The Expansion of Qatari Liquefied Natural Gas and Russia

Recently, amid reports concerning the supposed significant expansion of Qatar’s liquefied natural gas (LNG) on world markets, a variety of predictions about the consequences of this expansion for the Russian company Gazprom have been made by international experts. However, what is really taking place here in actual fact?

The traditional consumers of Qatari LNG are Asian countries, which are constantly increasing their volume of purchases. This is understandable both geographically and strategically. Firstly, the emirate can very quickly deliver LNG to Asia, and secondly, the need for energy in many countries of the region is very high. However, recent growth has clearly been observed in Qatar’s exports to Europe, including the United Kingdom (the leader among all importers of LNG from Qatar), Italy, France, Belgium and Spain.

According to statistics, more than a quarter of the liquefied natural gas consumed by the European Union is delivered from Qatar. The construction of an LNG terminal in Poland has begun. By 2014 (possibly earlier), the company Qatargas will annually deliver 1 million tons of gas to the terminal, with the prospect of further increases in exports in 2017-2018. Negotiations on the supply of Qatari LNG to the Baltic States, Belarus and Ukraine are under way.

It would appear that the growth of Qatar's fuel supplies to these markets could create difficulties for Gazprom, as Europe is a major consumer of Russian gas. However, according to former Russian energy minister Sergei Shmatko, the emirate will not significantly increase exports to this sector in the medium term. Nonetheless, the minister stressed the absence of any obligations of the parties in this regard.

In turn, Qatar insists that its export policy is based on long-term contracts and on linking gas prices to oil prices. Based on its own economic interests, the monarchy can vary the supply destinations and the cost, depending on the current demand from a particular market.

It should be noted that the present value of Qatari gas to Europe is quite inflated. Its volume is reducing the competitiveness of Russian fuel commodities, but not yet to a great extent.

According to a report by experts at the National Bank of Qatar, by 2014, the emirate will reduce spot LNG supplies by at least 40 percent, primarily due to lower export volumes to the European sector. This will be due to the fact that Qatar has signed long-term contracts for the supply of natural gas to countries in Asia and South America, the completion of which will require large amounts of fuel commodities.

As a result of the projected decrease in the export of Qatari LNG to European markets there will be an increase in demand. Moreover, experts at Russia's Gazprom predict that the long-term dynamic of a growing gap between Europe's own gas production and its consumption will open up new opportunities for imports, including from Russia.
At the same time, in the future we should expect a strengthening of the European Union’s dependence on gas exporters. Europe has the opportunity to diversify suppliers, relying on an increased use of Qatari LNG, which over time could minimize the volume of Gazprom's exports to European markets.

Apparently, as a result of increased production of LPG due to the lifting of the moratorium on the further development of Qatar's North Field (North Dome) after 2014, and also due to the introduction of new re-gasification capacity in Europe, the emirate will more actively target this market, which would much more seriously affect the interests of Russian business.

Russian gas analysts believe that in the coming years, Qatar will provide Europe with an additional 50 billion cubic meters of gas per year, which is 5 percent of the EU gas market. If that happens, the following scenario is quite possible: Russia drops the price of its fuel a little, but increases its export volumes, and then things will become more difficult for Qatar.

For example, in 2011-2012, Gazprom reached an agreement with European consumers concerning the adjustment of pricing terms. As a result, the contract price formula of petroleum indexed products was modified, which greatly contributed to maintaining the competitiveness of Russian natural gas to European markets. Moreover, despite a more than 9 percent reduction in gas consumption in Gazprom's key export markets, European buyers acquired 150 billion cubic meters of Russian natural gas, which was 8.2 percent higher than was acquired in 2010's contracts.

It is worth noting that Gazprom is an active participant in not only long trades, but also in gas spot trading on markets in the United Kingdom, Belgium, France and the Netherlands, selling both Russian fuel commodities as well as volumes purchased in Europe.

Gazprom specialists predict that the company's share in the European market could rise from its current quarter to a third of European consumption in 2030.

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