

New Energy era for Europe “there for the taking”



ATHENS: Offshore gas from the Eastern Mediterranean could usher in a new era of energy independence and economic renaissance for Europe, a regional energy expert told a high-profile industry conference in Athens on Friday.

“Almost instantly, the flow of East Med gas into Europe would mean additional diversification and flexibility of supply, closely followed by enhanced competitiveness for European

industry, accelerated economic growth, and dramatic long-term improvements for public finances,” Roudi Baroudi, a veteran of more than 36 years in the oil and gas business, told the Athens Energy Conference.

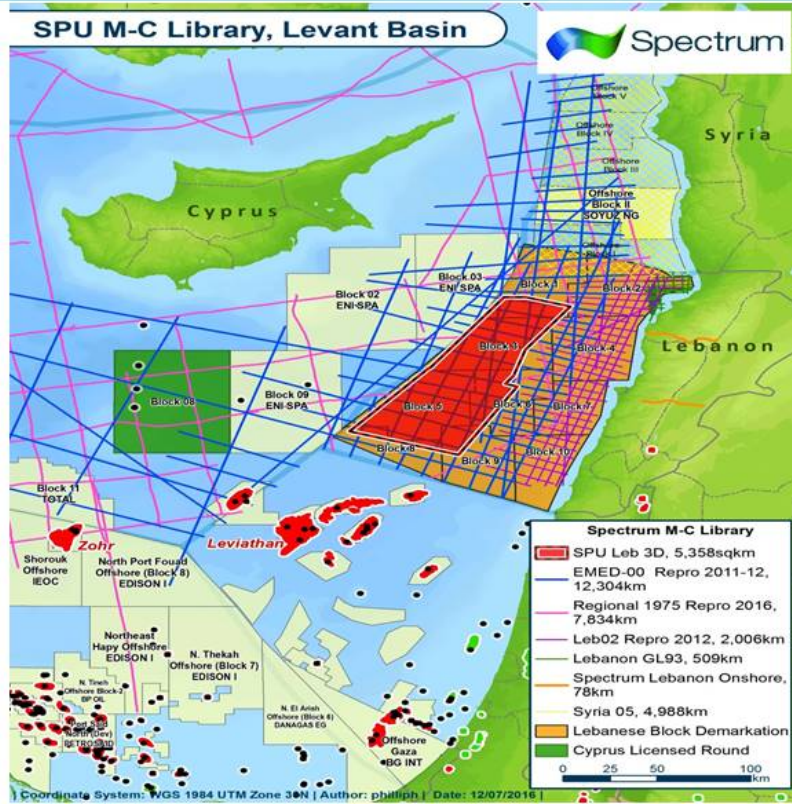
While “East Med gas would be more of a complement than a competitor to supplies already flowing ... from Russia” and other countries, he explained, other factors were also likely to help Europe diversify its energy supply, putting downward pressure on prices and “reducing the potential impact of possible interruptions elsewhere”.

Baroudi, who currently serves as CEO of Energy and Environment Holding, a Doha-based independent consultancy, has advised governments, companies, and multilateral institutions on energy matters, even helping to craft policy for agencies of the European Union and the United Nations. Speaking on the sidelines of the conference, which drew a broad audience including senior figures from both the public and private sectors, he said the timing “could not be better” for Europe.

“Shale gas has made America another energy superpower alongside Russia and OPEC, and liquefied natural gas is now a fully fledged global commodity,” he said. “Plus, the East Med producers will be sitting on Europe’s doorstep, and several countries are already gearing up to start taking massive LNG shipments. Decades of benefits for hundreds of millions of people, all there for the taking.”

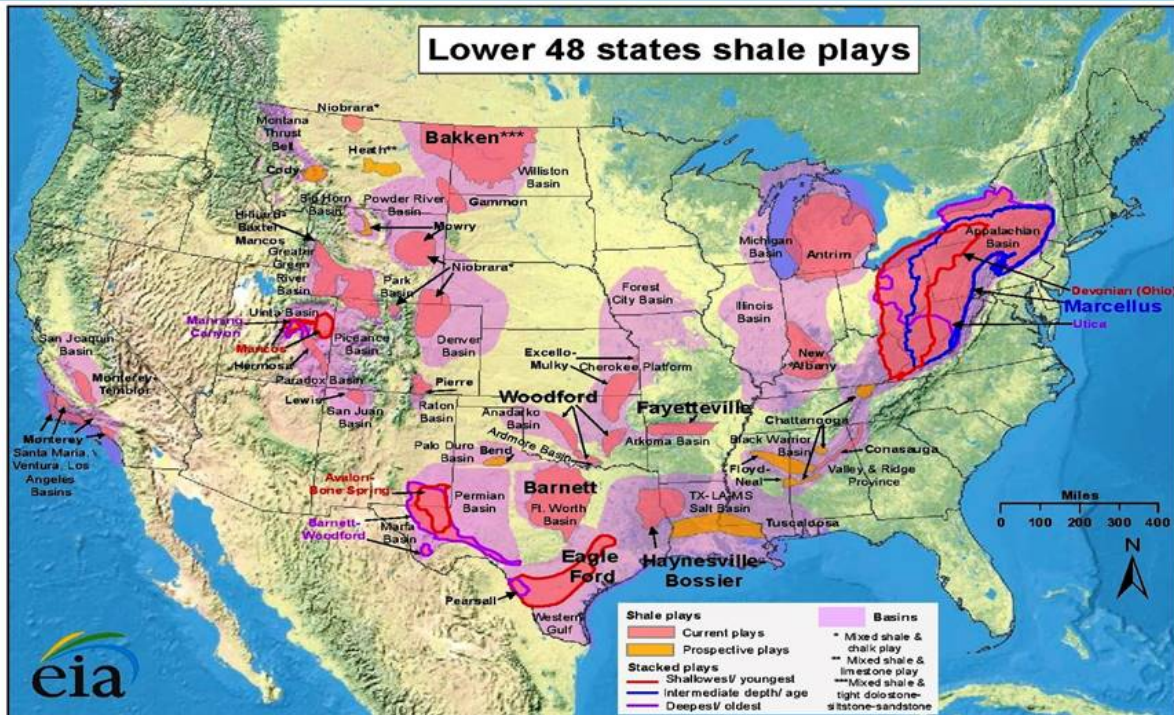
Athens Energy Forum 2018

Energy Security and Strategic Investments: The Way Forward



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And expected producer countries like Cyprus, Greece, and Lebanon, Baroudi added, stand to gain even more. "For a variety of historical reasons, most of these countries have not yet achieved the levels of development enjoyed in most of the European Union," he told the conference. "Given the potential rewards for their peoples, the governments involved have nothing less than a moral responsibility to take advantage of propitious circumstances by tapping the oil and gas wealth within their respective social, economic, and geopolitical reaches." Baroudi also has emphasized some of East Med countries are not party to UNCLOS but all countries are signatories to the UN Charter. Therefore, Baroudi reminded that all these countries are under an obligation to "settle their international disputes by peaceful means in such a manner that international peace and security, and justice, are not endangered."

He also sounded notes of caution, however. For one thing, he

stressed the need for producer countries to ensure proper management of the proceeds from gas sales to pay social justice. For another, he reinstated on the same countries to avoid international tensions that might impede development of the sector.

GECF Doha meet seeks to further strengthen gas marke

The 18th ministerial meeting of the Gas Exporting Countries Forum (GECF) in Doha tomorrow will further explore ways to strengthen the global gas market, which faces numerous challenges including lower prices.

The Doha-headquartered GECF currently accounts for 42% of the global gas output, 67% of the world's proven natural gas reserves, 40% of pipe gas transmission, and 85% of global LNG trade.

The GECF seeks to increase the level of coordination and strengthen the collaboration among member countries, and to build a mechanism for a more meaningful dialogue between gas producers and consumers to ensure stability and security of supply and demand in global natural gas markets.

It also aims to support its members over their natural gas resources and their abilities to develop, preserve and use such resources for the benefit of their peoples, through the exchange of experience, views, information and coordination in gas-related matters.

Saudi Arabian Energy Minister Khalid al-Falih is expected to travel to the Qatari capital, Doha, this week for meetings with oil-producing countries on the sidelines of an energy

forum, three sources familiar with the matter said, according to a Reuters dispatch. Al-Falih is expected to meet other energy ministers from Opec and possibly Russian Energy Minister Alexander Novak on Friday, the sources said, speaking on condition of anonymity.

It was not immediately clear whether al-Falih would meet Iranian Oil Minister Bijan Zanganeh, the sources said, as there was no confirmation from Tehran yet on whether Zanganeh would attend the gas forum.

Qatar and Russia are members of the GECF, while Saudi Arabia is not.

The natural gas market is very dynamic and requires liquidity, flexibility and transparency for it to function effectively, GECF noted. It, therefore, needs multiple supply sources, users and comprehensive infrastructure for transmission and distribution. The natural gas market is highly developed in the US Europe and Asia.

Gulf crisis and gas: Why Qatar is boosting output



Qatar may be under economic siege but it pulled an ace from up

its sleeve on 4 July by announcing that it will bolster liquid natural gas production by some 30 percent.

The move will secure Doha's position for years to come as the world's top exporter of LNG.

Naser Tamimi, a Qatari energy analyst, told MEE: "It is a very significant announcement as it will put huge pressure on the LNG projects underway in countries with higher extraction costs. It is also signals that Qatar is fighting for market share."

The announcement is also seen as a shot across the bows of Saudi Arabia and the UAE, the leads in the embargo, that Qatar is not buckling under the pressure.

Roudi Baroudi, the chief executive of Energy & Environment Holding, an independent consultancy in Doha, said: "The bottom line is this was a business decision. If politics had an impact, it was in the timing: it's possible that the move was accelerated in order to signal the country's resolve and ensure that if the siege persists, more revenues will be available to help soften the blow."

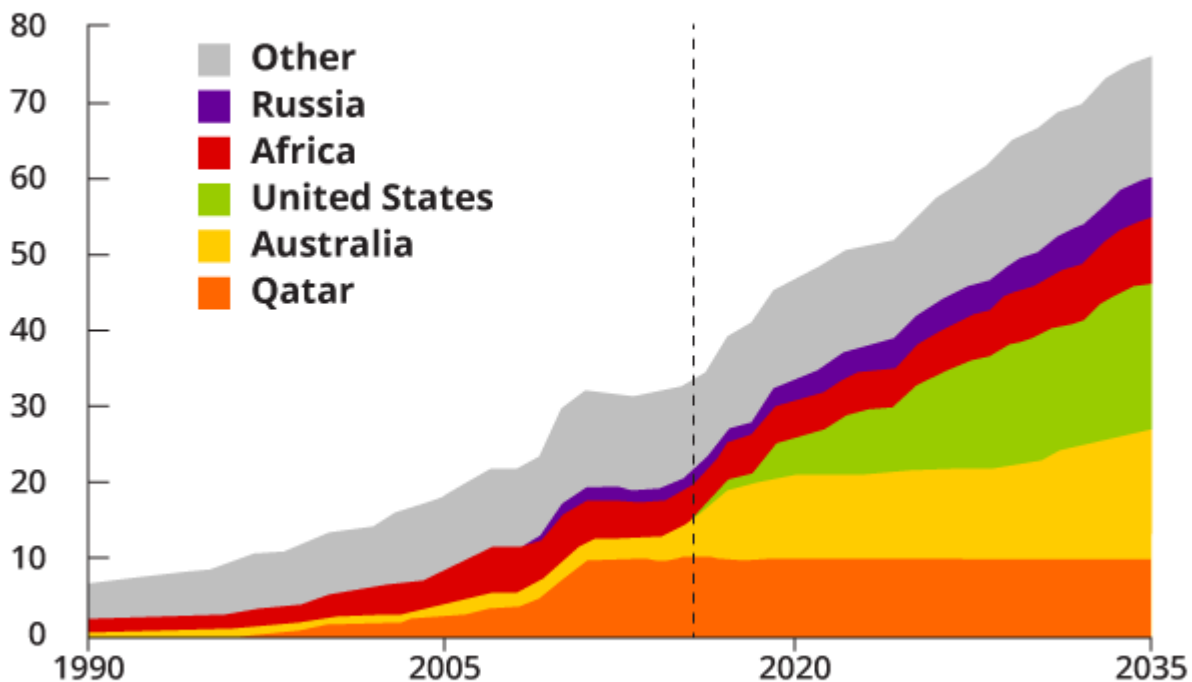
The Australia-US-Qatar tussle

Qatar had indicated earlier this year that it would increase LNG output by 15 million tonnes (MT) but it has more than doubled that figure to 33 MT. It brings annual production up from the current world-record of 77 MT to 100 MT.

Analysts have generally downplayed the timing of the announcement, which coincides with Doha rejecting the demands of Riyadh and its allies.

Liquid natural gas: Top suppliers 1990 -2035

*Billion cubic feet
per day*



Source: BP/2017 Energy Outlook



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But the move clearly shows that, at a global level, Qatar wields power when it comes to LNG. Claudio Steuer, director of SyEnergy, a UK-based energy consultancy focused on natural gas and LNG value chains, said: "Qatar's timing is impeccable to exploit the weakness in the current US LNG business model, and pre-empt competition from Russia, Iran, East Africa and East Mediterranean."

Australia is scheduled to become the world's largest LNG supplier during the next two years, but it's anticipated that Qatar will then be back on top by 2022 once new production from its huge offshore North Field begins producing.

The US is also increasing its output and expected to become the world's third-largest LNG exporter by 2020, now that LNG export terminals have come online and the Trump administration

is pushing energy exports.

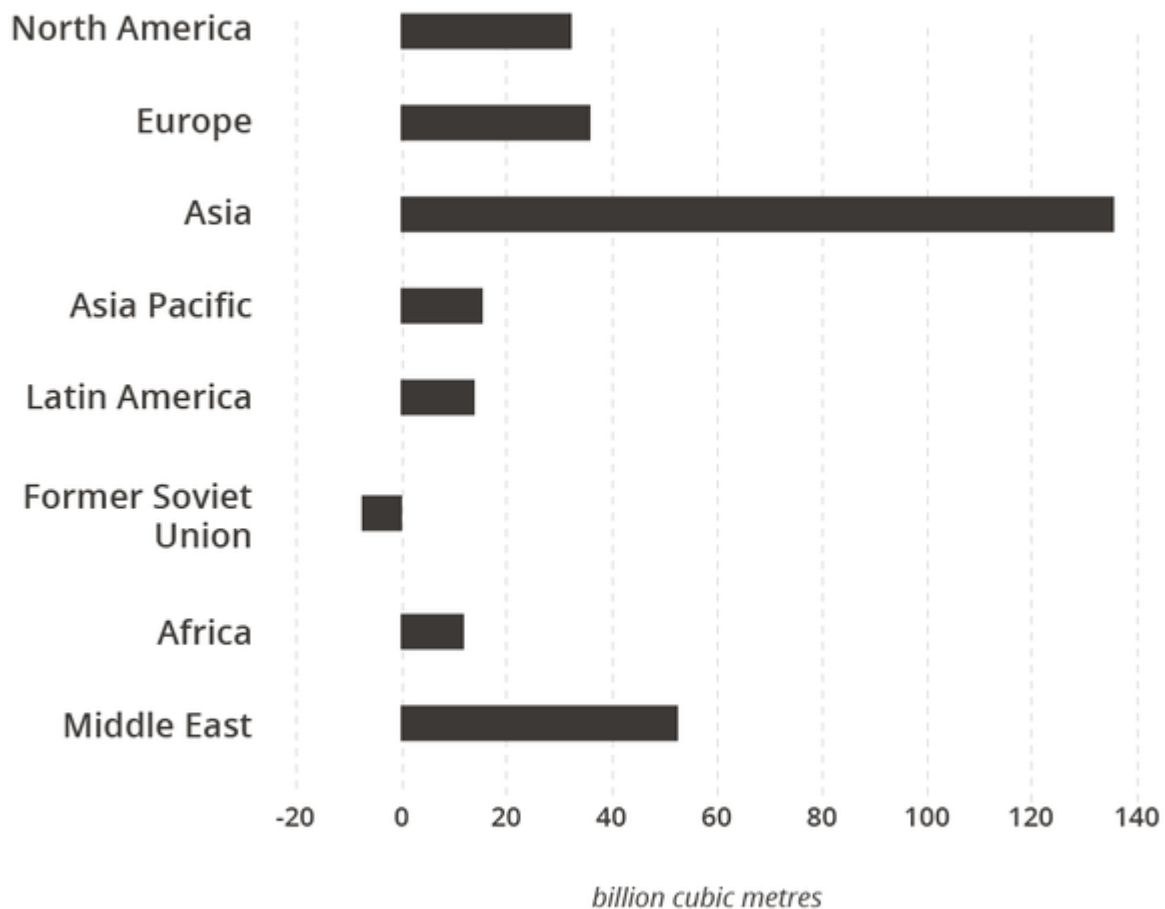
Qatar's increase will ward off such competition, primarily due to lower extraction costs in the North Field and at its liquefaction facilities, especially when compared with fracking in the US.

This will enable Doha to gain market share in countries with rising LNG demand, particularly in Asia, currently the destination for two-thirds of its LNG exports.

"Despite the strong US propaganda, the current US LNG projects costs and business model are not competitive in the growing southeast Asian markets," said Steuer.

He said that as things stand, the high costs of American LNG extraction only becomes competitive at oil prices of more than \$60 to \$70 a barrel, which will limit the scale of the expected surge of LNG supplies from the US. By way of comparison, oil prices have ranged from \$40 to \$50 a barrel during the past year.

Change in worldwide demand, 2015 – 2020



Source: Nexant



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Trevor Sikorski, head of gas and carbon at Energy Aspects, says that US gas producers will need around \$8 to \$8.50 per million British Thermal Unit (BTU) – a standard unit used for gas – to cover their capital expenditure costs and enjoy a return on their investment.

The Qataris, he said, will want a similar figure to cover investment in their new liquefaction trains – the part of an LNG plant which reduces the volume of the gas by chilling it to liquid form.

“But US costs are a dollar or two higher than what Qatar pays. If it’s a race to the bottom on prices, the US will lose.”

The risks ahead

But Qatar does face one risk: finding long-term buyers of its LNG to secure funding to underwrite the expansion.

Previous LNG projects were greenlit on the expectation of gas prices being double the current \$5 to \$6 per million BTU. Now, they’re struggling.

Qatar has managed to launch out projects, like the RasGas Train 6 – one of 13 liquefaction trains operated by state-owned RasGas and Qatargas – without long-term buyers to guarantee capital expenditures, which eases financing conditions.

Instead it operated on a “merchant basis” that reassures financiers with forecasts of rising demand.

That gamble paid off for Qatar in 2009, when RasGas 6 came online. In 2011 it was given a further boost when it used spare capacity to meet a sudden demand in LNG from Japan after the Fukushima nuclear disaster.

“They’ve taken that risk before and it worked well. If anyone can take that risk it is the Qataris,” said Sikorski.

Riyadh and Abu Dhabi will not be able to use leverage with international oil companies (IOCs) to prevent investment in Qatar. Majors like Royal Dutch Shell, Total and ExxonMobil – already heavily involved in Qatar – have already signalled their neutrality in the GCC crisis.

“I do not see any major show stoppers for Qatar in wanting to ramp up production,” said Steuer, “as all major oil and gas engineering and service providers would welcome the opportunity to secure new business in Qatar.”

The LNG expansion strengthens Qatar's ties with major oil companies while signalling to buyers that Doha can keep taps turned on, despite the crisis.

"Above all else, Qatar Petroleum must be sure it can keep its customers supplied," said Baroudi. "And they're not taking that step alone: they have partnered with some genuine heavyweights of the industry."

A blow to Saudi Arabia?

Opinion is divided as to whether Qatar's announcement raises the regional stakes in the global shift away from oil to gas.

Saudi Arabia and the Emirates, which are not gas exporters, will struggle to match Doha's output.

Shaybah, base for Saudi Aramco's LNG plant and oil production in Saudi Arabia's Empty Quarter in 2016 (AFP)

LNG is considered a cleaner fuel than oil. Major economies such as China, India and South Korea have been moving from coal power plants to gas to reduce pollution.

Steuer said: "As gas is the only fossil fuel with sustainable long-term prospects for the next 25 years, this only reinforces the current tensions involving Saudi Arabia and Qatar.

"As oil demand and prices decline, the economic power is gradually shifting away from oil-rich nations to gas and LNG rich nations. This game changes the balance of political and economic power in the Middle East."

Oil prices are key to balancing the budgets of Saudi Arabia and the UAE. Each needs target prices of \$90 and \$60 per barrel respectively in 2017 to balance the books, according to the Institute of International Finance.

Asia is considered the battleground between Qatar and Saudi Arabia for energy exports.

"I think the Saudis will lose more than the Qataris, as the Qataris depend on gas and condensate more than oil, which is not their main export," said Tamimi. Oil accounts for around 50 percent of Saudi Arabia's GDP and 85 percent of its export earnings, according to OPEC.

In December 2016, Russia overtook Saudi Arabia as the world's largest oil producer. Moscow has also been expanding its market share in China, the world's largest oil importer and third-biggest LNG importer.

"Saudi Arabia used to have 20 percent share of the Chinese market, in 2011, but in the first five months of 2017 it's down to 11 percent," said Tamimi. "It will be difficult or maybe impossible to regain that."

But while Qatar's LNG increase is equivalent to around 10 percent of global LNG capacity, Sikorski thinks it is "a bit of a stretch" to say that gas will replace oil dependency.

"To me this is a case of, 'Look GCC, we [Qatar] are not dependent on you to make our economy work, we can expand our gas exports if you try to squeeze us, and we will continue to make a lot of money on that.' That was the message to me, rather than saying LNG is the future and oil is dead."



Paul Cochrane

GECF sees oil price to range from \$70 to \$95 in long-term

GULF TIMES – Doha

Doha-based Gas Exporting Countries Forum (GECF) expects long-term global oil price to range from \$70 to \$95 a barrel, while short-term prices are expected to remain “weak”.

“Our projection of 2040 oil prices show that over the medium-to-long term, prices will likely range from \$70 to \$95 per barrel in constant (2015) dollars,” GECF said in its maiden report ‘Global Gas Outlook’. These price levels will support the most expensive sources of production such as Canadian oil sands, Venezuelan heavy crude and off shore deep-water African projects, it said.

The expected oil price range (\$70 to \$95) would mean that an expected pick-up in the global economy would sustain the new levels. Global gross domestic product growth is expected to be stronger between 2015 and 2020, at 3.1% per year, but would start to slow down to 2.9% after 2020 as non-OECD (Organisation for Economic Cooperation and Development) Asia, including China and some other major emerging but maturing economies, slow to a more sustainable long-term rate.

In the medium term, the cost of producing the most expensive (marginal) barrel is an important component for oil price projection although the cost of production varies significantly depending on the geology of the production basin, the technology employed and the fiscal terms applied to producers by host governments. GECF said oil price forecasts are predicated on the same determining factor that shape today’s oil prices including economic growth, the interplay between

global oil supply and demand, industry production costs, geopolitical events and the behaviour of the Organisation of the Petroleum Exporting Countries (Opec). In the short term, GECF said it expects oil prices to remain “weak” due to a more “pessimistic” economic perspective than previously anticipated and to the absence of a strong decline in non-Opec output.

Forecasting that oil demand growth to grow moderately, it said global demand for oil and other liquids would increase to over 98mn barrels per day (mbpd) in 2020 from 93mbpd. “Oil demand continue to rise until it peaks at 106.5mbpd in 2035 and then stabilises around 106mbpd through 2040,” it said, adding the largest decline in demand for oil and other liquids is expected to occur in the power sector, where it faces strong competition from other fuels including natural gas, renewables and nuclear.