

# Natural gas in increased focus on world stage, al-Kaabi tells GECF meeting



Natural gas is getting increased focus on the world stage as it provides the right balance of reliable and secure sources of energy, which can not only drive growth but also help address the environmental concerns, Qatar has said.

HE Minister of State for Energy Affairs Saad bin Sherida al-Kaabi, made this remark at the extraordinary ministerial meeting of the Gas Exporting Countries Forum (GECF) in Malabo, Equatorial Guinea.

The extraordinary meeting is held in preparation of the fifth Heads of State Summit, which will also be held in Equatorial Guinea.

Referring to the relevance of associating the UN Sustainable Development Goals with greater access to a versatile, flexible, economic, and clean source of energy, he said: "we are pleased to note the increasing attention natural gas is receiving as an important clean fuel in the global energy mix, and as a significant contributor to economic prosperity and environmental efforts to reduce emissions."

Many countries around the world are reaching the conclusion that natural gas does provide the right balance of reliable and secure sources of energy, which can drive economic growth, and help address environmental concerns at the same time, said al-Kaabi, who led Qatar's delegation.

Qatar will hold the sixth heads of state summit of GECF in

2021.

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# Demand slowdown in top gas buyer set to worsen



Bloomberg/ Beijing/Singapore

A slowdown in gas demand growth in China, the driver of global use over the past two years, is expected to slacken further, adding to investor concern as supply continues to build.

Consumption in 2021-2025 will grow at a slower pace than it has in the current five-year period, a researcher at China's economic planning department said at the BloombergNEF summit in Shanghai on Wednesday. Furthermore, a weaker economy and rising imports via pipeline could shrink the share of liquefied natural gas in the overall Chinese market, according to gas utility ENN Energy Holdings Ltd.

The country's overall gas use has expanded 9.5% so far this year, down from 18% in 2018, amid concerns that the slowing

economy has prompted the government to focus less on pollution control, which had earlier helped spur demand for the fuel. That contrasts with the boom in 2017-2018, when President Xi Jinping's calls for blue skies sparked a race among local governments and businesses to switch millions of homes and factories from burning coal to using more of cleaner-burning gas.

The demand slowdown has pushed LNG prices in Asia lower by almost 40% this year, a slump also aided by China's rising domestic output of the fuel.

China's gas demand growth will likely slow over the duration of the 14th Five-Year Plan from 2021 to 2025 compared with current levels, Tian Lei, an assistant professor at the National Development & Reform Commission's Energy Research Institute, said in an interview on the sidelines of the BNEF summit.

Consumption will probably be weaker at the start of the five-year period, before accelerating toward the end due to environmental pressure, he added.

A sharp deceleration in China's economic growth – with gross domestic product expanding in the third quarter at the slowest rate in decades – coupled with rising pipeline imports following the start-up of the Power of Siberia line from Russia, could cut LNG's market share in China and lower import growth, according to Mark Lay, deputy general manager of ENN.

China's LNG imports gained 14% this year through October after rising more than 40% in each of the prior two years. Increased domestic gas production amid the nation's efforts to bolster energy security will also erode overseas purchases, said Daniela Li, a BloombergNEF analyst.

Despite prospects of a slowdown, the current gas consumption levels still represent "extraordinary growth," said Bernard Samuels, vice president of China gas development at Royal Dutch Shell Plc. The government's plans for a national pipeline company could help lower prices for domestic customers and boost demand, he said.

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# Natural gas plants set for revival in Germany as carbon costs soar



Uniper SE is preparing to switch on more natural-gas plants as higher costs for carbon allowances shifted the economics of the power generation business away from coal.

Gas plants also are benefiting both from a slump in the price of the fuel. Uniper, one of Europe's largest utilities, will bring back on line as much as 3.5 gigawatts of gas plants that were mothballed when market conditions were less favourable. That's almost a third of its gas-plant capacity.

"Carbon markets have shown they work," chief executive officer Andreas Schierenbeck said in an interview in Bloomberg's office in Frankfurt. "This summer, carbon prices were very high and gas is very cheap, very competitive. The logic is clear: you need as much a double carbon certificates for coal than for gas."

The remarks illustrate the latest shift in the ever-changing economics of generating electricity. While Chancellor Angela Merkel is moving to phase out the most polluting fossil fuels, emissions in Germany have actually risen in recent years as the government took nuclear plants off the grid, boosting the need for coal.

Now the government is seeking to remove both nuclear and coal

plants from the nation's power supply, eliminating about half of Germany's power generation capacity. The rise in carbon costs has helped encourage that shift by making it profitable for utilities to switch on gas plants instead of coal.

The move will help Germany reduce pollution. Natural gas emits as much as 55% less carbon dioxide than coal. While the government is seeking to spur renewables to meet its climate commitments, industry executives, energy forecasters and investors say that more gas will be needed for the time being. Gas plants can help balance the grid until there's enough wind, solar and battery capacity to ensure supply day and night and on breeze-free days.

"With the nuclear and coal exit, our gas plants will have to produce more," said Schierenbeck. "We need more gas for power generation as a big part of our power plants is on the reserve, and we will probably take them out."

Carbon permits under the European Union's emissions-trading system, the world's biggest cap-and-trade programme, were at €23.70 a tonne (\$26.14) on Friday, 20% higher than a year ago. Analysts and traders expect that annual demand will outweigh supply at least until the mid-2020s.

German gas prices are 40% lower than a year ago. Weighing on prices are abundant supplies arriving both by pipeline and in LNG tankers. That has pushed storage levels to near capacity and well above the average for the past five years.

Uniper has the capacity to generate 10 gigawatts of power from natural gas in Germany. It will be one of the companies hit quickly by legislation to phase out coal in Germany. Some versions of the draft bill suggest the country will shut down 5 gigawatts of hard coal capacity by 2022.

Uniper owns more than 3 gigawatts of power plants that burn hard coal and is building another 1 gigawatt-plant in western Germany. It expects to get approval from the government to start operating that facility, named Datteln-4.

The new power unit has not entered service yet due to ongoing structural problems with its boiler. Uniper now expects to start it in the middle of next year. The company has argued

that the plant should open despite Germany's plan to exit coal.

"Datteln 4 will probably be the last new coal power plant we will see in Germany," said Schierenbeck. "I would guess it would be also true for Europe. I have the feeling there's understanding from the government that it makes sense to keep the newer and most efficient instead of the older and less environment friendly."

Uniper is Europe's fifth largest greenhouse gas emissions polluter in the power sector based on 2017 data, according to Sandbag, a climate change think tank in London.

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## **EU bank takes 'quantum leap' to end fossil-fuel financing**



By Ewa Krukowska, Bloomberg

The European Investment Bank adopted an unprecedented strategy to end funding for fossil fuel energy projects, in a move expected to support Europe's plans to become the first climate-neutral continent.

The board of the Luxembourg-based lending arm of the European Union decided at a meeting on Thursday to approve a new energy policy that includes increased support for clean-energy projects. The bank will not consider new financing of unabated fossil fuels, including natural gas, from the end of 2021.

With more than half a trillion dollars in outstanding loans, the EIB is the biggest multilateral financial institution in the world. Given the EIB's market impact and influence over the lending strategies of investors, its decision could end up



depriving polluting projects from other sources of financing as well.

The lender's move to prioritize energy efficiency and renewable-energy projects will reinforce the Green Deal being pushed by Ursula von der Leyen, the incoming president of the European Commission. She wants the institution to become a climate bank and help unlock 1 trillion euros (\$1.1 trillion) to shift the economy toward cleaner forms of energy.

"Climate is the top issue on the political agenda of our time," EIB President Werner Hoyer said in a statement, calling the decision to transition away from financing fossil fuels a "quantum leap in its ambition."

The EIB decision is part of a broader push across the EU's most powerful institutions that's catapulted the bloc to the forefront of global efforts to fight climate change. New European Central Bank President Christine Lagarde has pledged to make climate change more of a focus for the institution, which is considering adding climate-related risks to its stress-test scenarios, in what could potentially make exposure to high-carbon footprint projects a liability for the balance sheets of financial firms in the continent.

The 28-nation EU wants to step up its climate ambition in sync with the landmark 2015 Paris agreement to fight global warming, after the U.S. turned its back on the accord. With EU leaders considering committing to climate neutrality by 2050, Europe is a step ahead of other major emitters, including China, India and Japan, which haven't so far translated their voluntary Paris pledges into equally ambitious binding national measures.

"For the EIB to stop funding fossil fuel projects is a game-changer that begins to deliver the EU's vision for climate leadership as laid out in the Green Deal," said Eliot Whittington, director of the European Corporate Leaders Group.



“We need this to act as an unequivocal signal into the financial system to encourage other multilateral lenders to follow suit.”

Von der Leyen, who is due to assume her new job as head of the EU’s executive arm in the coming weeks, also wants the bloc to raise its current target of cutting emissions by at least 40 percent by 2030 from 1990 levels. That may involve a reduction in pollution in the order of 50% or even 55% to counter the more frequent heat waves, storms and floods tied to global warming. Fossil fuels such as coal, oil and natural gas are leading contributors to climate change.

The EIB deal resolved a two-month deadlock where Germany and some central European nations sought to soften the proposed rules and make certain natural-gas projects eligible for financing. The strategy adopted on Thursday allows for continued support for projects already in the works that are vital for Europe’s energy security as long as they are appraised and approved by the end of 2021.

“Hats off to the European Investment Bank and those countries who fought hard to help it set a global benchmark today,” said Sebastien Godinot, economist at the environmental lobby WWF Europe. “All public and private banks must now follow suit and end funding of coal, oil and gas to safeguard investments and tackle the climate crisis.”

## **New Standards**

The EIB new policy includes a new Emissions Performance Standard of 250 grams of carbon dioxide per kilowatt-hour, replacing the current 550 grams standard. That means that in order to qualify for financing, new power-generation projects have to be mitigated by various technologies that significantly improve their emissions performance, EIB Vice President Andrew McDowell said in a conference call.

The EIB, which last year invested more than 16 billion euros in climate-action projects, is preparing to play a larger role in spurring low-carbon technologies.

“This is not a last step, there are many more steps to come,” McDowell said. “But this is probably one of the most difficult parts of this journey that we’re having to take.”

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## China bid for commodity price power extends to natural gas



China became the world’s biggest natural gas buyer last year. Now it wants to start setting its own price.

That’s because importers have been paying rates influenced by events unrelated to China’s supply and demand balance from

European weather to Middle East conflicts. So like it has for oil, gold and iron ore before, producers, distributors and financial exchanges in the top commodities market are seeking prices that they say better reflect Chinese fundamentals, and in their own currency.

The search for an internationally recognised Chinese natural gas price, including a proposed futures contract, follows the larger pattern of the world's biggest commodities consumer seeking a greater say in how to price the raw materials it consumes.

'We've been taken advantage of by foreign firms, Xu Tong, a deputy general manager of distributor Beijing Gas Group Co, said in an interview. Domestic indexes will 'reduce premiums significantly.

China is also opening its commodities derivatives markets to foreign traders, partly in an effort to broaden the appeal of its currency, the yuan. In March 2018, an exchange in Shanghai introduced an oil futures contract for overseas investors, while Dalian followed two months later by opening up its iron ore trade.

China's natural gas demand has boomed in recent years as the government of President Xi Jinping pushed industrial and residential customers away from coal. But domestic production of the gas hasn't kept pace with consumption. Imports, meanwhile, surged almost 32% last year.

Domestic gas sales follow two different pricing structures: a government-set price for pipeline supplies, which is open to some negotiation between buyers and sellers, and the unregulated market for liquefied natural gas transported on trucks. And for imports, China mostly pays in US dollars at prices based mainly on either global oil or gas benchmarks set in the US or Europe.

The structure can contribute to losses for Chinese companies

that resell overseas gas at lower domestic rates. PetroChina Co, the top oil and gas supplier, has chalked up \$34bn of losses since 2011, when it began regularly reporting the figures.

LNG contracts first became tied to oil prices at a time when the fuel competed with petroleum used for home heating and power generation. More importantly, oil provided transparent and liquid price benchmarks that allowed buyers to hedge and sellers to secure bank financing. But prices have begun to uncouple as the global gas market deepens.

'Gas fundamentals can't be reflected by oil they are two separate products, Wu Yifeng, deputy general manager of natural gas at PetroChina's international unit, said in an interview in Beijing.

Europe and the US have natural gas benchmarks that reflect supply and demand in their respective markets and are liquid enough to bank on. Asia doesn't have that yet. A futures contract built around the current spot benchmark in northeast Asia assessed by S & P Global Platts is gaining traction, but remains a far cry from what's seen in the west.

Chinese gas companies are trying to build their own, drawing on the success of the nation's Dalian iron ore futures, which global traders look to for daily price signals because of the sheer size of the market.

The Shanghai Futures Exchange has said it plans to launch natural gas futures, though no timing has been set. The Shanghai Petroleum & Natural Gas Exchange, or SHPGX, hosts auctions for small quantities of domestic gas and publishes daily trucked LNG prices.

Whether China is able to achieve the clout it desires with gas prices may depend on ease-of-use and investor interest. Currently, crude oil, iron ore, rubber and purified terephthalic acid (used to make plastics and polyester) are

open to foreigners, and most other commodity futures are isolated to only the domestic market. The gas contract SHFE is mulling will allow offshore entities to trade.

Another key factor for China's pricing ambitions is a long-awaited national pipeline reform. The move to give more suppliers access to the transportation networks, which is now mainly operated by the three state-owned giants, must happen for prices to freely reflect the broader market, said Chen Gang, an assistant to the general manager at SHPGX.

Only then can domestic prices become a benchmark, with support from the derivatives market, according to Chen. The final step may be to link those prices to imported gas, he said.

Source: Gulf Times

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## QP wins exploration rights in three Brazil offshore blocks



Qatar Petroleum (QP), the country's hydrocarbon bellwether, has won exploration rights in three offshore blocks in Brazil, as part of two bidding consortia.

The winning bids were announced by Brazil's National Agency of Petroleum, Natural Gas, and Biofuels (ANP) at a public bidding session held in Rio de Janeiro.

Competing bids were submitted to the ANP and the winners were announced throughout the course of Thursday's public session.

QP won the exploration rights for block [541] in the Campos basin as part of a consortium comprising affiliates of Total (Operator with a 40% interest), QP (40% interest), and Petronas (20%).

It also won the exploration rights for blocks [659 and 713] in the Campos basin as part of a consortium comprising affiliates of Shell (Operator with a 40% interest), Chevron (35% interest), and QP (25% interest).

"This successful result is the fourth of its kind, which further strengthen QP's footprint in Brazil, marking yet another successful step towards realising our international growth strategy, and turning Brazil into a cornerstone of our international portfolio," said HE the Minister of State for Energy Affairs as well as QP president and chief executive, Saad bin Sherida al-Kaabi.

QP, an integrated national oil corporation responsible for the sustainable development of the oil and gas industry in Qatar and beyond, covers the entire spectrum of the oil and gas value chain locally, regionally, and internationally, and include the exploration, refining, production, marketing and sales of oil and gas, liquefied natural gas, natural gas liquids, gas to liquids products, refined products, petrochemicals, fertilisers, steel and aluminium.

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## **GLOBAL LNG-Asian prices hit**

# three-week high; tanker rates rise



- \* CN00C seeks to charter ships to replace COSCO-linked tankers
- \* Japan's Tohoku buys November-delivery cargo – sources
- \* China's LNG imports could slow due to terminal repairs

By Jessica Jaganathan

SINGAPORE, Oct 11 (Reuters) – Asian spot prices for liquefied natural gas (LNG) rose to a three-week high this week ahead of winter demand, while tanker rates nearly doubled on limited availability of vessels.

Spot prices for November-delivery to Northeast Asia LNG-AS are estimated to be about \$5.80 per million British thermal units (mmBtu), up by 25 cents from last week, said several sources who are market participants.



Prices for December delivery are estimated to be about \$6.45 per mmBtu, they added.

Higher oil prices and shipping rates, which have nearly doubled in a week could boost spot LNG prices further, sources added.

LNG tanker rates rose after China National Offshore Oil and Gas Company (CNOOC) sought tankers to charter looking to replace ships it had previously hired that are linked to a Chinese company sanctioned by the United States for allegedly transporting Iranian oil, they added.

Several industry sources said CNOOC is seeking to replace some of six COSCO-linked LNG tankers – Dapeng Sun, Dapeng Moon, Dapeng Star, Min Rong, Min Lu and Shen Hai.

Still, apart from a few spot cargoes, demand from North Asia is yet to increase for winter, trade sources said.

In the spot cargo market, Japan's Tohoku Electric Power bought a cargo for November delivery from a trader at \$5.80 per mmBtu, industry sources said, though this could not immediately be confirmed.

"Demand in Japan is low. I think it is only Tohoku who purchases spot cargoes constantly," a Japan-based trader said.

Essar Steel India is yet to award a tender seeking 12 cargoes for 2020 delivery, a company spokesman told Reuters.

China's LNG imports are expected to slow as repairs to the Rudong LNG import terminal is only likely to be done by mid-November after an accident last month, two company sources said.

Kunlun Energy, which operates PetroChina's LNG receiving terminals, cut intake capacity at Rudong LNG terminal since Sept. 21 when a tanker collided into a bridge that connects the island where the terminal is located to the mainland

during a typhoon.

PetroChina's trading unit Chinaoil is diverting some of the LNG meant for the Rudong terminal to its two other receiving terminals in Tangshan and Dalian, one of the company sources said. The company also offered spot cargoes earlier this week, traders said.

BHP Group has offered a cargo for loading in November from the North West Shelf plant in Australia while Angola LNG plant offered two cargoes for delivery in October and November.

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## **Qatar set to host sixth Gas Summit of GECF in 2021**



Qatar will host the sixth Gas Summit of the Gas Exporting Countries Forum (GECF) in 2021, offering an opportunity for dialogue at the highest levels on the latest developments and trends related to the global gas industry.

The announcement was made during the conclusion of the 21st GECF ministerial meeting in Moscow. This will be the second summit to be held in Doha after the forum's first summit on November 15, 2011.

"We look forward to a highly successful meeting that reflects our deep belief in dialogue and co-operation in the effort to meet the world's growing demand for energy," said HE Saad bin Sherida al-Kaabi, Minister of State for Energy Affairs, the president and chief executive of Qatar Petroleum.

He said Qatar is committed to the responsibilities it carries as the world's leading liquefied natural gas producer, foremost of which is encouraging regional and international dialogue as well as promoting natural gas as the cleanest of fossil fuels and the destination fuel in the transition to low carbon economies.

Earlier addressing the ministerial meet in Moscow, al-Kaabi had stressed the importance of natural gas in meeting the economic and environmental challenges facing energy consumers around the world.

Drawing attention to unprecedented recurrent climatic conditions, including mean temperatures, turbulent seasonal cycles and extreme events, he had said it is time to take another look at natural gas and the number of advantages it has to make it a pivotal element in any strategy to tackle environmental challenges.

The GECF, which is headquartered in Doha, is an international governmental organisation that provides a framework for knowledge sharing among its member countries. It is made up of the world's leading gas exporting countries and was set up with the objective to increase the level of co-ordination and strengthen the collaboration among its member countries.

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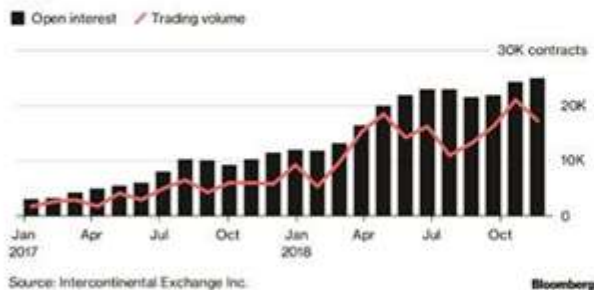
Reporting by Jessica Jaganathan

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## **Spikes in LNG shipping costs highlight need for hedging tools**

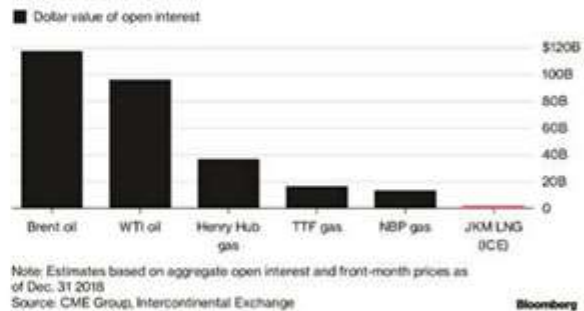
### Bright Futures

JKM LNG derivatives trading is taking off as more cargoes are sold on a spot basis



### Long Way to Go

LNG futures trail other oil and gas benchmarks in terms of open interest



A rally in the cost of chartering liquefied natural gas vessels on the spot market has highlighted the lack of tools available to traders to hedge against volatility.

The market for the fastest-growing fossil fuel is expanding quickly, with cargoes changing hands in increasingly short-term deals the way the crude oil trade matured two to three decades ago. But while physical trading is expanding rapidly, the paper market with derivatives and other financial instruments has lagged. That has made it difficult to hedge and offset potential losses both for the cargoes themselves and the freight cost of the ships that carry them.

The issue has come into high relief in the last week as the price to charter a tanker in the Pacific Ocean for December jumped more than 20% in the week to Tuesday, according to Spark Commodities Pte Ltd, which takes assessments from five LNG shipbrokers. That's drawing attention to work to develop hedging tools, with Spark focusing on a paper market for vessels known as a forward freight agreement.

"The increased volatility continues to highlight the need for an LNG FFA to allow market players to manage freight exposure," said Tim Mendelssohn, managing director of Spark, a venture between European Energy Exchange AG and cargo tracker Kpler. "We are attempting to provide a solution to a major



challenge facing the industry and drive liquidity as LNG develops.”

The move by Spark would align the cost of existing deals with liquid cargo-related financial products. The forward freight costs for December, at \$145,250 a day on Tuesday, threaten to reduce the potential profit of keeping a multimillion-dollar cargo on a boat to benefit from higher forward LNG prices.

The same is true for the LNG cargoes the ships are carrying. Of the almost 200mn tonnes of LNG traded in the last year, about a third was in the form of derivatives on the Japan Korea Marker, an industry benchmark, Pablo Galante Escobar, head of LNG at Vitol SA, said at the Oil & Money conference last week. Much more was hedged on liquid European gas hubs, he said.

“You can trade in a liquid way, but of course it is still developing,” he said.

Developing the paper market is one of the key steps needed to make LNG a fully tradable commodity, according to Galante Escobar. Despite massive growth since 2016, JKM trading draws about 25% of annual production of the super-chilled fuel.

That is in sharp contrast to crude oil, where physical trading has become just 5% of the total market. Deeper paper markets bring in speculators and provide liquidity, giving producers and consumers greater confidence they can shift their physical cargoes when needed.

Other commodities have “far more paper market than physical market,” Patrick Dugas, vice president for LNG trading at Total SA, said at the LNGgc conference in London last week. The so-called churn rate for the JKM market is near one, while the ratio needs to be closer to 10, he said.