Making the case for Mozambican LNG

Low LNG prices and an oversupplied market have not dampened the longer-term prospects of Mozambique's LNG projects

ANNA KACHKOVA

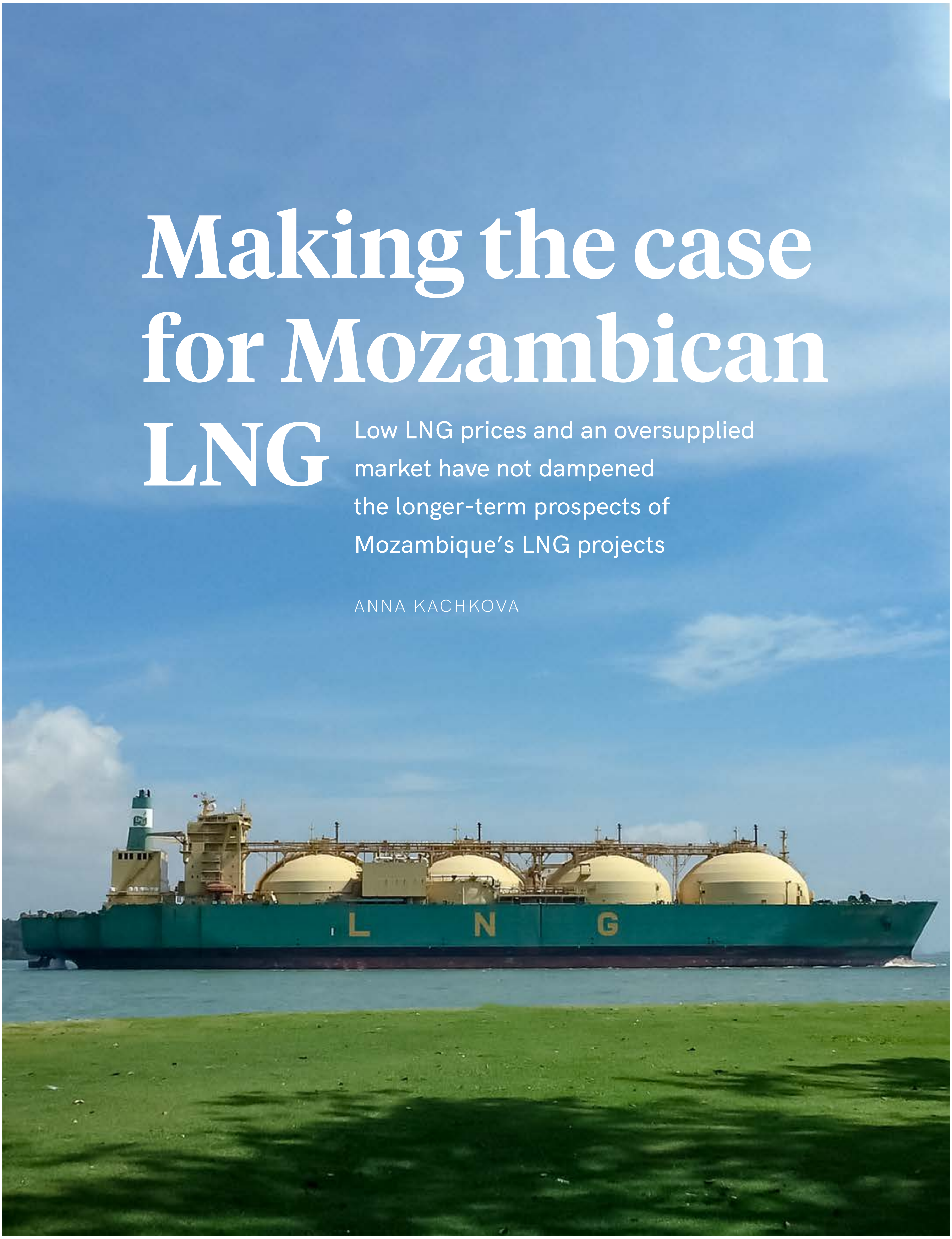


PHOTO: ISTOCK.COM/MARKSIN_TKASCHENKO

A turbulent year for the LNG market does not appear to have dimmed the longer-term prospects for Mozambique's liquefaction projects – two of which are under construction, with a third proposed. The projects are underpinned by abundant gas resources in the Rovuma Basin offshore northern Mozambique.

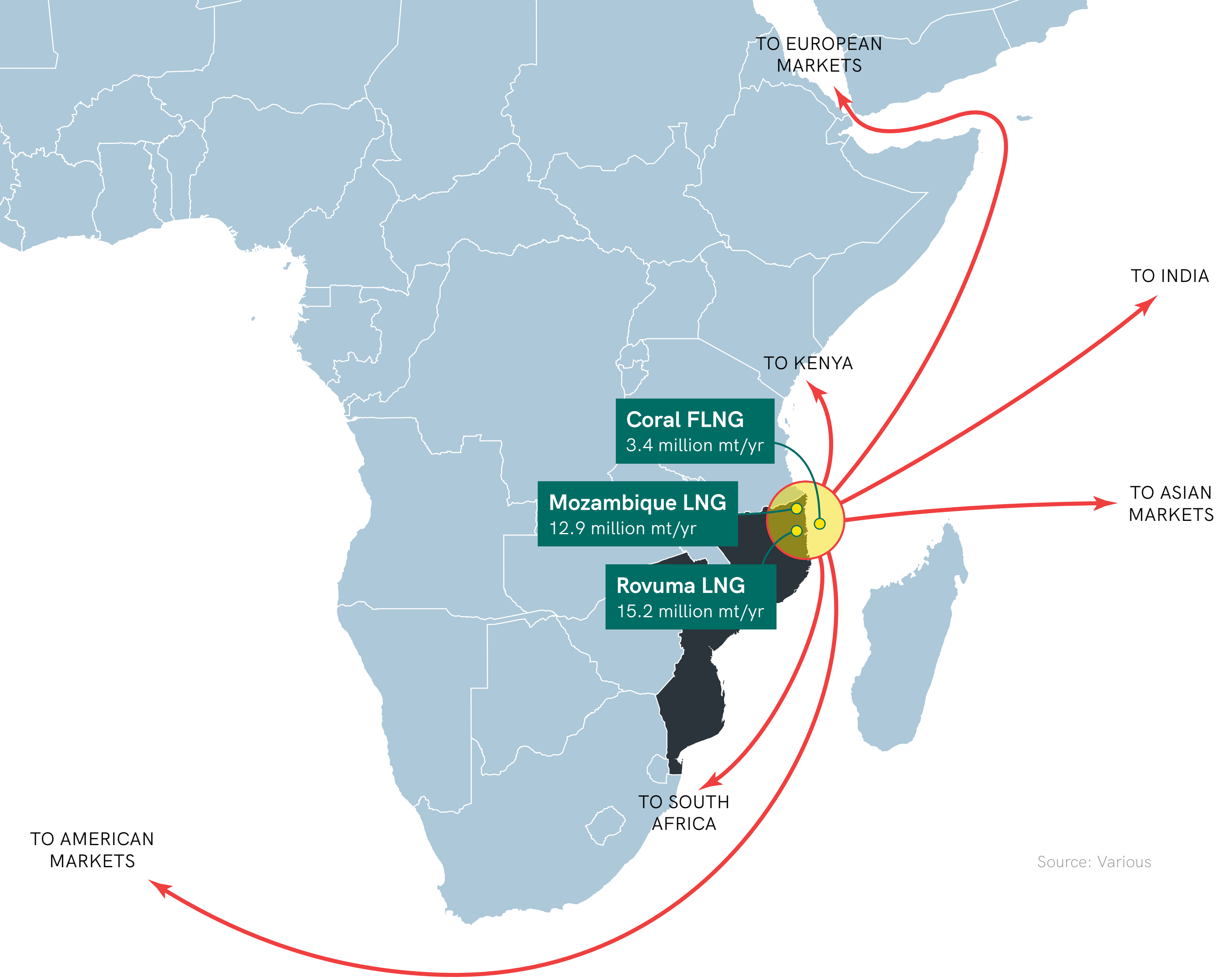
As things stand, the Eni-led Coral South floating LNG (FLNG) project is due to come online in Area 4 of the Rovuma Basin in 2022. It will be the world's first ultra-deepwater FLNG project, operating in water depths of 2,000 m. This will be followed by the Total-led onshore Mozambique LNG, which will use feed gas from offshore Area 1, starting up in 2024. And a final investment decision (FID) is still awaited on the ExxonMobil-led Rovuma LNG project, which would use feed gas from Area 4.

The FID on Rovuma LNG was delayed earlier this year until 2021 amid the market downturn caused by Covid-19. Meanwhile, all three projects have to contend with mounting security concerns related to the ongoing insurgency in northern Mozambique's Cabo Delgado Province. However, despite both project-specific and regional-level challenges, the project developers remain relatively bullish on Mozambique's prospects as an eventual LNG exporter, and others appear to agree.

> **"Mozambique's geographic location means the country is well-positioned to meet the needs of customers in the Atlantic and Asia-Pacific markets, and to tap into the growing demand for energy in the Middle East and Indian sub-continent"**

Betting on Mozambique

In July, France's Total announced that it had secured $14.9bn worth of debt financing for Mozambique LNG – the largest ever project financing in Africa. The deal, which includes direct and covered loans from eight export credit agencies (ECAs), 19 commercial bank facilities and a loan from the African Development Bank (AfDB), covers the majority of the $20bn total investment required for Mozambique LNG. Total's chief financial officer, Jean-Pierre Sbraire, said at the time that the financing agreement demonstrated the "confidence placed by the financial institutions in the long-term future of LNG in Mozambique". →



This confidence has been attributed to a number of factors, including the size of the gas resource, as well as Mozambique's geographic advantage, which will allow it to serve multiple markets.

"Mozambique's geographic location means the country is well-positioned to meet the needs of customers in the Atlantic and Asia-Pacific markets, and to tap into the growing demand for energy in the Middle East and Indian sub-continent," a Total spokesperson told *Global Voice of Gas (GVG)*.

Brokerage and consultancy Poten & Partners' head of business intelligence, Jason Feer, agreed that even with the current downturn in the LNG market, there were still advantages to developing projects in Mozambique.

"The underlying logic for the projects remains, their geographical advantage remains in place. It's stranded gas, so the feed gas has a more stable price," he told *GVG*. "There are advantages to a project in Mozambique that other projects don't enjoy."

Feer said this was the case whether Poten's LNG demand forecast – which he described as relatively conservative at 480mn metric tons/year by 2030 – or a more bullish demand forecast was used.

"You need some chunky projects to get built to hit that target, never mind some of the more →

aggressive demand forecasts – 550-600mn mt/yr by 2030," he said.

Indeed, Poten's forecast sees the market rebalancing just as Mozambique's projects are scheduled to begin entering service. According to Feer, the LNG market is expected to be "pretty balanced" by 2022 – the year Coral South is due to start up – followed by a fairly tight market for a few years from 2023. "It depends on when projects are built, when they enter service," Feer said, adding that there did not appear to be any real incentive for developers to delay project schedules based on the events in 2020.

The Total spokesperson, meanwhile, noted that despite the challenges associated with the pandemic, Mozambique LNG "continues to make good progress".

And if the projected growth of demand plays out, this also strengthens the case for Rovuma LNG to go ahead. Feer noted, however, that ExxonMobil was under "a lot of pressure" from its partners in the project – which comprise Eni, China National Petroleum Corp. (CNPC), Mozambique's ENH, Portugal's Galp and Korea Gas (Kogas) – to cut project costs.

Hurdles

There are additional hurdles for all projects to overcome, including short-term measures in response to Covid-19 and also steps to ensure the security of staff and infrastructure given the risks related to the insurgency in the region.

In late October, Total announced that it had signed a new memorandum of understanding (MoU) with the Mozambican government on ensuring security for its liquefaction project through a joint task force. →

PHOTO: ENI

> **"Whether it's security, whether it's Covid, whether it's a partner who wants them to cut costs more – none of those things really change the underlying logic of the projects. It's just obstacles you have to get over."**

"The Mozambican government has deployed a military presence in certain areas of Cabo Delgado province affected by the insurgency. As we understand the situation, this presence is intended to address the insurgency and protect the local population," Total's spokesperson said. "Total is working in collaboration with the government and all stakeholders to promote an enabling environment in which the catalytic potential of the project can be channelled to address the security and social challenges of the region." The spokesperson noted that details of the MoU could not be disclosed owing to its confidential nature.

Feer said that whether the security situation would affect the timelines of the projects depended on a number of factors, including how adept the government is at maintaining security, and what the companies themselves are able to do. This will become clearer further down the line, however.

"I think it's a little early in that process of bolstering security to know what kind of delays they will see – if any," Feer said.

He went on to identify one further obstacle for Rovuma LNG specifically as it awaits FID, which he said was more of a longer-term trend, though the pandemic has been playing into it to some extent.

"The problem that a lot of project developers are having is getting those long-term contracts, finding credit-worthy offtakers," he said. It does not necessarily have to be 20-year contracts, he continued, as demonstrated by Mozambique LNG, which has certain offtake agreements in place for 13-year terms. Nonetheless, Feer said that terms of around 15-20 years were what developers are looking for to help underpin projects and secure financing.

"That's something that everybody's wrestling with – you have buyers who are reluctant to sign long-term contracts, because they don't feel that they can predict demand as accurately. Prices have been cheap for a while – some people think prices are going to stay cheap forever."

However, ExxonMobil is already proceeding with Golden Pass LNG in the US without having disclosed any offtake agreements for that project. While the FID on that project was taken last year, prior to the downturn, it illustrates that bigger players have options available to them. Nonetheless, locking in buyers remains important, but is not necessarily an insurmountable obstacle.

"There are a lot of things that have to be overcome to get to FID," Feer said. "But I think the logic of the projects still stands up. And every strike – whether it's security, whether it's Covid, whether it's a partner who wants them to cut costs more – none of those things really change the underlying logic of the projects. It's just obstacles you have to get over." ■