MOZAMBIQUE

Great expectations face harsh realities

It could be decades before Mozambicans see the benefits of new domestic LNG projects, writes *Maria Kielmas*.

The Anadarko-operated $20bn Mozambique LNG project holds an estimated 75tn cf of proven gas reserves
Photo: Anadarko

When Mozambique's LNG projects come onstream in the next decade they will transform the country's economy. This was the optimistic view in early January 2019 of Rogério Zandamela, the Governor of Mozambique's central bank since 2016 and a former International Monetary Fund (IMF) official. Such a transformation would include a boost to employment, local business, social investment and international reserves.

However, promising projections of future gas export revenues have become a regular phenomenon in Mozambique since offshore gas discoveries in the northern Rovuma Basin over 2009–2011. The grim reality is that the country faces a serious fiscal bust long before the expected revenue boom materialises. And this places serious doubts on future economic diversification that could lift its population out of poverty.

'There has been a huge frenzy about the potential of Mozambique,' says Raymond Gilpin, Dean of Academic Affairs at Washington DC-based Africa Center for Strategic Studies. 'The government and investors thought they could throw money into a contracting economy.'

'In 10 to 15 years from now Mozambique will get a lot of money,' adds Joseph Hanlon, Senior Lecturer on Development at the UK's Open University and an expert on Mozambique. 'But people on the ground will be ignored and the whole issue will be treated as a security problem.'

LNG onstream in 2020s

Three major offshore LNG projects are expected to come onstream from 2022. According to Carlos Torres Diaz, Head of Gas Research at Oslo-based Rystad Energy, the world LNG market is expected to rebalance by 2023. So Mozambican LNG production, although more expensive to produce than Qatar's, is expected to find a ready market, particularly in Asia.

The first final investment decision (FID) to be approved was for the $10bn Coral Sul floating LNG (FLNG) project in Area 4. Operator Eni (50%) and partners China National Petroleum Corporation (CNPC; 20%), with 10% each for South Korea's Kogas, Portugal's Galp and state-run Empresa Nacional de Hidrocarbonetos (ENH), will develop 5tn cf of recoverable reserves. A FLNG vessel is scheduled to sail to the area in 2022, from a Samsung shipyard in South Korea. BP is buying all production – an estimated 3.4mn t/y.

The bulk of Area 4 gas reserves, a further 80tn cf, will be developed via the $30bn Rovuma LNG project, overseen by the Mozambique Rovuma Venture (MRV, 70%), with Kogas, Galp and ENH each holding 10%. MRV comprises Eni (35.7%, upstream operator) and ExxonMobil (35.7%, midstream operator), together with China's CNOOC and CNODC who jointly hold 28.6%. The project consists of two gas trains each producing 7.5mn t/y on a FLNG to be located at the Coral field. A FID is expected sometime in 2019.

Meanwhile, the Anadarko-operated $20bn Mozambique LNG project on Area 1, adjacent to Area 4's western border, holds an estimated 75tn cf of proven gas reserves. In addition to Anadarko (26.5%), partners are Mitsui (20%), ONGC Videsh (10%), Beas Rovuma Energy Mozambique (10%), India's BPCL (10%) and Thailand's PTT (8.5%) This project aims to produce 12.88mn t/y from the Golfinho/Atum field on the block. As of March 2019, the consortium had signed seven supply and purchase agreements for more than 9.5mn t/y. A FID was expected in mid-2018, but is now anticipated in mid-2019.

The Propseridade and Mamba gas fields straddle the boundary between Areas 1 and 4. The partners reached an unitisation agreement in December 2015 for each side to develop 12tn cf independently. However, priority has been given for the development of 100% acreage first. If these fields come onstream as planned, Mozambique could be producing about 31mn t/y of LNG by 2024, making it the world's sixth largest LNG producer after Qatar, Australia, Malaysia, Russia and the US.

Mozambique's existing gas production of around 55mn cfd comes from the onshore Pande and Temane fields in Inhambane Province, operated by South African company Sasol. Some 80% of this is exported to South Africa via the 856 km Sasol Petroleum International gas pipeline. The remaining 20% is used for power generation at the 175 MW Central Térmica de Ressano Garcia (CTRG) facility, a partnership between state Electricidade de Mozambique (EDM) and Sasol that provides 23% of Mozambique's power needs. The remaining 77% of domestic power supply is hydro power from the Cahora Bassa dam.

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Future revenues

The government's oil and gas regulator, Instituto Nacional de Petróleo (INP), has calculated a $49.4bn 'baseline scenario' for total revenues from Areas 1 and 4 over their project lifetimes. This comprises five key elements – royalties, production bonus, government share of profits, corporate income tax, and withholding tax on dividends and interests. The concessionaires' revenues over this period would total $46.9bn. The INPs' 'downside scenario' gives government revenues as $31.3bn and concessionaires $24.8bn. An 'upside scenario' projects the government receiving $71.5bn and the concessionaires $70.2bn. In all cases revenues would increase significantly from the mid-2030s.

However, for at least 10 to 15 years after LNG production comes onstream, gas export revenues are likely to be ear-marked for debt reduction rather than employment, social infrastructure or economic growth. An over-exaggerated expectation of riches took root among Mozambique's elites over 2010–2011 just after the initial offshore gas discoveries. 'There was a frenzy about the potential of Mozambique,' says Raymond Gilpin, 'At that point both the government and investors anticipated out-sized returns in what was essentially a contracting economy. Relatively scant attention was paid to establishing robust institutional and regulatory frameworks.' The IMF also talked up Mozambique's prospects, predicting double of reality.

Debt deteriorating

With a GDP of $12.3bn and a nominal GDP/capita of $417, Mozambique ranks 180 of 186 countries, according to the IMF, below South Sudan and Haiti. As a heavily indebted poor country (HIPC), it received debt forgiveness from some sovereign creditors in 1998, but still paid 20% of export revenues in debt service. It signed a memorandum on economic and financial policies (MEFP) on debt treatment with the IMF in 2008, after the world financial crisis. Then, its total national debt to GDP ratio (including external debt) stood at 36.28%. Debt started rising in the aftermath of the gas discoveries to reach a 2018 debt/GDP ratio of 112.91% – a figure multilateral institutions expect to rise to 130.67% in 2022. Some $2.3bn, equivalent to about 20% GDP, was in 'hidden loans' contracted by the previous government of Armando Guebuza and only disclosed in 2016, one year after Filipe Nyusi became President. The bulk of this debt came from the Credit Suisse Group and Russia's VTB Capital.

These loans were claimed to be illegal under Mozambican law as they were sovereign loans not approved by the legislature, and also in contravention of the 2008 IMF agreement. Manuel Chang, the Finance Minister at the time who signed the 2008 IMF agreement, was arrested last year in South Africa and is sought for US extradition on charges of enabling government officials to skim off $200mn from the illegal loans through a series of tuna fishing and security companies. Mozambican prosecutors have arrested nine people on similar charges, including the son of former President Guebuza.

Mozambique defaulted on debt payment in 2018 and, so far, talks about restructuring have yielded little. The government appears to be putting a lid on the affair until after presidential, legislative and provincial elections in October 2019, despite the urgency of the debt issue. 'There has to be some debt rescheduling plan between now and mid-year that makes sense,' says Gilpin. The country has to shore up relevant institutions and have a clear idea about how best to craft and monitor foreign direct investment and revenue flows.

Weak institutions

However, the institutions are weak. Although a multiparty democracy, Mozambique in reality is a one party, Frelimo, state. Frelimo was the only guerrilla group leading the independence war against Portugal. The opposition Renamo party stems from a guerrilla group created by white Rhodesia and later apartheid South Africa to oppose Frelimo. Frelimo and Renamo reconciled in 1992, although sporadic violence has reappeared.

After 44 continuous years in power, Frelimo controls all aspects of the state, with all state employees and civil servants expected to be party members. Meanwhile, political elites during colonial times as well as since independence have sought to mobilise foreign capital to finance both investment and their own consumption of imported goods and services. They do not resign from the party, but create factions and shifting networks within it.

Business in the northern province of Cabo Delgado – the main location for new gas projects, as well as existing ruby mining – is under the control of Alberto Chipande, Defence Minister under the late President Samora Machel until 1986, and mentor to President Nyusi. Mateus Katupha chairs the mining and gas industry grouping Cabo Delgado em Movimento, and is also close to Nyusi. Nyusi's daughter Claudia has set up two oil companies, Kami Energy SGPS and Nyaki Oil.

Cabo Delgado has 40% of the world's rubies that allowed locals to make an adequate artisanal mining living. But land held by these communities has been expropriated by mining companies without adequate compensation, amid reports of brutal violence and murder. The Mozambique Bar Association (OAM) claims that land rights transferred to gas companies in Cabo Delgado is illegal. The companies have not commented. Nevertheless, gas companies are not employing locals in great numbers, but are importing labourers from South Africa and Zimbabwe.

Since 2015, economic frustration has fed violence and local radical Islamist militants, who have killed over 300 people since 2017 – the latest during an attack on an Anadarko convoy in February 2019. 'There are few local jobs, people have been pushed off their land. People are poorer than 20 years ago,' says Hanlon, adding that the new LNG developments will make little difference. ●