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Qatar LNG Expansion and LNG Marketing

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Despite uncertainty over the role of LNG in the long-term energy transition, the LNG industry is expected to see a major expansion boom in the late 2020s and early 2030s. So far in 2023, there have been more vibrant marketing activities from LNG production projects in North America and the Middle East.

In Qatar, one of the world's three largest LNG exporters, progresses were made from September to October 2023 in terms of rebranding the LNG project, a groundbreaking ceremony for the mega expansion project, and confirmation of a large-scale shipbuilding deal.

Particularly noteworthy were long-term sales agreements for the mega expansion project with the three participating partners, the three European majors, in proportion with their shares. TotalEnergies, Shell and ENI are supposed to receive respective assigned LNG volumes for a 27-year delivery period from 2026 in the European Union (EU). Their respective reception points in France, the Netherlands and Italy were stated in the announcements.

On the LNG production project side, the confirmation of offtakers naturally leads to a solid foundation for the project.

On the other hand, from the point of view of the European side as the destination of LNG, [1] the contract period extending beyond 2050 and [2] the designation of the receiving terminals in the announcements attracted attention in relation to EU regulations.

Regarding the point [1], the European Commission (EC) intends to phase out fossil gas by 2050 in relation with its climate goal. In its draft directive released in December 2021, a clause "No long-term contracts for supply of unabated fossil gas shall be concluded with a duration beyond the end of year 2049" was incorporated and has been under consideration since then. The revised draft clause as of February 2023 narrows the target as "fossil gas" namely deleting "unabated".

As it is yet a few years away to see the proposed directive come into effect and the potential restriction has not been established yet, the contract periods do not conflict with the current regulation. However, uncertainty over climate measures, including the proposed directive, has deterred LNG consuming companies in the EU from entering into long-term LNG purchase deals, even though the EU is expected to have significant demand for LNG in the medium term.

The possible enforcement of the proposed directive is presumed to have already been factored in by the parties to the contract. Therefore, it is presumed that the three majors, which are also project partners on the Qatari side, are the primary contract parties and assume the risk on behalf of final LNG consumers such as gas companies and power

¹ This paper represents only the author's view and does not represent views of IEEJ.

companies in the EU. It may be the case that flexibility in the LNG destinations is factored into the contracts, taking into account of changes in demand for LNG and the regulatory situations in the EU. Furthermore, in terms of CCS and electrification of LNG production process and the use of renewable energy, it can be observed that the Qatari company is confident that it can make LNG production even cleaner in the future.

On the point [2], if the contracts included restrictions on destinations, it would be a violation of competition regulations in the EU. However, the EU competition authority opened an investigation into existing Qatari LNG sales contracts with the European markets in 2018 and closed it in March 2023. This suggests that even though the latest contracts stipulate primary destinations, they also incorporate flexibility to change destinations depending on the EU market situation and avoid violating EU competition regulations.

With the latest three long-term contracts, out of the planned expansion capacity of 48 million tonne per year (32 sanctioned and 16 under planning), offtake commitments have been secured for around 20 million tonnes per year. During the marketing process, out of the seven equity partners of the mega expansion, six - in addition to the three European majors, ConocoPhillips, Sinopec, and CNPC - have confirmed their offtake arrangements for their respective assigned equity portions or more than them. Thereafter, the focus will shift to marketing activities targeting companies other than existing investment partners.

When the groundbreaking ceremony was held in early October 2023, Qatari officials indicated that the expansion project would start operations in 2026, suggesting that they were confident in the project's construction management, and that LNG marketing had advanced as they planned.

Back in July 2023, at the annual LNG Producer-Consumer Conference and the LNG 2023 International Conference, Qatari officials claimed several advanced aspects of the country's LNG plans: by 2029, when all QatarEnergy projects are operational, 40% of the incremental LNG reaching the global LNG market would come from those QatarEnergy projects; the country's CCS capacity would reach 11 million tonnes per year of CO₂ in several years; and Qatari LNG production would have one of the lowest carbon emission intensities with further incorporation of solar power in the LNG production process. QatarEnergy changed the brand name of its LNG operating company from Qatargas to QatarEnergy LNG.

The Golden Pass LNG export project on the U.S. Gulf Coast, which also involves QatarEnergy, expected to start operations in 2024-2025. This is expected to further improve the company's credibility in LNG marketing. Thus, the company is expected to continue being one of the most promising sellers of LNG for the Asian market, including Japan.

QatarEnergy also confirmed a shipbuilding order for an additional 17 LNG carriers with a Korean shipbuilder as part of its fleet expansion program taking care of the incremental LNG production in Qatar and the United States, increasing the total number of ships on order to 77.

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