

RECENT FID IN MOZAMBIQUE LNG

A Shared Cake with Southern and East African Economies

The 2nd quarter of 2019 came with a number of developments in Africa. The major one being the \$20 Billion FID on Mozambique's LNG, the largest single LNG project approved in the continent. Occidental Petroleum Corporation whose massive offer to acquire Anardako hit the Oil & Gas Industry with a tweak, is gradually proving to be a well calculated M&A transaction. It will be noted that Oxy has brought on board Total SA (whose LNG portfolio & clientele is vast) to purchase African Assets worth \$ 8.8 Billion, and a \$10 Billion investment cushion from Berkshire Hathaway Inc, a Warren Buffet's subsidiary.

"Flexible commercial arrangements, including an innovative co-purchase agreement with Tokyo Gas and Centrica, have been instrumental in securing the project a roster of high-quality customers in a crowded LNG market," said Frank Harris, head of LNG Consulting at Wood Mackenzie.

Besides foreign LNG markets, Mozambique could immensely tap into the power shortages witnessed in the neighboring countries especially Zimbabwe whose state-owned electricity company ZESA currently owes South Africa's ESKOM \$ 23 Million from the previous \$33 Million – a liability that has led to a significant power supply cut from South Africa.

Who knows? The Republic of Tanzania with huge reserves of gas in Mtwara may wish to form an alliance with Mozambique for the production and marketability. Although different IOC's are in play in these countries with Equinor being dominant in Tanzania among Shell, Ophir & Exxon Mobil, while Occidental and Total SA on the other side, a joint production arrangement will stir the projects viability to attain Return on Investment within a considerable timeframe.

The fact that these neighboring nations have signed the AfCFTA; industry practices such as Multi-User Facility Agreement (MUFA), unrestricted placement of personnel on projects etc may be easy to plug-in thus saving overhead costs. Tanzania's estimated \$30 Billion LNG project establishment in Lindi, (Southern Coast) is under negotiations & if approved sooner, we could witness twin developments.

"We anticipate a steady economic growth in the regional bloc with Mozambique's GDP scaling up quickly due to the working capital expenditure and subsequent FDI as a result of the FID," said Dr. Aggrey Adem, a Senior Statistician & Economist at Zu-Lais Oil & Gas Consulting.

Another high dollar project underway is the 2.4 GW Batoka Gorge Hydro Project awarded to General Electric (GE) and Power Construction Corporation of China totaling to \$ 4 Billion.

"Engineering feasibility for the 2,400-megawatt (MW) power station will be completed by end of Q1 2019. The project is structured on a Build-Operate-Transfer financial model. As such no sovereign guarantees will be required and the project will not put any fiscal strain on the government of Zambia and Zimbabwe. Both Governments will share the power equally." (Source: Bryan Groenendaal, Green Build Africa)

Although, a highly criticized project due to unreliable water levels downstream Zambezi River and for the possible destruction of marine habitation, the two governments (Zimbabwe & Zambia) are confident the sophisticated technology to be applied by the giants GE & Power China shall improve the water levels for long-term sustainability. 