Qatar and the prospects for the gas market

Many experts are increasingly talking about the beginning of a third world war, which, given the current environment, it is referred to as gas war. And to this they refer to the failure of the three-party talks between Kiev-Moscow-Brussels on the transition of Ukraine to a prepaid system for the supply of gas; the mutual claims to the international court and the very disturbing fate for the transit of gas to Europe. And thus, the energy war between Russia and Europe began. Announcing the gas supplies to Ukraine only prepaid, Moscow actually announced the termination of deliveries to Ukraine of the “blue fuel”. The Old World is rather easy to push into a panic: Ukrainian gas storage facilities are half-empty and if they are not filled, the gas shortage in the EU will become apparent when the first cold snap of autumn sets in.

It is quite clear that under these conditions, European countries would like to reduce their energy dependence on Russia and would prefer to resort to the following sources for their supply: to LNG of Qatar and countries such as Norway, Egypt and the United States. For example, the Hungarian President, János Áder said that the countries of the “Visegrad Four” (Poland, Hungary, Czech Republic and Slovakia) are going to import LNG from Qatar in order to reduce dependence on supplies of the “blue fuel” from Russia, for which Central Europe depends on the average 80% of its supply.

Under these conditions, more and more attention on the world market is given to the situation in the Qatar gas industry and its ability to increase the supply of “blue fuel” to Europe, where, until recently, "Gazprom" occupied the dominant position. But by some remarkable coincidence of geological circumstance, the small state of Qatar on the Persian Gulf has the world’s third largest natural gas reserves, concentrated in addition in traditional fields. Qatar, as we know, is a producer of oil and especially gas which provides for more than 50% of its GDP, 85% of exports and 70% of the state budget. Oil and Gas (Arabs consider it a gift of God) made this small emirate first country in the world in per capita GDP, exceeding 100 thousand dollars.

It may be added that the annual population growth rate, which demonstrates to the country, the potential up to 2015 to maintain its leading position according to this indicator not only among Persian Gulf states, but throughout the world; such a forecast is contained in the report published by the United Nations Fund (UNFPA). According to experts, the next two years the population of Qatar will increase on average by 5.9 percent.

The Qatari Emir has repeatedly stated that Qatar is able to compensate for the loss of Russian supply of gas to Europe. Not surprisingly, most of the world’s media commented on these statements with the sensational headline, “Qatar is already prepared to replace Russia in the European gas market”, pointing to a significant dependence by European on Russian energy. Indeed, for example, only Germany currently imports 20% of Russian coal, 34% oil and 31% natural gas; and for that they pay each year 33 billion Euros. Dependence of other European countries is not so significant, but these countries widely use Russian energy resources.

It should be noted that for Qatar and Russia, they face the same problems associated with shale gas output in the United States. However, as the Qatars say themselves, the emirate is not going to reduce the volumes of natural gas to Europe and Asia, despite the forecasts of the emergence in these markets cheap American shale gas, but one can draw their own useful conclusions. Nevertheless, Qatar’s energy strategy has undergone remarkably little change, and that, in particular, is evidence that the expected changes emerging out of “shale gas revolution” may indeed be
not all that great.

The particular feature of Qatar is that it currently does not have pipelines and is completely focused on the production of liquefied natural gas (LNG). The country currently exports officially about 80 million tons of LNG; achieving this with the world’s largest fleet of specialized vessels, the flagships of which are the type of gas carriers Q-max (270 thousand tons of LNG) and Q-flex. Thanks to this, the emirate does not depend on transit countries and are capable of deliver gas supplies to any point on the planet. Hence the vast geography of delivery around the globe, including to countries such as the United States, South America (Argentina, Brazil), Europe and to Asia (China, India, Pakistan, Japan, South Korea, Malaysia). Qatar builds terminals or is involved in their construction for acceptance of its LNG around the world, from the Adriatic to Belgium, from the U.S. Gulf Coast to the UK.

Connected to this, the emirate has recently signed a number of long-term highly profitable contracts for the export of liquefied natural gas (LNG). For example, the Japanese energy company Tohoku Electric has just signed an agreement for the supply of liquefied natural gas from Qatar’s Qatargas 3 project for 15 years, beginning in 2016, the agency Platts communicated. Under the terms of the agreement, Tohoku Electric will import 60-90 million tons of LNG per year in the period from 2016-2018, and 180 thousand tons in the period from 2019-2030 years. Besides that, since 1999 Tohoku Electric has been purchasing about 520 thousand tons of LNG from another Qatari project; the term of that agreement on delivery runs for 22 years.

It should be said that the project Qatargas 3 includes a liquefied petroleum gas plant which has been operational since November 2010 with a capacity of 7.8 million tons per year. LNG is transported to other markets with the assistance of ten ships with the carrying volume of 210-266 thousand tons each. Participants in the project are Qatar Petroleum (68.5%), Conoco Phillips (30%) and Mitsui & Co. Ltd (1.5%).

In addition, Qatar is close to signing an agreement with Pakistan on an annual supply of about 3.5 million tons of liquefied natural gas. Supplies worth up to 2.5 billion dollars a year are to begin in 2015. Currently, Pakistani demand for “blue fuel” is 226.5 million cubic meters per day, which is twice the volume of gas produced in the country.

In this regard, Qatar for several years now is the main rival of the Russia’s Gazprom, often supplying LNG to Russia’s traditional markets in the EU, Italy for example. It is Gazprom’s main competitor in Asian markets, creating competition for Russian LNG from Sakhalin and the Far East. With this Doha can practice dumping, complicating the situation for Gazprom to maintain high gas prices at their current levels. For example, a number of European companies require a revision of the price of Russian gas lower, capitalizing on Qatari LNG.

Together with the Qatars, Europe begins the tentative attempts to establish a system for the supply of LNG, but that is not so easy. According to Hungarian President, János Áder, Qatari liquefied gas will be imported to Europe through the new infrastructure, which is in the process of being realized. “Blue fuel” will be transported from the Persian Gulf to Italy.

Other support in terms of the implementation of the President of Hungary’s plan should become the use of regasifier currently being built on the Croatian island of Krk. In accordance with the draft proposal of the EU, there liquefied gas will be transported to Hungary, the Czech Republic, Slovakia and Poland along a “North-South” corridor. At the same time, in Swinoujscie, Poland the construction of the first liquefied gas terminal is underway. Croatian President Ivo Josipovic said that due to the political stability in Croatia, it can play an important role in ensuring energy security in Europe by providing an opportunity to diversify Europe’s gas supply. Another possibility in the plan to diversify Central European gas supplies is associated with the construction of a regasifier in Klaipeda, Lithuania. The Lithuanian government intends to import liquefied natural gas not only from Qatar, but also from Norway, Egypt and the United States.

But not everything is that simple, and the task to replace Russian energy resources with, for example, Qatari resources is extremely complex and requires considerable time and huge financial resources. First of all, Europe needs not to plan, but to already have in place operational LNG terminals. And that pleasure does not come cheaply, and today, when the European economy is not in good shape, the question is who will take pay for all these associated costs? Qatar on its own cannot do it. In addition, these terminals will be built on European soil, and if at some point Europe, for whatever reason refuses to import Qatari LNG, the emirate will suffer huge losses.

Specialists remark that, at this point, no one vendor from a third country can quickly replace Gazprom in the European market. Helge Lund, the head of the Norwegian company Statoil, admitted honestly that his company cannot “replace supplies from Russia”, although, of course, in the short term, if required, could for a brief period
slightly increase exports to the EU (remember, Norway is not a member EU). Unable to do that is Qatar, in so much as the available capacity in the EU for LNG is completely full and to create new capacity takes time; we are talking about years, not weeks. The situation is similar with U.S. promises to help European allies with liquefied shale gas. In theory it is possible, but in practice simply not technically possible to “unload” in Europe.

It is likely that the statements of the Qatari Sheikh will hasten the leaders of Russia, and especially of Gazprom, to establish with Qatar a joint “gas policy” on the world stage. In addition to this there is an appropriate international body, the Forum of Gas Exporting Countries (GECF), whose headquarters are located in Doha and its Secretary General is the Russian representative, Leonid Bokhanovsoki. This international organization brings together those countries controlling 73 percent of the world’s gas reserves, providing 42 percent of its global production. And if you are able to carry out a well-balanced policy, then there is no conflict and no need to resort to lower prices, but to use GECF in order to establish a fair allocation mechanism between a world gas markets.

And for this there are favorable conditions. After the successful march of the terrorist organization, the Islamic State of Iraq and Syria, ISIS, in Iraq the price of “black gold” rose by almost 5 dollars per barrel, and a corresponding hike in the price of gas, which is calculated on the basis of oil. Given the high prices, as we know, it is easier to negotiate and make joint decisions for the future.

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