

**GLI** GLOBAL  
LEGAL  
INSIGHTS

**Energy**

**2022**

**10<sup>th</sup> Edition**

Contributing Editors: **Michael Burns & Julia Derrick**

**glg** global legal group

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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 instability in the north of Mozambique and this poses a concern for international investors). The Government initiatives to suppress the insurgency have been proving relevant and grants a positive outlook for these issues in the near future.*

*The 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 a more and more dynamic new geography in the energy sector worldwide.*

*Other key features of the country that play a part in attracting foreign investors are: 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.

According to a Standard Bank report conducted in February 2021, demand for LNG is expected to increase from 359 MTPA to 655 MTPA between 2019 and 2040. We note three major projects are now in the pipeline: (a) the Area 1 Offshore project, located in the Rovuma Basin, is an LNG facility with a capacity of 13 MTPA, the investment cost of which is around 20 billion dollars and the operator is Total; (b) the Area 4 Offshore project, also located in the Rovuma Basin, is an LNG Liquefaction Plant, and has a capacity of 16 MTPA, a cost of \$20 billion and the operator is ExxonMobil and other partners; and (c) the Coral South FLNG, located in the Coral Field, is a floating LNG facility and has a capacity of 3.4 million metric tonnes per year. It had a cost of US\$7 billion and the operator is Eni.

In addition to these three projects, the African Renaissance Pipeline Project (ARP) should also be mentioned. The ARP Project is a proposal for a 6 billion dollar 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 JV entered into between: *Empresa Nacional de Hidrocarbonetos de Moçambique* (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 JV 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 located in Tete Province, on the Zambezi river, the Cahora Bassa Hyrdoelectric Project, with a capacity of 2075 MW, the second largest in the African continent. This hydro dam is explored by Hidroelectrica de Cahora-Bass, which is 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, respectively, in 1957 and 1968. The fact that much of the equipment and parts of these dams were outdated, continuing the exploration of these projects posed several challenges. Both 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, among others, by Cegelec, which resorted to funding from, among others, the French Development Agency (*Agence Française de Développement*) and its Swedish counterpart (Swedish International Development Cooperation Agency).

There are other projects, for example, in the Zambezi Valley (Cuamba, Lichinga and Mphanda NKuwa).

#### Mining potential

Mozambique has a great wealth of minerals and is a renowned exporter of metals. Among the most significant deposits, coal, ruby, copper and gold stand out. Some relevant projects which 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 (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. This 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 the Mozambican power company (*Electricidade de Moçambique*), 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 Cabo Delgado province, also with a capacity of 40 MW, which will be operated by Neoen and is expected to commence activity by January 2022.

### **Changes in the energy situation in the last 12 months which 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. There has been a proliferation of security threats in the Northern region of Cabo Delgado – home to the LNG projects – which resulted in Total (Area 1 Operator) triggering the existing contractual mechanisms in order to suspend operations. COVID-19 has also hit heavily across the Mozambican economy, causing delays and inefficiencies affecting projects in the energy sector. Notwithstanding this, the Executive branch through the public competent authorities has continued launching new tenders and bids for projects in the energy sector and this economic and political instability has also proven to still be attractive for foreign investors seeking opportunities in the country for long-term investments. It should be noted that the country's economy was already suffering as a result of the 2019 Idai and Kenneth cyclones and the pandemic further impacted an already fragilised economy. Even though it is true that the last 12 months have posed many challenges for the sector, there is high expectation that it will bounce back and continue to develop at the growing pace seen over the last decades.

#### Clean mining is gaining ground

The mining sector in Mozambique is in the process of a transformation. It is moving towards clean energy through the exploration of the 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 the population that still does not have access to energy. FASER is jointly implemented by the German Agency for Cooperation (GIZ) through its Energizing Development (EnDev) programme and FDC. 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 MIREME, 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 the communities of Mozambique. A percentage of around 90% of both urban and rural population is dependent on solid fuels for cooking (wood and coal). Additionally, use of clean cookstoves is still very low in Mozambique. This is a market which 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 decades have also resulted in a number of projects being initiated in renewable energies and not only on fossil fuels. 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 faces a challenge: incurring the same problem that countries like Angola or Nigeria have been experiencing, *i.e.* excessive economic dependence on a single energy resource. Mozambique's growing dependence on LNG may end up causing this and there have been governmental initiatives to try and avoid this scenario from solidifying. In fact, the Government has been trying to boost new energy resources, through legislative reforms, which modernise and adapt the current legal framework to new, greener, ecologic and sustainable energy sources. An example from 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 the new and renewable energy supply systems; (ii) provides for subsidised financing for renewable energy projects through public funds and low-interest loans or government loan guarantees; (iii) generally exempts from customs duties and VAT equipment related to plants that generate this type of energy; and (iv) reduces corporate income tax rates temporarily for these projects.

### **Developments in legislation or regulation**

#### New Electricity Law

The Mozambican Electricity Law was approved in the late 1990s, by Law no. 21/97, of 7 October 1997. A complete review and shift in paradigm have been under discussion since 2018. The Government discussed the new version of the law in September 2021. This reform will seek to adapt the legal framework of the current challenges posed in the sector to a diversified economic matrix, to an ever-growing number of interest private investors and to the country's goal for universal access to power. It is expected to apply to the whole of the power-generation chain, stemming from production, storage, transport, distribution to commercialisation of power, while also touching on import and export matters. The anticipation for the approval and publication of the new law is running high.

#### 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 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 moveable assets, that approved the creation of

the Registration Office for Security over Moveable Assets (*Central de Registo de Garantias Mobiliárias*). Although approved in 2018, the Registration Office commenced operation in September 2021 (although it is not yet fully operational).

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 in practice, the framework represents an unprecedented move taken 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 nor judicial decisions or results of public enquiries in Mozambique on the interpretation and application of the relevant legislation related with the energy sector.

### **Major events or developments**

#### The 300,000 new electricity connections in Mozambique

State company, Eletricidade de Moçambique, made 181,000 new electricity connections in the country between January and September 2021, which corresponds to 60.3% of the annual target of 300,000 new connections. EDM still expects to reach its goal by the end of the year. Contributing factors for the increasing number of electricity connections include public funding, but also external investment and financing, through the Proenergia Programme, financed by several international partners, namely the World Bank, the European Union, Norway and Sweden. Challenges faced this year by EDM include the damages caused by the political upheaval in the Cabo Delgado region, that has 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

The 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 (MKN). 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 USD 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. A tender is expected to be launched by the end of this year.

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

A key challenge in the Mozambican energy sector is, for example, the interconnection between various existing frameworks which all 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 the Public-Private Partnerships framework and public procurement framework. Other than this, other frameworks such as the Law governing State Companies, which applies to EDM – currently holding a monopoly in the sale of power in Mozambique, and the 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 (and that can have an impact, for example, in relation to 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, whose role is not always clear) is also responsible for causing confusion and doubts for private investors or foreign lenders. Perhaps it would be positive to use the current impetus to reform the legal framework applicable to 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 for getting a project approved across the border.

Another challenge faced by Mozambique is the sometimes not-friendly investment regulations, particularly in the energy sector. According to the World Bank's *Doing Business 2020* publication, a comparative analysis of business regulation in more than 190 economies, Mozambique is ranked 138<sup>th</sup>. A recent reform of the investment regulation approved in 2009 sought to address these concerns to a point.

\* \* \*

### Acknowledgment

The authors would like to thank **Pedro Charters** for his invaluable contribution to this chapter. Pedro Charters joined Morais Leitão in September 2020. He is a member of the Banking & Finance team. Previously, Pedro attended a summer internship at Allen & Overy (Beijing Office) and MdME (Macau Office), having also completed an internship at VdA – Vieira de Almeida & Associados.

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