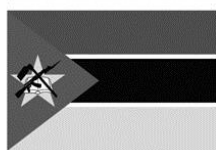


By Nuno Cabeçadas
Miranda Correia Amendoira & Associados*



MOZAMBIQUE

Monetizing the Nation's Wealth

The last few years witnessed the emergence of Mozambique as a natural gas giant and one of Africa's hottest spots for new exploration ventures. Rovuma Basin's world-class gas reserves have placed Mozambique as the third-largest proved natural gas reserve holder in Africa, second only to Nigeria and Algeria. Having the potential to become the world's third largest exporter of liquefied natural gas (after Qatar and Australia) and the host of investments north of \$30 billion to develop the resource, Mozambique is weighing its options to maximize the benefits brought about by the gas play. How to monetize this richness is the question that has been fueling the public debate in Mozambique, and one which opens a multitude of options and development paradigms to explore.

Mozambique's Government quickly understood that Rovuma's gas is a game-changer and may well propel the country to an all new level of industrial and infrastructural development. In effect, development – and not only revenue – seems to be the main driver of the policy to exploit the gas. The Government sought to approach these issues in an integrated and “holistic” way, having developed a structural document that lays down the strategies and priorities for the use of the natural gas produced in the country: the Natural Gas Master Plan.

The key – and apparently consensual – decision made by the Government is that LNG projects shall come first in the order of priority for gas use in Mozambique. LNG is the fastest way to monetize the gas and the condition for any other possible uses, without a LNG project, offshore development will not happen. With this in mind, a special legal regime for the implementation and financing of Rovuma's LNG Project was approved last year by means of Decree-Law No. 2/2014, of December 2, 2014. This special regime seeks to create the conditions for the successful development of the LNG Project, which will greatly increase the Government's revenue and lay down the foundations for the country's growth.

LNG projects are not, however, the only route through which Mozambique plans to navigate. Other uses have been identified to monetize natural gas and, perhaps more importantly, to transform Mozambique from an impoverished, agriculture-based economy into a middle income country with a strong industrial sector. One of the areas seen as pivotal for the country's development is power generation. Small and medium gas-fired power plants, as well as large combined cycle plants, will be considered. Availability of reliable electricity may

generate significant opportunities for industrialization and rural electrification. Also, there is a large regional market (organized around the Southern Africa Power Pool) that guarantees that virtually all the power produced in Mozambique will have a buyer in the neighboring countries of Zimbabwe, Zambia, South Africa, Malawi, Tanzania or Botswana, just to name a few. Fertilizer plants are next in the order of priority for gas use. The existence of a domestic market and a growing international demand make a strong business case for the development of a fertilizer industry in Mozambique. Some of the industry's leading players have already expressed interest in pursuing this opportunity.

Gas-to-Liquids is another area of choice. Mozambique does not currently have refinery capacity and is entirely dependent on imports (particularly from neighboring South Africa) for its consumption of diesel and gasoline. High profile projects have been publicly announced by Shell and an ENI-Sasol consortium to develop GTL facilities in Mozambique, and though export markets will necessarily be the main driver of GTL projects, domestic demand has been growing exponentially and may absorb an important part of the production.

Other sectors which may potentially be developed using Rovuma's gas are aluminum plants, cement, steel and iron fabrication. These sectors do pose some challenges. Mozal aluminum smelter in southern Mozambique (one of the world's largest) is a key factor in the equation, whereas cement, steel and iron consume little gas and cannot be primary drivers for gas development – use of gas by these sectors will be opportunistic.

All in all, the Natural Gas Master Plan estimates that domestic demand will greatly increase over the next 10 years and reach around 700 million gigajoules by 2025.

Other uses have been identified to monetize natural gas and, perhaps more importantly, to transform Mozambique from an impoverished, agriculture-based economy into a middle income country with a strong industrial sector. One of the areas seen as pivotal for the country's development is power generation. Small and medium gas-fired power plants, as well as large combined cycle plants, will be considered

All of the above development options rely and are based on the concept of “domestic gas”, i.e., on the premise that, after exports (in the form of LNG), there is enough gas left over to fuel internal domestic development and create an internal gas market. This has been guaranteed by the recently enacted new Petroleum Law (Law No. 21/2014, of August 18, 2014), which establishes the principle that at least 25% of all hydrocarbons produced in Mozambique must be “domestic gas” and used for the development of local industries. Other statutes – such as the new Law on Taxation of Petroleum Operations (LTPO) – offer additional benefits for oil companies to reserve part of their

As published in the March 2015 issue of Petroleum Africa. All rights to editorial matter are reserved by Petroleum Africa Magazine, Inc. and no article may be reproduced or transmitted by any means without the prior written permission of the publisher.

gas take for domestic consumption. Under the LTPO, petroleum production tax (royalty) rates are reduced by 50% when the production is channeled to the development of local industries.

Another critical aspect of all development scenarios is, of course, pricing. The Government must guarantee that domestic gas is priced in a way that makes local gas-fired industries both feasible and competitive. The exact rules in this regard are still to be transposed into legal instruments, but some ideas are already known:

- Domestic gas prices are to be determined on the basis of a bidding process, which terms will be established by Government;
- The first bid for domestic gas is expected to take place in 2018;
- There will be an initial selection of bidders allowed to participate, which will be evaluated on the basis of the added value that their projects may bring to the country;
- Selected projects shall present bids specifying:
 - Total gas volumes for a period of 20 years
 - Bidding price (in US Dollars per gigajoule)
 - Criteria for the annual adjustment of the price

- Reference prices will be calculated on the basis of the price at the processing facility, to which transport costs shall be added; and

- ENH – Empresa Nacional de Hidrocarbonetos, Mozambique’s national oil company, will take the lead in the marketing and distribution of domestic gas.

Mozambique faces a unique opportunity to take off towards industrialization and development. The policies for gas use seek to guarantee that the country’s natural richness will promote sustainable growth and create opportunities for national and foreign investment in a variety of business sectors. If successfully implemented, these policies will greatly help avoiding the “Dutch Disease,” diversifying the economy and the Government’s income sources and bringing Mozambique into a new era of prosperity. **P**

**Nuno Cabeçadas is a Partner at Miranda, Correia, Amendoeira & Associados. He worked in Mozambique for six years, being now a member of the Firm’s Mozambique Practice Group based in Lisbon. He is also a member of the Firm’s Energy Practice. He may be contacted at nuno.cabecadas@mirandalawfirm.com.*

As published in the March 2015 issue of Petroleum Africa. All rights to editorial matter are reserved by Petroleum Africa Magazine, Inc. and no article may be reproduced or transmitted by any means without the prior written permission of the publisher.



2 days of panel discussions & presentations on Africa's Oil & Gas sector, One-on-One meetings and Interviews with investors, investment bankers, finance houses, advisory services, industry experts, government heads and lawyers.

Some of the confirmed speakers are



Mr. Davies Pwele
DBSA
South Africa



Mr. Haran Shivam
IFC, Washington DC
USA



Ms. Megan Jackson
Exigent Group,
South Africa



Mr. Stephan Kornelius
Accenture
South Africa



Mr. Chris Bredenhann
PwC,
South Africa



Ms. Claire lawrie
Ernst & Young
South Africa



Ms. Tamara Dini
Bowman Gilfillan
South Africa



Mr. Kurt Davis Jr
Barclays Bank
USA

Register today for one of Africa's Premier Oil & Gas industry sector events.

Email register@nkmevents.co.za

www.nkmevents.co.za/aog

Office t: +27.11.039. 8412 **Thandeka Vilane** +27.11.038.1611 **Michael Chapman** +27.11.039.4077

For further information email us at info@nkmevents.co.za

Media Partners



twitter.com/nkmevents



#AfricaOilandGas

Event Supporters

