Qatar Looks To Adapt Amid Shifting Global LNG Landscape

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Qatar appears close to finalizing a 15-year LNG supply contract with new importer Pakistan. For Qatar, the deal, with its relatively low price, is another step towards diversifying its LNG export portfolio amid increased competition.

Qatargas will supply Pakistan with 3mn tons/year of LNG – around 2.2 bcm/year of gas – from March in a deal estimated at around $22bn. The LNG will be imported via a floating storage regasification unit in the Port of Qasim, near Karachi on the Arabian Sea.

Pakistan has suffered chronic gas shortages and power cuts due to gas demand outstripping domestic production. Gas accounted for almost half of Pakistan's power generation mix in 2013. Pakistan expects LNG imports to rise to around 7mn t/y within three years, with plans to develop another import facility.

The FSRU project is being carried out by a joint venture between Pakistani conglomerate Engro and Dutch firm Royal Vopak. The JV has joined forces with US-based Excelerate Energy which is providing the floating unit, which has the capacity to handle 3.5mn t/y of LNG with 151,000m^3 storage.

THE 'NOT IRAN' OPTION

The FSRU, a cheaper and quicker solution for Pakistan, was brought forward following the controversy around the onshore, Mashal LNG gas import project initially awarded to Dutch 4Gas, and then cancelled by the Supreme Court. The project also has a geopolitical importance for Pakistani relations with the US as it is seen as an alternative to imports of pipeline gas from Iran (MEES, 28 February 2014). With a potential easing of international relations with Tehran, Qatar also seems to be preparing the ground for potential competition with its neighbor in the longer term.

LOWER FIXED PRICES; A SIGN OF THINGS TO COME?

Qatar will supply the LNG under a pricing formula giving an outright price of around $7/mn BTU, a relatively low price when compared with typical contract prices paid by key buyers in East Asia. Even with recent months' slide in oil prices, Asian oil-indexed LNG contract prices are likely to bottom out at around $9/mn BTU around May.

In this context, Pakistan appears to have struck a good deal, especially considering Qatar's reputation of tough negotiations when it comes to price – the FSRU scheme is understood to have been delayed in the past year because the Qatari side was asking for a higher oil slope.

FLEXIBLE PRICING

While the latest deal is for a relatively small amount of LNG, with the emergence of new suppliers in the global LNG industry, the deal may reflect Qatar adapting to increased competition. "What Qatar is attempting to do is to lock up as many long-term contracts as possible even if they are for small amounts. They also seem to be showing more flexibility with pricing," said Justin Dargin, Middle East energy expert from Oxford University.

By the end of the decade, Australia will become the world's largest LNG producer with its production capacity projected to reach 85mn t/y. This will outstrip Qatar's current production of 77mn t/y. In addition, the United States is on the way to becoming a major exporter, potentially followed by East Africa beyond 2020.

"We are getting into a buyers' market, not in the sense that lots of LNG is flooding the market and depressing prices, but in the sense that… there's a lot more potential sellers out there than buyers. The buyers can hold off another two or three years before they start thinking about making more commitments," an LNG expert tells MEES.

BP: US, AUSTRALIA, AFRICA TO ECLIPSE QATAR

In its latest Energy Outlook 2035, BP projects LNG supply will grow by the equivalent of 48bn cfd of gas by 2035, with Australia (16bn cfd) and the US (14bn cfd) each contributing around a third of that increase. African LNG supply, primarily from East Africa, is projected to rise by 12bn cfd. "As a result, Qatar, which has the largest market share today, is overtaken by Australia (24% share of the market by 2035), Africa (21%), and the US (18%)," BP says.

Asia will remain the largest destination for LNG by 2035, BP says, with its share in global LNG demand remaining above 70%. "By 2035, China becomes the second largest LNG importer (12bn cfd), just behind Japan (13bn cfd)," BP said.

CHINA A TOUGH SELL POST-RUSSIA PIPELINE DEAL

Last year's Russia-China deal for the latter to import 38 bcm/y of Siberian pipeline gas from 2018 – with a view to later expansion to 60 bcm/y – is another factor placing more pressure on LNG producers such as Qatar.

While the additional gas will at least in part displace coal as a power generation fuel in northern China, it will also likely weigh on demand for LNG, Professor Keun-Wook Paik, senior research fellow at the Oxford Institute for Energy Studies (OIES) says. Pipeline gas will become the driving force to reduce the LNG premium. China will become the battleground between US and Australian LNG. In [northern China] there will be a much cheaper price from Russia, so it will be hard for Qatar and new entrants to compete, he told London's IP Week Conference earlier this month.

EXPORT DIVERSIFICATION…

Most Qatari LNG went to Asia in 2013, to Japan (21.8bcm), Korea (18.3bcm), India (15.3bcm) and China (9.2bcm), according to BP statistics. Exports to Europe are expected to have increased significantly in 2014 – compared with 23.4bcm in 2013 – due to low demand in Asia and increased supplies in Asia Pacific.

State-owned Qatargas and Rasgas will see some of their long-term contracts with Japan and South Korea end around 2022 and 2024. Most are expected to be renewed as Qatar is generally seen as a reliable supplier.

But amid perceptions that buyers have gained more bargaining power, the challenge for Qatar is to adjust to price fluctuations and an increasingly liquid and flexible LNG market. In this context, diversifying exports by building relationships with new importers has become key. The deal with Pakistan, for whom Qatari LNG will constitute its first foreign gas imports, is a prime example.

…THAILAND…

In Thailand, Qatargas 3 has also started supplying Thailand's PTT under a twenty-year contract starting from this year following an LNG sales and purchase agreement inked in 2012. Thailand became Southeast Asia's first LNG importer in 2011, with Qatar providing most of the LNG volumes. Qatargas delivered 27 spot cargoes to the 5mn t/y Map Ta Phut LNG receiving terminal which is able to accommodate the giant Qatari Q-Flex vessels. With plans to double the facility's capacity to 10mn t/y, it will be able to receive Q-max vessels in the future.

…POLAND…

In Europe, state-owned Qatargas signed a deal with Polish state-owned oil and gas supplier PGNiG in 2009 to supply LNG equivalent to 1.5 bcm/y of gas to Poland's Swinoujscie import terminal with the aim of reducing the country's dependence on Russian gas. This didn't come without risks, however.

The project has suffered considerable delays. Originally scheduled for completion in mid-2014, the terminal is now expected to start operations in the first half of 2015. This has forced the two parties to change the terms of the supply contract in December 2014, whereby Qatargas will be allowed to sell the LNG initially committed to PGNiG in 2015 to other countries, with PGNiG covering for any difference if necessary. The settlement also means PGNiG would not have to pay any take-or-pay fine.

…GREECE?

Qatar has also expressed interest in recent years in getting involved in the development of an LNG terminal in Greece, although nothing has materialized yet. This would help transform supply patterns in southern and central Europe by reducing reliance on Russian gas for countries such as Bulgaria.

In the US, investment in the Golden Pass LNG export project – a joint venture between Qatar Petroleum, ExxonMobil and ConocoPhillips (MEES, 28 November 2014) – will allow the Qataris to offer some Henry Hub indexation to its customers and act as a swing supplier between Europe and Asia. However, like other US LNG projects, Golden Pass could be exposed to delays, as the uncertain oil price outlook means few consumers will want to commit to new supplies in the near term.

Qatar Hydrocarbons Sector In Temporary Lull

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Qatar Hydrocarbons Sector In Temporary Lull
With the moratorium still in place, there are no plans to boost gas and LNG production in Qatar, with attention focused more in sectors like the downstream industry.

The International Energy Agency (IEA), in its latest Medium Term Oil Market Report, released earlier this month, says it expects condensate, natural gas liquids and nonconventional capacity – mostly from the giant North Field – to increase by 80,000 b/d to just above 1.25mn b/d by 2020. Rasgas' $10.3bn Barzan project will be the last big project to come online this year, adding 50,000 b/d to condensate capacity.

Qatar's crude output peaked at 860,000 b/d in early 2008 and has been on a downward trend ever since. Developing Qatar's oil fields is expensive due to a complex geology. The IEA expects Qatar's crude oil production to remain broadly stable between now and 2020, at around 730,000 b/d. Raising capacity beyond this level "may prove prohibitively expensive in the current low price environment," the IEA says.

Qatar Petroleum has been planning to redevelop the ageing onshore Dukhan field and double production capacity at the offshore Bul Hanine field to 90,000 b/d, at an estimated cost of $11bn. This would cover the redevelopment of the ageing infrastructure and the construction of offshore central processing facilities. Denmark's Maersk Oil is also working on maintaining capacity at the 300,000 b/d al-Shaheen field through a two-year rehabilitation program that began in 2013, according to the IEA. Similarly, US firm Occidental Petroleum is aiming to maintain current capacity levels at the 100,000 b/d Idd al-Shargi field, though development works are high-cost.

Given the dominance of gas in the Qatari hydrocarbons sector, its immediate exposure to the fall in oil prices is less severe than that of other Gulf nations. It is not immune to spending cuts, however. Last month, the country scrapped both its key petrochemical expansion projects totaling $12.5bn, the Al-Sejeel ethylene glycol project at Ras Laffan, and at Al-Karaana (MEES, 16 January). Qatar now only has a 400,000 t/y ethylene plant expansion under way, and due onstream in 2016. It will require just under 40mn cfd of gas.

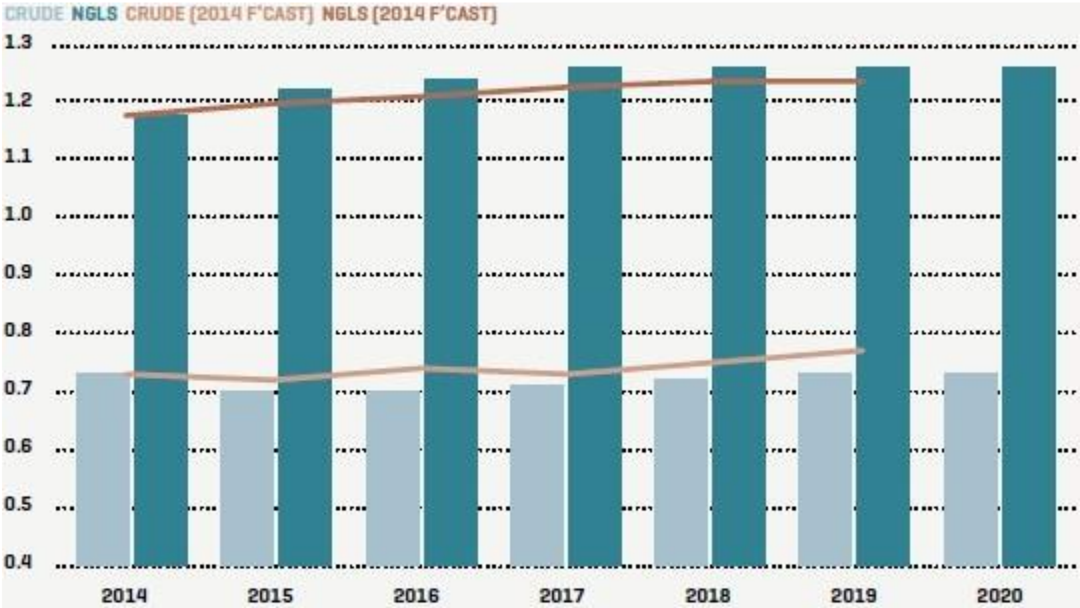
Oxford University energy expert Justin Dargin thinks this is a temporary trend due to the current price environment. The petrochemical sector remains key in Qatar's economic diversification effort, he argues. "Petrochemicals could offer a bit more revenue stability from the Qatari perspective. But the petrochemical sector is a bit problematic in itself because of projected investment of around $80bn in the US petchems sector," Dargin says. "Aluminum smelting is another sector they're looking at, and to a lesser extent fertilizers and cement production," he adds.

Qatar's planning ministry expects nonhydrocarbon activities (somewhat misleadingly, this includes petrochemicals) to drive economic growth in the coming years. "By 2015 the non-hydrocarbon sector will account for more than half of nominal GDP, with its share rising further in 2016," it says in its recently-released economic outlook report for 2014-16.

The ministry predicts that Qatar's GDP growth will top 7% for both 2015 and 2016, after posting 6.3% growth for 2014.

Hydrocarbon output, having contracted by 1.8% in 2014, will rise slightly this year —by 0.3%—as the rising gas production from Barzan more than offsets the expected decline in oil output. The ministry says this increase will be temporary though, tapering off in 2016, as oil production continues to decline at a higher rate.

QATAR'S CRUDE AND NGLs OUTPUT: LATEST IEA FORECASTS (MN B/D)



CRUDE NGLS CRUDE (2014 F'CAST) NGLS (2014 F'CAST)
1.3
1.2
1.1
1.0
0.9
0.8
0.7
0.6
0.5
0.4
2014
2015
2016
2017
2018
2019
2020