

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing July 2018

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#### Mozambique Summary 24 July 2018

*President Filipe Nyusi (2015-present) and Resistência Nacional Moçambicana (Renamo) interim leader Ossufo Momade agree to integrate Renamo fighters into the police and defence forces, removing a key obstacle to local elections in October. United States (US)-based oil and gas producer Anadarko Petroleum expects to make its final investment decision by the first half of 2019 on whether to build a liquefied natural gas (LNG) export terminal in Mozambique. The Conselho de Ministros (council of ministers) approves Mozambique-based port operator Cornelder de Moçambique's \$290m investment plan and extends its concession to the Port of Beira for a further 15 years from 2023.*

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#### Frelimo and Renamo reach agreement on disarmament and integration of fighters

President **Filipe Nyusi** (2015-present) and **Resistência Nacional Moçambicana (Renamo)** interim leader **Ossufo Momade** agreed on 11 July to integrate Renamo fighters into the police and defence forces, removing a key obstacle to holding local elections in October.<sup>1</sup> Nyusi and Momade must still sign a formal agreement for the Renamo disarmament, the last obstacle in a peace process initiated between Nyusi and former Renamo leader **Afonso Dhlakama**, who died on 3 May.<sup>2</sup>

The first agreement in the peace process was to change the constitution in May to allow the winning political parties to select provincial governors. This is likely to give Renamo control of several provinces after the October 2019 elections.<sup>3</sup> Renamo had the majority of votes in six provinces in the October 2014 general elections, but did not choose the provincial governors, as former President **Armando Guebuza** (2005-2015) appointed them in accordance with the provisions of the constitution.<sup>4</sup>

The change in the constitution required the **Assembleia da República** (national assembly) to change procedural laws for municipal elections scheduled for 10 October. However, the ruling **Frente de Libertação de Moçambique (Frelimo)** party refused to debate the changes in an extraordinary session in late June until Renamo agreed to the disarmament.<sup>5</sup> There were fears that with Dhlakama's death there would be renewed conflict or that the new leadership would not accept disarmament.<sup>6</sup> Following the agreement on disarmament, the national assembly passed the procedural changes on 19 July, meaning that the municipal elections will be able to take place as planned.<sup>7</sup>

With the changes passed and the agreement signed, Nyusi expects disarmament to begin immediately.<sup>8</sup> Renamo had initially said that disarmament would only start in later October, after the municipal elections.<sup>9</sup> Under the new agreement, Renamo had until 22 July to produce a list of people to be incorporated into the police and army, and demilitarisation was to begin on that date.<sup>10</sup>

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<sup>1</sup> Bloomberg, 12 Jul 2018.

<sup>2</sup> Times Live, 9 May 2018.

<sup>3</sup> Bloomberg, 12 Jul 2018.

<sup>4</sup> News24, 23 May 2018.

<sup>5</sup> AllAfrica, 25 Jun 2018.

<sup>6</sup> AllAfrica, 25 Jun 2018.

<sup>7</sup> New Zimbabwe, 22 Jul 2018.

<sup>8</sup> AllAfrica, 25 Jun 2018.

<sup>9</sup> News24, 26 Jun 2018.

<sup>10</sup> AllAfrica, 12 Jul 2018.

**European Union (EU)** director-general for international cooperation **Stefano Manservigi** said the EU has pledged funds as part of a \$467m package to assist with disarmament and integration of Renamo fighters.<sup>11</sup> However, according to a **Maputo**-based analyst,

*“Actual demilitarisation will take a long time, though there should be progress before the October elections.”<sup>12</sup>*

The next several months will be the litmus test for whether peace will hold in Mozambique. Renamo will continue to disarm some of its fighters, but may not fully disarm until it sees the results of the October municipal elections and, more importantly, the general elections in October 2019. The peace deal will result in more political power for Renamo at the expense of its military power, but Renamo leaders may be loath to give up all military power until it steps into political office.

### **Anadarko expected to make decision on LNG export terminal in first half of 2019**

**United States (US)**-based oil and gas producer **Anadarko Petroleum** expects to make its final investment decision by the first half of 2019 on whether to build a liquefied natural gas (LNG) export terminal in Mozambique.<sup>13</sup> Anadarko executive vice-president **Mitchell Ingram** said there are enough customers for the project but sales agreements still need to be signed:

*“Once we complete that, we will be ready to make a final investment decision in the first half of 2019.”<sup>14</sup>*

Anadarko has already signed deals with **Japan**-based **Tokyo Gas** and **United Kingdom**-based **Centrica** for delivery of 2.6m tonnes per annum of LNG.<sup>15</sup> Other companies interested in purchasing LNG include **France**-based **Électricité de France**, **Japan**-based **Tohoku Electric Power** and **Thailand**-based **PTT** (formerly known as the **Petroleum Authority of Thailand**).<sup>16</sup> Anadarko first discovered natural gas in Mozambique in 2010 and has reportedly discovered 21 trillion cubic metres of recoverable natural gas in its block.<sup>17</sup>

The extraction, processing and liquefaction project will consist of two natural gas processing plants capable of liquefying 12.88 million tonnes per year.<sup>18</sup> The gas would be extracted from Anadarko’s area 1 block, of which Anadarko is 26.5% owner with the state-owned **Empresa Nacional de Hidrocarbonetos** (15%), **Mitsui E&P Mozambique Area 1 Ltd** (20%), **ONGC Videsh Ltd** (10%), **Beas Rovuma Energy Mozambique Limited** (10%), **BPRL Ventures Mozambique B.V.** (10%), and **PTTEP Mozambique Area 1 Limited** (8.5%).<sup>19</sup> The total cost for the project is about \$7.7 billion, which is less than the previous estimate of \$14-15 billion as Anadarko was able to reduce the cost of building by \$4 billion.<sup>20</sup> Anadarko expects to complete the facility by 2023-2024.<sup>21</sup>

Anadarko will compete with US-based **Exxon Mobil Corp** and **Italy**-based **Eni SpA**, which are also looking to build their own onshore LNG project.<sup>22</sup> Exxon decided in early July to upsize its first two liquefaction trains, which will cut production costs by 50% and produce 7.6m metric tonnes per annum from 2024.<sup>23</sup> However, it means Exxon and Eni will have to renegotiate their resource sharing deal as Exxon’s area 4 and Anadarko’s area 1 are linked underground.<sup>24</sup> This competition between

<sup>11</sup> Journal du Cameroun, 20 Jul 2018.

<sup>12</sup> Source, analyst, Maputo.

<sup>13</sup> Business Day, 28 Jun 2018.

<sup>14</sup> Business Day, 28 Jun 2018.

<sup>15</sup> Business Day, 28 Jun 2018.

<sup>16</sup> Business Day, 28 Jun 2018.

<sup>17</sup> Business Day, 28 Jun 2018.

<sup>18</sup> Macau Hub, 28 Jun 2018.

<sup>19</sup> Macau Hub, 28 Jun 2018.

<sup>20</sup> Business Day, 28 Jun 2018.

<sup>21</sup> Business Day, 28 Jun 2018.

<sup>22</sup> Bloomberg, 28 Jun 2018.

<sup>23</sup> Seeking Alpha, 12 Jul 2018.

<sup>24</sup> Seeking Alpha, 12 Jul 2018

two gas majors should entice other large companies to explore in Mozambique, potentially opening up more revenue avenues for the government.

Mozambique is hoping that continuing demand for LNG as consumers shift from coal will help its economy to grow. Under a baseline scenario, the government expects total revenue to reach \$49.4 billion over the lifetimes of the various projects.<sup>25</sup> However, it will have to balance the economic growth with social expectations. The project is located in **Cabo Delgado**, where **Islamist** group **Ahlu Sunnah Wa-Jamma** ('Sunni people') has terrorised the local population (see *ARC Briefing Mozambique June 2018*) since October. While Ahlu Sunnah Wa-Jamma has not yet targeted the LNG plants, it may turn its attention to the juxtaposition of poverty in the midst of billion dollar LNG plants to entice further recruitment in the area. A **Maputo**-based political scientist said this could be a powder keg for future conflict:

*"The government should look at the **Niger Delta** for how not to do things, as the tension between the oil companies, government and community has led to consistent conflict. There needs to be a lot more social responsibility projects and jobs created if we are to have co-existence between uprooted communities and gas companies."*<sup>26</sup>

While Anadarko has been able to find investors and reduce its construction costs, it may find that other costs will rise if it does not work with the government to improve the living standards of the local population, before any revenue is received from the LNG.

### Council of ministers approves investment plan and extends Port of Beira concession

The **Conselho de Ministros** (council of ministers)) approved Mozambique-based port operator **Cornelder de Moçambique**'s \$290m investment plan and extended its concession to the **Port of Beira** for a further 15 years from 2023 on 10 July.<sup>27</sup> Cornelder is a joint venture between the state-owned railway company, **Caminhose de Ferro de Moçambique**, and **Netherlands**-based **Cornelder**.<sup>28</sup> Government spokesperson **Ana Comoana** stated that the council of ministers approved the extension because of the additional investment, which will include an upgrade of 300 kilometres of national highway from one lane to two, and 317 kilometres of the **Beira-Machipanda** railway line.<sup>29</sup> With the investment, port throughput is estimated to increase from 300,000 containers to 700,000 containers annually.<sup>30</sup> Cornelder also plans to expand its customer base in southern **Africa**, enticing companies in **South Africa**, **Zambia**, **Malawi** and **Zimbabwe** to use Beira Port.<sup>31</sup> Cornelder took over operations at the Beira port in 1998 and helped the port to grow to handle 600,000 tonnes in cargo in 2017, competing with the ports of **Durban** (South Africa) and **Dar es Salaam** (**Tanzania**).<sup>32</sup>

The investments will help the port to expand and could help improve exports from landlocked neighbours such as Zimbabwe, Malawi and the **Democratic Republic of the Congo**, particularly when the roads are improved.

### Planner

30 Aug 2018 **Banco do Moçambique (BM)** (central bank) **Monetary Policy Meeting**

10 Oct 2018 Municipal elections

Oct 2019 General elections scheduled

<sup>25</sup> Bloomberg, 28 Jun 2018.

<sup>26</sup> Source, political scientist, Maputo.

<sup>27</sup> Club of Mozambique, 11 Jul 2018.

<sup>28</sup> Club of Mozambique, 11 Jul 2018.

<sup>29</sup> Club of Mozambique, 11 Jul 2018.

<sup>30</sup> Club of Mozambique, 11 Jul 2018.

<sup>31</sup> Club of Mozambique, 6 Jul 2018.

<sup>32</sup> EWN, 18 Jul 2018.

### Chronology

20 Jul 2018 **Maputo (Mozambique)** *News24*. Parliament passes electoral reforms securing the decentralisation of power which should allow 10 October municipal elections to take place on schedule;

12 Jul 2018 **Cabo Delgado (Mozambique)** *Reuters*. **United States**-based oil and gas firm **Exxon Mobil** announces plans to expand its **Rovuma** liquefied natural gas project (LNG) by 50% to make the project more cost effective;

11 Jul 2018 **Beira (Mozambique)** *Club of Mozambique*. The cabinet approve a \$290m investment plan for the **Port of Beira**;

5 Jul 2018 **Maputo (Mozambique)** *News24*. Government official **Paulo Cuinica** states that planned 10 October municipal elections could be delayed due to disagreements between the ruling **Frente de Libertação de Moçambique** and the opposition **Resistência Nacional Moçambicana**;

2 Jul 2018 **Maputo (Mozambique)** *All Africa*. Energy minister **Max Tonela** suspends a tender by **South Africa**-based oil company **Sasol** because it did not prioritise local companies;

28 Jun 2018 **Maputo (Mozambique)** *Business Day*. **United States**-based oil exploration company **Anadarko Petroleum** plans to make decision in the first half of 2019 on whether it will build the first liquefied natural gas export terminal in **Mozambique**;

28 Jun 2018 **Lusaka (Zambia)** *Xinhua*. Energy minister **Mathew Nkhuwa** considers constructing a gas pipeline from **Mozambique** to Zambia;

25 Jun 2018 **Maputo (Mozambique)** *Times Live*. President **Filipe Nyusi** announces arrests after Islamist attacks in **Cabo Delgado Province**;

21 Jun 2018 **Temane (Mozambique)** *ESI Africa*. **South Africa**-based power producer, **Globeleq**, signs a joint agreement with state-owned energy company **Electricidade de Moçambique E.P.** to construct a 400 megawatt gas-fired power project in **Temane**;