

PANORAMIC

GAS REGULATION

Mozambique



LEXOLOGY

Gas Regulation

Contributing Editors

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DOMESTIC SECTOR OVERVIEW

State of the market

Describe the domestic natural gas sector, including the natural gas production, liquefied natural gas (LNG) storage, pipeline transportation, distribution, commodity sales and trading segments and retail sales and usage.

Mozambique's social and economic development derives greatly from the abundance of its natural resources and privileged geographic location. The most recent discoveries have shown that Mozambique's sedimentary basins offer areas with strong potential for the occurrence of oil and natural gas, with promising development paths, capable of generating extensive opportunities to export its resources.

Mozambique's current natural gas production in the south is operated by the South African energy company Sasol, with long-running onshore activities in the Temane and Pande gas fields located in Inhambane province. Natural gas is processed at a central facility in Temane and then transported via an 865-kilometre pipeline from Mozambique to South Africa. In April 2023, Sasol announced the discovery of new reserves of natural gas in the Bonito-1 exploration well, located in Area PT5-C onshore (awarded under the fifth licensing round), currently undergoing assessment work to determine and size of the discovery as well as its commercial viability.

The projects in the large deepwater offshore blocks in the Rovuma Basin area continue to be landmark projects for the oil and gas industry in Mozambique, putting the country on the global LNG stage. With activities suspended for some time due to security disturbances in the region, the Mozambique LNG project in Area 1 (led by TotalEnergies) is now prepared to resume its operations in early 2024, with the start of gas production being delayed to 2028. The Rovuma LNG project in Area 4 (led by ENI and ExxonMobil), which provides, in part, for the construction and operation of onshore facilities to liquefy and market gas resources from the reservoirs in the Mamba Complex is expected to be brought on stream in 2025. In Area 4, the Coral Sul Floating LNG, a facility with the capacity to produce 3.4 million tonnes per annum of LNG, exported its first-ever LNG shipment in November 2022. To maximise the profitability of the gas resources discovered in the Coral reservoir, ENI is now discussing the development of a second floating LNG platform with the government in the Coral field offshore Mozambique, called Coral Norte, projected to be a replica of the Coral Sul with the same production capacity and with a planned investment of US\$7 billion.

The commercialisation of offshore gas reserves will not only bring significant export revenues but also provide industrialisation, thus contributing to socioeconomic growth. According to the International Gas Union's World LNG Report, the development of the LNG project will set Mozambique as the fourth-largest country to benefit from additional LNG capacity until 2026, placing Mozambique among the top 10 exporters of LNG over this period, surpassing important existing exporters. From a socio-economic standpoint, the projects are expected to generate about US\$39 billion for the Mozambican economy over the next 20 years, translating into tangible employment opportunities through the life cycles of the projects, which stand to benefit the local population.

Law stated - 13 December 2023

Consumption

What percentage of the country's energy needs is met directly or indirectly with natural gas and LNG? What percentage of the country's natural gas needs is met through domestic production and imported production?

According to the National Institute of Statistics of Mozambique, most of the energy generated in the country comes from hydroelectric power (most of which is produced by the Cahora Bassa dam), representing about 82.9 per cent of the national production, with that produced by natural gas representing 15.9 per cent.

The International Trade Administration has recently stated that natural gas and renewable energy sources are set to have a significant impact on Mozambique's energy supply in the near future, with natural gas expected to provide 44 per cent of total energy generation in the next decade.

According to the information available on the National Petroleum Institute (INP) website, most of the natural gas produced in Mozambique is processed at the gas processing plant located in Temane, Inhambane province, where about 80 per cent is exported to South Africa, and the remainder is sold on the domestic market.

Law stated - 13 December 2023

Government policy

What is the government's policy for the domestic natural gas sector and which bodies set it?

The policy for the domestic natural gas sector is set by the government in line with one of the fundamental principles enshrined in the Petroleum Law (Law No. 21/2014 of 18 August 2014), which ensures that a part of national oil resources is intended for the promotion of national development. This principle is also echoed in the Natural Gas Master Plan, which was approved by the Council of Ministers in June 2014 and is an integral part of the Mozambican government's strategy for the development of natural resources in a manner as to maximise benefits to Mozambique and improve the quality of life of Mozambicans while minimising adverse social and environmental impacts.

The objectives set under the Natural Gas Master Plan to be achieved by 2030 are divided between those derived from gas development and those based on gas revenues for the development of the country. Among the objectives established for each strand, the following are worth noting:

- the significant contribution of natural gas in the supply of energy, as well as the construction of the north-south gas pipeline connecting Palma to Maputo, leveraging the emergence of industrial zones throughout the country; and
- the construction of large infrastructure; namely, roads, ports, railways, airports and thermal power plants, as well as the modernisation of agriculture and greater electrification.

The Strategy for the Development of the Natural Gas Market in Mozambique also outlines several strategies to maximise the country's benefits, reducing imports and preserving the environment, such as (among others):

- promotion of participation of Mozambican entrepreneurs in the natural gas industry in Mozambique; and
- dissemination of information on the existence of natural gas reserves to attract potential interested investors in buying natural gas for the development of projects across the country.

Law stated - 13 December 2023

Regulatory authorities

Which authorities make regulatory policies and decisions in respect of the production, transmission, distribution and supply of natural gas?

The key regulatory bodies responsible for regulating the natural gas sector are:

- the Ministry of Mineral Resources and Energy (MIREME), a government body in charge of directing and ensuring the execution of the government's policy in geological research, the exploitation of mineral and energy resources, and the development and expansion of infrastructure related to electricity, natural gas and petroleum products;
- the INP, the regulatory institution under the tutelage of MIREME, in charge of overseeing and promoting oil and gas activity (upstream) and with attributions to prepare and carry out public tenders for the award of concession contracts relating to petroleum operations; and
- the Inspectorate-General of Mineral Resources and Energy, which is responsible for monitoring and conducting inspections of petroleum activities. Although the Petroleum Law establishes that the High Authority for the Extraction Industry should supervise petroleum activities, its legal framework still lacks definition from the government.

In addition to the above-mentioned authorities, reference must be made to the National Hydrocarbon Company, the national entity responsible for the exploration, production and marketing of petroleum products, with the responsibility to ensure state participation in all petroleum operations from exploration to the production, refinery, transportation, storage and marketing of oil and gas and their derivatives, including LNG and gas to liquids both in and out of the country.

Reference must also be made to the Energy Regulatory Authority, another regulatory body under the tutelage of MIREME, responsible for the regulation and development of the energy sector with vast powers and authorities including, among others, to prepare and process public-tender procedures for the award of concessions for the generation, transmission, distribution and marketing of electricity and natural gas distribution and marketing, and to issue the respective opinion, as well as requests for the transfer of concessions to the

National Directorate of Hydrocarbons and Fuels, a body of MIREME, acting as a regulatory authority in the field of hydrocarbons and fuels (downstream).

Law stated - 13 December 2023

REGULATION OF NATURAL GAS PRODUCTION

Ownership and organisation

What is the ownership and organisational structure for production of natural gas (other than LNG)? How does the government derive value from natural gas production?

One of the fundamental principles emerging from the Mozambican Constitution and the Petroleum Law is that all mineral resources found in the soil and subsoil, inland waters, territorial waters, continental shelf and exclusive economic zone are the sole property of the state. As such, the reconnaissance, exploration, production, transport, marketing, refining and transformation of liquid and gaseous hydrocarbons and their derivatives, including petrochemical activities and LNG and gas to liquids, are controlled by the state.

National or foreign legal entities with proven technical competence and the adequate financial means to carry out the operations may acquire the right to carry out petroleum operations, defined under the Petroleum Law as:

operations related to the planning, preparation and implementation of the activities of reconnaissance, exploration, development, production, storage, transportation, cessation of such activities or termination of the use of infrastructure, including the implementation of a decommissioning plan, sale or delivery of petroleum to the point of exportation or delivery agreed, this point is the point where the oil is delivered for consumption or use, or loaded as a commodity, including in the form of liquefied natural gas.

The petroleum operations are carried out through a concession contract following a public tender. The concession contract may also be attributed to simultaneous or direct negotiations in relation to:

- areas declared available in the case of failed public tender;
- areas declared available following termination, relinquishment and abandonment;
- when there is a need to join adjacent areas to a concession, with technical and economic justifications; and
- infrastructure and pipeline construction and operation not covered by an approved exploration and production development plan.

Value from natural gas production derives not only from the financial entitlements established under the concession contracts but also from the payment of taxes; namely, production tax (royalty) on gas produced in each concession agreement and other general taxes, such as corporate income tax.

Regulatory framework

Describe the statutory and regulatory framework and any relevant authorisations applicable to natural gas exploration and production.

Natural gas exploration and production is governed by the Petroleum Law and the Regulations of Petroleum Operations (Decree 34/2015 of 31 December 2015), as amended.

Other key legal statutes include the following:

- the Regulations for the Licensing of Petroleum Infrastructures and Operations (Decree 84/2020 of 18 September 2020);
- the Environmental Regulations for Petroleum Operations (Decree 56/2010 of 22 November 2010);
- the Specific Regime for Taxation and Fiscal Benefits for Petroleum Operations (Law No. 27/2014 of 23 September 2014), as amended and republished;
- the Regulation on the Specific Regime for Taxation and Tax Benefits for Petroleum Operations (Decree 32/2015 of 31 December 2015), as amended;
- the Regulations on the Employment of Foreign Citizens for the Petroleum and Mining Sector (Decree 63/2011 of 7 December 2011);
- the Regulations on the National Salvage and Rescue System for the Extractive Industry of Mineral Resources (Decree 32/2019 of 29 April 2019);
- the Regulations on the Inspection Activity of Mineral Resources and Energy (Decree 34/2019 of 2 May 2019);
- the Law on Public-Private Partnerships, Large-Scale Enterprises and Business Concessions (Law No. 15/2011 of 10 August 2011);
- the Regulations on Public-Private Partnerships, Large-Scale Enterprises and Business Concessions (Decree 16/2012 of 4 June 2012); and
- the Regulations on Resettlement Process resulting from Economic Activities (Decree 31/2012 of 8 August 2012).

Petroleum operations are carried out under a concession contract that may grant the following rights:

- reconnaissance;
- exploration and production;
- pipeline construction and operation; and
- infrastructure construction and operation.

Exploration and production rights are awarded by means of an exploration and production concession contract (EPCC) that must be approved by the Council of Ministers. The EPCC confers an exclusive right to perform petroleum operations, as well as a non-exclusive right

to construct and operate oil production and transportation infrastructure from a concession contract area unless access to an existing oil or gas pipeline system or other infrastructure is available on acceptable commercial terms and conditions.

As a rule, the construction, installation, modification, operation and demobilisation of any petroleum infrastructure used in the context of petroleum operations, as well as those referring to development wells, drilling rigs, the production, storage and transportation of petroleum (in liquid or gaseous form) by road, sea, river or railway, are subject to mandatory licensing with the National Petroleum Institute, pursuant to the rules established under the Regulations for the Licensing of Petroleum Infrastructures and Operations. In addition to these, holders of petroleum rights as well as any entities involved in the carrying out of petroleum operations are required to undergo extensive authorisation and licensing procedures during the whole life cycle of a specific project, involving various ministries and other public supervising institutions of different sectors (eg, environmental, land, import and export and customs procedures).

Law stated - 13 December 2023

Unconventional gas production

Are there different rules for, or any restrictions on, unconventional natural gas production (including fracking)?

Mozambique has not yet established a specific legal framework dealing with rules and restrictions on unconventional natural gas production.

Law stated - 13 December 2023

Required security and guarantees

Are participants required to provide security or any guarantees to be issued with a licence to explore for or to store gas?

According to the Regulations of Petroleum Operations, the concessionaires are required to provide the following guarantees (for which models are usually provided under the concession contract) to ensure compliance with the obligations arising from the concession contract:

- a bank guarantee equivalent to the value of the minimum work obligations stipulated in a concession contract; and
- an unconditional and irrevocable parent company guarantee from an entity acceptable to the government in respect of the overall obligations of the concessionaire or operator of a concession contract in favour of the government, in respect of non-contractual obligations, in addition to the obligations covered by the bank guarantee indicated above.

Furthermore, the Petroleum Law also establishes that the operators shall provide a financial guarantee to ensure compliance with the terms and conditions set out in the authorisation.

REGULATION OF NATURAL GAS PIPELINE TRANSPORTATION AND STORAGE

Ownership and infrastructure

Describe in general the ownership of natural gas pipeline transportation, and storage infrastructure.

Concessionaires are called to finance the cost of all infrastructure and equipment used in petroleum operations and are entitled to use such infrastructure and equipment during the term of the exploration and production concession contract (EPCC). However, upon termination of the EPCC, title to petroleum infrastructure and equipment may be transferred to the state without additional compensation (at the option of the government).

Law stated - 13 December 2023

Regulatory framework

Describe the statutory and regulatory framework and any relevant authorisations applicable to the construction, ownership, operation and interconnection of natural gas transportation pipelines, and storage.

EPCCs grant a non-exclusive right to construct and operate oil or gas pipeline systems for the transportation of crude oil, natural gas or infrastructure for the liquefaction of gas produced from the concession contract area, except where access to an existing oil pipeline or gas pipeline system or other existing infrastructure is available on reasonable commercial terms. In cases where such right is not covered under an EPCC, a separate concession for gas and oil pipelines and infrastructure may be granted to conduct such operations.

Although the rights attributed under a pipeline concession allow the concession holder to construct and explore oil or gas pipelines for the transportation of crude oil and natural gas, its installation and operation require the holders of such rights to comply with the relevant infrastructure construction, licensing, authorisation or registration requirements (as applicable) as per the specific rules set out under the Regulations for the Licensing of Petroleum Infrastructures and Operations.

The development plan for the pipeline concession must also include a separate environmental impact assessment to be completed in accordance with the environmental legislation, as well as the licenses for the use and enjoyment of land and authorisation for the performance of petroleum operations at sea, in accordance with the applicable legislation.

Law stated - 13 December 2023

Land rights

How does a company obtain the land rights to construct a natural gas transportation or storage facility? Is the method for obtaining land rights to construct natural gas distribution network infrastructure broadly similar?

The award of exploration and production rights does not include land rights over the concession area. Thus, whenever the implementation of petroleum operations (such as construction of pipelines for natural gas transportation or storage) requires the use of land or maritime areas, concession holders are required to apply for the relevant Right to Use and Enjoy the Land or, in maritime areas, the Title for Private Use of Maritime Areas in the concession area.

Law stated - 13 December 2023

Access

How is access to the natural gas transportation system and storage facilities arranged? How are tolls and tariffs established?

According to the Petroleum Law, the owner of the infrastructure and the holder of the right to use infrastructure under an EPCC must give access to third parties to use the infrastructure related to petroleum operations without any discrimination and on reasonable commercial terms if:

- there is available capacity in the infrastructure; and
- there are no insurmountable technical problems that would prevent the use of the infrastructure to satisfy third-party requests.

The consideration to be paid for the use of infrastructure by third parties is subject to the terms of the concession contract and is based on the following principles:

- the tariff shall be based on the total reserved capacity of the infrastructure for the period in question;
- the tariff shall include the capital cost and the operating cost; and
- the tariff shall include profitability, reflecting the risk of the owner of the infrastructure, not exceeding the rate of return.

The law does not regulate the commercial terms and conditions for third-party access to natural gas transportation systems and storage facilities. These terms must, therefore, be regulated under the relevant concession contract or side commercial agreements in accordance with good oilfield practices.

Law stated - 13 December 2023

Interconnection and expansion

Can customers, other natural gas suppliers or an authority require a pipeline or storage facilities owner or operator to expand its facilities to accommodate new customers? If so, who bears the costs of interconnection or expansion?

Where the available capacity of the infrastructure is insufficient to accommodate requests from third parties, the infrastructure owner may be obliged to increase capacity to meet requests from third parties on commercially reasonable terms if:

- the need for increased capacity is demonstrated by the third party by means of appropriate reservation certificates in accordance with good oilfield practices;
- such increase would not cause any adverse effect on the technical integrity or safe operation of the infrastructure; and
- the third party has secured sufficient funds to meet the costs of the requested increase in capacity.

Law stated - 13 December 2023

Processing

Describe any statutory and regulatory requirements applicable to the processing of natural gas to extract liquids and to prepare it for pipeline transportation.

An EPCC not only grants exploration and production rights but also a non-exclusive right to construct and operate oil pipelines or gas pipeline systems for the transportation of crude oil, natural gas or infrastructure for the liquefaction of gas produced from the concession contract area, except where access to an existing oil or gas pipeline system or other existing infrastructure is available on reasonable commercial terms. In cases where such right is not covered under an EPCC, a separate pipeline concession or infrastructure concession may be granted to conduct such operations.

The Infrastructure Construction and Operation Concession allows the concession holder to construct and operate gas production infrastructure, such as processing and conversion facilities, that are not covered by an approved exploration and production-development plan. The installation and operation of processing facilities are subject to the licensing rules established under the Regulations for the Licensing of Petroleum Infrastructures and Operations.

Law stated - 13 December 2023

Contracts

Describe the contractual regime for transportation and storage.

There is no statutory contractual regime for the transportation and storage of natural gas imposed by Mozambican law. Any model agreement commonly used in the oil and gas industry (governing reserved capacity, obligations of the parties and the quality or specifications of the gas, among other commercial terms and conditions) may be adopted by the parties.

Law stated - 13 December 2023

REGULATION OF NATURAL GAS DISTRIBUTION

Ownership

Describe in general the ownership of natural gas distribution networks.

Ownership of natural gas distribution networks remains with the relevant concessionaire until termination of the concession, upon which ownership is transferred to the state.

In relation to the holders of a licence, ownership of natural gas distribution networks and assets forming part of the licensed premises remains with the licence holder until the revocation of the licence, upon which ownership is transferred to the state.

Law stated - 13 December 2023

Regulatory framework

Describe the statutory and regulatory structure and authorisations required to operate a distribution network. To what extent are gas distribution utilities subject to public service obligations?

Natural gas distribution and marketing activities are governed by the Regulations for Distribution and Marketing of Natural Gas (Decree 62/2023 of 23 November 2023). The exercise of natural gas distribution and marketing activities is subject to the attribution of a concession or a licence.

Concessions for the exploration of distribution networks and marketing of natural gas are attributed further to a public-tender procedure or by means of direct negotiation (only in cases where no bidders participated in the public tender) and granted for a maximum of 25 years, and concessions for the exploration of local autonomous networks are granted for a maximum of 10 years. Each concession entitles the concessionaire to operate a distribution network or local autonomous network, including the construction, ownership, operation and maintenance of the respective infrastructure and support facilities, with a view to supplying and marketing natural gas.

Natural gas distribution and marketing activities may also be exercised through the following licenses:

- a distribution network-operator licence;
- a local autonomous network-operator licence; and
- a marketing licence.

The distribution network-operator licence and the local autonomous network licence are only issued in non-concession areas; conversely, marketing licenses are issued upon presentation of the natural gas supply contract entered into with concessionaires or holders of distribution network-operator and local autonomous network-operator licenses, being valid within the area belonging to a concessionaire or holders of distribution network-operator and local autonomous network-operator licenses. The above-mentioned licenses are valid for 10 years and renewable for equal periods under certain conditions. The activities covered by any licence must begin no later than two years after the date of issuance of the licence, under the penalty of forfeiture.

The concessionaire and holders of distribution network-operator and local autonomous network-operator licenses may only operate the distribution network upon obtaining:

- an approval, which should be issued before the start of construction or assembly of any natural gas installation and (or) equipment;
- a registration of the relevant natural gas installation;
- a licence to use and exploit the land (a Right to Use and Enjoy the Land licence); and
- an environmental licence, to be issued before the commencement of the construction of any natural gas installation and (or) equipment.

Law stated - 13 December 2023

Access and pricing

How is access to the natural gas distribution grid organised? Describe any regulation of the prices for distribution services. In which circumstances can a rate or term of service be changed?

The rules of negotiated access to the distribution network must be established by the Ministry of Mineral Resources and Energy (MIREME). The concessionaires and holders of distribution network operator and local autonomous network licenses should negotiate access rights with transparency and are prevented from imposing discriminatory conditions.

Natural gas prices for end-consumers are subject to a system of controlled prices, calculated in accordance with the formulas set out under the Regulations for Determining the Maximum Natural Gas Sales Price (currently approved by Ministerial Order 210/2012 of 12 September 2012), a legal statute, which is expected to be revised in result to the recently approved Regulations for Distribution and Marketing of Natural Gas, since its application is currently limited to all natural gas supplied by holders of a concession to final consumers. According to these Regulations, the maximum prices are approved by the National Directorate of Hydrocarbons and Fuels and should not, in principle, vary. Exceptions may be made for duly justified situations, such as tax changes and substantial changes in the concessionaire's cost structure.

Pursuant to the Regulations for Distribution and Marketing of Natural Gas, changes to the prices charged by the concessionaire or holders of distribution network-operator and local autonomous network-operator licenses to the end-consumers should be communicated to them 30 days prior to its entry into force and published in a newspaper with national or regional circulation, if any.

Law stated - 13 December 2023

System/service expansion and limitation

May the regulator require a distributor to expand its system to accommodate new customers? May the regulator require the distributor to limit service to existing customers so that new customers can be served?

The Regulations for Distribution and Marketing of Natural Gas do not set forth specific rules on the expansion and limitation of the distribution system. Nevertheless, the concessionaire or holders of distribution network-operator and local autonomous network-operator licenses are statutorily bound to ensure continuousness and regularity of supply of natural gas in the concession area or specific geographical areas that are not under concession to all consumers who can guarantee payment of the supply. To that effect, when determining the size of the distribution network, the concessionaire or holders of distribution network-operator and local autonomous network-operator licences must assess the possible increase of natural gas demand and the need to satisfy consumption in the areas covered by the concession or licence.

Law stated - 13 December 2023

Contracts

Describe the contractual regime in relation to natural gas distribution.

There is no statutory contractual regime for natural gas distribution imposed by Mozambican law. This notwithstanding, the concessionaires and holders of distribution network-operator and local autonomous network-operator licenses are required to submit the model supply contract they intend to execute with end-consumers to MIREME for approval.

Law stated - 13 December 2023

REGULATION OF NATURAL GAS SALES AND TRADING

Ownership and organisation

What is the ownership and organisational structure for the supply and trading of natural gas?

Natural gas supply and trading through a gas distribution network are governed under the distribution concession agreement and the supply agreement to be entered into with end-consumers. Following the recent changes introduced to the Regulations for Distribution and Marketing of Natural gas, supply and trading of natural gas may also be carried out through a distribution network-operator licence, local autonomous network-operator licence and marketing licence (holders of the latter being required to enter into a supply contract with the concessionaire or holders of a distribution network-operator or local autonomous network-operator licenses).

Concessionaires and holders of distribution network-operator and local autonomous network-operator licenses are not required to hold a marketing licence for the marketing of natural gas to end-consumers.

The supply of natural gas to end-consumers is statutorily regulated and subject to maximum supply prices.

Law stated - 13 December 2023

Government oversight

To what extent are natural gas supply and trading activities subject to government oversight? What authorisations are required to engage in wholesale trading of gas?

Natural gas supply and trading activities are subject to government control. The model supply contract to be entered into between the concessionaire or holders of distribution network-operator and local autonomous network-operator licenses and the consumers must be approved by the Ministry of Mineral Resources and Energy (MIREME). Although the law does not prescribe the terms and conditions that must be provided for in such contracts, supply contracts typically provide for rules relating to the connection fee, the quantity of supply, grounds for suspension of supply and rules for the calculation of the tariff, among others.

Concessionaires are also subject to a set of general obligations arising from their duties in connection with the operation of the concession. By way of example, and in relation to its obligation of maintenance of the infrastructures making up the distribution network, concessionaires are required to keep MIREME regularly informed of the amount of investments relating to such maintenance or conservation of said infrastructures.

Law stated - 13 December 2023

Trading processes

How are physical and financial trades of natural gas typically completed?

There are no statutory nor standard processes, agreements or terms for the supply and trading of natural gas. Any internationally used and accepted forms of the supply and trading of natural gas may be adopted by the parties.

Law stated - 13 December 2023

Available services and products

Must wholesale and retail buyers of natural gas purchase a bundled product from a single provider? If not, describe the range of services and products that customers can procure from competing providers.

There are no express rules imposing wholesale and retail buyers of natural gas to purchase a bundled product from a single provider. Gas distribution providers may, however, have exclusivity rights over a given area, in which case buyers may be limited in terms of procuring services and products from competing providers.

Law stated - 13 December 2023

REGULATION OF LNG

Ownership and organisation

What is the ownership and organisational structure for LNG, including liquefaction and export facilities, and receiving and regasification facilities?

Pursuant to the Petroleum Law, the government may authorise concessionaires that have discovered non-associated oil and natural gas deposits to develop projects for the design, construction, installation ownership, financing, operation, maintenance and use of wells installations and related equipment, whether onshore or offshore, for the production, processing, liquefaction, delivery and sale of gas in the domestic market and export. The relevant rules of ownership and organisational structure for said LNG project will be governed and regulated under an exploration and production-concession contract.

There are no express rules for the set-up of LNG projects fed by associated gas.

Law stated - 13 December 2023

Regulatory framework

Describe the regulatory framework and any relevant authorisations required to build and operate LNG facilities.

The building and operation of LNG facilities may only be undertaken under a concession agreement to be entered into with the government in accordance with the Petroleum Law and Regulations of Petroleum Operations. The installation and operation of LNG facilities are subject to the licensing rules established under the Regulations of Licensing and Operation of Petroleum Infrastructures.

Law stated - 13 December 2023

Pricing

Describe any regulation of the prices and terms of service in the LNG sector.

No regulations have been established specifically in relation to prices and terms of service in the LNG sector. The price and service to be applied by the concessionaire are regulated under the relevant concession contract.

Law stated - 13 December 2023

MERGERS AND COMPETITION

Competition authorities

Which government body may prevent or punish anticompetitive or manipulative practices in the natural gas sector?

The Competition Regulatory Authority (CRA), created under the Competition Law (Law No. 10/2013 of 11 April 2013), is the government body responsible for the enforcement of anticompetitive or manipulative practices in the exercise of economic activities, with

supervision, regulatory and sanctioning powers. According to the Competition Law, the relevant sectorial regulatory authorities (in this particular case, the Ministry of Mineral Resources and Energy (MIREME)) should collaborate with the CRA in the enforcement of competition legislation.

Law stated - 13 December 2023

Competition standards

What substantive standards does that government body apply to determine whether conduct is anticompetitive or manipulative?

The Competition Law prohibits agreements between undertakings, decisions of associations of enterprises and practices, both horizontal (such as limiting or preventing access to the market for new companies, directly or indirectly fixing purchase or selling prices or interfering in their determination, among others) and vertical (such as making the sale of goods or provision of services conditional on the acceptance of payment conditions that are different from or contrary to normal commercial usages and customs, and imposing excessive prices or increasing without just cause the price of a good or service), provided their objective or effect is to prevent, distort or restrict competition in all or part of the Mozambican market.

Abuses of a dominant position are also prohibited by the Competition Law, notably breaking off, totally or partially, a commercial relationship in an unjustified manner, forcing or inducing a supplier or consumer not to establish commercial relations with a competitor and unjustifiably selling goods below cost price, among others.

Law stated - 13 December 2023

Enforcement

What authority does the government body have to preclude or remedy anticompetitive or manipulative practices?

The CRA has regulatory, sanctioning and supervisory powers that allow it to, among others:

- interview the legal representatives of the companies or associations of companies involved, as well as request from them documents and other elements of information deemed appropriate or necessary to clarify the facts;
- search, examine, collect and seize copies or extracts of documents and other documentation in the premises of companies, whether or not it is in a private place, whenever such measures are necessary to obtain evidence; and
- seal the premises of companies where there is, or is likely to be, such documentation found.

Law stated - 13 December 2023

Merger control

Does any government body have authority to approve or disapprove mergers or other changes in control over businesses in the sector or acquisition of production, transportation or distribution assets?

Any merger operation entailing the direct or indirect transfer of rights and obligations granted under an exploration and production-concession contract (upstream) is subject to the approval of MIREME. Transfers of rights and obligations granted under a concession for the construction and operation of natural gas transportation or distribution of assets as a result of a merger operation (downstream) are also subject to the approval of the relevant awarding entity.

Without prejudice to the above, the Competition Law establishes that the CRA shall control concentrations between undertakings consisting, in particular, of the acquisition of:

- all or part of the share capital;
- ownership or the right to use all or part of the assets of a company; and
- rights or contracts conferring a preponderant influence on the composition or decisions of the organs of an enterprise.

Concentrations between companies that meet the market share, annual turnover or billing criteria, as set out in the Competition Law Regulation (Decree 97/2014 of 31 December 2014), as amended, are subject to mandatory prior notice to the CRA within seven working days of the conclusion of the agreement or proposed acquisition and may not be implemented until approved by the new authority. The control of concentrations between companies is subject to a specific procedure that includes several phases, each with specific deadlines. The overall procedure to obtain approval or disapproval from the CRA may take approximately two to four months.

Law stated - 13 December 2023

Price restrictions

In the purchase of a regulated gas utility, are there any restrictions on the inclusion of the purchase cost in the price of services?

The Regulations for Determining the Maximum Natural Gas Sales Price (which is expected to be revised to fit the new Regulations for Distribution and Marketing of Natural Gas) sets out specific formulas for the determination of the price for supply to end-consumers. As a general principle emerging from the referred Regulations, the prices to be charged by the holder of the concession for the supply of natural gas to end-consumers must allow the concession holders to annually amortise their operating and capital costs, as well as to obtain a reasonable return on the capital invested, in relation to the supply of natural gas to end-consumers, in a commercially acceptable manner and in accordance with normal gas industry and financial practices.

The Regulations for Distribution and Marketing of Natural Gas also sets forth that the maximum prices should, among others, include margins of concessionaires or holders of distribution network-operator and local autonomous network-operator licenses in

non-concession areas and marketing networks as well as allow capital and operating costs to be amortised over time.

Law stated - 13 December 2023

Corporate governance regulations

Are there any restrictions on the acquisition of shares in gas utilities? Do any corporate governance regulations or rules regarding the transfer of assets apply to gas utilities?

Acquisition of shares in gas utilities is subject to government approval and demonstration of the necessary technical and financial capacity of the applicant.

According to the Regulations of Distribution and Marketing of Natural Gas, the concessionaire or holders of distribution network-operator and local autonomous network licenses who own the distribution network, the installations and the equipment necessary for its operation may not encumber or dispose of in any manner, whether fully or partially, the fixed assets effected to the concession without obtaining the prior approval of the MIREME.

Law stated - 13 December 2023

INTERNATIONAL

Foreign participation

Are there any special requirements or limitations on foreign companies acquiring interests in any part of the natural gas sector?

There are no special requirements or limitations on foreign companies acquiring interests in any segment of the natural gas sector.

It is, nevertheless, worth noting the following.

- Mozambican entities or foreign entities in association with Mozambican entities shall under equal circumstances have a preferential right in the award of an exploration and production concession contract (EPCC).
- Foreign legal entities that directly or indirectly hold or control legal entities that own rights under an EPCC must be established, registered and administered under a transparent jurisdiction, such being understood as jurisdictions that allow the government to, in an independent manner, verify the ownership, management and control as well as the fiscal situation of a foreign legal person who wishes to participate in petroleum operations.
- The state reserves the right to participate, through the National Oil Company (ENH), in petroleum upstream operations on terms and conditions established in the EPCC.
- State participation may be imposed for any upstream or downstream concession subject to the Regulations on Public Private Partnerships, Large-Scale Projects and Enterprise Concessions, which set forth that a percentage of no less than 5 per cent to 20 per cent of the share capital of the concessionaire must be reserved for the participation of the Mozambican public and private persons.

Law stated - 13 December 2023

International agreements

To what extent is regulatory policy affected by treaties or other multinational agreements?

Mozambican regulatory policy is approved or amended to give effect to the country's commitments under international treaties and other multinational agreements adhered to by Mozambique.

In the conduct of petroleum operations, concessionaires are statutorily required to consider and abide by the internationally accepted standards and good oilfield practices, defined under the Petroleum Law as:

those practices and procedures that are generally employed in the international petroleum industry and aimed at the prudent management of petroleum resources, including the conservation of pressure, ensuring the regularity of petroleum operations and observing health, safety, environment preservation, technical and economic efficiency aspects.

Law stated - 13 December 2023

Cross-border sales and deliveries

What rules apply to cross-border sales or deliveries of natural gas?

There are no specific rules applying to cross-border sales or deliveries of natural gas. One must, nevertheless, take into consideration:

- the legal framework governing the activities relating to the transportation, storage and handling of hazardous substances; and
- the applicable foreign exchange rules established under the Foreign Exchange Law and Regulations (Law No. 28/2022 of 29 December 2022 and Order 20/GBM/2017 of 27 December 2017) and the special foreign exchange framework applicable to the petroleum sector approved by Order 7/GBM/2018 of 19 September 2018.

Law stated - 13 December 2023

TRANSACTIONS BETWEEN AFFILIATES

Restrictions

What restrictions exist on transactions between a natural gas utility and its affiliates?

There are no special restrictions on transactions between a natural gas utility and its affiliates, without prejudice to the general rules on transfer pricing and control of direct and indirect assignments.

Law stated - 13 December 2023

Enforcement

Who enforces the affiliate restrictions and what are the sanctions for non-compliance?

Not applicable.

Law stated - 13 December 2023

UPDATE AND TRENDS

Gas sector-specific regulation

Describe recent trends and developments in the regulation of the domestic natural gas sector.

Mozambique's natural gas reserves have positioned the country as a key global producer, attracting the attention of several multinationals for its considerable opportunities within the African region. The exploitation of its massive natural gas resources will promote ancillary industries that will not only generate employment but also boost government foreign exchange revenues, with prospects for long-term development.

Despite several discussions on proposals between key private-sector stakeholders and the government, Mozambique is yet to strengthen its local content framework to ensure a drive to national competitiveness. The local content provisions resulting from the current legal framework still promote and support the preference for partnerships with local companies and the local workforce.

In the face of growing global concern about climate change, Mozambique is committed to being an active player in decarbonisation for the promotion of green industrialisation and production of low-carbon commodities. As a signatory to several international protocols on climate change and carbon-emission reduction, the developments in the natural gas sector must be coherent with the country's obligations under such agreements as well as the worldwide urge on environmental preservation. Committed to promoting a clean environment, companies operating in the gas sector in Mozambique are being encouraged to use technologies that curb pollutant emissions, hereby joining the global initiatives for the reduction of carbon emissions.

Within the context of the global environmental crisis and climate change, Mozambique recently announced its intention to develop a regulatory framework in support of carbon-capture markets not only in the country but also within the African region.

Law stated - 13 December 2023

Other regulatory developments of particular relevance to the gas sector
Describe any other recent regulatory trends and developments of particular interest to those operating in the domestic natural gas sector.

With a view to managing the massive inflows of revenues arising from the exploration of natural resources, especially natural gas from Areas 1 and 4, the Council of Ministers recently approved the bill creating the country's sovereign wealth fund, aimed at ensuring revenues, which are expected to reach more than US\$6 billion annually by 2040, are used in a sustainable way to drive long-term economic development. The creation of the sovereign wealth fund is part of 20 reform measures comprised from the Programme of Economic Acceleration, which was announced in 2022 by the government to boost economic growth.

The Strategy to Prevent and Combat Money Laundering, Terrorist Financing and the Proliferation of Weapons of Mass Destruction 2023 to 2027 was also recently approved by the Council of Ministers aimed at combatting these crimes in sectors considered vulnerable, such as the mineral-resources sector. The implementation of the strategy includes a set of objectives, policies and action plans aimed at mitigating the risks identified to make the national system for preventing and combating the aforementioned crimes more effective.

To enable the effective application of measures to combat the aforementioned crimes, a new regulatory framework relating to the prevention, repression and combatting of terrorism and the proliferation of weapons of mass destruction was approved to meet the standards followed in the region and worldwide.

Law stated - 13 December 2023