



MOZAMBIQUE STEPS TOWARDS A LOCAL GAS INDUSTRY

While it is still early to affirm that a local gas industry is a given in the foreseeable future of Mozambique, some important steps are being taken in the pursuit of such goal.

Presently, the only natural gas that is produced in Mozambique originates from the Pande and Temane Fields, with estimated reserves of 3.5 trillion cubic feet (Tcf) and where production started in 2004. The majority of the gas produced is exported to South Africa via pipeline, with only a fraction being used in-country. Local use has so far been limited to a few power generation projects in the south, as well as industries and pilot projects near the producing fields, and in the Matola area in the outskirts of the capital city of Maputo. A distribution network covering Maputo and some adjacent areas has also started operating in the last few years.

The massive offshore discoveries in the Northern Province of Cabo Delgado, where reserves in excess of 180 Tcf have been identified since 2010, are necessarily a game changer. These discoveries prompted the government to design policies with a view to maximize the exploitation of the gas resources. In 2014, a Natural Gas Master Plan was approved and paved the way for the options to be pursued in materializing the enormous potential of natural gas, through its numerous derivatives, for the country's sustainable development. The domestic use of natural gas to produce liquid fuels, petrochemicals and electricity was clearly identified as one of the priorities to be pursued. Liquefied natural gas (LNG) was however identified as the main priority, which would then allow for the implementation of the other downstream industrial projects.

A number of key concerns were identified, most importantly with regard to ensuring the supply of gas for the industrialization of the country at a price capable of encouraging its use for transportation, industries, cooking and other domestic uses.

It was therefore based on the 2014 Natural Gas Master Plan that different legal and regulatory steps started being taken to develop a local natural gas industry.

On the upstream front, the following legislative and regulatory steps are worth of note:

- A new Petroleum Law was enacted by the Parliament in 2014;
- Also in 2014, the Parliament enacted the new Petroleum Operations Tax Law;
- In 2015, the new Petroleum Operations Regulations were approved by the government;
- In 2016, the 5th Licensing Round was concluded, although contract negotiations with the selected IOCs are still ongoing;

- Finally, in late 2016 the government approved the new model Exploration and Production Concession Contract (EPCC), which is already being used in the negotiations with the IOCs selected in the 5th Licensing Round.

In connection with LNG, several key milestones have also been achieved, notably:

- The enactment of a special legal and contractual framework for the Rovuma Basin LNG projects pursuant to a Decree-Law approved by the government at the end of 2014 and sanctioned by the Parliament;
- A set of Decrees from December 2016 whereby the government approved several contractual arrangements amending and/or supplementing the terms of the EPCCs of Area 1 and Area 4 offshore of the Rovuma Block.

Lastly, some progress has also been witnessed with regard to downstream industrial projects, as follows:

- The 2014 Petroleum Law directs the government to ensure that at least 25% of the natural gas produced in the country be allocated to the domestic market, although it is not clear how that 25% quota will be determined;
- Also under the 2014 Petroleum Law, the government is required to promote the mass use of gas for the development of the domestic market and the country's industrialization;
- Still under the 2014 Petroleum Law, the State oil company *ENH – Empresa Nacional de Hidrocarbonetos, EP* (ENH) is entrusted with the role of manager of the domestic gas quota, but it is for the government to regulate the acquisition, pricing and other matters related with the usage of such gas;
- Also in 2014, the Petroleum Operations Tax Law introduced a 50% reduction in the Petroleum Production Tax rate payable by the upstream concessionaires in the case of gas allocated to the development of the local industry;
- The Rovuma Basin LNG Project Decree-Law of 2014 also states the role of ENH as the State representative in the acquisition of natural gas for subsequent sale to domestic industrial projects and adds that the sales terms and conditions, including volumes and prices, shall be economic and set out in contracts with the upstream concessionaires, which shall take into account market commercial terms;
- Further, while the concessionaires under the EPCCs for Areas 1 and 4 offshore of the Rovuma Block are not subject to the domestic gas quota introduced by the 2014 Petroleum Law, the development plans

that they submit to the government for approval in connection with LNG developments, must include information on the proposed gas volumes to be allocated to the implementation of domestic market projects;

- A similar requirement is provided for in the 2015 Petroleum Operations Regulations, which adds that the sale of gas to domestic off-takers by ENH shall abide by the principles of efficient resource management and open market price laid down in the Natural Gas Master Plan and subsequent documents. The Regulations add that the terms and conditions for such gas sales to the domestic market, including indicative volumes and prices, will be determined by the Ministry of Mineral Resources and Energy (MIREME) and set forth in the contracts between ENH and the upstream concessionaires taking into account commercial market terms;
- In the second half of 2016, MIREME launched a Public Tender for the Award of Natural Gas for the Development of Projects in the Domestic Market (Domestic Gas Tender) in connection with 2.8 million cubic meters per day (MMcm/d) of gas from the Rovuma Basin, which will be available when LNG production starts around 2023. A total of 14 bids were submitted, but only three were selected: (i) the construction of a fertilizer plant, which will also generate 30 – 50 megawatts (MW) of power, (ii) the construction of a Gas-To-Liquids (GTL) plant which shall produce liquid fuels (diesel, naphtha and kerosene), as well as 50 – 80 MW of power, and (iii) the construction of a 250 – 350 MW gas-fired plant.

The foregoing legal and regulatory developments show that, although at a pace that is slower than envisaged in the Gas Master Plan, Mozambique is giving some important steps for natural gas to become a key driver for the growth of the country's GDP.

Still, other than the final investment decisions from both the upstream and the downstream investors, there are a number of matters that would benefit from clearer legal and regulatory action on the part of parliament and government, as appropriate, especially in the case of the downstream industrial projects. Apart from greater clarity on certain features of the applicable general framework – notably in terms of tax, foreign exchange, mega-projects and labor –, the government is yet to implement the 2014 Petroleum Law on the creation of specific legislation to govern

the industrial transformation of raw materials from petroleum exploitation. It is also unclear whether MIREME will be issuing any specific regulations or guidelines on the pricing of gas for domestic projects or whether gas prices will be negotiated on a case-by-case basis. It is rather important to understand what will be the pricing policy of the government and ENH. Will the government and ENH merely pass on the cost for the purchase of the gas to be paid to the upstream concessionaires? Will the government and ENH be willing to subsidize the price of gas to be paid by downstream industrial projects? Or will the government and ENH seek to make a profit in its role as “sole trader” for the domestic market?

While the steps given thus far indicate the country's determination in developing a local gas industry, its success is still very much dependent on how well will the government manage the right balance between the expectations of the upstream concessionaires and the needs of downstream industrial projects, in particular with regard to gas prices and volumes. Further, it is still necessary for the government to better address the general legal and regulatory framework applicable to downstream industrial projects and even create special rules to support investment in such projects.

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