

Thursday, July 14, 2022

Qatar Prioritizes Strategic Alignment in Expansion Push

Qatar's partnerships for the first phase of its 48 million ton per year expansion focus on Western IOCs with shared LNG growth ambitions and low-carbon credentials. We will now be monitoring the selection of minority partners, progress of further expansions and Qatar's marketing traction.

- **Doha has stuck with largely familiar faces.** Qatar has awarded 25% of equity LNG from its first phase expansion, the 32.6 million ton/yr North Field East (NFE), to legacy partners [Exxon Mobil](#), [TotalEnergies](#), [Shell](#) and [ConocoPhillips](#), and lone newcomer [Eni](#) (see table). The door is not shut on Asian LNG customers, but options have slimmed considerably — only up to 5% of NFE is likely left for additional awards. Qatari Energy Minister Saad al-Kaabi indicated a preference for duplicating the NFE equity structure at the second-phase, 16 million ton/yr North Field South (NFS). We see awards reflecting strategic consistency and desirability of partnerships to (1) diversify execution and financial risk, (2) add technical capabilities, (3) manage low-carbon transition risk and (4) further solidify political ties with the US and Europe.
- **IOC partners provide strong strategic alignment.** Sources tell us that the winning IOCs put forward highly competitive bids for stakes in Qatar's "advantaged" low-cost, liquids-rich, low-carbon LNG. [Beyond financial considerations](#), Qatar favored established technical skills in liquefaction (all), carbon capture (Exxon) and/or solar power (Shell, Total, Eni), supporting a national priority to deliver cost-competitive LNG with minimal operational emissions, and grow renewable power generation more broadly. Selected IOCs also share robust LNG growth goals inside wider energy transition priorities. Overseas partnerships likely helped; awardees represent QatarEnergy's main international upstream partners.
- **Qatari LNG will help IOCs replace compromised volumes and grow in resilient gas.** For all winners, NFE adds considerable advantaged LNG to global portfolios that can compete for selective capital. Any extension to NFS would add upside. Crucially, QatarEnergy's integration of carbon capture and solar electrification also supports partners' net-zero operational emissions targets. ConocoPhillips nets significant conventional production to balance out recent unconventional-weighted acquisitions. Eni accelerates its gas and Mideast growth, while offering Qatar a stronger European foothold. Shell and Total can partially offset lost Russian LNG capacity post-Ukraine, and, for Total, problems in Mozambique and Yemen. Exxon can advance LNG growth while also facing Mozambique delays.
- **The awards validate Qatar's proactive growth strategy, but marketing risks remain.** QatarEnergy's ambitious expansion, spurred by the 2017 lifting of the North Field moratorium, seeks to minimize stranded asset risk for one of the world's lowest-cost, lowest-carbon LNG producers. The company has advanced NFE despite delays in partnership awards, and we expect a doubling down in attention on NFS. The main outstanding strategic risks [surround marketing](#), in our view. QatarEnergy wants to split volumes 50-50 between West and East, while maintaining its long-term, fixed-destination contract model. This preference clashes with European buyers' requirements for shorter contract durations and/or destination flexibility in anticipation of declining European demand to protect long-term climate goals. More broadly, Qatar must show that markets still have sufficient appetite for long-term commitments on existing terms. Recent supply deals (22 million tons/yr since January 2020) have served to replace expiring sales, not place new capacity.
- **Qatar will now focus on remaining stakes, further expansion and marketing.** Key on our radar next is whether QatarEnergy awards up to 30% of NFE to international investors as originally indicated, providing scope for small partnership stakes for Asian firms. Indications are that Chinese and South Korean partnerships are most likely, given Doha's market access criterion and their strong offtake commitment in recent LNG deals. NFS awards are also expected in the coming months based on NFE's structure, but IOCs must still submit competitive proposals. Al-Kaabi has hinted of expansion beyond these two phases, but with no details. Sources say enough gas has been identified to support another project, but Ras Laffan may only have space for one more 7.8 million ton/yr train. A blue hydrogen project is also possible. On marketing, we will be watching talks between Qatar and potential European buyers to see which side bends — or if Europe sticks with flexible US supply and Qatar with baseload Asian buyers more comfortable with its terms. QatarEnergy's Golden Pass venture in the US with Exxon offers [obvious scope for compromise](#). Doha could also elect to leave some capacity unplaced for spot sales as needed.

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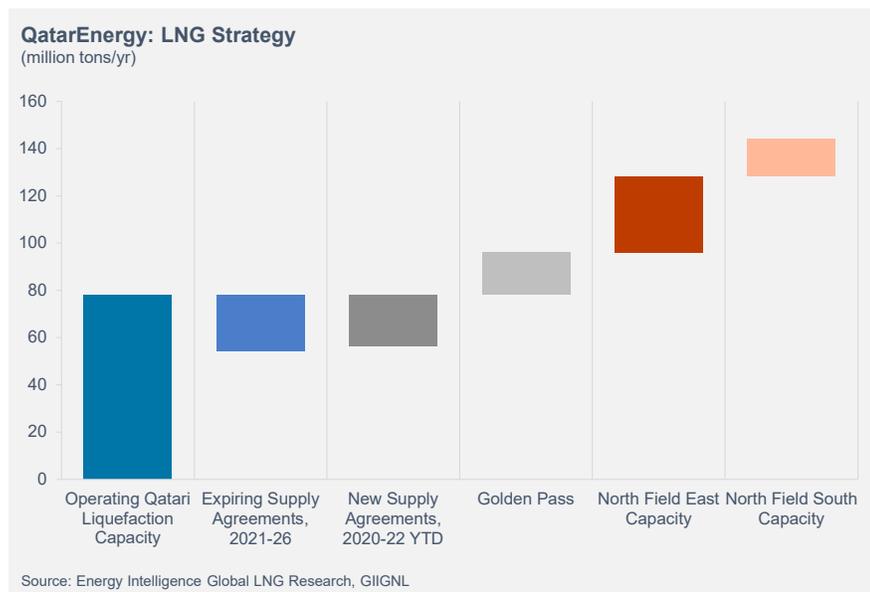
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Qatar's North Field East (NFE) Partners

Joint Venture Partner	Net NFE Equity Stake	Net NFE Equity Capacity (million tons/yr)	% Increase in Global Equity Liquefaction Capacity
TotalEnergies	6.25%	2.04	8%
Exxon Mobil	6.25	2.04	7
Shell	6.25	2.04	4
ConocoPhillips	3.125	1.02	15
Eni	3.125%	1.02	10%

Source: Company announcements, Energy Intelligence

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