

Middle East Must up its LNG Credentials

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LNG is a bullish story that the Middle East cannot afford to be written out of. Home to the world's biggest LNG exporter, Qatar, the region must work harder than ever to remain front and center in one of the fastest growing energy commodities.

Both the US and Australia are threatening to steal Qatar's crown. By the mid-2020s, the International Energy Agency (IEA) said the US could challenge both Qatar and Australia – a large, established and ambitious producer – for global leadership. This is remarkable considering that 2017 marked the first time the US became a net exporter of natural gas on an annual basis since 1957. The Middle East's response? One step was Doha's lifting of the 12-year moratorium on development of the

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North Field in 2017, which it shares with Iran. New developments could add 400,000 b/d of oil equivalent to Qatar's output.

There are also plans to establish a liquid, flexible and transparent Middle East LNG market as Gulf countries – bar Qatar – rev up their interest in the closest cousin of oil. There are four main steps required to make this a reality by 2025. Build a LNG storage hub in the region; establish a Middle East LNG benchmark price contract; have regional domestic demand outpace pipeline supply; and remove all gas subsidies, said 44% of respondents to a Middle East LNG Institute survey last year.

Today, buyers and sellers cannot freely trade and move gas and LNG around the Arabian Peninsula.

The land mass may as well constitute islands for the level of connectivity in play. United gas infrastructure is essential to meet rising demand and deepen the region's position as an energy superpower. Addressing disjointed policies is critical for Middle Eastern countries to ensure the market's architecture can facilitate demand profiles. Un-optimized LNG imports and a limping export market are likely the alternative.

Reading the Tea Leaves

On the demand side, Asia continued to dominate LNG import demand in the first half of 2018, with overall volumes increasing at least 12% year-on-year, according to McKinsey&Company. In China alone, LNG import volumes grew by 52% per annum during the first half of last year. The Middle East must ensure it remains deeply embedded in the pack of preferred exporters. China is expected to surpass Japan to become the world's biggest importer of LNG in the next decade. Every two days in 2018, one more LNG vessel arrived at China's shoreline than in 2017. This increase may slow slightly in 2019. But any slowdown will be short lived amid China's emphasis on developing terminal infrastructure and expanding storage. What does this mean? Gargantuan potential awaits, including for the Middle East's established and emerging LNG exporters.

Opinions are mixed over whether China can – and should – become an LNG pricing hub. China ticks the box for diversified sources of gas (domestic, pipeline, LNG), growing liquidity and Shanghai is keen to position itself as a hub; a bid backed by an established financial environment. But questions

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The number of years that Qatar had a moratorium on development of the North Field. Doha lifted the restriction in 2017, largely in response to intensifying competition in the LNG export market and rising domestic demand.

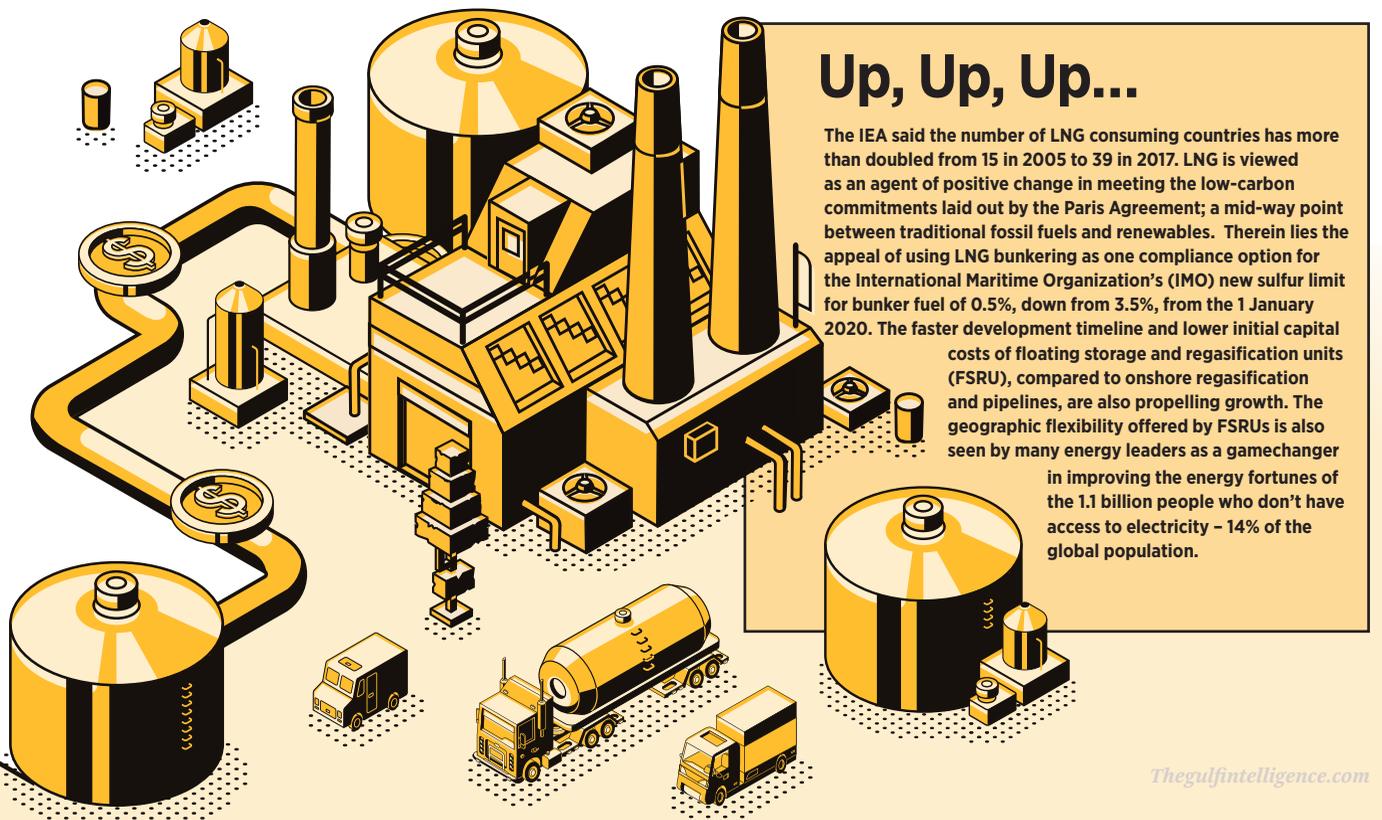
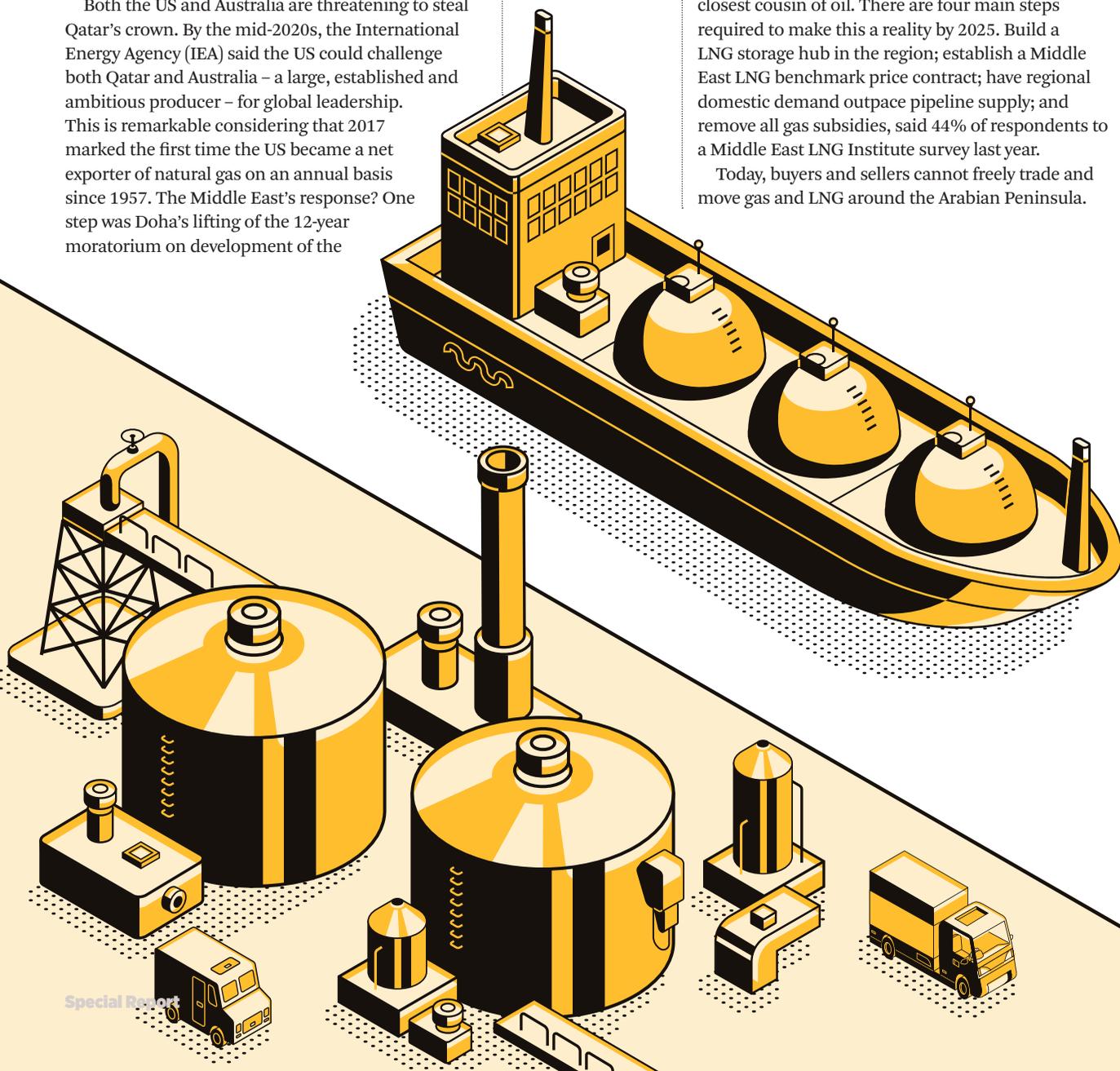
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Will the US steal Qatar's crown and nudge Australia out of the way – currently the world's largest LNG exporters, respectively – to become the world's biggest LNG exporter by the mid-2020s? It looks increasingly viable.

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over the transparency of operations are hard to ignore and it remains to be seen whether Japan, still a major LNG importer, would embrace Shanghai as a price master.

In terms of contracts, bidding au revoir to the historical dominance of long-term deals in the LNG market is premature. Yes, these bread-and-butter deals are easing amid rising appetite for shorter-term contracts and spot deals, especially in the last two years. The average length of a LNG supply contract was approximately 21 years in 1994 – it fell to six years in 2017. A surge in Chinese winter demand in 2017 was almost entirely satisfied via the spot market, for example. But it has not been the dominating wave of change that some anticipated. Many stakeholders still want the security of long-term contracts, particularly those seeking funding for independent power projects (IPP) that stretch into the decades.

The ability of Middle Eastern stakeholders to suit customers' new demands while reassuring their traditional financiers that big-ticket investments are safe will be pivotal to the region's prominence on the global LNG stage. It won't be easy. But Qatar's track record offers a robust template for further growth. And Abu Dhabi showed the way in deciding to extend the life of its legacy LNG plant on Das Island to 2040 and beyond. All will be well if stakeholders give LNG even half the attention that has historically been allocated to black gold. ■



Up, Up, Up...

The IEA said the number of LNG consuming countries has more than doubled from 15 in 2005 to 39 in 2017. LNG is viewed as an agent of positive change in meeting the low-carbon commitments laid out by the Paris Agreement; a mid-way point between traditional fossil fuels and renewables. Therein lies the appeal of using LNG bunkering as one compliance option for the International Maritime Organization's (IMO) new sulfur limit for bunker fuel of 0.5%, down from 3.5%, from the 1 January 2020. The faster development timeline and lower initial capital costs of floating storage and regasification units (FSRU), compared to onshore regasification and pipelines, are also propelling growth. The geographic flexibility offered by FSRUs is also seen by many energy leaders as a gamechanger in improving the energy fortunes of the 1.1 billion people who don't have access to electricity – 14% of the global population.