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Argus Insight: **LNG supply**

A new era for Middle East LNG suppliers?

Qatar and other Middle Eastern LNG producers are seeking to boost their capacities at a time when the world is scrambling for LNG. This follows underinvestment in production facilities during the Covid-19 pandemic, and comes as Russia's invasion in Ukraine has sent Europe's diversification quest into overdrive. Could changing regional demand balances, as well as competition from newer exporters such as the US, provide scope for a shift in commercial strategies?

Reassessing routes

"It's always nice to be wanted," Qatar's energy minister, Saad Sherida al-Kaabi, said in a televised interview in March. At the time, European countries had started to scramble for LNG supplies as the much-feared halt to Russian gas flows had suddenly become a more concrete possibility.

The Qatari minister, however, had to temper European buyers' expectations. His country's gas production capacity is not sufficient to meet European requirements at present, although it could in the future. "We want to diversify our customers too," he said, outlining plans to split the country's supplies broadly equally between the Atlantic and Pacific basins.

Achieving such a balance would require a decisive westward shift in commercial strategy. Some 80-85pc of Qatar's LNG production — or 62mn-65mn t/yr, based on its nameplate production capacity of 77mn t/yr — is at present tied to Asia-Pacific markets. A 50:50 split would therefore require all of the additional output from the country's planned capacity expansions to be sold on European markets.

While the growing clamour for LNG in Europe and signs of slower demand in the Pacific provide scope for some redirection in flows, the scale suggested by al-Kaabi's comments is hard to envisage. In the Atlantic, Qatar faces competition from the US, which has recently risen to the rank of the world's top LNG producer. But it is much closer than the US to Asian markets — which still account for around three quarters of global LNG demand, and have been widely expected to account for the bulk of demand growth over the coming decades. The commercial strategies that Qatar adopts in marketing the additional supplies that it is gearing up to produce will be a key factor in how the LNG market develops in the coming years.

Qatar looked east as US emerged

Halfway between Europe and Asia, the country previously played a role as a swing supplier, banking on the flexible supply contracts that it holds mainly with European buyers. Historically, Europe played the role of "sink market", absorbing cargoes when there was no more profitable destination, but never really made LNG a staple of its supply mix.

But the US' swift rise to being the world's largest LNG supplier, coupled with an uncertain demand outlook in Europe as the continent steps up its net zero ambitions, probably switched Qatar's focus towards sounder demand prospects in Asia. In recent years, the country has signed a raft of long-term supply contracts with Asian firms. Many of these came into force at the start of 2022 — and because their combined volume exceeded that of the older deals that expired at the end of last year, Qatar has been left with fewer cargoes to sell on a spot basis or under flexible contracts *(see table)*.

At the turn of the year, Europe was already well into a difficult winter, grappling with low underground storage levels after slow Russian pipeline flows and global competition to secure

New Qatari LNG offtake deals			*mn t/yr*
Supplier	**Buyer**	**Delivery period**	**Amount**
QP	CNOOC	Sep 21	3.5
QP	CPC	Jul 21	1.25
QP	Shell (for China)	Jun 21	1.0
QP	Sinopec	Mar 21	2.0
QP	PSO	Feb 21	3.0
QP	Pavilion	Nov 20	1.8
QP	KPC	Jan 20	3.0

LNG cargoes resulted in insufficient restocking during the summer months. European prices had already climbed to an unusual premium to Asian markets since early December, triggering a reversal of flows away from Asia and towards Europe.

Yet Qatari flows hardly changed, suggesting that the country had less flexibility to respond to price fluctuations and spikes in European gas prices. The share of Qatari supply heading to the Atlantic actually shrank to 17pc in January-February 2022 — from around 22pc in the fourth quarter of last year and the 2021 average of 24pc, shiptracking data from analytics firm Vortexa show.

That said, some redirection of flows westwards took place following Russia's 24 February invasion of Ukraine, with Atlantic basin markets receiving around 26pc of Qatari supply loaded in March-April.

The Qatari minister said his country had made a commitment to its European partners that, out of solidarity, it would not redirect cargoes tied to flexible contracts away from Europe, even if there were a financial incentive to do so.

But this may have been made possible by some of its Asian customers exercising downward volume flexibility in their contracts as downstream demand within the region slowed, largely because of regional lockdowns implemented in China under the country's zero-Covid policy.

European demand prospects could prompt Qatar rethink

After 24 February, Europe was quick to talk up an end to its dependence on Russian pipeline gas, and on an accelerated timeline. Long-neglected plans to build more LNG import capacity were swiftly revived, and more brand new projects sprang up.

Crucially, Europe has been in the market hunting for long-term deals to tie to new and existing LNG projects — a significant shift from the recent past, when uncertainties over the regulatory framework and the future role of gas in the supply mix made the region's buyers reluctant to sign more long-term contracts.

In search of readily available supply, Europe has aimed to lock in uncommitted volumes from the US, which could be poised to become a "base-load" supplier to European markets. Frequent congestion at the Panama Canal has incentivised US producers to target European and Latin American buyers instead of Asian ones, and firms might be keen to cement such ties. The US' proximity to Europe — with no requirement to cross the Panama or Suez canals, cutting shipping times and costs, along with 190mn t/yr of supply planned to come on stream in the coming years — fits the bill for reliability.

This unforeseen shift in the future of Europe's LNG demand and supply mix could create more opportunities for Qatar as well, with ample new supply to stem from its expansion project at Ras Laffan. The terminal's capacity is scheduled to increase to 110mn t/yr by 2025, and further to 126mn t/yr by 2027, from 77mn t/yr at present. Qatar has not ruled out increasing capacity beyond 2027.

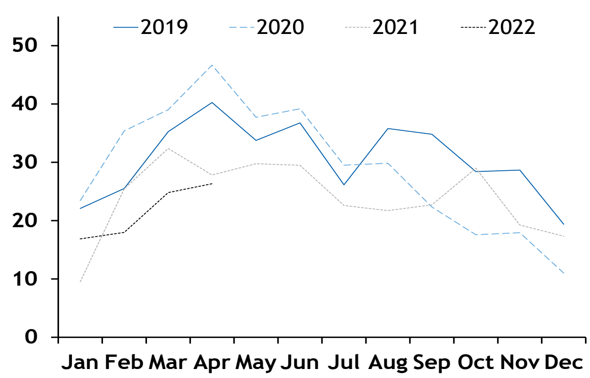
Much of the extra volumes could still be up for grabs. Agreed long-term deals stand at 80.65mn t/yr at present, including 13.7mn t/yr that took force at the start of this year. This is set to rise to 83.45mn t/yr in 2023, then fall to 80.25mn t/yr in 2024, as some existing deals expire, and again to 76mn t/yr in 2025, when overall export capacity would be 93.5mn t/yr after new trains start up at Ras Laffan.

More volumes could come from the planned Golden Pass export facility, in which Qatar Energy holds a 70pc stake. Operations at the 16mn t/yr project are scheduled to start in 2024 and expand to 18.1mn t/yr by 2026. Leading up to 2030, more volumes will be available from expiring contracts and new production.

But could the turmoil in the global market prompt QatarEnergy to reconsider its stance on flexible LNG contracts?

The firm previously said it wants to secure long-term contracts for 90pc of the additional output, leaving about 10pc for spot

Atlantic basin share of Qatari exports *pc*



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sales. It may opt for more flexible agreements, such as some that it already has in place with European buyers, in which the buyers have agreed to absorb the contractual volume but the supplier has no obligation to deliver it. But European buyers may have less appetite for such terms than they had in the past.

It could also sell more volumes on a fob basis — a move it was probably not considering before. In 2020, QatarEnergy booked swathes of shipyard capacity at South Korea's three main LNG shipbuilders, as well as at China's Hudong-Zhonghua — but it is unclear how many LNG carriers the firm has signed up for.

Other Middle East suppliers could play crucial role

Fellow Middle Eastern producers Oman and the UAE may also have scope to adjust their role in the global LNG market going forward, with most of their contracts set to expire in the next few years and with both planning capacity expansions.

The vast majority of Omani volumes are also tied to long-term contracts with Asian buyers. Spanish firm Naturgy's 1.65mn t/yr contract — which it took over last year from Union Fenosa Gas, its joint-venture with Italian firm Eni — is technically aimed at the Spanish market but has destination flexibility, which allowed the whole contractual volume to be diverted to Asian markets in recent years. Spain received its first Omani cargo in seven years in January. But portfolio players such as BP have recently secured some offtake from Oman.

Debottlenecking at the country's 10.4mn t/yr Qalhat export facility was already expected to boost production capacity by 1.5mn t/yr by the end of 2021. And more Omani supply could become available later in the decade, with all the country's long-term contracts set to expire in 2024-26 *(see table)*.

By contrast, Adnoc LNG may have more volumes to market in the short term. The company, which operates the the 5.6mn t/yr Das Island export terminal, signed a spate of short-term contracts with several customers once its long-standing 4.3mn t/yr contract with Japanese utility Jera — originally signed in 1977 by Tepco, which merged with fellow Japanese utility Chubu Electric to form Jera in 2015 — came to an end in March 2019. Most of these contracts were set to expire this year, with only 1.8mn t/yr of post-2022 volumes committed to trading firm Vitol.

The company recently touted plans to build a 9.6mn t/yr liquefaction facility in Fujairah on the UAE's east coast. But the project is in its early stages, with the firm having issued a tender for construction services only in late February. It also mentioned plans last year to lift export capacity to 12mn t/yr as part of its New Energies Strategy, underpinned in part by gas developments slated to produce 3bn ft³/d (31bn m³/yr).

Oman LNG contracted supply		*mn t/yr*
Company	**Volume**	**Expiry date**
Contracts with Oman LNG		
Kogas	4.1	2024
Osaka Gas	0.66	2024
Itochu	0.7	2025
BP Singapore	1.1	2024
Contracts with Qalhat LNG (subsequently merged with Oman LNG)		
BP	0.4*	na
Mitsui	0.4*	na
Osaka Gas	0.8	2026
Naturgy (originally signed by Union Fenosa Gas)	1.65	2026

**the two contracts replaced an 800,000 t/yr deal with Mitsubishi, which expired at the end of 2020*

The production ramp-up in Qatar, Oman and the UAE could bolster the Middle East's role in the global market, particularly as other potential swing suppliers have stumbled. The emergence of Mozambique as a large LNG exporter appears more uncertain, with the timeline of TotalEnergies' much-touted 13.1mn t/yr Mozambique project thwarted by delays caused by security issues in the country. The firm had targeted to start exports in 2024, but works halted following militant group attacks in 2020 and have yet to resume. The 15.2mn t/yr Rovuma LNG project is not expected to reach a final investment decision before 2024.

The future of Russia's planned Arctic LNG 2 project is also in doubt. The large-scale facility may be delayed by sanctions blocking involvement in the project following Russia's invasion of Ukraine. Even if the project continues as planned, its ability to add to the supply pool could be dampened by sanctions on Russian gas.

With Russia's stake in the European energy mix set to come to an abrupt end, Europe will need to look elsewhere for gas supply. Middle East producers could seize the opportunity to forge a new strategic partnership, or open up to new opportunities in a more dynamic global market.

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