

Mozambique

Overall Rank: 42

Type: Small Market; Small Market Share

Major discoveries of offshore natural gas in Mozambique have created a large potential for exporters of offshore equipment. Despite competition from third countries, and local labor quotas, U.S. companies should expect to find substantial opportunity for O&G equipment sales as development in Mozambique's O&G sector begins to accelerate. The political situation in Mozambique is fluid and often contentious; however, political will exists to move forward with the development of large-scale offshore natural gas resources.



Mozambique presents a promising market for O&G equipment exports. Mozambique is a relatively new country in upstream O&G production with substantial room for development. The massive potential for growth stems from its rich reserves and improving political situation is the reason for its inclusion in the top markets highlights, despite its lower rank according to our scorecard.

In 2013 the United States exported \$25 million of O&G field equipment to Mozambique. Although these exports are small, they were only \$1 million in 2008 and rose to a peak of \$43 million in 2011. More than 80 percent of the U.S. exports to Mozambique are in pipe products, specifically large diameter oil pipe and casings—an indication of the early stages of Mozambique's industry. U.S. exports to Mozambique are expected to double by 2018. Mozambique's imports of O&G field equipment are quite small at \$132 million in 2013 with about 20 percent originating from the United States. Mozambique's other top import partners in the equipment sector were Japan and China.

In 2012, Anadarko and ENI made discoveries of natural gas in offshore Mozambique. These natural gas fields are estimated at 100 tcf, raising Mozambique's proven reserves to the third-largest in Africa, after Nigeria and Algeria. Despite recent natural gas discoveries, production in country has not yet started. 2012 production was 154 bcf of natural gas from two previous and relatively small onshore gas fields. Anadarko, one of the two main operators in Mozambique, predicts that the country will be the

third-largest LNG exporter in the world once LNG production facilities are operational. Major market groups have predicted around \$30 billion in investment into Mozambique's energy industry over the coming years.

Anadarko and ENI, the two companies with controlling stakes in the new large finds in the Rovuma Basin, have begun to develop Mozambique's LNG infrastructure for LNG export. Anadarko has issued a front end engineering and design (FEED) studies for two onshore 5-million-tons-per-annum (Mmtpa) (or 240 bcf) LNG trains while ENI is considering a 2.5 Mmtpa (120 bcf) floating LNG facility. In 2012, Anadarko awarded six FEED contracts for offshore installation and onshore LNG. The three FEED contracts for onshore installation went to Technip; a joint venture (JV) between Subsea 7 and Saipem SA; and a JV of McDermott and Allseas. The three onshore LNG FEED contracts went to Flour Transworld Services; a JV of CB&I and Chiyoda Corporation; and Bechtel. Business Monitor International expects these projects to begin operation and allowing exports of LNG by 2019 or 2020. Anadarko reported that it has secured long-term contracts with Asian buyers for most of the first train of its planned LNG project.

U.S. exporters have a large opportunity in Mozambique but there will be plenty of international competition and building a foothold for American industry will require effort. While Anadarko has taken a leading role in the exploration of Mozambique's natural gas resources, third country firms are

leveraging historical ties and geographic proximity to corner a sizeable share of the market. In recent years, China, Japan, Italy, and Portugal have held substantial shares of Mozambique's import market in upstream O&G equipment and pipes.

Policy Context: Challenges and Opportunities

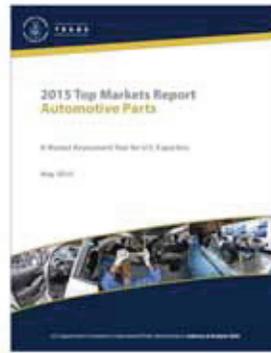
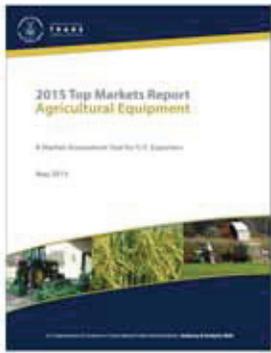
Mozambique's political parties agree on developing the offshore gas reserves in the northern portion of the country, but political stability remains tenuous in Mozambique. In late August 2014, a ceasefire between the ruling party, Frelimo, and the opposition party, Renamo, was concluded, following a two-year upswing in violence. Most of the political unrest is located in the center and south of the country while the natural gas development is concentrated in the far north of the country; it is unclear if political disputes will in any way impact natural gas development.

Although the issues that plague many African countries with regard to the O&G sector are found in Mozambique, such as political volatility, regulatory uncertainty, and institutional corruption, there have been recent encouraging signs. In mid-August 2014, the Mozambican parliament concluded two years of debate to pass an amended Petroleum Law allocating up to 25 percent of O&G production for domestic consumption and adding in a provision to require a partnership with Mozambique's national oil company. The passage of this law will allow for

investors to plan projects with greater certainty. The law also permits the companies that have discovered O&G to develop facilities for the processing of gas, which should enable a quicker investment decision to be made on pending LNG export facilities.

In 2012, Mozambique became officially designated as an Extractive Industries Transparency Initiative (EITI) compliant country, meaning it was taking steps towards regulatory reform in the extractive sector. Human capital constraints are a serious problem for the gas sector since Mozambique's government is hesitant to accept the highly trained expatriate laborers needed for the industry. The Labor Ministry has been strongly behind the enforcement of quotas in local labor and this policy is likely to continue to drag of the development of the sector, diminishing U.S. export potential.

Mozambique is characterized as a high risk/high reward country as there are challenges to developing its resources related to lack of infrastructure, human capital, and political instability. Mozambique is a relatively small market for U.S. produced O&G equipment as it is also relatively new area for natural gas development. The United States already has a comparatively large market share with regard to Mozambique's imports compared to other countries, but Mozambique's newly developing O&G sector still presents significant opportunity for new U.S. businesses to enter the market.



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