

## A Scramble for Gas: Qatari LNG and EU Diversification Plans

by Pier Paolo Raimondi

Amidst a worsening geopolitical and energy crisis in Europe, the EU is scrambling to increase liquefied natural gas (LNG) imports as one component of its larger objective to reduce its overdependence on Russian gas. In 2021, the EU imported 155 billion cubic metres (bcm) of natural gas from Russia (140 bcm via pipeline and 15 bcm of LNG). Under its REPowerEU initiative, the European Commission aims to increase LNG imports to replace 50 bcm of Russian gas by the end of 2022.<sup>1</sup>

In this quest for energy diversification, the state of Qatar has emerged as a key pillar of the EU's strategy. In 2021, Qatar provided for 24 per cent of Europe's total LNG imports, behind the US (26 per cent) and before Russia (20 per cent).<sup>2</sup> In 2021, total EU LNG imports

reached 77 bcm; the figure increases to 108 bcm if the UK and Turkey are added. Recently, the EU, along with the US, has extensively engaged Qatar given its leading role in the LNG market and close relations with the West. Qatar's LNG industry is highly centralised, unlike those of other LNG exporting countries (i.e., the US<sup>3</sup> and Australia), which implies that Doha enjoys greater control over the sector and its export policies.

Throughout the crisis, Qatar has demonstrated a willingness to contribute to improve European energy security and diversification plans. However, the possibility that Europe can receive additional Qatari

<sup>1</sup> European Commission, *REPowerEU: Joint European Action for More Affordable, Secure and Sustainable Energy* (COM/2022/108), 8 March 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52022DC0108>.

<sup>2</sup> Victoria Zaretskaya, Chris Peterson and

Warren Wilczewsk, "Three Countries Provided Almost 70% of Liquefied Natural Gas Received in Europe in 2021", in *Today in Energy*, 22 February 2022, <https://www.eia.gov/todayinenergy/detail.php?id=51358>.

<sup>3</sup> Zack Colman and Ben Lefebvre, "Why Biden Can't Help Europe Rid Itself of Russian Gas", in *Politico*, 21 March 2022, <https://politico.com/3L5uPhR>.

*Pier Paolo Raimondi is Research Fellow of the Energy, Climate and Resources Programme at the Istituto Affari Internazionali (IAI) and PhD Candidate at the Università Cattolica del Sacro Cuore, Milan.*

LNG volumes in the short term remains remote. This is because Qatar currently suffers from a lack of spare LNG export capacity. Qatari energy is mainly sold to Asian buyers (over 70 per cent of its LNG exports) through long-term contracts (LTCs) leaving limited manoeuvrability to increase quotas. Qatar does not have any intention to undermine its reputation as reliable supplier by violating or renegotiating its LTCs, which Qatar considers sacrosanct. Moreover, Qatari contracts are known to be rather rigid, with limitations on diversions to third states or a reselling of Qatari LNG cargoes.

Therefore, in the short term, the EU's ability to import additional LNG volumes from Qatar depends on the decision of its buyers (mainly Asian) to divert part of their imports and an agreement with Doha to approve these diversions.

Nonetheless, in the long-term, Qatar could increase its exports to the EU, contributing to reduce Europe's overdependence on Russian gas while at the same time strengthening Doha's strategic role in European gas markets. This is mostly due to the expansion strategy undertaken during Doha's years of regional isolation that followed the Saudi-led embargo between 2017 and 2021 and was aimed at increasing Qatari self-sufficiency and resilience.<sup>4</sup>

In 2017, Qatar lifted its self-imposed 2005 moratorium on the expansion

<sup>4</sup> Kristian Coates Ulrichsen et al., "The GCC Reconciliation: An Assessment", in *Arab Center Washington DC Policy Analysis*, 11 January 2021, <https://arabcenterdc.org/?p=18767>.

of North Field,<sup>5</sup> which will expand its LNG export capacity from 77 million tonnes per annum (Mtpa) in 2017 to 110 Mtpa in 2026. In 2019, Doha announced a second stage that will ultimately increase output to 126 Mtpa by 2027. The expansion strategy aimed to take advantage of Qatar's numerous competitive advantages to respond to mounting competition from other LNG exporting countries despite low oil and gas prices. The first new volumes from North Field are expected to be available by late 2025.

Moreover, Qatar is further consolidating its LNG position through the Golden Pass LNG project<sup>6</sup> in Texas in collaboration with ExxonMobil – Qatar Petroleum's first overseas investment in a liquefaction project. The over 10 billion US dollars project has a capacity of around 16 Mtpa of LNG and exports are expected to commence in 2024, albeit it is unclear whether these will be destined for Europe.<sup>7</sup>

Doha, therefore, could potentially begin to satisfy (some of) Europe's gas diversification needs by around 2024/25, if EU states can ensure some of these additional volumes through commercial agreements. Yet, by 2024/25, Europe will need to have put in place the required infrastructure to

<sup>5</sup> Tom Finn, "Qatar Restarts Development of World's Biggest Gas Field after 12-Year Freeze", in *Reuters*, 3 April 2017, <http://reut.rs/2o25HB5>.

<sup>6</sup> A joint venture between Qatar Petroleum (70 per cent) and ExxonMobil (30 per cent).

<sup>7</sup> ExxonMobil, *ExxonMobil, Qatar Petroleum to Proceed with Golden Pass LNG Export Project*, 5 February 2019, [https://corporate.exxonmobil.com/news/newsroom/news-releases/2019/0205\\_exxonmobil-qatar-petroleum-to-proceed-with-golden-pass-lng-export-project](https://corporate.exxonmobil.com/news/newsroom/news-releases/2019/0205_exxonmobil-qatar-petroleum-to-proceed-with-golden-pass-lng-export-project).

receive and distribute any additional LNG imports from multiple suppliers, Qatar included.

Current circumstances are boosting Qatar's relevance in global LNG markets and helping to consolidate Doha's newfound political and strategic status in the West. Qatar holds extensive competitive advantages in the LNG industry as its LNG projects are generally attractive in economic terms, resulting in a lower effective average cost of LNG production compared to other competitors.<sup>8</sup> This is also due to the production of condensate and natural gas liquids in association with natural gas.

Moreover, Qatar seems to be a more favourable option compared to other potential gas suppliers for Europe (i.e., Egypt, Algeria and Libya). Indeed, Doha holds significant financial resources required for further investment, is characterised by a stable government and has a small population (hence limited growing energy consumption needs), while each of the other states face significant challenges in (at least) one of these domains. Moreover, Qatar is located closer to the EU compared to the US and Australia, meaning shorter and cheaper export routes for Qatar-based LNG volumes. Nonetheless, guaranteeing energy security in Europe cannot depend on a single supplier, as Qatar itself warned the EU.<sup>9</sup>

<sup>8</sup> It should be specified that generally LNG gas is more expensive than pipeline gas imports.

<sup>9</sup> Stuart Elliott, "Qatar Ready to Support Gas Partners 'in Times of Need': Kaabi", in *S&P Global Commodity Insights*, 1 February 2022, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/natural->

Meanwhile, the EU also needs to reconcile its diversification strategy with its climate targets. In this sense, and compared to other competitors, Qatar can benefit from one of the world's lowest carbon intensity rates in LNG supply chains.<sup>10</sup> This will be further improved as Qatar committed to cut its LNG carbon intensity by 35 per cent by 2035 thanks to the further deployment of carbon, capture and storage technology in order to prepare its products for a low-carbon future.<sup>11</sup> By 2025–30, Qatar could become the world's largest LNG exporter and secure future market shares thanks to these competitive economic and environmental advantages.

Increasing LNG imports to the EU is also a strategic move for Qatar as it could increase the European share of its total export (currently around 25 per cent) balancing its current LNG export portfolio. Doha is set to face higher competition from other LNG exporters (notably the US and Australia) especially in its core market – Asia. Moreover, the ongoing expansion strategy, plus the expiry of 20 Mtpa of legacy contracts (mostly in North Asia), means that by the end of the decade over 60 per cent of Qatar's export portfolio is thus far uncontracted.<sup>12</sup> This means that Qatar

[gas/020122-qatar-ready-to-support-gas-partners-in-times-of-need-kaabi](https://www.energyintel.com/020122-qatar-ready-to-support-gas-partners-in-times-of-need-kaabi).

<sup>10</sup> Rafiq Latta, "Upheaval Prompts Qatar to Review Expansion Plan", in *Energy Intelligence*, 19 April 2022, <https://www.energyintel.com/00000180-28d7-dd6c-af83-fef71c200000>.

<sup>11</sup> QatarEnergy, *QatarEnergy Launches Updated Sustainability Strategy*, 7 March 2022, <https://www.qatarenergy.qa/en/MediaCenter/Pages/newsdetails.aspx?ItemId=3702>.

<sup>12</sup> Wood Mackenzie, *Long-term LNG Set to Remain a Buyers' Market*, 15 June 2021, <https://>

is in need of securing new contracts, resulting in potential concessions for the EU.

The current tight gas market and Qatari competitive advantages in the LNG industry seems to shift market power to the suppliers after a period of low prices and a buyer dominated energy market. For example, Qatar has already signed a contract with Germany (although details on quantities and other terms were not provided),<sup>13</sup> a month after Japan announced its decision to not renew its expiring contracts with Qatar.

This implies that Qatar may be ready to sign new contracts if commercial factors are satisfied and not only motivated by political reasons. In this context, Doha has requested a number favourable conditions for its exports to the EU: avoiding the resale of its LNG outside the EU,<sup>14</sup> the closure of an EU probe into Qatar market behaviour and the preference for LTCs over spot trading. Qatar has already achieved the expected result in one domain: the European Commission halted its probe (which first began in 2018) into long-term energy contracts signed with QatarEnergy in March 2022.<sup>15</sup>

[www.woodmac.com/press-releases/long-term-lng-set-to-remain-a-buyers-market](http://www.woodmac.com/press-releases/long-term-lng-set-to-remain-a-buyers-market).

<sup>13</sup> Joe Miller, Amy Kazmin and Silvia Sciorilli Borrelli, "Germany Clinches Long-Term Gas Supply Deal with Qatar", in *Financial Times*, 20 March 2022, <https://www.ft.com/content/1192517b-e405-486f-a743-51b5be356024>.

<sup>14</sup> Dmitry Zhdannikov, "Qatar Seeks EU Guarantees Emergency Gas Stays within EU – Source", in *Reuters*, 31 January 2022, <https://www.reuters.com/business/energy/exclusive-qatar-seeks-eu-guarantees-emergency-gas-stays-within-eu-source-2022-01-31>.

<sup>15</sup> "EU Regulators Close Antitrust Investigation

Lastly, current high gas prices (European short-term prices have reached all-time record) may result in diminished demand in Europe and in other parts of the world, potentially inducing a faster shift towards other energy solutions, including alternative low-carbon solutions. In its latest *Gas Market Report*, the International Energy Agency (IEA) affirmed the tight supply, high prices and heightened market uncertainty have led to a downward revision in global gas consumption growth, which as a result is expected to turn negative for 2022.<sup>16</sup>

From the Qatari perspective, the risk is that high gas prices and more competition from other low-carbon solutions may undermine the role of gas in the energy transition – closing opportunities before its additional LNG volumes come online. It is therefore crucial for Qatar to secure new contracts before further consumption fades away and prove the role of natural gas in the energy transition in both developed and developing countries.

During the energy crisis, Qatar demonstrated a more forthcoming attitude compared to its peers in the Persian Gulf regarding the current energy crisis. While Saudi Arabia and the UAE reiterated their commitment to maintaining OPEC+ agreements and thereby refused to meet US requests for higher oil production, Qatar has at least expressed its political availability

into Qatar Energy", in *Reuters*, 31 March 2022, <https://www.reuters.com/article/eu-qatarpetroleum-antitrust-idAFL5N2VY3QI>.

<sup>16</sup> International Energy Agency (IEA), *Gas Market Report, Q2-2022*, April 2022, p. 7, <https://www.iea.org/reports/gas-market-report-q2-2022>.

to support and contribute to EU efforts to wean itself off Russian gas. This has added to a new diplomatic centrality of Qatar regarding key regional issues such as Afghanistan and Iran,<sup>17</sup> besides hosting the major US naval base in the Gulf. Qatar has mediated between the US, Afghanistan and the Taliban, while its ties with Iran have created a channel for dialogue with Tehran in the context of the ongoing negotiations in Vienna over the re-activation of the Iran nuclear deal, or JCPOA.<sup>18</sup>

In early 2022, Qatar's Emir visited the White House at a time of heightened security concerns in Europe due to the build-up of Russian troops on Ukraine's borders. On that occasion, President Biden announced that the US would recognise Qatar as a "major non-NATO ally" (MNNA), a diplomatic and legal classification that offers enhanced training, defence cooperation and joint military research.<sup>19</sup> This designation was driven by diplomatic, political and, more recently, energy rationales.

All of this implies that Qatar has certainly gained new political capital in the West thanks to its willingness to contribute to Europe's energy diversification strategy. This willingness is motivated

by the need to ensure new LTCs, increase its share in European markets and balance its export portfolio given growing competition in its key market (Asia).

Yet, in the short term it seems quite difficult to see higher Qatari LNG imports to Europe due to limited spare capacity. Doha could increase its EU exports once its new LNG volumes come online by 2024/25 thanks to its competitive advantages in the LNG industry. In the meantime, Europe should ensure new gas contracts as it aims to reduce its overdependence on Russian gas. Moreover, it should invest in additional infrastructure to receive and distribute these alternative gas imports throughout the continent. These efforts should in turn be linked to Europe's climate targets by additional supplies to its climate targets by encouraging methane emissions reductions along the value chain in the short term and foster decarbonisation of gas in the longer run.

21 April 2022

<sup>17</sup> Imad K. Harb, "Qatar's New Designation as US Non-NATO Ally Serves Multiple Purposes", in *Arab Center Washington DC Policy Analysis*, 4 February 2022, <https://arabcenterdc.org/?p=26224>.

<sup>18</sup> Andrew England and Najmeh Bozorgmehr, "Qatar Mediates between Iran and US in Nuclear Talks", in *Financial Times*, 8 March 2022, <https://www.ft.com/content/1d93fef9-06f4-459f-9266-5d3b9272a495>.

<sup>19</sup> R. Clarke Cooper, "As Qatar Becomes a Non-NATO Ally, Greater Responsibility Conveys with the Status", in *MENASource*, 3 March 2022, <https://www.atlanticcouncil.org/?p=494482>.

### Istituto Affari Internazionali (IAI)

The Istituto Affari Internazionali (IAI) is a private, independent non-profit think tank, founded in 1965 on the initiative of Altiero Spinelli. IAI seeks to promote awareness of international politics and to contribute to the advancement of European integration and multilateral cooperation. Its focus embraces topics of strategic relevance such as European integration, security and defence, international economics and global governance, energy, climate and Italian foreign policy; as well as the dynamics of cooperation and conflict in key geographical regions such as the Mediterranean and Middle East, Asia, Eurasia, Africa and the Americas. IAI publishes an English-language quarterly (*The International Spectator*), an online webzine (*Affarinternazionali*), three book series (*Global Politics and Security*, *Quaderni IAI* and *IAI Research Studies*) and some papers' series related to IAI research projects (*Documenti IAI*, *IAI Papers*, etc.).

Via dei Montecatini, 17

I-00186 Rome, Italy

Tel. +39 066976831

[iai@iai.it](mailto:iai@iai.it)

[www.iai.it](http://www.iai.it)

## Latest IAI COMMENTARIES

Director: Andrea Dessì ([a.dessi@iai.it](mailto:a.dessi@iai.it))

- 22 | 18 Pier Paolo Raimondi, *A Scramble for Gas: Qatari LNG and EU Diversification Plans*
- 22 | 17 Manuel Herrera, *The Mian Channu Incident and the Enduring Risk of Nuclear Escalation between India and Pakistan*
- 22 | 16 Vera Kranenburg and Frans-Paul van der Putten, *Constraints for Engagement with China: Dutch Ports and the BRI*
- 22 | 15 Manuel Herrera, *The Mian Channu Incident and the Enduring Risk of Nuclear Escalation between India and Pakistan*
- 22 | 14 Riccardo Alcaro, *Russia–Ukraine Talks and the Indispensable Role of the US and Europe*
- 22 | 13 Margherita Bianchi and Pier Paolo Raimondi, *Russian Energy Exports and the Conflict in Ukraine: What Options for Italy and the EU?*
- 22 | 12 Riccardo Alcaro, *The EU and the Ukraine War: Making Sense of the Rise of a “Geopolitical” Union*
- 22 | 11 Giulio Pugliese, *Japan Responds to Russia’s War: Strong Solidarity with Ukraine with an Eye on China*
- 22 | 10 Leo Goretti, *Putin’s Use and Abuse of History: Back to the 19th Century?*
- 22 | 09 Nicolas J.A. Buchoud, Michael Keith, Susan Parnell and Martin van der Pütten, *A G7/G20 Pact for Sustainable Urbanisation? Building on the Positive Legacy of Italy’s G20 Presidency*