

## Change in the air as Qatar looks inwards

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Qatar is shifting its focus from exports to the domestic

Qatar's nominal GDP grew by 41.8% in the second quarter of 2011 to \$42.2 billion. This impressive spurt is partly due to the two LNG super-trains which came on-stream in the quarter, each with a capacity of 7.8 million tons per annum (mtpa). The commissioning of Qatargas' seventh train in February 2011 brought Qatar's LNG production capacity beyond the long-targeted 77.1 mtpa.

However, the country's new energy leadership, under Minister of Energy and Industry Mohammed Bin Saleh al-Sada, is now broadening its focus away from LNG exports.

The laying of the foundation stone of the Barzan gas project on 1 November, a development which will process 1.4 billion cubic feet per day (39.6 million cubic metres per day: MMcm/d) of gas for domestic use, timed with the shipping of the first commercial cargo of base oil on 18 October from the Pearl gas-to-liquids (GTL) scheme, represents a shift in gear for Qatar's gas strategy.

LNG production continues to rise, and Qatar Petroleum's (QP's) two main LNG companies, QatarGas and RasGas, are not letting up on the marketing front. In mid-October RasGas announced a deal with Korea Gas Corporation to supply an extra 1.3 million tons (mt) of LNG this year on top of its existing 7 mtpa contract to cope with heightened winter energy demand, while a new 7 mtpa long-term contract with China is also in the offing.

For all its success at placing sales agreements with Asian customers, the country's future economic growth will rely more heavily on the non-hydrocarbons sector.

### Domestic demand

The Barzan project, unlike Qatar's past gas development schemes, focuses on the domestic rather than the export market as Qatar rebalances its economy to add downstream value to its hydrocarbons reserves. To be completed in two phases in 2013 and 2014, the QP-ExxonMobil backed project will process gas into methane, ethane, naphtha and liquefied petroleum gas (LPG), supplying power stations and petrochemical plants. The massive project involves drilling 30 offshore wells and building two 30-inch-diameter pipelines to transport the gas to onshore facilities at Ras Laffan.

As part of its diversification drive, Qatar plans to increase LPG output by 3 mtpa by the end of 2012 to 12 mtpa, to supply mixed-feed ethane crackers. Qatar's ethylene output stands at 2.6 mtpa but expansion, which is underway, will add another 1.3 mtpa by 2015, with QP and Royal Dutch Shell building a second ethane cracker.

"The Qataris said a few years ago that their focus would shift away from both the North Field and LNG exports once the 77 mtpa capacity was reached. So developing the Barzan project is just part of that strategy. They also said that their focus would shift to domestic industries and with the World Cup and other big projects now being lined up, earmarking new gas production to the domestic market seems to me to be a reasonable strategy," Hakim Darbouche, an analyst at the Oxford Institute of Energy Studies, told *Interfax*.

Despite Qatar's robust financial position, QP and Exxon have encountered obstacles in raising the necessary funding for Barzan and a bond issue to raise \$1 billion for the project is now unlikely to take place until next year. The scheme's price tag has already increased from the original \$8.7 billion to \$10.3 billion, making it the most capital-intensive project since Pearl.

Barzan is also significant as the last major gas extraction project sanctioned prior to the government's moratorium on development of the giant North Field until 2014. Before being replaced by Sada earlier this year, the long-standing Energy Minister Abdullah al-Attiyah had firmly ruled out using North Field's estimated 25.5 trillion cubic metres of reserves for new grassroots LNG projects.

Despite the moratorium, gas output will continue to rise. Doha-based QNB Capital predicts that, in terms of tonnage per year, gas output will rise to around 120 mtpa in

2012 from 86 mtpa in 2010. Around 64% of this production will be dedicated to Qatar's LNG plants.

#### Commitment to exports

Even with its new domestic downstream focus, Qatar will continue to deliver on its 77 mtpa of LNG exports. "That goes back to the reason the Qataris invested a significant amount of capital in their LNG infrastructure, they have to recoup the majority of that," said Justin Dargin, a Gulf energy analyst at Harvard University's Dubai Initiative.

"The 77 mtpa will be the holy grail but when the Qataris discuss additional supply, it will not be allocated as exports unless there is some kind of seismic evolution in the global gas market. Going forward, it'll be allocated to the domestic market. It's all part of Qatar's domestic diversification strategy. Since the onset of the financial crisis it's not going to be able to depend on external markets to fuel economic growth as it did previously and will therefore have to diversify the economy," Dargin added.

Most of Qatar's LNG will still be sold through long-term sales purchase agreement, rather than spot sales, though QP now includes more price flexibility in its contracts – for example, enabling cargoes to be diverted elsewhere if offtakers are oversupplied.

Qatar has entered new markets in Latin America, signing a long-term agreement with Argentina and sending LNG cargoes to Brazil. It needs these new markets as new LNG capacity starts to come online in Australia which is competing for the same off-take customers in Asia.

"The Qataris may have encountered some difficulties in recent months to firm up new contracts in Asia, but just as they have shown flexibility on prices before there is no reason why they shouldn't do so again in future if they have to. They are better placed than any commentator to know about market conditions and the onset of competition in the second half of this decade not just from Australia and the Atlantic Basin, but also potentially from new gas provinces in East Africa and the Mediterranean," said Darbouche.

European countries, notably Belgium, Spain and the UK, have become major LNG customers of Qatar in recent years. Qatar exported 10.2 mt of LNG to the UK in 2010, its top global buyer that year.

Russia's Gazprom has identified the increased cargo sales to Europe as a key source of the demand destruction it is confronting in that market. Moscow is now applying increasing pressure on Doha to pull back from the continent, and focus instead on Asia.

Russian officials claim informal commitments from their Qatari counterparts to soft pedal in Europe. The Qataris are unlikely to agree an outright quota system with Russia, but a gentleman's agreement over spheres of control is likely.

Doha's preference for oil-indexed pricing structures on long-term deals – as favoured in Asia – makes this a strong fit for Doha just as much as Moscow.

"The Russians and Qataris have apparently come to some kind of agreement before," said Dargin. "When Gazprom officials and Qatari officials met in early 2010, a few months afterwards, QP announced a maintenance programme that shut in about 66% of Qatari LNG for a period of several weeks. Gazprom also shut in some of its production during the same time. Whether this was based on explicit co-operation, it is circumstantial, but it did have the impact of at least partially alleviating the gas glut in the wake of the global financial crisis."

QP may also get something else out of the Russian tete-a-tete, with Moscow's Energy Minister Sergei Shmatko inviting Qatar's co-operation in its Yamal LNG project, which is intended to produce more than 15 mtpa of LNG. Qatar Petroleum International is understood to be eyeing a stake in Russia's Novatek, the majority shareholder in Yamal LNG.

#### Challenges ahead

For Sada, the shift in direction in the country's energy sector presents a major challenge. Lacking the ebullience and strong personal contacts of his predecessor, Attiyah, insiders have alluded to turmoil inside the senior ministry ranks this year.

International oil companies have complained of the lack of access to the minister, compared to his predecessor. Attiyah, the consummate Gulf energy minister, was someone able to draw various parties into overall understanding, say Qatar watchers. In contrast, Sada's management style is more hierarchical and upfront. Sada has been faced with having to move out people loyal to Attiyah, and his more abrasive style has caused some ructions inside the energy bureaucracy. As a consequence, he may need a little more time to settle in before he can fully drive forward the country's ambitious diversification plans.

#### Qatar: fast facts

- Total natural gas production in Qatar has risen at 21% per year from 37 mtpa in 2006 to 86 mtpa in 2010.
- When Qatargas' seventh train was commissioned in February 2011, Qatar's LNG production capacity reached 77.1 mtpa.
- Five new LNG trains have been commissioned since 2008.
- Qatar was responsible for 4% of global gas production in 2010.

Source: QNB Capital



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