POWER SHIFT TRIGGERS NEW LNG RULEBOOK

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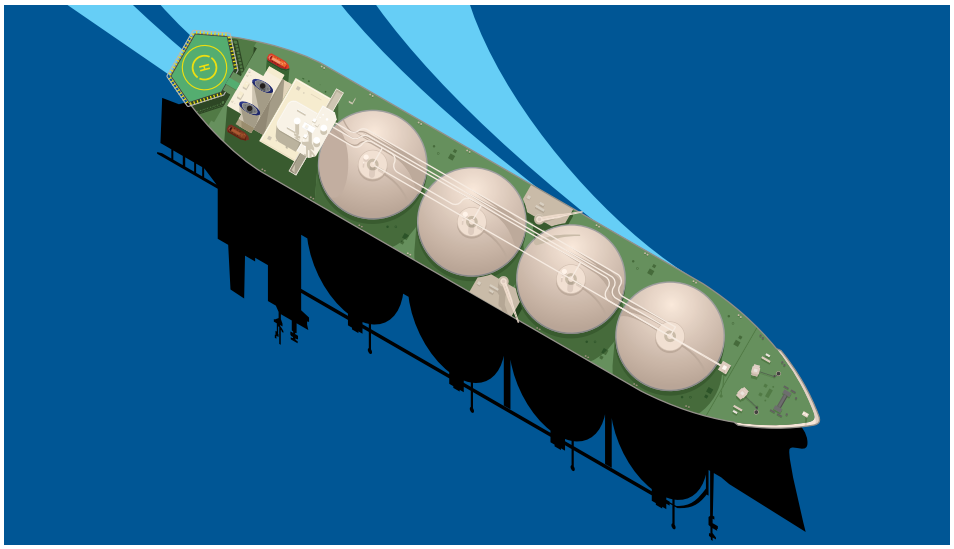
A new rule book characterized by the suppleness of supply and autonomy for buyers of LNG is emerging. An oversupply of LNG and subsequent 'soft' prices – especially for oil-indexed contracts – means buyers can flex their purchasing muscle to demand a bigger 'menu' of contractual options than ever before. As such, the long-term supply contracts with destination clauses that have been the bread and butter of the LNG market since the first major shipment from Algeria to the UK in 1964, are diversifying into shorter-term and spot deals.

Established operators like Qatar will still benefit from relationships with LNG importers rooted in decades of history. But – and it is an important distinction – the tenacious competition from suppliers gaining strength across the Atlantic, Pacific and Indian Ocean means buyers have more opportunity to cherry pick deals than ever before.

Pure LNG spot trading – cargoes delivered within three months of the transaction – accounted for 18% of total imported LNG volumes in 2016, according to industry group GIIGNL, up from 15% in 2015. China, India and Egypt drove the growth, with spot trade volumes reaching around 47 million metric tons last year. In 2000, short-term LNG contracts – deals for less than four years – represented 2% of the market. It is now around 30%. This trend will only become more entrenched as many long-term contracts expire in the medium-term, particularly in Japan, the world's biggest LNG importer at 32% of global LNG purchases last year. Japan's Jera, the world's biggest single LNG importer, plans to reduce its long-term imports by 42% by 2030, for example.

A better understanding of how to adjust to customers' needs is integral to enabling the Middle East's LNG export profile to flourish, according to just under half of respondents to a GIQ Industry Survey in April. Qatar especially needs to take note if it wants to retain its crown as the world's biggest LNG exporter and the dominant supplier in the Middle East.

Rising volumes from the US and Australia threaten to knock Doha from its pole position and ringfence coveted market share by 2020, especially in Asia. Both countries



stand a good chance of success. Global LNG export capacity is forecast to rise by 45% between 2015 and 2021, with 90% originating from the US and Australia, according to the International Energy Agency (IEA). The US' Cheniere-owned Sabine Pass delivered its 120th LNG cargo in early May after loading its first commissioning cargo in February last year – this marks an extraordinary rate of growth. Two of the US' cargoes landed in Dubai and five in Kuwait, which illustrates a side issue that the Middle East needs to resolve. How can countries in a region that is home to 80% of the world's natural gas reserves face gas shortages? Qatar will also have to defend its title against Russia and Iran. The latter is home to the world's second largest natural gas reserves and aims to expand its piped and shipped gas exports following the lifting of most of the Western-imposed sanctions eighteen months ago.

As suppliers jostle to charm increasingly selective buyers, Qatar has sharpened its competitive edge by lifting a 12-year moratorium on development of the country's North Field in April. The move could increase production at the world's largest natural gas reserve by up to 10% if it starts production in the early 2020s.

But flexibility of volume is only part of the story. Destination clauses – specifying the location of delivery – are a historical bugbear for many Asian LNG importers. The clauses prevent buyers from diverting and reselling cargo in a market that is paying a premium, even if the buyer has surplus supply. Yet, cargoes from the new and increasingly influential kid on the block, the US, can go anywhere in the world. Consider that around 200 cargoes are expected to depart from the Sabine Pass in 2017. The need for other suppliers – including those in the Gulf – to rapidly match this level of flexibility into their game plans becomes clear.

Therein also lies the incentive of floating storage and regasification units (FSRUs). Relatively cheap entry points and an ability to side-step most political and natural challenges that piped gas cannot, means the global capital expenditure for floating facilities is expected to rise by an extraordinary 264% to total $41.6 billion between 2016 and 2022, according to Douglas Westwood's World FLNG Market Forecast. This is compared to $11.4 billion between 2011-2015.

A need for greater flexibility also applies to regional deal-making, with the Middle East's gas demand expected to double by 2040. It is little surprise that Saudi Arabia-based Apicorp expects investments assigned to building LNG import infrastructure across the Middle East and North Africa (MENA) in the medium-term to total $10.3 billion. The Middle East's three main importers – Kuwait, Israel and the UAE – received 6.1 bcf of gas equivalent in 2014. This figure quadrupled in just two years to 24.5 bcf in 2016.

Suppliers that can apply the greatest flexibility in the least time for the best cost will shoot to the front of the competitive curve. As more eloquently put by an Arab proverb: "Examine what is said and not he who speaks." ■