

# A NEW BALANCE OF POWER IN AFRICA'S ENERGY MARKETS - AVM ADVOGADOS

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The discovery by Anadarko and ENI of significant recoverable gas reserves off the coast of Mozambique in late 2011 is prompting dramatic change in its energy sector

Con los recientes hallazgos de gas natural en Mozambique se prevé superar los 1,5 billones de metros cúbicos de reservas adicionales. Se trata de uno de los mayores descubrimientos de los últimos años. De hecho, es tal el volumen que podría incluso implicar un cambio en el equilibrio de poderes de la región de África sub-sahariana, explican António Vicente Marques y Laurindo Francisco Saraiva de AVM Advogados en Maputo.

Recent natural gas discoveries in Mozambique predict in excess of 52 trillion cubic feet (tcf) of additional reserves, making them among the most significant global discoveries in recent years. In fact, such is the scale that it could lead to a change in the balance of economic power in sub-Saharan Africa and beyond, says Laurindo Francisco Saraiva of AVM Advogados in Maputo.

"The region has historically relied on South Africa to provide much of its energy. But in recent years it has struggled with low reserve margins and capacity prompting a push from its neighbours to become more self-sufficient."

Beyond Africa, Mozambique is now well-placed to provide liquid natural gas (LNG) to Europe and Asia; Japan is notably still experiencing an energy crisis after this year's earthquake and the damage done to its nuclear power programme. As such, the promise of natural gas and ultimately LNG will usher in a new era of development for Mozambique and the potential supply of power to the wider region and the world, he says.

But while the Government has been very active in attempting to attract international oil and gas companies to the country, offering numerous financial incentives, it is important not to get carried away, insists Saraiva.

Crucially, despite an abundance of natural resources, the legislative framework needs a great deal of work.

"Mozambique's energy strategy is based on four resources: coal, hydroelectric, oil and gas," he explains. "The coal market has been around for many years and has lots of multinational involvement while the hydroelectric market is important but only has a small output capacity. Oil and gas is now the focus but the Government really needs to update the law because it is not extensive enough to cover the emerging sector."

The existing oil and gas legislation is only a few years old but only deals with the most basic requirements rather than a developed list, which does not bode well if the potential of the reserves does become a reality.

"Developers need a clearer idea of how to negotiate with Government, facilitate foreign workers, obtain permits and work the local taxes," says Saraiva.

António Vicente Marques, Managing Partner of AVM and based in Angola, believes that Mozambique has however advanced well in the management of natural resources since the end of its civil war in 1992. The country is now looking towards Angola, which has a longer history of operating in the oil and gas sector, for inspiration.

The legislative framework may be relatively sound, but he nonetheless believes that Mozambique must avoid some of the pitfalls of foreign companies in Angola.

There has been criticism that some foreign firms have exploited the country's resources, given relatively little back to local communities and focused too much attention on the capital Luanda.

To combat this, the Angolan Government has developed a new private enterprise law that increases the threshold for investment from \$100,000 to \$1m, even for oil and gas service providers, and also attempts to ensure more of the profits remain in the country.

"Companies wanting to make oil and gas investments in Mozambique must learn from what happened in Angola," he says. "They have to be willing to develop the skills of local workers, rather than merely bring in foreign contractors, and make decent longer-term investments. The oil and gas market needs to benefit Mozambique as a whole and not just the foreign energy companies."

All eyes are thus on Anadarko and ENI to assess how their projects develop. A number of hurdles still remain, for instance, final investment decisions on both schemes are due in the next year or two while the development costs are likely to run into tens of billions of dollars, they say.

“If the Mozambique Government allows the right investment strategies and legislation, the country could become a pre-eminent force in the global energy market,” concludes Vicente Marques.