

## Tanzania's LNG ambitions back on track

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The signing, in June, of a [framework agreement](#) between the Government of Tanzania and two oil and gas majors, Shell and Equinor (previously Statoil), is an important milestone in getting the east African country's much-delayed Liquefied Natural Gas (LNG) prospects back on track. Developments so far show how delicate the line is between 'resource nationalism' which spooks foreign investors and the conditions which enable a host country to obtain a fair deal from international companies.

Tanzania's gas discoveries since 2010 have been overshadowed by the bigger finds off northern Mozambique during the same period. But the resource, estimated at 57 trillion cubic feet (tcf) is the [fifth largest in Africa](#), ahead of the reserves of such well known producers as Libya and Angola. The discoveries came on top of an older and much smaller natural gas industry which is already being used to [generate electric power](#) in Tanzania.

The price of natural gas has surged since the Russian invasion of Ukraine in February. European countries are in the process of [massively reducing](#) reliance on piped Russian natural gas, which previously accounted for 40 percent of their supply, a development which has spurred a new interest in African gas reserves. Some estimates suggest Africa could be producing anything up to [30 billion cubic metres](#) (1 059 tcf) for the European market by the end of the decade. Other than the North African littoral, which is close enough for direct pipeline supply, this will be seaborne and will require the construction of liquification plants – known as LNG trains – in African supplier countries.

The plan, which has been on the table [since 2014](#), is to build a two-train 10 million tonnes per annum (MMtpa) on-shore facility at the town of Lindi in Tanzania's southern coastal region. The investment required is estimated at between US\$20 billion and US\$30 billion and initial expectations were that production would start in [2021 or 2022](#). The Bank of Tanzania estimated (in 2016) that the project would add [two percentage points](#) to the

country's GDP growth rate. Given the consequences for energy markets of events in the Ukraine in 2022, this would have been excellent timing. But the moment was missed.

Tanzania's fifth President, John Magufuli, elected in December 2015, set out to renegotiate the terms of engagement with foreign companies operating in Tanzania. This brought the blunt-spoken president, nicknamed 'the Bulldozer', into conflict with companies who had originally negotiated sweetheart deals when they entered the jurisdiction. Tanzania, with its history of African socialism (Ujamaa) and suspicion of international capital, needed to offer favourable taxation, revenue sharing and ownership guarantees in order to get companies to invest in the first place. President Magufuli sought to overturn these arrangements on the grounds that they worked to the disadvantage of the host country.

A battery of laws and decrees enacted in the 2015-17 period saw taxes hiked, a degree of local ownership made compulsory (through the Dar es Salaam Stock Exchange) and on-going interference with the operations and exports of especially international gold miner Barrick. Three laws [passed in 2017](#) allowed the government to renegotiate the terms of all resources contracts while the Public Private Partnership Amendment Act of 2018 [prohibited international arbitration](#). Not only did the national jurisdiction rapidly become less welcoming to foreign companies but specific engagements, like negotiations over Tanzania's gas industry became far more fraught.

In the gas sector, the original sticking point was the Magufuli government's determination to renegotiate existing Production Sharing Agreements in Tanzania's gas industry. Negotiations over a Host Country Agreement (HCA), scheduled to start in April 2019, were [suspended](#) while old contracts were reviewed. Negotiations between the oil and gas majors and the government of Tanzania effectively broke down. In January 2021, one of the main potential investors, Norway's Equinor, wrote down the book value of its investments in the country by US\$982 million, stating that the project 'was [not competitive within \(its\) portfolio](#)'.

Magufuli passed away unexpectedly in March 2021, only four months into his second five-year term of office. He was succeeded by the Vice President Samia Suluhu Hassan who moved rapidly to reverse the government's perceived hostility to foreign investors. A month after coming into office, in her inaugural speech at the Tanzanian Parliament, Hassan vowed to make the country more [investor friendly](#). Later that year she ordered the [reopening of negotiations](#) with the oil and gas majors.

The details of the Framework Agreement have not been made public. It has however been presented as the basis of a [Host Country Agreement](#) (HCA), which is the traditional mechanism for setting out legal, financial and commercial terms of a deal. While a HCA is an essential building block in the development of a LNG industry in Tanzania, it is a long way from a Final Investment Decision (FID) on the part of the international companies.

Predictions of the timing of a FID are speculation at this point. President Hassan has suggested 2025 as a possible date but international energy markets are looking anything but predictable in the medium to longer term. Other than actual construction, the biggest single activity between the enactment of an HCA and the announcement of a FID will be the securing of sale and purchase agreements with the countries which will be importing Tanzanian LNG. An FID in 2025 would suggest LNG production starting only in [2030](#) or so.

Variables which will affect this process include the global shift away from fossil fuels, which Shell's scenario planners suggest will peak in [2040](#), as well as competition from the US and Canada. These two countries account for [57.8 percent](#) of 'aspirational' liquification capacity, mostly from shale sources, according to the International Gas Union's 2022 Report. Perhaps it should also not be assumed that relations between Russia – which has [huge LNG ambitions](#) of its own – and 'the West' will remain hostile.

LNG may still be a game changer for Tanzania. But the country is going to have to be careful to walk the fine line between spooking foreign investors through resource nationalism and getting the best possible deal for local interests. President Hassan has made a promising start but there is still a long way to go and much uncertainty ahead.

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