Qatar is Advancing in the LNG Battle

In the circumstances when oil prices are dropping, some countries, including Russia, Iran and Qatar, are staking on gas in an attempt to balance their budgets. But if Russia supplies natural gas mainly through gas pipelines, Qatar leads the world in the export of liquefied natural gas (LNG).

Qatar, having being continuously increasing its presence on the LNG market, is now coming forward as one of the global leaders successfully competing with other gas suppliers. Europe is among Qatar’s “preferred customers,” and Sheikh Tamim bin Hamad Al Thani, Emir of Qatar, is putting in a great deal of effort to step up economic cooperation and establish amicable relations with European countries. Admittedly, his efforts are paying off. German RWE Supply & Trading GmbH (RWEST) and Qatari Qatargas signed an agreement for the supply of 1.1 million tons of liquefied natural gas to Europe. According to Reuters, the contract will be in effect for 7.5 years. Though the financial details of the deal are kept in secret, the information about the volume and price of the contract has been made public. This is just one example of cooperation between Europe and Qatar.

Daily Herald reported with reference to The Associated Press that another major Qatari company engaged in the production of LNG RasGas entered into an agreement with French EDF on the supply of 2 million tons of fuel annually to Dunkirk (France). Liquefied natural gas is already being delivered to the terminals in Rovigo (Italy) and Zeebrugge (Belgium). The portfolio of this Qatari company comprises three other contracts with EDF’s subsidiaries in Italy and Belgium. The technology of natural gas liquefaction gave Qatar a cutting edge and propelled it to the ranks of the largest global supplier of LNG.

Another example of cooperation between Europe and Qatar: French oil and gas giant Total has been awarded 30% interest in the concession covering the offshore Al-Shaheen oil field. The European concern signed a respective agreement with Qatar Petroleum in Qatar capital Doha. It will begin operation under this 25-year agreement on July 14, 2017.

To achieve their objectives, Qatar Petroleum and the French concern have agreed to establish a joint venture North Oil Co, which will take on a quarter-of-a-century long development of the oil field. It is projected that over the next 5 years the joint venture will invest $2 bn in Al-Shaheen to fund the prospecting works and develop solutions to boost the production.

It is well known that 85% of all oil extracted in Qatar comes from three oil fields: Al-Shaheen, Dukhan and Idd El Shargi. The oil field produces 300 thousand barrels of crude oil per day, i.e. approximately 40% of the total volume of oil extracted in the country. The complex of production facilities consists of 30 platforms and 300 wells.

Bloomberg reported with reference to the operator of Polish Gaz-System S.A. (a gas transportation system) that Poland received the first batch of Qatari LNG. Last June the oil tanker Al Nuaman (property of Qatargas) carrying 210 thousand cubic meters of LNG arrived in the Polish port Swinoujscie and moored in the close proximity to the
LNG terminal.

Bloomberg informed that the capacity of the Polish terminal is estimated at 5 bn m³ of gas per year. This is about one third of the Poland's annual fuel consumption. According to another source, the LNG terminal in Swinoujscie can hold enough gas to satisfy 50% of the country's demand (7.5 bn m³ per year), and the Polish government is planning to increase its capacity to 10 bn m³ in the future.

That sounds plausible and aligns with the country's objective to break free from dependence on Russian gas by 2022. Polish government announced its new strategy at the beginning of August. At the end of May, Warsaw made a statement confirming its intention to disrupt long-term cooperation with Russian Gazprom after the expiration of the long-term contract signed with the Russian supplier until 2022. In addition to the upgrade of the LNG terminal in Swinoujscie, Polish strategy of independence from Russian gas also envisages the construction of a gas pipeline connecting gas fields on the Norwegian continental shelf with the country's Baltic coast. The irony of the situation is that the Qatari gas costs more than pipeline-delivered Russian gas and will put an additional burden on the Polish budget. But the country's leadership exercising an anti-Russian policy chose to put politics above country's welfare and do it at the expense of ordinary Polish consumers.

But Qatar's position on the LNG market is not as unshakable as it might seem. Iran that has just celebrated the lifting of western sanctions and is now rehabilitating its economy at full speed and sharply increasing the production of natural gas is literally on Qatar's heels. According to the Islamic Republic News Agency, Ali Akbar Shabanpour, Managing Director of the Iranian oil and gas company Petropars, said that this year Iran would take equal share with Qatar from joint South Pars gas field and bring its gas production to 177 bn m³.

It is largely believed that Iranian South Pars and Qatari Northern Field are two parts of the largest oil and gas field in the Persian Gulf and on the planet, which is almost equally divided between the countries along the border of their maritime economic zones. But in the scientific terms it is not quite so. This subsoil plot comprises two oil and gas basins divided by a thrust-fold belt. Besides, they were formed in different geological epochs and their discovery is spaced almost 20 years apart.

According to Mr. Shabanpour, in 2015 Qatar's recovered 177 bn m³ of gas from its North Field, while Iran's output was only 132 bn m³, i.e. approximately three fourth of Qatar's output. South Pars estimated at 13-14 tn m³ of gas accounts for about half of all Iranian gas reserves. It is estimated that South Pars also holds 2.7 bn tons of oil.

Quite naturally, as gas production increases so does its exports. So far, Iran has had no clashes of interest with Qatar since it exports natural gas to Armenia, Georgia, Turkey, and Pakistan. But the Iranian leadership is energetically searching for new markets casting hopeful eye on Europe. Currently Iran is considering using Turkey as an ally to deliver gas to Europe. And it looks like the time when these two countries will be entering the "global pipeline battle" is not far off.

Victor Mikhin, a corresponding member of RANS, exclusively for the online magazine "New Eastern Outlook."