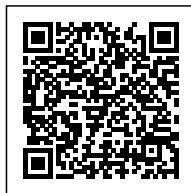


MOZAMBIQUE COULD BECOME GLOBAL NATURAL GAS HUB - AVM

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Mozambique's landmark discovery of natural gas five years ago put the African country on the radar, though the industry is still in its infancy, its potential is huge

"Mozambique has the potential to become one of the new hubs for the natural gas industry – not only in Africa, but also globally – and we have seen a great deal of interest from clients interested in investing in the country," says Antonio Vicente Marques, senior partner at AVM Advogados. "That said, the major gas discoveries in the Rovuma Basin only happened in 2010 so the industrial gas production sector remains very much in its infancy."

Vicente Marques claims that corporate confidence in Mozambique has been very high because of the potential of the natural gas industry, with many leading oil and gas companies indicating interest.

One such company is Anadarko, which is the main operator of 'Area 1' in the Rovuma basin. However, recent decreases in oil prices – which makes the commodity more competitively priced – and wider economic factors have started to temper ambitions.

Claudia Santos Cruz, AVM partner, says: "In the case of Anadarko, the original project was for four liquefaction trains by 2018 but this has been subsequently moderated to two trains by 2019". She adds: "This is still a very ambitious target but most independent observers, including the IMF, suggest that the project may not be operational before early in the next decade."

More details should emerge over the next year when it is said that Anadarko will make its final decision regarding potential investment in the project. There is also speculation that Anadarko is considering the sale of its stake in the project to Exxon Mobil or another major players. ENI is also understood to be in talks to sell 50 per cent of its stake in 'block 4' due to the high costs of its projects. While such corporate activity may be an indication of interest in Mozambique, there are still some overarching concerns.

"ENI and Anadarko were supposed to agree to unitisation by May of this year, specifically sharing patches of the Prosperidade field as they had agreed many times in the past, but it seems that this time a consensus cannot be reached," Santos Cruz says. "This has created the threat of potential disputes, while the Mozambican government is threatening sanctions because of the delay."

Threats to economic confidence

Commercial concerns are also compounded by political and legal matters, which are threatening to diminish economic confidence. To this end, the Mozambican government was put under pressure to increase its portion of any revenues generated by natural resources within the territory, particularly after several high profile mining deals and the proposed public takeover of Cove Energy, the UK-listed oil and gas exploration and production company, which has an 8.5 per cent stake in a large offshore gas field in the Rovuma basin.

This resulted in a new law in 2013 that imposes capital gains tax on the sale of non-Mozambican companies that have assets in the region. This is irrespective of where the share sale occurred, any share capital gains from direct or indirect assignments (for value or not) between non-residents, or any other interest which involves assets situated in Mozambique.

"Mozambique brought in a new petroleum regime last year too and that overhauled the previous rules, which date back to 2001," Santos Cruz explains. "It requires that any special purpose vehicles (SPVs) incorporated to develop Offshore Areas 1 and 4 be Mozambican companies – however, SPVs relating to the financing of the project or sale or shipping of LNG can be incorporated offshore." She adds: "The mere fact of incorporation in Mozambique does not mean that a company is treated as Mozambican as a majority of its shareholders must also be Mozambican for this to be the case."

Vicente Marques says that, while Mozambique may prove to be a prime destination for international investment in years to come, the commercial and regulatory regimes need to strike the right balance to encourage and protect investors. "Natural resources can be a lucrative area, both for Mozambique and the energy companies involved," he says. "The country must make sure it takes the right approach to allow growth and not dissuade long-term investment."