(BN) Qatar Seeks U.S. Foothold as LNG Dominance Fades: Energy Ma rkets

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Qatar Seeks U.S. Foothold as LNG Dominance Fades: Energy Markets
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By Robert Tuttle

Oct. 24 (Bloomberg) -- Qatar is seeking to build liquefied natural gas export plants in the U.S. to offset an anticipated slide in revenue as prices of the fuel fell from a record.

State-run Qatar Petroleum and Exxon Mobil Corp., the world's second-biggest company, received a first permit to export natural gas from their Golden Pass import terminal in Texas, they said on Oct. 4. LNG prices for delivery in northeast Asia, the biggest market for the gas chilled to a liquid for transport by sea, have fallen 28 percent since rising to a record in May, according to World Gas Intelligence.

Qatari producers are looking abroad as a moratorium limits domestic expansion and new projects from the U.S. to Australia threaten their market share, currently at almost a third of the world's supply. The increased volume may help offset lower income as users from Tokyo Gas Co. to Italy's Edison SpA seek to reduce costs under supply contracts linked to crude prices.

"The government has temporarily taken away the ability to expand production in Qatar, and if the question is growth and profit, it's not going to come from domestic production," Trevor Sikorski, director of European energy markets research at Barclays Plc in London, said Oct. 4 by phone. "If you are facing price risk, you have to do something on volume."

Prices for LNG cargoes to northeast Asia in four to eight weeks rose 15 cents to $13.20 per million British thermal units in the week through Oct. 22, according to an assessment by New York-based World Gas Intelligence. They reached as much as $18.40 on May 28, the data show.

14 Trains

Qatar started its 14th and final liquefaction plant, known as a train, last year, boosting annual capacity to make the fuel to 77 million metric tons. No future expansion is planned in Qatar and further development of the country's North Field, which extends from Iran's South Pars to form the world's biggest gas reservoir, is frozen until at least 2016, when a study of the deposit is scheduled to be completed.

New LNG capacity planned in North America, Australia and other countries may cut Qatar's market share to 23 percent by 2020 from a record 31 percent last year, even if the U.S. project goes through, data from the Paris-based International Group of Liquefied Natural Gas Importers show.

LNG prices may fall by 2017 as new supplies enter the market from Australia, the U.S. and later the Eastern Mediterranean and East Africa, Sikorski said.

"People are queuing up to export U.S. gas," he said. "You have a large number of large-scale Australian trains coming on. When you add it all together, there will be an enormous amount of supply going around."

$10 Billion

Qatar, the world's biggest LNG producer, and Exxon plan to invest $10 billion in the project to construct 15.6 million tons of annual liquefaction capacity at Golden Pass. Exports from the site are worth $10.6 billion at year at the latest WGI prices in Northeast Asia. Qatar Petroleum International owns 70 percent of Golden Pass Products LLC, while Exxon Mobil owns the remaining stake.

Qatar joins companies including Cheniere Energy Inc., Dominion Resources Inc. and Sempra Energy planning facilities to chill natural gas 16,500 miles (26,500 kilometers) away from Asian buyers.

The Golden Pass terminal would account for more than 15 percent of total planned U.S. LNG export capacity, assuming all the projects are completed, according to Sanford C. Bernstein & Co. The plant represents 20 percent of Qatar's current output.

U.S. exports to Asia would cost $9.35 per million Btu, based on a benchmark Henry Hub price of $3, according to a May 29 presentation by Cheniere, the Houston-based company developing the nation's largest LNG export terminal at Sabine Pass in Louisiana.

Japan, the world's biggest importer of LNG, paid an average $18.76 a million Btu for supplies from Qatar in August, the latest customs data show. That includes supply under long-term contracts linked to the price of crude oil. Sales of the gas has made Qatar's population the richest in the world per capita.

Not 'Rational'

Long-term LNG contracts linked to oil are inflating Japan's import bill, Mitsunori Torihara, chairman of Tokyo Gas and the Japan Gas Association, said in Kuala Lumpur in June. Coupling gas prices with oil isn't "rational," Shigeru Muraki, chief executive officer of Tokyo Gas's energy solutions unit, said Oct. 8 at a conference in London.

"Sellers and buyers, producers and consumers, need to discuss what is the best solution," he said.

The U.S. would need to export 150 million tons a year of LNG by 2020 to make a fundamental difference to global LNG pricing, compared with 95 million of planned projects, Neil Beveridge, an analyst at Sanford C. Bernstein in Hong Kong, said in an Oct. 5 report.

"While buyers may want to tear up their expensive long term oil-linked gas contracts, the reality is that it will not happen," he said. "Although we expect the U.S. to export some LNG, it will not be of sufficient volume to enable buyers to walk away from existing contracts."

Lacking Assets

As development stops at home, Qatar has looked to expand abroad. Qatar Petroleum International, the foreign investment arm of the state energy company, was negotiating buying a stake in OAO Novatek's Yamal LNG project in Russia's arctic last December and may invest in North American shale gas, Chief Executive Officer Nasser al-Jaidah said Dec. 7. The emirate is "lacking" in upstream assets, he said at the time. Al-Jaidah couldn't be reached by phone yesterday.

Qatar and Exxon received a permit to export the LNG to countries with free-trade agreements with the U.S. and will apply for a license to export to countries without such agreement, according to the Oct. 4 statement. They will make a final decision about the proposed project after receiving regulatory approvals, the venture said.

U.S. Suspension

The partners will have to wait until U.S. President Barack Obama rules on whether to allow construction of additional export terminals for LNG, a decision expected by year-end, Barclays said in June, citing Heather Zichal, the administration's deputy assistant for energy and climate change.
The U.S. suspended issuing permits for exports to countries without free-trade agreements after some fuel users and Democrats in Congress said sales abroad might lead to an increase in domestic prices.

"U.S. LNG is going to happen, with or without Qatar's involvement," Robin Mills, head of consulting at Dubai-based Manaar Energy Consulting and Project Management, said in a telephone interview. "It's important for Qatar to be part of that and to influence it."

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