

Features

More on Exxon's Potential Mozambique Buy-In

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Exxon Mobil and Eni are reportedly holding talks that could give the US supermajor a significant stake in Mozambique's giant Area 4 offshore natural gas field and perhaps even operatorship of the project, according to several published reports.

The Wall Street Journal reported that Exxon is seeking a 20% position, while Reuters said it is negotiating the purchase of a 15% holding (LNGI Mar.29'16).

Eni had previously said it aimed to sell around 15% of the field as part of a program to dispose of €7 billion (US\$7.84 billion) in assets through 2019. However, it also indicated that it would retain operatorship of all its projects.

Exxon declined to comment on the reports, while Eni did not return a call from LNGI sister publication Oil Daily.

Eni has a 50% operated interest in Area 4, which is located in Mozambique's Rovuma Basin. The Italian company estimates the huge tract holds some 85 trillion cubic feet of gas in place, one of the richest gas discoveries of recent years. Eni made the original discovery in 2011.

The field will feed a series of onshore LNG export plants that Eni plans to build in partnership with Anadarko Petroleum, which operates gas discoveries in the adjacent Area 1. The LNG facilities are expected to supply Asian markets primarily, but also could serve growing demand in Brazil and other Atlantic Basin markets.

It is not clear how much Exxon might pay for a 15% stake. Eni sold a 20% interest to China's CNPC for \$4.2 billion in 2013 (LNGI Mar.15'13), but oil prices were much higher at that time.

Adding the Mozambique reserves -- even if they are natural gas -- would be a boost for Exxon, which failed to replace its proved reserves in 2015 for the first time since 1993. Exxon replaced only 67% of its reserves last year, mainly because it took 5 Tcf of US natural gas off its books because of low prices.

Michelle Foss, chief economist for the Bureau of Economic Geology at the University of Texas, said Exxon would be a good operator for the Mozambique LNG project. "Exxon would be likely to bring a project in close to schedule and budget. They have the balance sheet and AAA credit rating."

The natural gas resources discovered to date in Area 4 and the adjacent Area 1 are sufficient to support development of LNG liquefaction and export facilities of at least 50 million tons per year (6.7 billion cubic feet per day).

Eni and Anadarko have previously disclosed plans to jointly build and operate common onshore LNG liquefaction facilities in Cabo Delgado province in northern Mozambique.

How soon construction might begin is uncertain. Neither company has taken a final investment decision on their share of the massive project which would carry a price tag in the tens of billions of dollars. Anadarko deferred a final decision that had been scheduled for 2015 until sometime this year (LNGI Dec.9'15). If it meets that goal, start-up would come in 2020.

According to former BG Group executive Martin Houston, the global LNG market may be oversupplied now, but it will need more product in the years after the turn of the decade. By then the global LNG market will have

absorbed all of the production from the current surge in output from new projects along the US Gulf Coast and in Australia (LNGI Mar.1'16).

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