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Qatar LNG expansion further blow to future US exports



The Qatargas 4 LNG plant. (Shell)

Verity Ratcliffe /
London



QATAR PETROLEUM WILL increase Qatar's LNG production capacity to 110 mtpa via a fourth additional liquefaction train as part of its ongoing expansion project, the company announced on Wednesday. While the move is unlikely to affect the next round of United States LNG projects, greenfield developments that have yet to secure approvals could feel the strain – particularly as China intends to impose tariffs on imports of US LNG.

Having seen its share of the global LNG market slip from around one-third in 2015 to one-quarter currently, Qatar decided to act to defend its market share. QP said in July last year that it intended to raise its LNG output from 77 mtpa to 100 mtpa. Its more ambitious target suggests Qatar is committed to propping up its market share, which has been eroded by US producers among others.

Qatar's more aggressive target sends a signal to US developments that have yet to be approved by the Federal Energy Regulatory Commission and are already competing in a crowded market of projects that will soon be seeking finance and supply contracts. More competition from international LNG producers with lower production costs, such as Qatar, has worsened the odds of early-stage US greenfield projects proceeding.

China's plans to impose a 10% levy on US LNG exports, which it announced last week, also threatens to curb the swift growth of the US LNG market. China is important for the US, having been the third-largest market for US LNG behind Japan and Mexico in 2017.

More importantly, rapidly rising Chinese LNG demand – which grew by 42.3% last year – is coinciding with greater US output, presenting an opportunity for US LNG. But the trade spat between the two countries threatens the relationship. By contrast, Qatar is in an excellent position to take advantage of China's growing demand. It recently signed a contract doubling its exports to PetroChina, and more deals will almost certainly follow.

Low developments costs

For developers of new US LNG projects that have received all the approvals they need to proceed plus signed sales-and-purchase agreements, developments in Qatar and China are unlikely to affect their progress. Similarly, those being built on a modular basis will probably proceed with expansion projects as adding new phases is cheaper than building whole new projects.

Qatar will be able to add another train to its expansion project cheaply for the same reasons. "Our estimate of capex for the three megatrains previously announced was around \$24 billion, encompassing both the upstream and liquefaction components of the project. Qatar could probably add an additional train without significant additions to capex," said Giles Farrer, research director for global gas and LNG supply at Wood Mackenzie.

Lower development costs, which have yet to recover after the recent period of low oil prices, will also work in Qatar's favour. "[L]abour and equipment costs are much lower currently which makes it an opportune time for Qatar to invest in the capacity expansion," Justin Dargin, a Middle



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China National Offshore Oil Corp.'s Tianjin LNG terminal. (CNOOC Tianjin LNG)

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East energy expert at the University of Oxford, told *Interfax Natural Gas Daily*.

Oil price forecasts have been revised upwards, and the LNG market is anticipated to tighten in 4-5 years' time, which is all good news for Qatar. "[T]here is still a potential supply shortage on the horizon, by approximately 2022/2023," said Dargin. "[T]he planned capacity expansion by Qatar will likely take advantage of it."

US projects that are backed by QP may benefit from Qatar's stronger ambitions. QP's Golden Pass project, which it is developing with ExxonMobil, has yet to reach FID but will

Further reading

CHINA LNG

Reality bites as China imposes smaller US LNG tariffs

China's smaller-than-feared tariff on US LNG imports gives Beijing room to use the fuel as a weapon in the ongoing trade war.

GLOBAL LNG

Rising demand could see return of LNG megaprojects

A new wave of greenfield LNG projects is on the horizon, but the industry needs to keep costs and schedules under control.

proceed regardless of pricing obstacles. Qatar wants to develop international projects for flexibility, even if it could produce LNG more cheaply at home.

QP may invest in other US projects as it continues to roll out its international expansion. "We are also increasing our LNG supplies in other areas of the world," company Chief Executive Saad al-Kaabi said at the Gastech conference in Barcelona last week. "It is a very exciting time for the LNG industry." Qatar is in discussions with several partners to this end. ■

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Energy front-month futures, 27 September

	Close	% change
Brent Crude, \$/bbl	81.72	0.47
WTI Crude, \$/bbl	72.12	0.77
Henry Hub, \$/MMBtu	3.06	1.32
NBP, p/th	72.63	-3.33
TTE, €/MWh	27.58	-2.42
Gaspool, €/MWh	27.70	-2.05
NCG, €/MWh	27.51	-2.60
CSX Coal, \$/t	73.70	1.10
Newcastle Coal, \$/t	113.70	0.00
South China Coal, \$/t	78.60	0.00

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World watches as EU carbon reforms bring results

Reforms to the EU's carbon market have produced tangible results and should provide a boost for similar plans elsewhere.