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# Mozambique

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With substantial offshore gas reserves and significant coal and other mineral deposits, Mozambique has increasingly found its place as a country to be reckoned with in the energy sector. That said, the road to internal national security is undergoing a complex moment in the country's history and presents some challenges (there is still instability in the north of Mozambique and this poses a concern for international investors). Government initiatives to suppress the insurgency have been proving relevant, which grants a positive outlook for these issues in the near future.

The liquefied natural gas (LNG) industry holds significant potential for the national economy. With approximately 100 trillion cubic feet of proven gas reserves, the largest undeveloped coal reserves in the world and the largest hydroelectric power facility in Southern Africa, Mozambique is poised to transform its economy and catalyse regional growth through the exploitation of its natural resources. In fact, due to the development of Area 1 and Area 4 in the Rovuma Basin, considered one of the two major offshore gas projects on the continent, along with the South Coral Floating Liquefied Natural Gas (FLNG) project, which will act as Africa's first ultra-deepwater FLNG facility, it is safe to say that Mozambique has become an increasingly dynamic geography in the energy sector worldwide.

Other key features of the country that play a part in attracting foreign investors include its long coastline of over 2,500 km, a strategic location with direct access to ocean ports for landlocked countries, and a rapidly growing population. The national policy agenda is consistently focused on attracting foreign direct investment into priority sectors in order to stimulate long-term and sustainable socio-economic growth.

## **Overview of the current energy mix, and the place in the market of different energy sources**

### LNG is leading the way

Mozambique is seeking to capitalise on substantial offshore natural gas discoveries through the development of several LNG processing facilities.

In January 2024, the International Energy Agency stated that “LNG supplies are expected to grow by 3.5% this year – well below the 8% growth rate experienced between 2016–20 – as delays in new liquefaction plants and issues surrounding the availability of feedgas at existing projects could push back supply growth to 2025. Growing demand and tight supply could significantly contribute to price fluctuations throughout the year”.

In Mozambique, reference should be made to three major projects: (a) the Area 1 Offshore project, located in the Rovuma Basin and operated by Total, is an LNG facility with a capacity of 13 million tonnes *per annum* (MTPA), the investment cost of which is around

US\$20 billion ; (b) the Area 4 Offshore project, also located in the Rovuma Basin and operated by ExxonMobil and other partners, is an LNG liquefaction plant with a capacity of 16 MTPA and a cost of US\$20 billion; and (c) the South Coral FLNG project, located in the Coral Field and operated by Eni, is a floating LNG facility with a capacity of 3.4 million metric tonnes per year and a cost of US\$7 billion that came on stream that month. Eni is also seeking to drill a rig for Coral North, its second FLNG project.

In addition to these projects, the African Renaissance Pipeline (ARP) project should also be mentioned. The ARP project is a proposal for a US\$6 billion pipeline that will connect Mozambique's rising LNG supply with the growing needs of the border regions. It will stretch from the Rovuma Basin to Springs, Gauteng, South Africa, running 2.175 km through eight provinces in Mozambique and 425 km across two provinces in South Africa. In the basis of this project, there is a joint venture that has been entered into between "*Empresa Nacional de Hidrocarbonetos de Moçambique*" (a Mozambican Government company whose principal activity is the exploration of oil and gas), Profin Consulting, SacOil Holding, and China Petroleum Pipeline Bureau.

Reference should also be made to the 2004 joint venture of the Republic of Mozambique Pipeline Company (ROMPCO), held by Sasol Gas Holdings, the Republic of Mozambique and the Republic of South Africa, which operates a gas pipeline that also runs along Mozambique and South Africa. ROMPCO is responsible for transporting over 185 million gigajoules of gas per year from the gas fields located in Pande and Temane to the Secunda pipeline.

#### The largest hydroelectric power facility in Southern Africa

Mozambique has significant hydroelectric power facilities. The landmark project is the Cahora Bassa hydroelectric project, located in the Tete province on the Zambezi River, which has a capacity of 2,075 MW, the second largest in the African continent. This hydro dam is explored by "*Hidroeléctrica de Cahora Bassa*", a government-owned company. It sells around two-thirds of the generated power to South Africa, while the remainder is sold to both the northern regions of the country and to neighbouring Zimbabwe.

Reference should also be made to the Mavuzi and Chicamba Hydroelectrical power dams, located in the Manica province on the Revue River, which total a joint capacity of up to 90 MW. These are pre-independence dams, commissioned in 1957 and 1968, respectively. The fact that much of the equipment and parts of these dams were outdated meant that continuing the exploration of these projects posed several challenges. Both of these power stations underwent significant refurbishments and developments in a period stemming between 2013 and 2017. The entity responsible for this was a consortium composed by Cegelec, among others, which resorted to funding from the French Development Agency (*Agence Française de Développement*) and its Swedish counterpart (Swedish International Development Cooperation Agency), among others.

There are other projects, for example, in the Zambezi Valley (Cuamba, Lichinga and Mphanda Nkuwa). With reference to the latter, in December 2023, Mozambique signed an agreement with a consortium led by EDF France to build this new US\$5 billion project. The dam/plant shall be built along the Zambezi River and is expected to generate 1,500 MW of power in its first stage.

#### Mining potential

Mozambique has a great wealth of minerals and is a renowned exporter of metals. Among the most significant deposits are coal, ruby, copper and gold. Some relevant projects that can be indicated include the Mozal Aluminium Smelter (aluminium) and cement plants of

Dondo, Matola and Nacala. The country has experienced growth in major players initiating their projects in this sector, originating from continents across the globe (such as Australia, Brazil and India to name a few). The World Bank predicts that mineral production may increase in the country by almost 500% by 2050 and as such, the existing buzz around the sector is expected to keep growing at a steady pace.

### Significant solar potential

Mozambique has a solar potential of 2.7 GW across the country, which is potentially enough to meet electrification targets for the whole country (the goal is for universal electrification by 2030). Mozambique has seen growth in the number of Independent Energy Producers (IPPs) that build and explore solar plants and generate electricity through concessions granted by the Republic of Mozambique (through its Ministry of Mineral Resources and Energy) and pursuant to the public-private partnership framework approved in the early 2010s since 2015. The project companies then enter into Power Purchase Agreements with Mozambican power company Electricidade de Moçambique (EDM), which has a monopoly in Mozambique.

For example, the IPP solar project in Mocuba has a capacity of 40 MW and is operated by Scatec Solar. Another relevant project is the Metoro solar power plant located in the Cabo Delgado province, also with a capacity of 40 MW, which will be operated by Neoen and was launched in April 2022.

## **Changes in the energy situation in the last 12 months that are likely to have an impact on future direction or policy**

### Political instability/COVID-19 pandemic

Unfortunately, the recent past has not been particularly bright for the energy sector in Mozambique. For example, a proliferation of security threats in the northern region of Cabo Delgado – home to various LNG projects – resulted in Total (Area 1 operator) triggering existing contractual mechanisms in order to suspend operations. In February 2024, the Group expressed its expectation to resume operations in 2024.

The consequences of COVID-19 on the Mozambican economy are still strongly felt, causing delays and inefficiencies affecting projects in the energy sector and others. Despite this, the Executive branch continues to launch new tenders and bids for projects in the energy sector through public competent authorities, which have proven to still be attractive for foreign investors seeking opportunities in the country for long-term investments despite the economic and political instability.

It should be noted that Mozambique is one of the countries most affected by climate shocks in the world, generating losses. Although it is true that recent years have posed many challenges for the sector, there is high expectation that it will bounce back and continue to develop at the same growing pace seen over recent decades, with the demand for LNG being a major driver for such economic development.

### Clean mining is gaining ground

The mining sector in Mozambique is in the process of transformation, and is moving towards clean energy through the exploration of minerals required for the production of electric vehicles and lithium-ion batteries, such as graphite. Demand for this type of energy resource is only expected to keep increasing, and Mozambique is well positioned to seek to take advantage of this new trend.

## **Developments in government policy/strategy/approach**

### Raising institutional investment

The Government of Mozambique has adopted a posture of attracting cross-border institutional and political support. One example of this strategy is the Fund for Sustainable Access to Renewable Energy (FASER) for which the European Union has channelled €5 million and the German Government €0.5 million. The beneficiaries are energy companies and parts of the population that still do not have access to energy. FASER is jointly implemented by the German Agency for Cooperation (GIZ) through its Energizing Development (EnDev) programme and Foundation for Community Development. The EU funds are part of PROMOVE, a comprehensive EU approach to rural development in Mozambique.

### Growing concern over expansion of power use and domestic energy efficiency

According to the Ministry of Mineral Resources and Energy, existing and future IPPs are set to support the fulfilment of the Government's vision of universal electricity access by 2030, stimulate industrialisation and drive growth through reliable transmission infrastructures.

The Government of Mozambique has increasingly demonstrated its social and humanitarian approach to the distribution of energy in Mozambican communities. Around 90% of both urban and rural populations is dependent on solid fuels for cooking (such as wood and coal), and use of clean cookstoves is still very low in Mozambique. This is a market that is expected to grow by almost 10% per year over the next five years.

### Push for sustainable energy sources

The Mozambican Government has been vocal on their positive outlook regarding extraction of more ecologically sustainable resources. Several initiatives over the last few decades have also resulted in a number of projects being initiated in renewable energies, not only in fossil fuels, and the national government has introduced the Biofuel Policy and Strategy to reduce dependence on fossil fuel imports. LNG is also commonly seen as a hybrid form of energy and one that the Mozambican Government is a champion of.

Mozambique, alongside countries like Angola and Nigeria, faces the challenge of excessive economic dependence on a single energy resource, such as its growing dependence on LNG. Various governmental initiatives have attempted to avoid this scenario, such as the Government boosting new energy resources through legislative reforms that modernise and adapt the current legal framework to new, greener, ecologic and sustainable energy sources. An example of such legislative initiatives is Decree no. 58/2014 of 17 October 2014 (regulation establishing the Tariff Regime for New and Renewable Energy), which, among other measures: (i) approves tax incentives based on the prices and tariffs for new and renewable energy supply systems; (ii) provides subsidised financing for renewable energy projects through public funds and low-interest loans or government loan guarantees; (iii) generally exempts equipment related to plants that generate this type of energy from customs duties and VAT; and (iv) temporarily reduces corporate income tax rates for these projects.

## **Developments in legislation or regulation**

### New Electricity Law

The new Electricity Law (Law 12/2022, of July 11) came into effect in October 2022, updating the law in effect since the late 1990s. This reform seeks to adapt the legal framework and address the current challenges posed in the sector to a diversified economic matrix, an increasing number of private investors, and the country's goal of universal

access to power. This law regulates the entire chain of energy generation, from production, storage, transport, distribution, commercialisation and to the consumption of energy, while also touching on import and export issues.

#### Regulation of Licenses for Electrical Facilities

Decree no. 60/2021 of 18 August 2021 (Regulation of Licenses for Electrical Facilities) is responsible for simplifying the procedures applicable to the licensing of electrical facilities, ensuring greater speed and lower costs.

#### A lender-friendly approach: the Movable Assets Registration

Although not specifically relating to the energy sector, reference should be made to a recent legal framework, applicable to securities over movable assets, that approved the creation of the Registration Office for Security over Movable Assets (*Central de Registo de Garantias Mobiliárias*). Although approved in 2018, the Registration Office commenced operation in September 2021.

Considering that the energy sector is heavily dependent on external financing to private players, this framework created a shift in paradigm in this civil law jurisdiction by allowing the creation of security over movable assets and also by introducing novelties such as security over future or undetermined assets (in a way equating to a common law floating charge) or establishing the possibility to enforce such security by taking possession of the secured assets (which was also not possible prior to the enactment of this law). Extremely challenging to put into practice, the framework represents an unprecedented move by Mozambique towards attracting more external investment and external financing.

### **Judicial decisions, court judgments, results of public enquiries**

In the Mozambican jurisdiction, there is no available case law, court judgments or judicial decisions or results of public enquiries on the interpretation and application of the relevant legislation related to the energy sector.

### **Major events or developments**

#### The Energy for All programme

Since the programme started, state company EDM had already made 307,000 new connections by 2021. In a second phase of this programme, it is intended to install another 320,000 new connections. Contributing factors for the increasing number of electricity connections include public funding and external investment and financing through the Proenergia Programme by several international partners, namely the World Bank, the European Union, Norway and Sweden. Challenges also faced by EDM include the damages caused by the political upheaval in the Cabo Delgado region, which caused extensive destruction to the electrical grid in that area of the country.

#### The Mphanda Nkuwa project – an example of Mozambique’s openness to investment

Proof that the State of Mozambique is increasingly seeking foreign investment in the energy sector lies in the approach it adopted in relation to the Mphanda Nkuwa hydroelectric project. The Mozambican Government held a summit with more than 155 participants to promote foreign investment in this area. The survey aimed to ensure that the selection process of a private partner was attractive and competitive given the size of the investment required (around US\$5 billion) and the complexity of the associated legal and financial transaction. According to the Ministry of Mineral Resources and Energy, Mphanda Nkuwa is set to support the fulfilment of the Government’s vision of universal electricity access by 2030,



stimulate industrialisation and drive growth through reliable transmission infrastructure. In addition, the project will create power export opportunities to strengthen Mozambique's position as a regional power centre, while also ensuring security of domestic supply.

#### Mozambique Renewable Energy Integration Program (MREP)

The Board of Directors of the African Development Bank (AfDB) has approved a grant of US\$2.5 million to the Mozambican Government to develop renewable energy resources. The grant, from the Sustainable Energy Fund for Africa (SEFA), administered by the AfDB, will be used to implement MREP.

According to the Director of the AfDB's Renewable Energy and Energy Efficiency Department, with the support of SEFA, Mozambique's ability to integrate greater shares of variable renewable energy will enhance its efforts to become a major regional electricity supplier.

The funding will help the national electricity company provide financial support for technical, economic, environmental and social feasibility studies for the development of a floating solar power plant on the Chicamba reservoir. In addition, it will support the funding of a feasibility study for the storage of energy battery systems at up to 10 sites, as well as capacity building for EDM staff and support for tender preparation.

The grant will also be used to conduct studies to increase the share of variable renewable energy production in Mozambique's energy mix. Feasibility studies to develop floating solar photovoltaic power will be conducted on EDM's existing hydropower assets.

### **Proposals for changes in laws or regulations**

A key challenge in the Mozambican energy sector is the interconnection between various existing frameworks that apply to projects. For example, projects in the energy sector are generally subject to the licensing framework set forth in the Electricity Law and Regulation, but are usually also dealt with within the context of public-private partnership and public procurement frameworks. Additionally, other frameworks such as the law governing state companies, which applies to EDM (which currently holds a monopoly in the sale of power in Mozambique), and land legislation must also be considered when carrying out a project in this area. The tension between various frameworks sometimes gives rise to queries on the applicability of the respective provisions (which can have an impact, for example, on authorisations to be sought) that oftentimes are difficult to resolve considering that public entities are not always equipped to answer them (also because of the lack of practical experience). The number of involved public authorities that sometimes have very similar jurisdiction and competences (for example, in the water sector, where there are currently national and regional entities involved and whose roles are not always clear) is also responsible for causing confusion and doubts for private investors and foreign lenders. Perhaps it would be wise to use the current impetus to reform the legal framework applicable to the energy sector to try and bring more clarity on the interconnection between the various frameworks, so that such law could in fact codify most of the rules applicable to these projects. This would certainly have a positive impact on bringing not only more clarity to both public and private entities but also on making procedures more streamlined and on reducing the time taken for getting a project approved across the border.





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