Booming LNG industry weighs up headwinds from oil to renewables

Bloomberg/London

Liquefied natural gas may be one of the fastest-growing fossil fuels but that didn’t stop market participants spotting clouds on the horizon when they met on the first day of the CWC World LNG Summit in Lisbon.
Below are some of the most pressing issues discussed at the biggest annual event for the industry in Europe.

Oil and economy
Brent crude is trading below $60 a barrel, having lost almost 11% this year. A perceived economic slowdown, which is affecting oil, is a challenge for the gas and LNG industry, said Eric Bensaude, managing director at Cheniere Marketing. The booming US projects tend to offer contracts linked to the US Henry Hub natural gas benchmark, which has gained 50% this year, making competition difficult with the oil-linked

contracts that dominate in long-term LNG supply deals.
“We have to remain competitive,” Bensaude said. “You don’t want oil to be too high because otherwise the LNG industry gets carried away, you don’t want it to be low because otherwise Henry Hub becomes unaffordable and it switches to oil again.”

Renewables

As the costs of renewable energy fall and battery technology is developed to store it, the natural gas industry sees a role for itself in the future energy mix. “We should embrace the growth of renewables, we have no alternative, it makes no sense to confront that, that has to be part of our global landscape,” said Galp chief executive officer Carlos Gomes da Silva said. “I am seeing natural gas and LNG in particular as not a transitional energy but as destination energy.”

Investment shortfall

A lack of final investment decisions in the past years is expected to weigh on supply by the middle of the next decade, when it is seen falling short of demand. This year, Cheniere’s Corpus Christi Train 3 and Royal Dutch Shell Plc’s LNG Canada got the green light, but more multibillion-dollar projects are needed and expected next year to secure the second wave of supply. The lack of FIDs could generate a jump in prices in the early 2020s and potentially make LNG unaffordable, risking a shift back to cheaper and dirtier coal, Bensaude said.

Spike in US gas?

The rally in US benchmark Henry Hub futures earlier this month was seasonal and related to a cold snap and is unlikely to be sustained, according to panellists at the conference.
Cheniere’s Bensaude sees a long-term range of $3 to $4 per million British thermal units. Michael Sabel, co-CEO of Global Venture LNG, another US export project developer, sees the range at $2.25 to $3.25 on average.

China

China has led LNG demand growth but those increases are becoming less certain. China imposed a 10% tariff on US LNG, and sellers are re-organizing flows to bring alternative sources of supply.
What's more, from October industrial demand started to decline to avoid the higher costs observed at the same time last winter, said Yanyan Zhu, general manager of the trading department at CNOOC Gas & Power. Longer term, China's LNG imports face increasing pressure from cheaper pipeline gas, including from Russia, and by government support for domestic gas production. "In the future when the government is encouraging domestic production, pipeline gas is coming, I think the role of LNG will be reduced to some extent," Zhu said.

Impact of US LNG expansion on other exporters
US LNG production has been rising since Cheniere started its Sabine Pass project in Louisiana in 2016. That is becoming a concern to other exporters, who are rushing to get their projects finished.
Tavares Martinho, vice president for exploration and production at Mozambique's national oil company, Empresa Nacional de Hidrocarbonetos EP, compared competing with US LNG to "a monkey with a stick trying to hit a lion." Mozambique is among the most promising future LNG exporters in Africa. "Competing with the US is very difficult," he said.

Qatar takes part in GCC transport ministers' meeting

Qatar took part in the 21st meeting of the Ministers of Transport in the Gulf Co-operation Council (GCC), held on Thursday in Kuwait.

HE the Minister of Transport and Communications Jassim bin Seif al-Sulaiti headed the Qatari delegation to the meeting.

During the meeting, the ministers discussed a number of key topics including the GCC railway project, the memorandum of understanding on the Joint Data Centre for the Remote Ship Tracking System and the latest updates regarding the Manual on Uniform Traffic Control Devices.

The meeting raised the recommendations necessary for the implementation of the decisions of the Supreme Council on the mechanism of work for the completion of studies and strategic projects for the transport and communications sector, which will deepen the economic integration between the GCC States.

A preparatory meeting was held for Undersecretaries of transport and communications in the GCC countries on Wednesday.

New lanes to open on Rayyan Road

The Public Works Authority (Ashghal) has announced that it will open eastbound lanes along 2km of the main carriageway on Al Rayyan Road, including an underpass at Bin Zaben Interchange (Al Mukafaha I/C), today.

Saudi Contractor Defaults on $2 Billion of Debt

One of Saudi Arabia’s major contractors defaulted on almost $2 billion after a falling out among its owners and delays in payments from the government, according to people with knowledge of the matter.

The Saudi unit of Cyprus-based Joannou & Paraskevaides Group defaulted on about 7 billion riyals ($1.9 billion) in bank loans about two months ago, said the people, asking not to be identified as the information is private. The defaults are largely the result of problems getting paid by the Ministry of Interior, the people said.

Lenders, which include Arab National Bank, Alawwal Bank, Banque Saudi Fransi, Emirates NBD PJSC, Saudi British Bank and Samba Financial Group, don’t expect to recover much of the money, the people said.
Faced with a budget deficit that ballooned to $100 billion in 2015, Saudi Arabia suddenly halted payments to government contractors. The move wreaked havoc among local construction firms as many projects stopped, leaving them unable to pay employees. Saudi Oger Ltd., once one of country’s top contractors, collapsed as a result.

J&P's Saudi unit has been struggling since then and has also been impacted by a dispute between the parent company's shareholders, which distracted management attention from the issues in the kingdom, the people said. As a result of that dispute, the parent company is being liquidated by Alvarez & Marsal in Cyprus. That liquidation does not directly impact the Saudi unit's operations, the people said.

The Finance Ministry says it honors payments that fulfill all of the government's requirements. A committee to deal with contractor payments has been set up and most disputes have been resolved, Finance Minister Mohammed Al-Jadaan, said last month. In May, many companies were said to have complained about delays.

Alvarez & Marsal didn't respond to requests to comment on behalf of J&P. Calls and emails to J&P's Saudi office weren't answered. The Saudi government's Center for International Communication didn't immediately respond to a request for comment.

Spokesmen for the lenders either declined to comment, didn't respond, or couldn't immediately be reached.

J&P's projects in the kingdom include large housing developments for the Ministry of Interior and building parts of the King Abdullah Financial District in Riyadh.

Qatar to leave OPEC and focus on gas as it takes swipe at

Riyadh

DOHA (Reuters) – Qatar said on Monday it was quitting OPEC from January to focus on its gas ambitions, taking a swipe at the group's de facto leader Saudi Arabia and marring efforts to show unity before this week's meeting of exporters to tackle an oil price slide.

Doha, one of OPEC's smallest oil producers but the world's biggest liquefied natural gas (LNG) exporter, is embroiled in a protracted diplomatic row with Saudi Arabia and some other Arab states.

Qatar said its surprise decision was not driven by politics but in an apparent swipe at Riyadh, Minister of State for Energy Affairs Saad al-Kaabi said: "We are not saying we are going to get out of the oil business but it is controlled by an organisation managed by a country." He did not name the nation.

Al-Kaabi told a news conference that Doha's decision "was communicated to OPEC" but said Qatar would attend the group's meeting on Thursday and Friday in Vienna, and would abide by its commitments.

He said Doha would focus on its gas potential because it was not practical “to put efforts and resources and time in an organisation that we are a very small player in and I don’t have a say in what happens.”

Delegates at OPEC, which has 15 members including Qatar, sought to play down the impact. But losing a long-standing member undermines a bid to show a united front before a meeting that is expected to back a supply cut to shore up crude prices that have lost almost 30 percent since an October peak.

“They are not a big producer, but have played a big part in (OPEC’s) history,” one OPEC source said.

It highlights the growing dominance over policy making in the oil market of Saudi Arabia, Russia and the United States, the world’s top three oil producers which together account for more than a third of global output.

Riyadh and Moscow have been increasingly deciding output policies together, under pressure from U.S. President Donald Trump on OPEC to bring down prices. Benchmark Brent is trading at around $62 a barrel, down from more than $86 in October.

“It could signal a historic turning point of the organisation towards Russia, Saudi Arabia and the United States,” said Algeria’s former energy minister and OPEC chairman, Chakib Khelil, commenting on Qatar’s move.

For a graphic on Who produces what within OPEC?, see – tmsnrt.rs/2RxkhwC

“UNILATERAL DECISIONS”

He said Doha’s exit would have a “psychological impact” because of the row with Riyadh and could prove “an example to be followed by other members in the wake of unilateral decisions of Saudi Arabia in the recent past."

Qatar, which Al-Kaabi said had been a member of OPEC for 57 years, has oil output of just 600,000 barrels per day (bpd), compared with Saudi Arabia's 11 million bpd.

FILE PHOTO: Saad al-Kaabi, chief executive of Qatar Petroleum, gestures as he speaks to reporters in Doha, Qatar, July 4, 2017. REUTERS/Naseem Zeitoon/File Photo

But Doha is an influential player in the global LNG market with annual production of 77 million tonnes per year, based on its huge reserves of the fuel in the Gulf.

OPEC members Saudi Arabia and the United Arab Emirates, and fellow Arab states Bahrain and Egypt, have imposed a political and economic boycott on Qatar since June 2017, accusing it of supporting terrorism. Doha denies the charges and says the boycott aims to impinge on its sovereignty.

Al-Kaabi, who is heading Qatar's OPEC delegation, said the decision was related to the country's long-term strategy and plans to develop its gas industry and increase LNG output to 110 million tonnes by 2024.

"A lot of people will politicise it," Al-Kaabi said. "I assure you this purely was a decision on what's right for Qatar long term. It's a strategy decision."

The exit is the latest example of Qatar charting a course away from its Gulf neighbours since the rift began last year. It comes before an annual summit of Gulf Arab states expected to grapple with the roughly 18-month standoff.
Once close partners with Saudi Arabia and the UAE on trade and security, Qatar has since struck scores of new trade deals with countries further afield while investing heavily to scale up local food production and ramp up military power.

"There is a sentiment in Qatar that Saudi Arabia's dominance in the region and the region’s many institutions has been counterproductive to Qatar achieving its development goals,” said Andreas Krieg, a political risk analyst at King’s College London. “It is about Qatar breaking free as an independent market and state from external interference.”

Oil surged about 5 percent on Monday after the United States and China agreed to a 90-day truce in their trade war, but prices remain well off October’s peak.

Asked if Qatar’s withdrawal would complicate OPEC’s decision this week, a non-Gulf OPEC source said: “Not really, even if it’s a regrettable and sad decision from one of our member countries.”

Amrita Sen, chief oil analyst at consultancy Energy Aspects, said the move “doesn’t affect OPEC’s ability to influence as Qatar was a very small player.”

Al-Kaabi said state oil company Qatar Petroleum planned to raise its production capability from 4.8 million barrels oil equivalent per day to 6.5 million barrels in the next decade.

Doha also plans to build the largest ethane cracker in the Middle East.

Qatar would still look to expand its oil investments abroad and would “make a big splash in the oil and gas business”, he Al-Kaabi added.