QATARGAS: ACHIEVING AND MAINTAINING OUR LNG PRESENCE —
HOW WE DO IT AND SOME VIEWS

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ABSTRACT

This paper will review the success factors and protocols underpinning Qatargas’ marketing achievements to date. The paper will describe the essence of the marketing protocols which have been leveraged on to establish and further enhance our position within the industry. Becoming the leading global LNG producer is one thing, but maintaining our premier supplier reputation and securing further long-term relationships requires a consistent and competent marketing approach. The ability to conclude a contract in a prompt manner [fast track] as well as the capability to conclude a contract in a moderate manner [normal track] will be discussed based on the expertise which we have acquired thru the years. Qatargas is currently delivering approximately one-sixth of the global LNG supply and has a presence in 75% of the LNG import countries. New emerging LNG markets are developing which are focused on key product deliverables such as reliability, flexibility and quality. Qatargas established its LNG position on long-term agreements with our Japanese anchor buyers but over the years has also been able to offer spot, short, and medium term solutions to meet new customer needs. The paper will describe the marketing elements which are required for the long term nature of the LNG business from the perspective of a successful and significant LNG producer. The paper will conclude with our key messages on how to maintain our position within the industry.

INTRODUCTION

The pioneering vision of the Qatargas 1 LNG project has laid the foundation for Qatargas’ current position as the leading LNG company. Today Qatargas Operating Company (Qatargas) commercializes the output of 7 LNG trains on behalf of shareholders in the QG1, QG2, QG3 and QG4 joint ventures

Qatargas has within a 17 year time span become the largest LNG producer in the world, starting with 6 million tons of LNG capacity in 1996 to over 42 million tons today. This achievement is rightfully considered a significant accomplishment in the energy business. Many of our industry peers and shareholders have taken
a century or more to become a prominent member within the industry. This paper will describe and give insight into Qatargas’ specific and unique success factors which have greatly contributed to its rapid and effective growth.

We will also discuss some of our views on specific industry related subjects which are relevant to becoming successful.

OBJECTIVES

Major success factors associated with our achievements which will be addressed in this paper are the following:

• Natural Resource Base & Location
• Strong Partnerships
• Customer Base
• Investment Policy
• Technological Innovation
• Leadership
• Human Resources Development
• Marketing strategy

The paper will also address the impact and challenges of these success factors on maintaining our success.

SUCCESS FACTORS — SUPPORTING ACHIEVEMENTS

Natural Resource Base and Location

The natural gas resource base for the State of Qatar, namely the North Field, is a major success factor that has enabled Qatargas to enter into all of the major global LNG markets. The size, quality and location of the North Field attracted the world’s leading international oil & gas companies to seek a partnership with Qatar Petroleum. Our natural advantage is Qatar’s central location. I can personally attest to how Qatar has overcome, through technological innovation, what others would have said was a geographical disadvantage to that of an advantage in an industry which now spans the whole globe. By using our large Q-class ships, with on-board re-liquefaction technology, we are easily able to reach all regional gas markets in an economically efficient manner from Qatar’s pivotal geographic position. In a complex and competitive world for long term and stable energy supply, access to LNG procured from the North Field is considered by many of our customers as a strategically important component of their LNG supply portfolio.

Strong Partnerships

The extensive expertise in delivering and managing large scale LNG projects and the financial strength of Qatargas’ shareholders has allowed for a successful start-up of each of its LNG producing trains in an unprecedented time-frame. All of our shareholders are not only well established within the energy business but are also seasoned LNG players. Four of our shareholders rank in the top 20 of the Fortune 500 and Qatargas will be equivalent to a Fortune 100 class company based on revenues from the 42 MMTA of LNG sales and accompanying liquid sales. Qatargas utilizes the strengths, resources, knowledge, and skills of our shareholders to its advantage. The close interaction between Qatargas and its partners has also led to successful development programs of direct hires and national staff. Over the years, the interaction and support of our shareholders has led to an experienced and skilled staff pool which can rival any of our partners and peers.
Customer Base

One of the reasons so many customers seek a long-term partnership with Qatargas is because of our strong track record of operational excellence. Starting in the mid 1990’s, Qatargas has grown into the industry hallmark of production and delivery reliability by consistently scoring at or near the top in independent industry benchmarking surveys. At the same time Qatargas has continued to increase and diversify both production and delivery capabilities having supplied nearly 3000 LNG cargoes. Continued operational excellence combined with the world’s largest LNG production capacity is a prerequisite to maintaining our reputation and in doing so gaining the confidence of new customers. As someone who is responsible for our LNG marketing I can tell you that our Marketing Teams expend tremendous efforts to maintain relationships with existing customers and build new relationships with prospective customers. Despite the advent of modern technology nothing beats face to face time with your customers. We must maintain the highest standard of customer focus and operational excellence – this will give our existing and potential customers the confidence to rely on Qatargas for stable supplies of clean energy for years to come.

Investment Policy

The energy business is a long-term business. Despite periods of economic downturn and crises, the State of Qatar promoted the commercialization of its abundant hydrocarbon reserves. Driven by His Excellency the Emir, Qatar’s investment policy encouraged leading IOC’s to make long-term capital intensive investments in LNG facilities. As per the World Economic Forum’s latest Global Report, the State of Qatar now ranks 11th in competitiveness out of the 144 countries surveyed. The State’s energy policy is directed by Qatar Petroleum to its subsidiaries. Qatargas definitely benefits from an efficient and effective decision making process among few parties. As Qatargas seeks to grow our business we can fully rely on the support of Qatar Petroleum and the State of Qatar.

Technological Innovation

Our expansion projects were the fulfillment of the first ever successful operation & delivery of LNG cargoes thru a full value chain. The QG2 project took a pioneering approach by utilizing not only one but two 7.8 MMTA mega trains coupled with the launching of the first Q-Max & Q-Flex LNG ships. This was a major undertaking of new technology and an integrated business model from the well head to the market. This was followed by the next mega-train under the QG3 project and then the mega train under QG4. The State of Qatar, with Qatargas & RasGas, celebrated reaching its production goal of 77 MMTA accompanied by our world class fleet of Q-ships. This gives the State of Qatar and in particular Qatargas a depth of liquidity and flexibility in its portfolio which is unrivalled by any other producer.

Leadership

One of the primary success factors is the support we continuously receive from Qatar’s leadership and Qatargas’ management. This support manifests itself at the very highest of levels, for example involving His Highness the Emir, or the annual visits by His Excellency the Minister of Energy & Industry to each of our Buyer countries. Furthermore, the knowledge gained by our management thru our decade and half of operations have greatly contributed to our success. The empowerment from our management and shareholders to engage in negotiations and our ready access to senior leaders has provided for a timely mode of negotiating and executing contracts. Furthermore, our management and the State of Qatar can be relied upon to regularly engage with existing and potential customers. Our continued success at the negotiating table is being achieved due to the vision and strong support of our management.

Human Resources Development

We at Qatargas benefit from highly professional LNG marketing staff. Our staff has experience in many aspects of the LNG industry with a solid focus on marketing and negotiations. We harness the very best from
our mixture of direct-hire and seconded employees thru our shareholders. We are able to tap the best quality Qatari talent which often aspires to join our world-class marketing team. However, as any good organization will tell you we cannot rest on our laurels, the organization which served the needs of Qatargas 1 was not sufficient to meet the ongoing challenges of being the world’s largest LNG producer with a highly complex global portfolio. As such, we also focus on on-going recruitment, training and further strengthening the standardization of our processes and documentation. Due to the commercial expertise we have achieved, we have developed the ability to conclude a contract in a prompt manner [fast track] as well as the capability to conclude a contract in a moderate manner [normal track] which provides for meeting with our internal needs as well as with Buyer requirements, be it the case for an experienced Buyer who need a prompt response or for a new Buyer who prefers to go thru a ‘normal’ systematic process.

Marketing Strategy

It is fair to say that Qatargas was the first major LNG project to actively build in diversions as part of its base case investment strategy. While it is true to say that all our LNG has a home, we have extensive diversion rights from our contracts to the liquid markets of America and Europe. Therefore even today we have the ability to divert our LNG to where the market needs it most to the benefit of our shareholders either on a long-term or short-term basis. This optionality has real value in the market place and is now being replicated by other players. Our diversion rights are just one of a number of key principles which makes up our marketing strategy and are essential to managing our global portfolio. For example, we like to say “Qatargas sells Qatar LNG”. As a general rule we avoid middlemen as we feel both ourselves and our customers prefer to have a direct relationship with each other. Secondly, we are focused on perfecting the physical side of our business and because we have a truly global portfolio we already have exposure to all the main LNG pricing indices. Financial hedging is not something our management nor our shareholders wish to entertain.

SUCCESS FACTORS — MAINTAINING ACHIEVEMENTS [CHALLENGES]

Maintaining our marketing presence comes with several challenges which can also be reflected onto these same specific success factors.

Natural Resource Base and Location

Maintaining achievement: The size of the North Field has resulted in providing our buyers the true sense of long term relativity & deliverability associated with our business. The massive size of field, especially in the LNG business, provides great comfort for all parties in all aspects of the economic investments. We continue to use state-of-the art technology as well as operational stewardship to continuously evaluate the field’s performance in order to continue to maintain its production capability.

Challenges: The major challenge with this factor is the never-ending question of “When will the moratorium will be lifted”. This is an ongoing issue which is being handled by the State of Qatar and thus out of our realm of responsibility.

Strong Partnerships

Maintaining achievement: The continued business and technological support from or shareholders provides for easy and prompt access which would otherwise require use of external consultants who may not be fully versed in our business.

Challenges: The need to retain commercial confidentiality between ventures (QG1, 2, 3 & 4) has necessitated the development of a way of working which reflects that requirement. This is very relevant with our shareholder seconded employees.
Customer Base

**Maintaining achievements:** New emerging and developing countries, specifically in Southeast Asia, are eager to join the LNG industry by proposing to develop LNG receiving terminals. These proposed terminals are required to alleviate the power shortages as well as switch to a more environmentally friendly fuel in some cases displacing coal and oil.

**Challenges:** Many of these emerging economies and their NOC or power companies lack the credit worthiness to be able to compete in the LNG industry due to the credit thresholds. The establishment of our initial Buyers provided for a significant benchmark toward securing future buyers. We are continuously approached by a multitude of buyers who want to do business with us based on our capability to deliver. We continue to maintain a high standard with regard to buyer credit, receiving terminal capacity and a desire for a long term business relationship.

Investment Policy

**Maintaining achievements:** The original investment policy has certainly paid [literally] major dividends to the shareholders as well as to the State of Qatar.

**Challenges:** Economic downturns impact our long term business where buyers may wish to delay or modify cargo delivery as per their specific contract terms and conditions thus creating schedule changes or other operational related issues for us.

Technological Innovation

**Maintaining achievements:** The technological innovation created thru the design, construction and operation of the mega trains and Q-class ships has created opportunities within the market. To date ~50% of the world’s LNG receiving terminals have modified their berths to be able to receive a Q-class ship. The vision of applying this innovative technology has allowed further opening of LNG markets where buyers are willing to adapt in order to secure additional and reliable volumes.

**Challenges:** Pioneering into a next step-up generation of equipment has its technical as well as other challenges. There are no benchmarks for these mega trains & Q-class ships.

Leadership

**Maintaining achievements:** Management support continues to be a favorable contributing factor towards maintaining our success in preserving our existing contracts as well pursuing new opportunities.

**Challenges:** There are always challenges as we make the transition from a project type of company to a more plateau operating type of company.

Human Resource Development

**Maintaining achievements:** Continued training and career development in further enhancing competencies has been a major goal.

**Challenges:** The establishment of new LNG projects provides the potential to loose trained staff with specific skills could become a factor. The large size of our staff, which encompasses all of the skills sets required to successfully operate the largest LNG facility in the world, creates for a human resource target base, especially when the staff has had extensive training and experience.
Marketing Strategy

Maintaining achievement: The vision of including the diversion terms within our SPA’s has certainly proven to have been a strategic business decision.

Challenges: Our existing and new competitors, and their ability to divert, will be the ongoing challenges which we, as a company, will have to cope with and continue to maintain our position within the market.

VIEWS ON VARIOUS ASPECTS ASSOCIATED WITH SUCCESS FACTORS

LNG Pricing:
The LNG industry is a long term business and the agreed contract price is negotiated between Buyer and Seller within the prevailing market. Pricing will continue to be based on a regional market based protocol. There are new nuances in adopting some type of hybrid pricing but these styles of contracts will need time and implementation to dictate whether they will become the new norm.

LNG as a Fuel:
This is an area which is of interest to us since we have undertaken our MEGI project which will review the feasibility and economics related with possible changes to the fuel systems for our LNG fleet. There are several government & regional initiatives which will require the use of more environmentally friendly fuels thus the utilization of LNG as a marine fuel should become more of a reality in the near future since these initiatives should penetrate into other regions.

LNG Markets: Asia / Europe / Emerging

Asian markets:
We initiated our business in Asia with our Japanese foundation buyers and have since supplied to China, thus we know and understand this market very well. The mature Asian Japan/Korea/Taiwan [JKT] markets will continue to dominate the demand for LNG in the region. China and India will become new growth markets thus we will expanding the JKT model.

European markets:
We are also well versed in the European markets since we have supplied Spain from our original QG1 venture. We are also a key supplier to the South Hook Gas Terminal. Europe is currently experiencing an economic slump but we believe it will rebound in due course.

Emerging markets:
As all of our competitors, we continue to search for any new potential markets especially within the emerging economies who want to use LNG as a fuel source for power in order to improve their current environmental footprint.

Shale Gas
LNG is a proven technology which has been in successful operation for many years. Shale gas has some way to go before it becomes fully commercialized in the same platform as LNG has already done. LNG cargoes are being delivered to countries which have shale potential such as the US and China. LNG will continue to be a vital part of as diverse and secure energy source for many countries.
New LNG Projects: Australia / USA / Canada / East Africa

Competition is always a good thing for any market. We have already made some significant accomplishments in financing, constructing and delivering 42 MMTA of LNG to the market and welcome newcomers. They will certainly have challenges and hurdles to overcome. The world’s economies, both mature and emerging markets, will continue to require energy supplies and thus the LNG completion is good in order to maintain the supply requirements in light of demand, non-nuclear operations and environmentally friendly fuel supply.