Expiring Qatari contracts put Japanese buyers in control

This story is the third and last in a series investigating Qatar's changing LNG export strategy. All data is from LNG Edge.

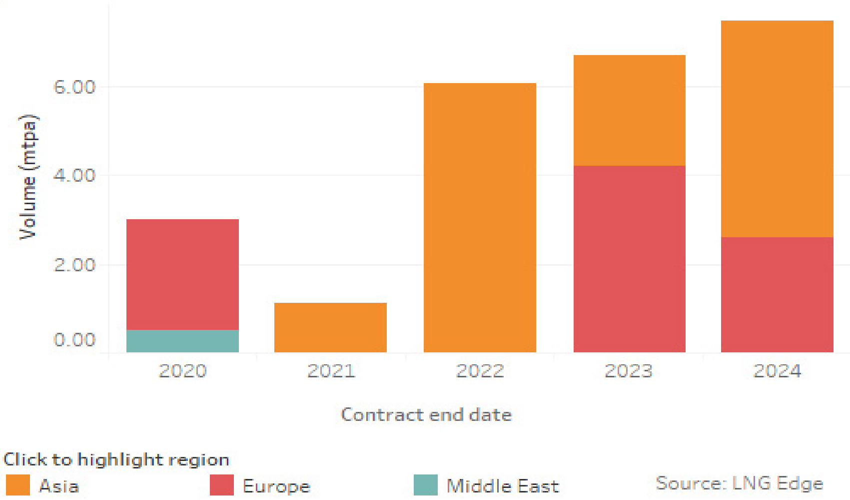
- Japanese companies dominate contracts expiring in 2020-22
- Qatar faces challenge to retain market share
- Analysts expect renewals but with lower prices and smaller volumes

Qatar's plans to expand its liquefaction capacity may protect the country's status as the world's leading supplier of LNG, but that dominance will not make it immune from fundamental changes in the market. From 2020-22, Qatari long-term supply contracts worth 10.2mtpa are set to expire, according to the LNG Edge contracts database, raising the prospect of negotiations on their renewal in what is increasingly a buyers' market.

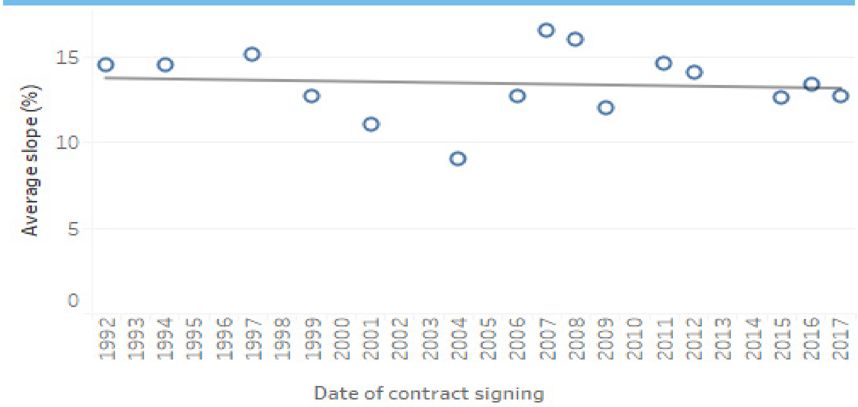
Of the 10.2mtpa set to expire, around 70% is with customers in Japan, Qatar's third-biggest customer after South Korea and China, based on 2018 flows data.

With Japanese LNG demand facing long-term structural decline due to a shrinking, ageing population and increasing energy efficiency, buyers are already looking for greater flexibility in their supply deals.

ASIAN BUYERS DOMINATE EXPIRING QATARI CONTRACTS



OIL INDEXATION ON A SLIPPERY SLOPE



JERA, the world's biggest buyer of LNG, has dropped destination clauses in some contracts, prompting fellow importers Tokyo Gas and Osaka Gas to also seek better terms.

SLIPPERY SLOPE

Renewing contracts with Japanese customers "must be one of the major issues on Qatar's to-do list", said one consultant, who asked not to be identified.

He saw two scenarios for the future of Chubu Electric's 4mtpa contract: "One is that the Japanese will only extend 1-1.5mtpa. The other is that they could renew around 4mtpa provided the slope [to oil] in the price formula is reduced from just over 14% to 11-11.5%. I tend to favour the latter."

Siamak Adibi, head of Middle East gas at consultancy FGE, said a slope of around 11% would be "competitive" and allow for the largest Japanese contracts to be renewed.

A slope of 11% would be in line with the downward trend across Qatari long-term supply contracts in recent years, which have fallen from highs of 16.5% in 2007 to 12.65% by 2017.

It is also the level at which Qatar is expected to finalise a 13-14-year deal with South Korean incumbent KOGAS in the coming months.

Qatar Petroleum did not respond to multiple requests for comment.

BIG IN JAPAN

Resisting price renegotiation may be risky if Qatar wants to keep its enviable market share. Arbitration proceedings have already begun between Japan's Osaka Gas and ExxonMobil's PNG LNG project in Papua New Guinea, after the two sides failed to agree a price reduction during a contract review.

"It seems exceedingly likely that more contract reviews will head to arbitration," said Justin Dargin, a Middle East energy expert at the University of Oxford.

"If Qatar does not agree to more contractual flexibility and lower prices, then Japan will still purchase from Qatar, but will seek to offset Qatar by importing from other sources."

There is no shortage of alternative sources on offer.

The US alone is expected to add 21m tonnes to the market from 2019 to 2020, increasing its exports by around 60%, according to the LNG Edge supply forecast.

Patrick Sykes

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