

## AFRICA RISK CONSULTING

## Mozambique Monthly Briefing February 2019

## Mozambique Summary 14 February 2019

*The chair of Mozambique's state-owned oil company, Empresa Nacional de Hidrocarbonetos (ENH), Omar Mitha, says that a final investment decision for the Area 1 offshore natural gas project should be ready by March or April, the first indication of a specific timeline from any of the seven partners. Mozambique drops two points and five positions in Transparency International's 2018 Corruption Perceptions Index. Suspected Islamist jihadists continue to kill people in the northern Cabo Delgado region, not far from areas where oil and gas companies plan to build liquefied natural gas (LNG) trains and operations facilities. Main opposition party Resistência Nacional Moçambicana (Renamo) welcomes the appointment of three of its officials to permanent positions in the Forças Armadas de Defesa de Moçambique (FADM).*

## Anadarko's final investment decision in Area 1 natural gas project expected by April

The chair of Mozambique's state-owned oil company, **Empresa Nacional de Hidrocarbonetos (ENH), Omar Mitha**, stated on 10 February that a final investment decision for the Area 1 offshore natural gas project should be ready by March or April, the first indication from any of the seven partners of a specific timeline.<sup>1</sup> A final investment decision will signal imminent construction and production. The government is counting on this liquefied natural gas (LNG) revenue to help it reduce its debt and move Mozambique to a middle-income country. The Area 1 block holds an estimated 75 trillion cubic feet of gas. Other partners in the block are: **United States (US)-based Anadarko Petroleum Corp** (26.5%); **Japan-based Mitsui Group** (20%); **India-based ONGC Videsh** (16%); **ENH** (15%); **India-based Bharat PetroResources** (10%); **Thailand-based PTTEP International** (8.5%); and **India-based Oil India** (4%).<sup>2</sup>

Anadarko announced in June 2018 that it would make a final investment decision by the first half of 2019 (see *ARC Briefing Mozambique* July 2018). In the lead up to the final investment decision, the partners determine whether there is a line of credit and enough purchases of the resulting liquefied natural gas for the project to be feasible.<sup>3</sup> Project operator Anadarko has recently secured several more commitments for LNG purchases, which makes Mitha's statement of an early decision more plausible. **China's** state-owned oil company, the **China National Offshore Oil Corporation (CNOOC)**, signed a sales and purchase agreement (SPA) on 3 February to purchase 1.5 million tonnes of LNG from Area 1 for 13 years.<sup>4</sup> Japan-based **Tokyo Gas** and **United Kingdom-based Centrica** agreed on 5 February to jointly purchase 2.6 million tonnes of LNG per year from Area 1 from the start of production until the early 2040's.<sup>5</sup> Finally, Anadarko signed a long-term contract with a **Middle Eastern** subsidiary of **Netherlands-based Royal Dutch Shell** on 5 February to purchase two million tonnes of LNG per year for 13 years.<sup>6</sup> The agreement brings the total SPA's to 7.5 million tonnes per year. Commentators have estimated that the consortium wants to sell at least 8.5 million tonnes per year of LNG before a final investment decision can be completed.<sup>7</sup> This total also contains the SPA

<sup>1</sup> Reuters, 10 Feb 2019

<sup>2</sup> www.offshore-technology.com

<sup>3</sup> Reuters, 10 Feb 2019

<sup>4</sup> Club of Mozambique, 3 Feb 2019

<sup>5</sup> Compelo, 6 Feb 2019

<sup>6</sup> AOG Digital, 5 Feb 2019

<sup>7</sup> AOG Digital, 5 Feb 2019

with Bharat PetroResources, which Mitha mentioned in his speech while on a visit to **New Delhi** (India).<sup>8</sup>

The Area 1 partners plan to build two LNG plants on the **Afungi Peninsula** in **Palma** district and will have a total capacity of 12.88 million tonnes via two LNG trains per year.<sup>9</sup> Production is expected to begin in 2024.<sup>10</sup> An adjoining gas discovery, **Italy**-based **Eni**-operated Area 4, is expected to have a final investment decision by July.<sup>11</sup> Area 4 is expected to start producing in 2022 and will be larger than Area 1.<sup>12</sup> For the government, these projects are its current lifeblood and allow the heavily-indebted country to continue borrowing on the international market until they come online in 2022. These projects also elevate Mozambique to a major player in the LNG sector, for which demand by uncontracted buyers is expected to quadruple by 2030.<sup>13</sup> Demand for LNG, particularly in **Asia**, could see Mozambique's economy grow rapidly, but the government will need to make changes. One major issue is the level of corruption in Mozambique, which may result in less revenue for the treasury. Mozambique ranked 158<sup>th</sup> out of 180 countries on **Transparency International's 2018 Corruption Perceptions Index**.<sup>14</sup> It has dropped eight points in the past five years, from 31 out of a possible 100 points in 2014 to 23 in 2018.<sup>15</sup> Mozambique ranked below **Madagascar** (152<sup>nd</sup> with 25 points), **Tanzania** (in 99<sup>th</sup> position with 36 points) and **South Africa** (73<sup>rd</sup> with 43 points).

<b>TI CPI Rankings for Mozambique<sup>16</sup></b>					
	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Ranking</b>	158/180	153/180	142/176	111/168	119/175
<b>Score</b>	23	25	27	31	31

<b>TI CPI Rankings 2018: Regional comparison<sup>17</sup></b>					
	<b>Madagascar</b>	<b>Mozambique</b>	<b>South Africa</b>	<b>Tanzania</b>	<b>Zimbabwe</b>
<b>Ranking</b>	152/180	158/180	73/180	99/180	160/180
<b>Score</b>	25	23	43	36	22

In addition to tackling corruption, the Mozambique government needs to reduce its debt, increase its governance and ensure political and regulatory stability for it to take advantage of the opportunity that LNG presents.

### **Violence continues in Cabo Delgado despite arrests**

Suspected **Islamist** jihadists have continued killing people in the northern **Cabo Delgado** region, not far from areas where oil and gas companies plan to build LNG trains and operations facilities. The attacks could raise concerns among international companies and have a negative impact on investment in the LNG sector (see above). Jihadists killed seven men and abducted four women near **Piqueue** village on 8 February.<sup>18</sup> The men and women were sleeping in the forest for fear of attacks in

<sup>8</sup> MacauHub, 12 Feb 2019

<sup>9</sup> Club of Mozambique, 3 Feb 2019

<sup>10</sup> Club of Mozambique, 3 Feb 2019

<sup>11</sup> Reuters, 10 Feb 2019

<sup>12</sup> Club of Mozambique, 12 Feb 2019

<sup>13</sup> Rigzone, 21 Jan 2019

<sup>14</sup> www.transparency.org

<sup>15</sup> www.transparency.org

<sup>16</sup> www.transparency.org

<sup>17</sup> www.transparency.org

<sup>18</sup> News24, 8 Feb 2019

the villages, though the police have urged people to stay in villages where the police and military can protect them.<sup>19</sup> Jihadists reportedly also killed 12 people in mid-January near **Manilha**.<sup>20</sup>

The attacks continue despite the 29 January arrests of three **Ugandans** on suspicion of leading attacks.<sup>21</sup> The suspects, two men and a woman, reportedly confessed to belong to an **al-Shabaab** cell in Uganda<sup>22</sup> and are allegedly leaders of groups that have carried out the attacks.<sup>23</sup> The Ugandan government has requested the extradition of a total of six suspected Islamic extremists being held in Mozambique.<sup>24</sup> The suspects join other foreigners from Tanzania and South Africa who are accused of leading the Cabo Delgado attacks.<sup>25</sup>

Nearly 200 civilians have died since October 2017 in the attacks.<sup>26</sup> The US embassy in **Maputo** (Mozambique) said it was ready to assist and that its security forces

*"...are available and would like to help Mozambique in fighting insurgent groups."*<sup>27</sup>

Several hundred military personnel from the US, **Canada**, **Kenya** and Madagascar completed a training exercise off Cabo Delgado to improve coordination against drug smuggling and human trafficking, but it is unclear whether these countries will also work with Mozambique to end the attacks.<sup>28</sup> International companies are concerned about the attacks; Anadarko reportedly requested at least six armour-plated vehicles for its LNG project on 31 January.<sup>29</sup> In addition to the loss of life, the government should be concerned that the attacks will impact the companies' investments in the region. While military forces have been deployed in Cabo Delgado, more action should be taken to ensure that the jihadist groups are dismantled, while increased service delivery in the region inhibits any future jihadist recruitment.

### Renamo welcomes appointment of its officials to national military

Main opposition party **Resistência Nacional Moçambicana (Renamo)** stated it was pleased that three of its officials were appointed to permanent positions in the **Forças Armadas de Defesa de Moçambique (FADM)** on 11 February.<sup>30</sup> The integration of Renamo commanders is the final step in the 2018 peace agreement and illustrates that the government plans to move forward with the process ahead of the 2019 elections. The commanders were sworn in on 11 February with **Xavier Antonio** as director of operations, **Inacio Luis Vaz** as director of military intelligence, and **Arajuo Anderio Maciacona** as director of communications.<sup>31</sup> The three commanders had been temporarily appointed to the position, but these positions are now permanent.<sup>32</sup> Eleven nominations for FADM generals remain as part of the Renamo peace treaty with the ruling **Frente de Libertação de Moçambique (Frelimo)**.<sup>33</sup> Frelimo's defence minister, **Anatasio M'tumuke**, urged the new appointments to be non-partisan in their operations and to respect the constitution.<sup>34</sup>

The US congratulated the government on the appointments:

<sup>19</sup> News24, 8 Feb 2019

<sup>20</sup> The Defence Post, 14 Jan 2019

<sup>21</sup> The Defence Post, 29 Jan 2019

<sup>22</sup> News24, 30 Jan 2019

<sup>23</sup> The Defence Post, 29 Jan 2019

<sup>24</sup> AFP, 31 Jan 2019

<sup>25</sup> IOL, 30 Jan 2019

<sup>26</sup> News24, 8 Feb 2019

<sup>27</sup> News24, 8 Feb 2019

<sup>28</sup> News24, 8 Feb 2019

<sup>29</sup> Bloomberg, 1 Feb 2019

<sup>30</sup> Devdiscourse, 12 Feb 2019

<sup>31</sup> Devdiscourse, 12 Feb 2019

<sup>32</sup> Devdiscourse, 12 Feb 2019

<sup>33</sup> Xinhau, 12 Feb 2019

<sup>34</sup> Xinhau, 12 Feb 2019

*“These permanent appointments are in keeping with the spirit of the demilitarisation agreement signed last year by President **Filipe Nyusi** (2015-present) and Renamo leader **Ossufo Momade**.”<sup>35</sup>*

However, the US also stated that it expects a final peace agreement by April 2019 in order to maintain its financial assistance ahead of the 2019 general elections scheduled for October.<sup>36</sup> The disarmament of Renamo members and incorporation into the armed forces is the final step for the peace agreement, with a constitutional amendment decentralising power between the federal government and provinces in 2018 (see *ARC Briefing Mozambique* February 2018).

### Planner

2019 **(Mozambique)** Final investment decision expected on **Area 4 block** natural gas project, owned by **Italy**-based **Eni**, **US**-based **ExxonMobil** and **China**-based **China National Petroleum Corporation**

21 Feb 2019 **Maputo (Mozambique)** **Banco de Moçambique** interest rate decision

Oct 2019 **(Mozambique)** General elections scheduled

20-22 Nov 2019 **Maputo (Mozambique)** Mozambique Gas Summit

22-23 Apr 2020 **Maputo (Mozambique)** Mozambique Mining Energy and Oil & Gas Conference and Exposition

### Chronology

12 Feb 2019 **Maputo (Mozambique)** *Journal du Cameroun*. The **European Union** approves a \$13.6 billion investment package for private sector development;

12 Feb 2019 **Maputo (Mozambique)** *Xinhua*. Main opposition group **Renamo** welcomes the permanent appointment of three of its officials to positions in the **Forças Armadas de Defesa de Moçambique**;

11 Feb 2019 **Maputo (Mozambique)** *Macau Hub*. **Australia**-based mining company **New Energy Minerals** sells its 50% stake in **Balama Properties Ltd**, which controls its graphite and vanadium projects, to **Australia**-based **Auspicious Virtue Investment Holdings**;

10 Feb 2019 **Maputo (Mozambique)** *Reuters*. **Omar Mitha**, chair of state-owned oil company **Empresa Nacional de Hidrocarbonetos**, says a final investment decision for the Area 1 block should be ready by March or April;

9 Feb 2019 **Maputo (Mozambique)** *Bloomberg*. Former first lady **Graça Machel** asks **Switzerland**-based bank **Credit Suisse AG** to write off its loans from the \$2 billion hidden debt scandal;

8 Feb 2019 **Cabo Delgado (Mozambique)** *AFP*. Suspected **Islamists** kill seven people in **Cabo Delgado** region;

7 Feb 2019 **Maputo (Mozambique)** *News24*. President **Filipe Nyusi** dismisses deputy finance minister **Isaltina Lucas** for unknown reasons, though Lucas was responsible for signing state guarantees for the \$2 billion hidden loans scandal;

6 Feb 2019 **Maputo (Mozambique)** *O Pais*. State-owned power company **Electricidade de Moçambique** will install smart meters to reduce annual losses of \$100m due to illegal connections;

<sup>35</sup> Diário de Notícias, 11 Feb 2019

<sup>36</sup> Diário de Notícias, 11 Feb 2019

5 Feb 2019 **Maputo (Mozambique)** *SP Global*. **United States**-based **Anadarko Petroleum Corp** signs separate long-term LNG supply agreements with **Netherlands**-based **Shell** as well as with **United Kingdom**-based **Centrica** and **Japan**-based **Tokyo Gas**;

1 Feb 2019 **Maputo (Mozambique)** *Business Day*. **United Kingdom**-based mining company **Gemfields** will pay \$7.5m to compensate nearly 300 artisanal miners over abuse accusations;

1 Feb 2019 **Maputo (Mozambique)** *Journal du Cameroun*. The **Chinese Customs Service** reports that trade with **Mozambique** reached 2.5 billion in 2018, a 35% year-on-year increase;

1 Feb 2019 **Maputo (Mozambique)** *Engineering News*. **United States**-based oil and gas company **Anadarko Petroleum Corp** signs a long-term liquefied natural gas purchase agreement with **China** state-owned **CNOOC**;

31 Jan 2019 **Maputo (Mozambique)** *Bloomberg*. Authorities plan to reduce water supply on alternating days in **Maputo** and **Matola** due to low dam levels;

29 Jan 2019 **Maputo (Mozambique)** *EWN*. Police arrest three **Ugandan** citizens for reportedly leading attacks in **Cabo Delgado Province**;

28 Jan 2019 **Maputo (Mozambique)** *MacauHub*. The **United States** embassy claims that businesspeople want more security before they invest in **Mozambique**;

25 Jan 2019 **Maputo (Mozambique)** *Citizen*. Parliament will withdraw the immunity of former finance minister **Manuel Chang**, which would allow his extradition back to **Mozambique**;

22 Jan 2019 **Maputo (Mozambique)** *Al Jazeera*. Tropical cyclone **Desmond** makes landfall in **Mozambique**, resulting in flooding.

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