# Resilient Qatar's Natural Gas Development Policy and Energy Situation Under Its Crisis\*

Makoto Nakamura\*\*

More than a year has passed since the severing of diplomatic and economic ties with Qatar by the "Quartet," a group of Middle East countries led by Saudi Arabia and the United Arab Emirates. Since then, resilient Qatar has secured all the indispensables to overcome this blockade, such as provisions for food stock and raw materials, logistics and finance.

Receiving tailwind from the current crude oil market, in March 2018, the International Monetary Fund issued a statement that the Qatari economy is "steady and strong," based on its 2018 Article IV Review.

Owing to this economic situation, Qatar Petroleum is maintaining its aggressive natural gas development policy. In addition to the merger of national gas companies, before the crisis, QP lifted the moratorium, the self-imposed suspension of development in the North-Field gas reservoir introduced in 2005. And QP is still expanding the target volumes of the production of LNG, eyeing the LNG demand expansion in the 2020s and beyond.

Even under crisis, Qatar has successfully continued exporting crude oil and LNG. Fortunately, this crisis has exerted unexpectedly little influence on stable energy supply to customers, including the Asia Pacific. However, there is no clear sign as to when the crisis will come to an end or how it will affect us. (Date Written: October 2018)

Keywords: Resilience, Qatar, Natural Gas, Moratorium, LNG

# 1. Introduction

In June 2017, the so-called Quartet of Saudi Arabia, the United Arab Emirates, Bahrain and Egypt declared their severance of diplomatic ties with Qatar, unleashing the Qatar crisis. Since then, the Quartet countries have imposed an economic embargo on Qatar. However, Qatar has been more resilient than expected by the Quartet, leaving the fate of the crisis in the balance.

Meanwhile, Qatar announced a moratorium on natural gas development in 2005 and continued to refrain from developing its North Field gas reservoir further. Qatar lifted the moratorium in April 2017 and has since then retained an aggressive natural gas development policy while expanding a natural gas production target even under economic and fiscal difficulties amid the crisis.

This paper analyzes Qatar's resilience under the crisis and measures the impact of the crisis on international energy demand and supply.

# 2. Qatar Crisis developments

# (1) Prolonged crisis

In June 2017, Saudi Arabia, the UAE and Egypt joined Bahrain in accusing Qatar of supporting the Muslim Brotherhood and other terrorist groups and declaring the severance of diplomatic relations with the country. Later in the month, the Quartet sent Qatar 13 demands including shutting down the Al Jazeera 24-hour satellite television channel based in Doha, closing a Turkish military base in the country and reducing ties to Iran and cutting ties to radical groups. In July, the four countries proposed six principles summarizing the 13 demands.

The 13 demands and six principles are difficult for Qatar, branded as a terrorist-supporting country, to accept. Qatar has so far refused to respond to these demands, leaving the crisis to be prolonged.

<sup>\*</sup>Written for the 35<sup>th</sup> Conference on Energy, Economy, and Environment (January 29, 2019)

<sup>\*\*</sup>Senior Analyst, JIME Center, Institute of Energy Economics, Japan Inui Bldg, Kachidoki, 1-13-1, Kachidoki, Chuo-ku Tokyo 104-0054, Japan

This article is a presenting at the 35th Conference on Energy, Economy, and Environment that Japan Society of Energy and Resources (JSER) hosted.



**Figure 1 Countries Surrounding Qatar** 

#### (2) Qatar's resilience

Facing the crisis, Qatar has arranged goods, logistics (transportation networks) and assets, demonstrating its strong attitude of refusing to surrender to the Quartet.

Qatar has asked its friendly neighbors i.e. Iran, Turkey and Oman to provide indispensables such as fresh food and materials for building stadiums for the 2022 FIFA World Cup. Moreover, as the world's largest LNG exporter, Qatar has taken advantage of its sovereign wealth fund and foreign currency reserves to resist the Quartet's withdrawal of their funds from the country and successfully secure the liquidity of Qatari commercial banks<sup>1</sup>).

Meanwhile, the current crude oil market has served as a tailwind for Qatar. The country has assumed the crude oil price at \$45 per barrel for its 2018 budget. The West Texas Intermediate futures price remained above the assumed level in the first 10 months of 2018, indicating that its projected revenues would be revised upward for 2018.

Under such situation, the International Monetary Fund has rated the Qatar economy as "steady and strong." In a concluding statement in March 2018 after an official IMF staff visit to Qatar for consultations to monitor local economic developments under Article 4 of the IMF's Articles of Agreement<sup>2)</sup>, the IMF said, "The direct economic and financial impact of the diplomatic rift between Qatar and some countries in the region is fading." "Macroeconomic performance remains resilient." The IMF also said, "The medium-term macro-financial outlook is expected to remain broadly favorable."

# 3. Natural gas development policy turning aggressive

Qatar's resilience has brought about a robust economy, supporting its aggressive policy on energy, particularly natural gas, even under the crisis.

## 3.1 Qatar as gas producer

Qatar is an oil producing country and a member of the Organization of the Petroleum Exporting Countries. At the same time, it is known as a major gas producing country.

The world's largest gas field straddles the Persian Gulf border between Qatar and Iran. While the Qatari side of the gas field is called North Field, the Iranian side is named South Pars.



Figure 2 Qatari and Iranian gas fields<sup>3)</sup>

Qatar's natural gas reserves at the end of 2017 stood at 24.9 trillion cubic meters, the third largest following Russian and Iranian levels. Its gas production in 2017 came to 175.7 billion m<sup>3</sup>, the fifth biggest after U.S., Russian, Iranian and Canadian levels<sup>4</sup>). From 2006 to 2017, Qatar retained its position as the world's largest LNG exporter<sup>5</sup>).

#### 3.2 Natural gas market changes

## (1) Price drop

In the global LNG market, spot prices wildly fluctuate in line with crude oil prices. As prices for LNG destined for Asia have been indexed to crude oil prices under long-term contracts, LNG export prices have declined automatically in line with weak oil prices since 2014. The average LNG import price for Japan declined rapidly to \$10 per million British thermal unit in FY2015<sup>6</sup>.

#### (2) Intensifying competition

In recent years, the natural gas market has seen the rise of Australia and the United States as new leading gas exporters. On the other hand, Russia known as the world's largest pipeline gas exporter has expanded into LNG export. In a bid to increase production at the South Pars gas field, Iran signed a Phase 11 development agreement with France's Total in July 2017, after nuclear sanctions were lifted.

# 3.3 Qatar's choices

(1) Integrating state-run LNG companies

As the natural gas market was changing in that way, Qatar first chose to rationalize the LNG sector by integrating state-run LNG companies.

In December 2016, state-run Qatar Petroleum's President and Chief Executive Officer Saad Sherida Al Kaabi announced to integrate Qatargas and Rasgas under the QP umbrella. In January 2018, he declared their integration into Qatargas<sup>7</sup>). For the Qatargas LNG trains, QP, ExxonMobil, ConocoPhillips, Total, Mitsui & Co. and Marubeni Corp. have forced a joint venture. Such venture for Rasgas LNG trains has been founded by QP, ExxonMobil, South Korea's KOGAS, Itochu Corp. and LNG Japan.

The integration of old Qatargas as the world's largest LNG company and Rasgas as the second largest into the new Qatargas was a measure for the age of low resources prices, indicating that Qatar has chosen to thoroughly streamline its LNG business and cut relevant costs.

The new Qatargas has annual LNG production capacity at 77 million tons per year, running 14 LNG trains including six large ones each with capacity of 7.8 million tons per year.

#### (2) Lifting gas development moratorium

Next, Qatar chose to lift the self-imposed gas development moratorium. Since 2005, Qatar had imposed the moratorium that it said had been required for studying how rapid, large-scale gas development and production expansion affected the North Field gas field.

The study had been viewed as almost completed in 2008 but was renewed then. Apparently, the renewal indicated that Qatar was willing not only to continue the study but also to refrain from irritating Iran owning the South Pars gas field neighboring the North Field.

In April 2017, QP lifted the 12-year moratorium and announced to resume the development of the North Field gas field<sup>8)</sup>. "We have completed most of our projects and now is a good time to lift the moratorium," QP CEO Al Kaabi said in a press conference. "Qatar Petroleum's technical studies and assessment of the North Field have confirmed the potential for developing a new gas project." QP would attain a target production capacity of 2 billion cubic feet (about 57 million m<sup>3</sup>) per day for exports in five to seven years under the project, according to the CEO.

#### (3) Revising production target upward

In July 2017 after the Qatar crisis started, QP CEO Al Kaabi announced to double the natural gas production target from 2 billion ft<sup>3</sup> as given when the moratorium was lifted. The upward revision would boost Qatar's LNG production from 77 million tons per year to 100 million tons per year<sup>9</sup>.

CEO Al Kaabi explained that with the conclusion of further technical studies after lifting the gas development moratorium, QP decided that the best option would be to double the production target to 4 billion ft<sup>3</sup> (about 114 million m<sup>3</sup>). He also noted that this project would strengthen Qatar's position as the world's largest LNG producer and exporter in line with QP's objective of becoming one of the best national oil and gas companies in the world with a strong international presence.

In September 2018, the annual LNG production target was raised from 100 to 110 million tons<sup>10</sup>). QP explained that it decided to raise the production target based on studies by a front-end engineering and design contractor<sup>11</sup> that was given the contract in March 2018.

At the 7th LNG Producer-Consumer Conference in Nagoya in October 2018, Qatari Energy and Industry Minister and QP Chairman Mohammad Al-Sada emphasized Qatar's attitude of maintaining its aggressive natural development policy even under the crisis and vowed to realize its LNG production capacity of 110 million tons by 2024 in view of robust future LNG demand, specifying the numerical target.

QP pointed out that French energy company Total's withdrawal from Iran's South Pars gas field development under the resumed Iran nuclear sanctions and a stalemate in its natural gas development would rather create a business chance for Qatar<sup>12)</sup>.

# (4) Continuing stable supply

At the abovementioned LNG Producer-Consumer Conference in October 2018, Qatari Energy and Industry Minister Al-Sada emphasized Qatar's strong self-confidence in its stable LNG supply, noting that the country had seen no delay in LNG shipments even under the "unjust and illegal" economic embargo. Qatar's LNG exports in 2017 stood at 103.4 billion m<sup>3</sup>, almost unchanged from 2016<sup>13</sup>.

Meanwhile, Qatar has sustained its pipeline natural gas exports to the UAE that has declared the severance of its diplomatic ties with Qatar, avoiding power shortages in the UAE. Qatari natural gas is transported to Oman via the UAE without any disruption.



## Figure 3 Dolphin Gas Project 14)

Qatar's pipeline natural gas exports in 2017 remained almost unchanged from the previous year at 18.4 billion m<sup>3 15)</sup>. QP said it would continue natural gas supply to the UAE under the existing contract.

# 4. Conclusion

While the Qatar crisis has been prolonged, Qatar has taken advantage of its abundant sovereign wealth fund and foreign currency reserves based on its robust economy to address the abnormal crisis with goods, logistics and assets and demonstrate its resilience. This led the IMF to rate the Qatari economy as "steady and strong." Qatar has built on the robust economy to retain its aggressive natural gas policy. Even under the crisis, Qatar lifted its gas development moratorium, raised its gas production target and merged state-run natural gas companies to defend its market share.

The Institute of Energy Economics, Japan, has projected global natural gas consumption to increase by about 71% from 3.5 trillion m<sup>3</sup> in 2016 to 6.0 trillion m<sup>3</sup> in 2050<sup>16</sup>). At a time when brisk natural gas demand is anticipated, Qatar's aggressive natural gas development attitude is expected to contribute to expanding LNG supply. Given Qatar's LNG and natural gas exports on record, its position as a stable natural gas supplier will remain unshaken even amid uncertainties about the fate of the crisis.

Even under the crisis, Qatar's crude oil and LNG exports to Japan have remained unchanged from before the diplomatic rift. Fortunately, the crisis's impact on energy supply to Japan has been limited. However, the Quartet's severance of diplomatic ties with Qatar has led Qatar to enhance its approach to Iran. If Saudi Arabia and pro-Saudi countries confronting Iran further deepen their rift with Qatar, the Middle East may be destabilized further. Such development may inevitably affect Japan.

(As of October 2018)

# Notes

 Makoto Nakamura; Qatar: Resilience under Rift, Trend Analysis, JIME Center, Institute of Energy Economics, Japan, September 2018, p.1-17

2) International Monetary Fund;

https://www.imf.org/en/News/Articles/2018/03/05/ms030518-qa tar-staff-concluding-statement-for-the-2018-article-iv-mission (Access date: Oct. 25, 2018)

3) Hydrocarbons Technology;

https://www.hydrocarbons-technology.com/projects/qatargas/atta chment/qatargas4/ (access date: 2018.10.25)

4) BP; Statistical Review of World Energy, June 2018, p.26-285) Research Gate;

https://www.researchgate.net/figure/Trend-of-LNG-export-by-m ajor-suppliers-2000-13-Mt-Source-Petroleum-Economist-2015\_f ig1\_314416599 (access date: 2018.10.25)

6) BP; Statistical Review of World Energy, June 2018, p.337) Qatargas;

http://www.qatargas.com/english/MediaCenter/Pages/Press%20 Releases/start-operations-by-the-new-Qatargas.aspx (access date: 2018.10.25)

8) Oatar Petroleum;

http://www.qp.com.qa/en/MediaCentre/Pages/ViewNews.aspx ,

03-April-2017 (access date: 2018.10.25)

9) Qatar Petroleum ;

http://www.qp.com.qa/en/MediaCentre/Pages/ViewNews.aspx ,

11-July-2017 (access date: 2018.10.25)

10) Qatar Petroleum;

 $http://www.qp.com.qa/en/MediaCentre/Pages/ViewNews.aspx \ ,$ 

26-September-2018 (access date: 2018.10.25)

11) Chiyoda Corporation;

https://www.chiyodacorp.com/media/180322.pdf

(access data: 2018.10.25)

12) Makoto Nakamura; Qatar: Participation in Annual Qatargas Reception, Trend Analysis, JIME Center, Institute of Energy Economics, Japan, October 2018, p.24-27

13) BP; Statistical Review of World Energy, June 2018, p.34

14) Dolphin Energy;

http://www.dolphinenergy.com/operations

(access date: 2018.10.25)

15) BP; Statistical Review of World Energy, June 2018, p.34

16) Institute of Energy Economics, Japan: IEEJ Outlook 2019, p.41