432 meters long, 66 meters wide, and around 220,000 mt of weight. Meanwhile, in this month September 2019, the drilling of six subsea wells, which will feed the liquefaction unit is started and will be finished by the end of 2020.

Figure 4. Mozambique LNG supply forecast (mmtpa)



Source: GECF Secretariat based on data from the GECF GGM and Wood Mackenzie September 2019

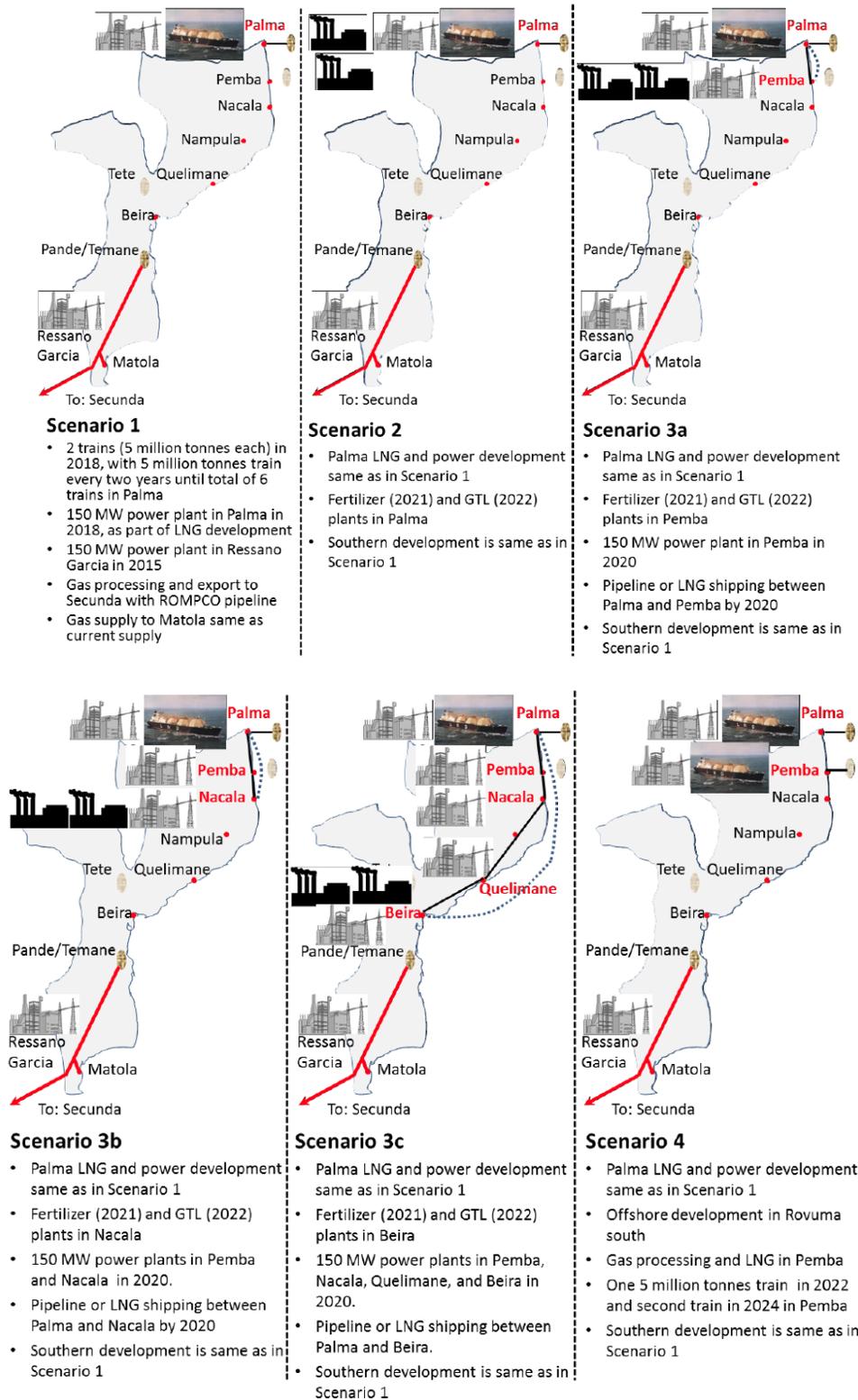
Mozambique has started the ball rolling through ambitious LNG production plans in coming years. Figure above demonstrates the projected LNG production during the forecast period till 2040. Open access to free waters, rich offshore natural gas reserves, increasing LNG demand mainly in East Asian market, and mega investment plans are helping Mozambique to become the “next Qatar” in coming decades.

The GECF is an intergovernmental organization made up of 19 of the world’s leading natural gas producers that serve to foster collaboration among member and observer countries and provide a framework for the exchange of information and the management of natural gas resources. The GECF countries have the largest share of gas reserves, production capacity and trade in the world. Following Nigeria, Equatorial Guinea and Angola, Mozambique has the greatest potential to become a new GECF member from Africa, due to the promising LNG export capacity outlook. By joining the GECF, Mozambique could potentially yield more favourable market conditions, and would certainly receive aid in the development of research, information exchange and knowledge transfer by other GECF countries. Furthermore, increased cooperation amongst exporting countries can enhance security of supply and market stability.

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Annex

Figure 5. Mozambique Gas Master Plan Scenarios



Source: *The Future of Natural Gas in Mozambique: Towards a Gas Master Plan, 2012*



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