Gas fuels Tanzania, Mozambique growth

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Mozambique and Tanzania's economic potential has been hard hit by low prices for natural gas, but investors are now looking closer to home for customers.

It is tempting to see the oil price crash as denting hopes for economic growth, especially for energy exporters. But for gas producers, there may be a silver lining, with lower prices creating an opportunity to use natural gas for power generation and other projects.

The future of Southern Africa's gas market, for example, could lie along a 2,600km pipeline linking the gas fields of Mozambique to South Africa's Gauteng Province. The African Renaissance Gas Pipeline (ARGP) is the biggest planned gas project on the continent and is set to link Mozambique's 180 trillion cubic feet (tcf) of re serves with consumers at home and in South Africa.

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Producers had once banked on exporting the bulk of Mozambique's reserves to markets in Asia and the United States, but a fall in prices is changing these plans.

Gas prices are tied to crude oil prices, and Asian liquefied natural gas (LNG) spot prices fell from $20 per million British thermal units (mbtu) in February 2014 to $4.50/ mbtu this March. Lower prices are creating incentives for producers to target markets closer to home.

A consortium comprising South Africa's SacOil, Mozambique's state oil company *Empresa Nacional de Hidrocarbonetos* (ENH), Profin Consulting and the China Petroleum Pipeline Bureau plan to make the ARGP a reality.

Thabo Kgogo, chief executive of SacOil, tells The Africa Report: "It is an opportune time for project development of this kind given re duced operating costs associated with it. The project's main driver is demand, so in reality we believe it should be moving forwards at any oil price." Kgogo adds: "It is a longterm project and we do not anticipate the price of oil to be $40 if and when the project is completed."

SacOil says the pipeline could be ready by 2020, and Mozambique has enough gas for this and other projects.

Although the consortium is still some way off from concluding supply agreements, power generation is the most likely outlet, followed by synthetic fuel production. A specialist company in that field, South Africa's Sasol, is already moving away from coal-to-liquids towards gas-to-liquids production.

Despite lower prices, companies planning to produce LNG in Mozambique are moving ahead. Two consortia, led by Eni of Italy and United States-based firm Anadarko, respectively, have jointly agreed to develop an onshore LNG plant with four lique-faction trains in the first instance, with a forecast production capacity of 20m tonnes per year.

Bold move

This is to be increased in phases to ten trains and 50m tonnes per year, which would make it one of the biggest LNG projects in the world. However, the target for first production has slipped from 2016 to 2020 and will probably slip further. This is partly because of the difficulties in developing such a big scheme but also because of low gas prices.

Anadarko has cut 1,000 jobs, and it seems likely that it will seek to bring other companies on board to provide the necessary investment.

In addition, Eni plans to develop its own floating LNG (FLNG) plant on its Coral gas field, with production capacity of 3.4m tonnes per year.

After the government of Mozambique approved the project on 24 February, Eni chief executive Claudio Descalzi said: "It is a fundamental step to progress toward the final investment decision of our project, which envisages the installation of the first newly built FLNG facility in Africa and one of the first in the world."

Analysts at Wood Mackenzie said in March that "taking the final investment decision in a [$30-per-barrel] world will be tricky [...] While sanctioning it will be a bold move, Coral will be an expensive project [...] Eni will need to secure project financing for the FLNG vessel, something that has never been done before."

Neighbouring Tanzania is in a similar position to Mozambique. Following the discovery of 2.2tcf of reserves by the Dodsal Group of the United Arab Emirates in February, Tanzania now boasts 57tcf of proven natural gas reserves, which is the third-highest figure in sub-Saharan Africa after Nigeria and Mozambique.

Most of the fields discovered have been in deepwater areas, many of them very close to Mozambique's Rovuma Basin. The latest find was made onshore, near Dar es Salaam.

The energy and minerals ministry signaled that it could also be looking for customers closer to home in a statement issued on 4 May: "Several East African countries have asked to buy gas from Tanzania [...] to start with, the government plans to build a gas pipeline to Uganda," it said, adding that the government had started looking for funding.

Changing fortunes

BG Group, Ophir Energy, Exxon-Mobil, Statoil and the state-owned Tanzania Petroleum Development Corporation have drawn up plans to build an LNG terminal near the town of Lindi in the far south of Tanzania. It will have two trains with a combined production capacity of 10m tonnes per annum.

Shell's recent takeover of BG should enable the consortium to take a final investment decision more quickly, as Shell has greater financial muscle to fund construction than BG.

Tanzania had acquired a reputation for slow progress on big projects, but President John Magufuli sped up government approval for the LNG scheme after he came to power last year. In February, the companies acquired the 2,000ha required for the plant. Yet, as in Mozambique, low Asian LNG prices make this a difficult time to develop new production capacity.

The Central Bank of Tanzania argues that the gas reserves will help to turn Tanzania into a middle-income country over the next 10 years, through LNG exports and domestic gas consumption.

Tanzania already produces gas from the Songo Songo field, which supplies 300m cubic feet of gas per day to Dar es Salaam to produce 325MW of power. The electricity produced by the Ubungo plant is the cheapest in the country, at $0.06/kWh.

Lee Robinson, the Tanzania officer for the Natural Resource Governance Institute, says: "The government has come under fire for apparently making deals in the past that were viewed as overly favourable to the foreign companies [...] The government wishes to avoid this with the gas sector, and the new administration is assertive, confident and populist to a certain extent. I think it will do its best to see domestic supply met as far as it is able while still securing investment."