

# Impact of the Armed Conflict in Cabo Delgado on Gas Projects in Mozambique

## - Possible solutions for mitigation

### Webinar Summary<sup>1</sup>:

## 1. Introduction

On 29 April 2021, CIP held a webinar with the theme “*Impact of the Armed Conflict in Cabo Delgado on Gas Projects in Mozambique - possible solutions for mitigation*”. The speakers were Florival Mucave, from the Oil and Gas Chamber of Mozambique, Joseph, Hanlon, International Development Specialist, José Mendes, from the Gas Department of the Mozambican Geological Mining Association - AGMM and Assif Osman, Businessman from Cabo Delgado.

The recent armed attacks on 24 March 2021 in Palma District, Cabo Delgado Province, in addition to the deaths, destruction of economic and social infrastructure and displacement of thousands of people, caused the paralysis of Total’s activities with no foreseeable resumption. This paralysis poses a number of uncertainties for the gas industry that were the subject of reflection in the *Webinar*.

Speakers at the *Webinar* presented their views on the impact of attacks on gas projects in Mozambique and possible solutions for mitigation.

## 2. Main ideas of the interventions

### 2.1 Mozambique’s Gas Dream is Over



Joseph Hanlon

#### Joseph Hanlon (Specialist in International Development)

According to Joseph Hanlon (JH) in recent times the global gas situation has changed dramatically. JH pointed out that some banks have stopped financing gas projects, courts have sued governments due to pollution and companies have suffered due to the negative way this new dynamic has impacted the whole sector. In this sense, JH argued that Total is not in a position to fight alone to change this scenario. Therefore, he stated that the “gas dream is over”.

<sup>1</sup> Video completo do webinar disponível em [https://www.youtube.com/watch?v=p\\_LQx3b\\_VIs&t=1171s](https://www.youtube.com/watch?v=p_LQx3b_VIs&t=1171s)

According to Hanlon, in 2015 it was said that Mozambique would produce about 100 million tons (MTPA) of liquefied natural gas (LNG) per year. These forecasts have reduced in 2019 and for Total the production would be 16 MTPA, this in the Afungi peninsula which is heavily affected by armed attacks. For ENI, production would be 3MTPA offshore, on a floating platform that is not affected by the attacks. With this scenario, currently the only certainty is the production of only 3MTPA through ENI, argued JH. Regarding ExxonMobile, JH said that one cannot say much because from the beginning this company was in constant postponements regarding its project. In this sense, JH added that, due to the fact that it was not possible to establish safety within 25km of the surroundings of Total's project, one can say that the dream of 100MTPA gas for Mozambique, in general, and Cabo Delgado, in particular, is over. For JH, Total will only return if sustainable security and/or effective peace is guaranteed in order to make their project sustainable.

For JH, if peace is restored in 2 or 4 years, Total will continue to struggle with a problem: Gas emits methane that pollutes the environment, i.e. it is being seen as a polluting fossil fuel just like oil and coal. The changes in thinking regarding gas as a polluting fuel that must be replaced by other more nature-friendly energy sources put investments in this sector as being unsustainable in the medium and long term (10-30 years). In this sense, JH stated that facing this scenario, only profitable, safe projects supported by large companies will move forward.

JH referred that economists of *The Economist* magazine (04/24/2021) defend that to reach the goals of zero emission in 2050, the demand for gas should peak in a few years and reduce by half in 2050. This scenario, coupled with the entry into the market of online projects such as Qatar and Russia selling cheaply to maximize profits, will create an oversupply which will be detrimental to Mozambique. The demand for less polluting energies (wind and solar) is another element that plays against it. In this sense, JH concludes that Mozambique's current scenario closes the window of opportunity for gas exploration for Mozambique.

JH mentioned that gas projects are usually 30 years and Total's project, according to the contract, is from 2024 to 2054 with the peak in 2035, when most of the sales will be made. Total has halted activities due to security and, assuming that peace will be achieved within 3 years means that it would only have 7 years until the start of the decline in gas demand and that will be too late, which may lead it not to return to Mozambique. In this sense, JH stated: "the gas window is closing for Mozambique, unless the war ends this year or next year. Then maybe Total will return!"

The only way to stop the war, according to JH, is to stop the war! And this does not necessarily involve sending more soldiers to the battlefield. For JH what the rebels want is money and jobs. If 10,000 real jobs are created by 2021, it is possible to stop the war. And, he adds, it is not something difficult because a reconstruction process will be started by hiring the rebels to work in it. But, all this, according to JH, will only be possible after a negotiation within the Frelimo Party and not from the insurgents who do not show their faces. An agreement is needed within Frelimo to stop the war by controlling greed among the Frelimo oligarchs, the north-south relationship, and less money for Frelimo and more money for the people in order to promote the development of the country. JH argues that this negotiation is difficult or impossible and has been going on for more than 20 years with infighting among the most powerful members.

JH pointed out that an alternative to take advantage of the opportunity would be for Total to do all its operations off-shore and nothing onshore. In this alternative, according to JH, the project would be more expensive, with few local jobs and less revenue for the country. The other alternative would be to win the war with the participation of other outside armies or to rebuild the national army. This would take about 4 years. In this alternative, the gas window would be closed. Notwithstanding the closed window, the 'sharks' would continue to make money. International experiences do not present successful cases of using foreign troops to fight terrorism.

## 2.2 Mozambique has the possibility to become a world reference in the gas market



**Florival Mucave**

### **Florival Mucave (Representative of Mozambique's Chamber of Gas)**

For Florival Mucave (FM), Mozambique must look at the 2050 goals, related to global pollution reduction agreements, and realistically ask itself what can be done within this goal and what challenges and advantages the country has. The reduction targets for zero pollution in 2050, according to FM, relate to what is called carbon neutral with respect to gas and especially with respect to gas in some countries. FM added that the scientific analyses that have already been done classify Mozambique's gas as potentially carbon neutral which means that it already respects the requirements in terms of carbon emissions.

FM pointed out that countries like Qatar are expanding their gas projects not only for the maximization of gains due to the goals of the 2050 carbon emission agreements, but also because projects like Mozambique's are more competitive due to its carbon neutral characteristics. For FM, in the process of transition from fossil fuels to renewable and less polluting ones, gas plays a fundamental role, especially carbon neutral gas, which Mozambique has in abundance. In this sense, FM indicated that what is important is that Mozambique can begin to position itself today as a potential supplier of gas in the near future.

According to FM, the gas project through ENI's floating platform is on schedule and despite the known challenges related to the multiplier effects for the local content, it will position Mozambique as a potential gas supplier worldwide and it will not only be gas, but carbon-free gas. Regarding ExxonMobile's project in area 4 of the Rovuma basin, FM said it is a delicate case to handle and it is a very large investment and at this moment the company is withdrawing from Qatar. FM added that ExxonMobile has invested heavily in American gas and this is a major competitor for gas from Qatar, Russia and even Mozambique. However, according to FM, it should be noted that if gas is a transition fuel, there are few countries that can compete with Mozambique in terms of carbon neutral gas, which is an advantage for the country.

For FM, ExxonMobile's investment decision in the near future will depend on security but for the next 30 years, it will be because gas is a transition fuel and Mozambique has carbon neutral gas. FM added that it is important to note that the invocation of force majeure by Total for the shutdown of its activities influences the decisions of ExxonMobile, which will not be able to make the final investment decision soon. But, for the future, Mozambique will be able to supply its gas to the North American market which has shale gas, and therefore must start importing gas again and for the Asian market which has more and more needs and will look for less polluting sources of gas.

According to FM, there is no doubt that the war situation in Cabo Delgado is deplorable and must be solved soon. The impact of the attacks has messed with the expectations of Mozambicans who hoped that the GDP would double in a few years through gas production and thereby improve the lives of the population. Although there is skepticism about the domestic benefits for local content in relation to LNG, since it is all expected to be exported, the petroleum legislation guarantees that 25% of the gas produced is channeled to the domestic market.

It is true that there is a lack of domestic capacity to absorb this gas. However, Mozambique can export the gas to South

Africa which at the moment is very dependent on coal and due to the Paris agreements (reduction of pollution by 2050) should reduce its use. This is a great opportunity for Mozambique to become a leader in the sector by supplying domestic gas to electrify the southern region of Africa, said FM. This opportunity, according to FM, can take Mozambique from the position of a developing country to a middle-income country. This will be possible if the policies are well designed, clear and well implemented.

## 2.3 Mozambique has a limited window to operate in the LNG market



José Mendes  
(Pelouro do Gás-AGMM)

### José Mendes (AGMM Gas Department)

According to José Mendes (JM), so far, about 85% of world energy is produced by fossil fuels and 15% is generated by renewable energy. Therefore, according to JM, this situation puts Mozambique in an advantageous position to position itself as a major player in the LNG market. JM said that, so far, it has not been discovered a source of energy with a calorific power equal to or greater than oil, hence the preference for this fuel. However, with the problems of global warming there is a tendency to use alternative, less polluting sources, such as gas, but there is still a long way to go in the transition of energy sources. Worldwide, the use of fossil fuels still continues and this change will not be in the very short term. In this sense, it is still a long way to go until gas is removed from the world's energy matrix to make way for much less polluting sources. First, coal and oil should be removed, and this is a window of opportunity for Mozambique, added JM.

The recent investment decision by Sasol, according to JM, will allow the country to produce, from the part of the gas directed to the national market, liquefied petroleum gas (LPG) for the national market and electric power through a thermal power plant that is projected to be built in Temane, that will probably be used in the southern region of the country and another part that will probably be exported to neighboring countries. In addition to these projects, according to JM, Matola Gas Company (MGC) has already signed an agreement with Total for the implementation in Beluluane of a floating LNG regasification unit that will be supplied by Total. The objective is to produce energy for the southern part of the country and supply South Africa, which is facing major electricity problems. Currently, Mozambique is importing gas and with domestic production it may stop importing. These aspects are an indicator that in the immediate future there are opportunities for Mozambique to benefit from its gas. In this way, one can continue to believe in the materialization of the gas projects.

For JM, given the level of investments Total has made in the Rovuma basin, it will have no interest in abandoning the project considering also that it already has international commitments to supply gas from this liquefaction unit.

According to JM, the impact of the attacks transcends the direct effects on the gas project as such. In addition to the social drama, lives lost, people displaced, infrastructure destroyed, the attack plunged the private sector into a world of great uncertainty since there were investments that were made based on expectations, contracts signed with a defined time horizon that now it is not known when they will be materialized; services rendered and invoices issued that it is not known when they will be paid since Total declared an indefinite interruption of its activities due to force majeure. The scenario

is of a business environment in which business plans are seen as difficult to materialize.

To mitigate these effects, JM mentioned that, firstly, we have learned that insurance should be an element to be considered in investments; secondly, the Government and other institutions should intervene in order to minimize the impacts on the companies in the sector.

## 2.4 It is necessary to reflect on whether it is worthwhile to continue with gas exploration



### **Assif Osman (Businessman - Cabo Delgado)**

According to Assif Osman (AO), the main impact of the terrorist attacks in Cabo Delgado is related to the human lives lost, families dismembered, people displaced, and the few assets and wealth people accumulated during their lives lost. From an economic point of view, AO points out that the impact can be divided in two dimensions, the first is immediate and visible to the naked eye, without the need for sophisticated economic studies and analysis. This dimension is related to the destruction of material assets, the possibility of companies, however few they were, losing contracts for immediate supply of goods and services, referring to companies that are directly linked to the oil and gas companies.

The second dimension, according to AO, needs to be more structured and deepened in a longer term. This dimension involves elements over which we do not have total control. With this interruption, it is time for Mozambican society to question whether the oil and gas projects are bringing the promises of prosperity that are expected. It may be a bit irresponsible to attribute the insurgency situation directly to the gas projects because there may be other reasons, but it is legitimate for people to make this association because it is not the first case in the world where the exploration of hydrocarbons provokes conflicts.

AO mentioned that if this is true, with this interruption of Total's activities, it is necessary to reflect on whether it is worth continuing with gas exploration or not. Mozambican society must ask itself if it is prepared to explore these resources that have these specific idiosyncrasies related to the potential to generate conflicts. Are we all Mozambicans equipped with the skills and the valences to exploit such a specific resource as oil and gas? The most important thing is not to have the answers but the right questions and this is a question that should be asked." - questioned AO.

Given the hypothesis that Total will withdraw for good (something that doesn't seem to be the case at the moment), one has to question whether this is all bad for the country.

AO concludes by saying that if the exploitation of gas, instead of being progress, prosperity, reduction of inequalities, is, on the contrary causing conflicts. Mozambicans dying and suffering... then, even if it means never again exploiting the gas that Mozambique has, it is better to let the country be as it was before gas, trying to exploit a little of the tourism that it has and other sectors of activity where there is some potential. If gas exploration has to be resumed, it should be in a way that maximizes the distribution of wealth.

### 3. Concluding remarks

The debate presented three distinct ideas. The first argues that Mozambique will lose the opportunity to maximize gains from gas exploration due to armed attacks if the armed conflict is not resolved by 2021 at the latest. The opportunity will be lost as a result of the transition from the use of more polluting fossil fuels to less polluting fuels in compliance with the Paris agreement which foresees the reduction of carbon and methane pollutant emissions to zero by 2050. For this vision, Mozambique will have to resolve the conflict situation, which necessarily requires an internal negotiation within Frelimo in order to solve the issues of wealth sharing among the most powerful members and to benefit more the population at the expense of a small and restricted group, as has been happening until now.

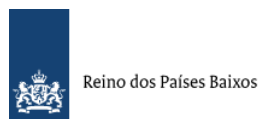
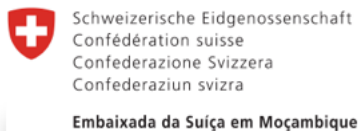
The second idea holds that Mozambique still has the window of opportunity open to maximize gains since the transition from more polluting fuels to less polluting ones will occur slowly. But, for this to occur it is necessary that Mozambique strengthen internal capacities for absorption and project management in order to take advantage of having a competitive gas, compared to other gas producing countries, within the years available until the definitive transition.

A third idea holds that if it has not been proven that there are gains from gas exploration, in terms of changes in income, standard of living and quality of life, employment, and there is only conflict creation, then exploration should be abandoned and the country should continue to be run as it has been.



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