South Africa urged to use seasonal advantage to secure lower LNG prices from Mozambique

South Africa is failing to fully grasp the energy and economic significance of the impending development of the enormous gas reserves discovered in northern Mozambique since 2010, Standard Bank oil and gas specialist **Paul Eardley-Taylor** argues.
Between 150- to 200-trillion cubic feet of gas has been found offshore the country's northern Cabo Delgado province and exploration, production, concession contracts, with use-it-or-lose-it terms, govern the development of three separate liquefied natural gas (LNG) projects.

LNG sales contracts point to over 30-million tons per annum (Mtpa) of LNG entering production between 2023 and 2025, with a final investment decision having been made for the 3.4 Mtpa Coral floating-LNG project and with decisions expected later this year on the far larger Mozambique LNG (12.9 Mtpa) and Rovuma LNG (15.2 Mtpa) onshore projects.

“This translates to world-scale gas right next door to South Africa. And we are not talking gas as South Africans would understand it – a Sasol pipeline from Mozambique. We are talking a minimum of thirty times that gas reserve, or over eight times Sasol’s daily production from the first phase of LNG alone,” Eardley-Taylor explains.

Over the coming 30 years, Standard Bank expects Mozambique to emerge as the world’s fourth- or fifth-largest producer of LNG. It even foresees the country building new LNG capacity at a rate exceeding that of Qatar – the world’s largest LNG producer, which developed 77 Mtpa of onshore LNG capacity between 1997 and 2010.

For neighbouring South Africa, which is relatively gas poor, Standard Bank views the development of a large new LNG hub in the Southern African region as a significant opportunity.

The limited shipping distance from Mozambique will help South Africa secure relatively favourable delivered ex-ship prices.

More importantly, though, is the fact that South Africa’s high-demand winter period does not coincide with the northern hemisphere’s winter peak. “This implies that South Africa can make competitive LNG purchases during periods of increased LNG market liquidity and even take risks on spot pricing,” Eardley-Taylor avers.

Nevertheless, he questions whether a government-to-government approach to gas negotiations are appropriate in light of the concession arrangements that govern the private sector ownership of gas in Mozambique for the concession term. These concessions have been signed with companies such as Anadarko, ENI and ExxonMobil.

Standard Bank is also not concerned that the current corporate activity involving Anadarko will have a material impact on the timing of the Mozambique LNG project. He notes that Total reaffirmed its commitment to the project when making its $8.8-

billion offer for Anadarko's African assets, which would be sold to Total as part of Occidental's $57-billion purchase of Anadarko.

"South Africa should consider entering into direct discussions with the energy concessionaires and, aim to leverage its natural seasonal and proximity advantages to secure competitive prices from the project sponsors themselves."

South Africa, Eardley-Taylor argues, should also move to review its energy policy in light of developments in Mozambique with a view to crafting a comprehensive vision for gas beyond the obvious complementary role that gas-to-power plants can play in an electricity system poised for far higher penetration of renewable energy.

He acknowledged that the introduction of imported LNG carried some foreign exchange risk, particularly for the electricity market, which is currently primarily fuelled by rand-based primary energy sources, such as coal.

However, at the very least, LNG could be used to displace hugely expensive dollar-priced diesel, which is used to fuel Eskom and independent power producer open-cycle gas turbines currently.

''Specifically, spot LNG is currently trading at $32 per barrel of oil equivalent (BOE) and contract LNG can probably be had for $37/BOE, whereas diesel is between $77/bl to $80/bl," Eardley-Taylor adds.

The opportunity for South African business in the LNG projects themselves is also significant. "It is seldom appreciated that $128-billion is set to be invested in the Cabo Delgado province over the coming decade, which in itself will generate trade opportunities for South Africa that already has a deep trading relationship with Mozambique."