



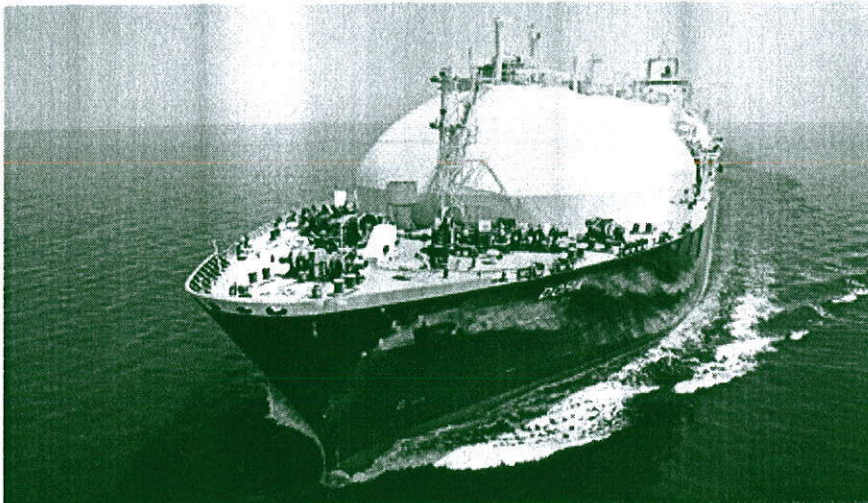
The 25th Annual Middle East Petroleum & Gas Conference

30 April – 2 May 2017
Grand Hyatt Dubai, UAE

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Middle East LNG sources uncertain after 2020



A Qatargas LNG vessel. Qatar will need to find buyers for its additional gas volumes. (Qatargas)

Verity Ratcliffe / Dubai

MIDDLE EASTERN LNG importers have yet to secure the majority of the supplies they will need beyond 2020. But although this may allow buyers to take advantage of the forecast lower prices, uncertainty over supply sources is a concern for countries that are increasingly reliant on imported LNG to meet their rising need for gas.

More than 90% of the LNG required by Middle East importers is uncontracted from 2020 onwards, Shahriar Fesharaki, executive vice chairman and managing director at oil and gas consultancy FGE, told delegates at the 25th Middle East Petroleum & Gas Conference in Dubai on Tuesday.

"The region has become very, very focused on short- and mid-term contracts," he said, adding that Dubai is the region's only buyer that currently has a long-term agreement in place for deliveries. The deal is with Shell.

Aside from gas producers Qatar and Iran, the Middle East is expected to become increasingly reliant on gas imports.

Global demand for gas will rise by 46% by 2040, according to Shell estimates. The Middle East will be responsible for 15% of the growth, making it third among global regions behind Asia (39%) and the Americas (25%), Mehdi Chennoufi, Shell Trading's general manager for LNG

origination and business development east of Suez, told the conference.

As gas production in most countries in the region is expected to fall, imported LNG will become increasingly significant. Countries have geared their strategies towards LNG, encouraged by falling prices and the fuel's greater flexibility compared with pipeline imports.

The forecast oversupply in the LNG market is expected to keep import prices low.

"The LNG glut hasn't arrived yet, but it will over the next couple of years, starting in 2017," Keith Martin, chief executive of Uniper Global Commodities, told delegates on Monday.

Time to evolve

Middle Eastern buyers will welcome the opportunity to secure spot and short-term deliveries at lower prices. By deciding not to commit to long-term supplies, governments are also allowing time to see how their LNG import needs evolve.

"A lot of governments are looking for alternative ways to alleviate this gas supply shortage [through renewables and unconventional gas resources]. So there is a hesitance to commit to long-term supply contracts," said Fesharaki.

Some governments are actively pursuing long- and medium-term LNG supplies, meaning the volume of LNG supplied through short-term contracts and spot cargoes is likely to fall by 2020. Kuwait and

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Bahrain are engaged in talks with LNG exporters for longer-term contracts.

But Middle Eastern LNG importers are likely to meet a higher proportion of their LNG needs through short-term contracts and spot cargoes than the global average. Around one-third of global LNG is currently supplied under spot or short-term contract arrangements.

This figure is expected to rise as the market liberalises, which will increase uncertainty for buyers, said Andrew Walker, vice president for strategy at Cheniere Marketing. Growth in LNG demand from the global transport sector and from China could tighten supplies, he added.

"I wouldn't underestimate the impact of small-scale LNG [in the] transport sector. I think there will be a real push towards the use of LNG for trucks and transport," said Martin. If China changes its LNG import policy it could have a big impact on global LNG supply-demand dynamics, he added.

The emergence of smaller LNG buyers means added uncertainty for the Middle East's LNG buyers and traders.

"The market has evolved from this pipeline concept – of production and ultimate end-user with little flexibility in between – to a situation where we are going to have to figure out how to handle small-scale gas distribution on an ongoing

basis [and] small-scale [regasification]," said Christopher Bake, head of origination at Vitol.

The Middle East's LNG producers will also need to manage increased uncertainty in the market. However, Qatar may seize the opportunity to supply a greater share of its neighbours' LNG needs.

"Qatar is definitely hoping to have an increasing role in the region," Matthew Porter, head of LNG for BP in the Middle East, said at the conference on Tuesday.

Qatar will need to find buyers for its additional gas volumes, which are expected to reach the market in between five and seven years' time. For the region's buyers, securing the 90% of the cargoes that have yet to be contracted could be a chance to lock in cheap supplies, but it will also mean dealing with greater uncertainty, making the need for responsive policymaking more vital. ■

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-  [IOCs turn attention to small-scale LNG](#)