Pakistan eyes cut-price Qatari gas

Gulf LNG look set to satisfy the country's rising domestic gas demand, writes Damon Evans

PAKISTAN is seeking to close a deal with Qatar to buy cut-price liquefied natural gas (LNG) from early 2015 as it strives to avoid a potentially catastrophic gas-supply crisis. The pair originally signed a memorandum of understanding in February 2012, but progress has been slow due to disagreements over pricing, as well as Pakistan's lack of import infrastructure.

But government officials from Islamabad will visit Qatar this month in a bid to secure a 3.5 million tonne per year (t/y) LNG deal at a discount in an effort to help alleviate Pakistan's widening power supply crisis.

Qatar originally offered LNG at $18 per million British thermal units (Btu). A steep price compared to potential flows of Iranian gas that could be landed for around $11/million Btu under a proposed scheme dubbed the Iran-Pakistan (IP) pipeline project.

But the IP pipeline remains stalled and Pakistan's new government, led by Prime Minister Nawaz Sharif, who is much more aligned with the Gulf states than the previous government, is thought to be able to nail down a more favourable deal with Qatar.

The Gulf emirate, the world's largest LNG producer, has been publically pretty aggressive on pricing. However, they have been quietly very commercial and are prepared to adapt to market conditions to continue to boost their market share, says Tony Regan, an LNG specialist at Singapore-based consultancy Tri-Zen.

A price of $16/million Btu has been thrown around for some time as the likely supply price into Pakistan.

But "assuming Brent is priced at $107 per barrel then we could be looking at a price of closer to $15.50/million Btu in today's market, which would look like a good deal for Pakistan," Regan told *Petroleum Economist*.

Qatar could quietly lower the premium to get a slightly better number but Regan does not think there is any need at the moment.

The Gulf emirate has been known to offer "sweetheart deals" for first-time buyers, whereby it supplies LNG at a discount for the first three to four years before reverting back to market-led pricing, Regan added.

The latest push to find gas supplies offers a glimmer of hope to the Pakistani industrialists and households that have suffered blackouts for years. But if successful the LNG deal alone will not solve the nation's crippling gas-supply crisis in the longer run.

With domestic production predicted to fall from around 4 billion to 2 billion cubic feet per day (cf/d) by 2020, and demand projected to hit 8 billion cf/d by the end of the decade, up from 6.6 billion cf/d now, the gap would only be partially plugged.

Nevertheless, the LNG deal is seen as a political necessity. Sharif has ordered the oil minister, Shahid Khaqan Abbasi, to take "emergency steps" to resolve the energy-supply crisis after particularly severe shortages this winter.

Abbasi has promised a "major improvement" in gas supplies next year. Failure to deliver would risk heightening social unrest and political instability in the already fragile nation. So far the energy crunch has led to a production loss worth over $5 billion per year, according to finance ministry estimates.

The government has singled out Vopak's Engro Terminal at Port Qasim as a fast-track solution for LNG imports. It is the only integrated bulk-liquid terminal in Pakistan with an open-access and merchant floating-storage regasification unit capable of processing 3.5 million t/y.

Sui Southern Gas Company (SSGC) and Engro Vopak Terminal are expecting an approval from the government shortly. If successful, it would mark a milestone following a series of failed attempts by various joint ventures to import LNG over the past seven years.

Local newspaper *Business Recorder* reported that the government has negotiated a heavily discounted tolling fee of $0.66/million Btu with the terminal.

While the proposed Qatari LNG supply deal is largely being engineered at a government-to-government level, SSGC is also exploring potential supply options in the US.

In July 2013, Islamabad approved plans to build three LNG import terminals at Port Qasim in southern Pakistan with total capacity of 12 million to 13 million t/y. But analysts don't expect much progress anytime soon as financing remains a sticking point, leaving floating regasification as an interim solution.

Pipeline pressures

The conclusion of a deal for Qatari LNG would put the controversial Iran-Pakistan (IP) pipeline at risk. Local media reported that Pakistan has formally told Iran that the pair should, at least for now, shelve the pipeline project, designed to carry gas from the South Pars field to Pakistan. Iran has finished building its section of the IP pipeline, but Pakistan, which is strapped for cash, has struggled to find the estimated $1.5 billion it needs to build its 780-km stretch.

Despite thawing relations between the West and Iran, the US remains firmly opposed to the proposed pipeline, which has thwarted Islamabad's attempts to find financial backers, even in Russia and China, which had originally supported the project.

Investment restrictions on Iran are likely to remain at least until a final settlement is agreed over Tehran's nuclear programme , something that could take at least a year, while the lifting of US sanctions could take even longer, according to IHS Global Insights.

In October, Pakistan even asked Tehran to shoulder the entire cost of building the pipeline, but the offer was declined. Under the terms of the IP pipeline pact, Pakistan will have to pay Iran a reported penalty of $3 million per day if it fails to finish its section of the pipeline by the end of this year. Abbasi has publicly said he is keen to complete the pipeline and his government has asked for an extension to the deadline.

If ever finished, the pipeline will ship 21.5 million cubic metres per day (cm/d) of Iranian gas to Pakistan, peaking at 30 million cm/d over a 25-year term.

For now, quicker, guaranteed imports from Qatar – although at a much higher price than gas from Iran – make more political sense, domestically and internationally, energy analysts at IHS concluded in their latest report.

At the same time, the deal would likely align Pakistan more closely with the Gulf states and US, both of which will see a successful LNG deal as reinforcing their efforts to put continued pressure on Iran, says IHS.

And given Pakistan's financial vulnerability, Islamabad's improving ties with Saudi Arabia, where Sharif spent many years in exile, could potentially result in some much-needed aid and transfers from the Gulf states, added the global research firm. ●