

Attacks Against Saudi Arabia: Ramifications for Natural Gas

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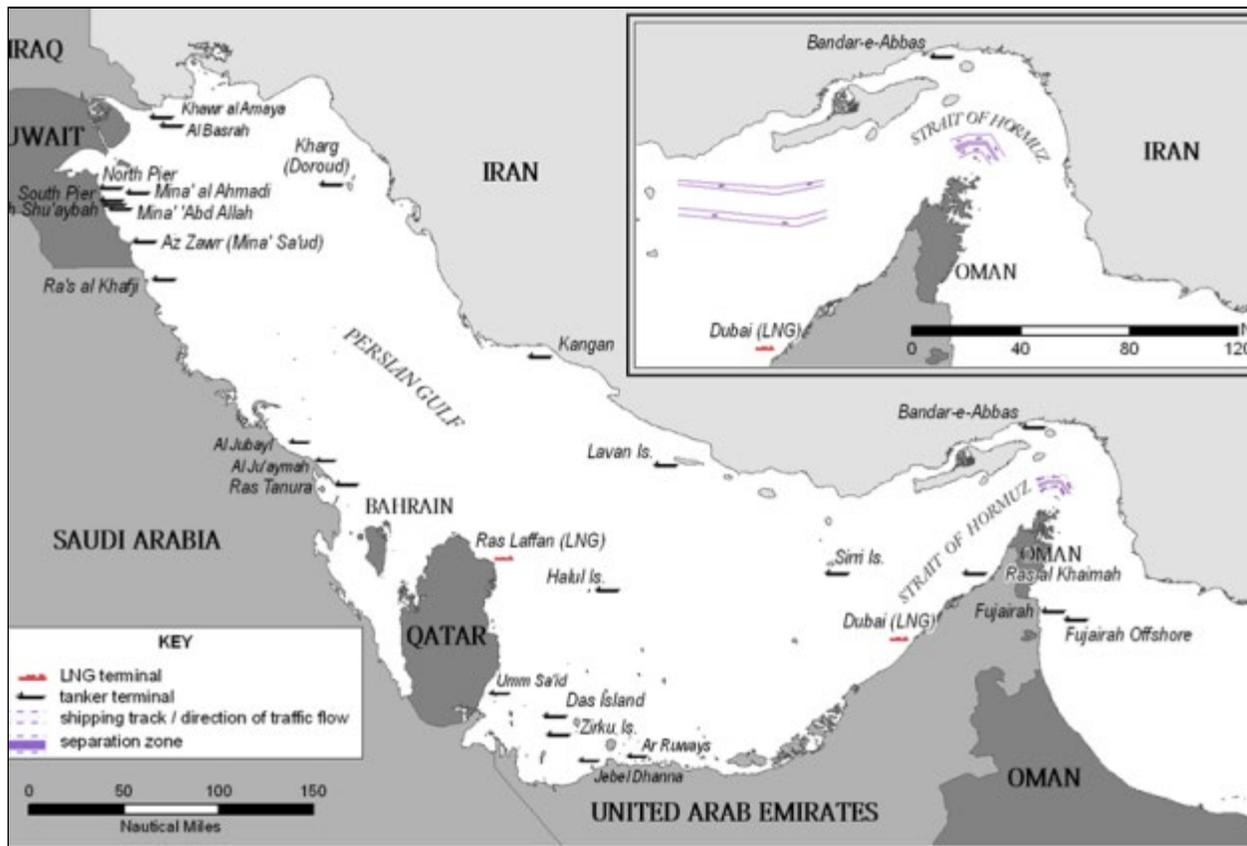
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The [attacks](#) against [Saudi Arabia's](#) oil infrastructure on Saturday, September 14, 2019, poses consequences for natural gas in the region and globally. Qatar, which borders Saudi Arabia and is one of the top two liquefied natural gas (LNG) exporters along with Australia, exported about 25% of the world's LNG in 2018. All of Qatar's exports must transit the [Strait of Hormuz](#) (see [Figure 1](#)), which is a well-known transit [chokepoint](#). Additionally, LNG exports from the United Arab Emirates (UAE), which were less than 2% of global exports, also transit the Strait of Hormuz; Oman's LNG exports, 3% of global LNG trade, do not transit the Strait, but are in close proximity.

Figure 1. Persian Gulf Regional Map with Select Energy Infrastructure



Source: Jacqueline Nolan, Library of Congress, with data from Petroleum Economist, National Oceanic and Atmospheric Administration, and Central Intelligence Agency.

Qatar's Relations with Its Neighbors

[Qatar](#) has employed its financial resources to exert regional influence, in some cases at odds with other states in the [Gulf Cooperation Council](#) (GCC), a four-decade alliance tying Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates. Its policies have enabled Qatar to mediate some regional conflicts. While fostering a close defense and security partnership with the United States, Qatar has maintained consistent dialogue with Iran while supporting U.S. efforts to limit Iran's regional influence. Qatar and Iran share the world's largest natural gas field, called the [North Field](#) by Qatar and [South Pars](#) by Iran. Qatar's backing for some regional actors opposed by Saudi Arabia and other GCC states contributed to a rift within the GCC. In June 2017, Saudi Arabia, the UAE, and Bahrain, joined by Egypt and a few other governments, severed relations with Qatar and imposed limits on the entry and transit of Qatari nationals and vessels in their territories, waters, and airspace. As a consequence of the Saudi-led isolation effort, Qatar has drawn politically and economically closer to Iran. Although [Qatar condemned the September 14, 2019](#), attacks against Saudi oil infrastructure, it did not accuse Iran of carrying them out.

Vulnerabilities

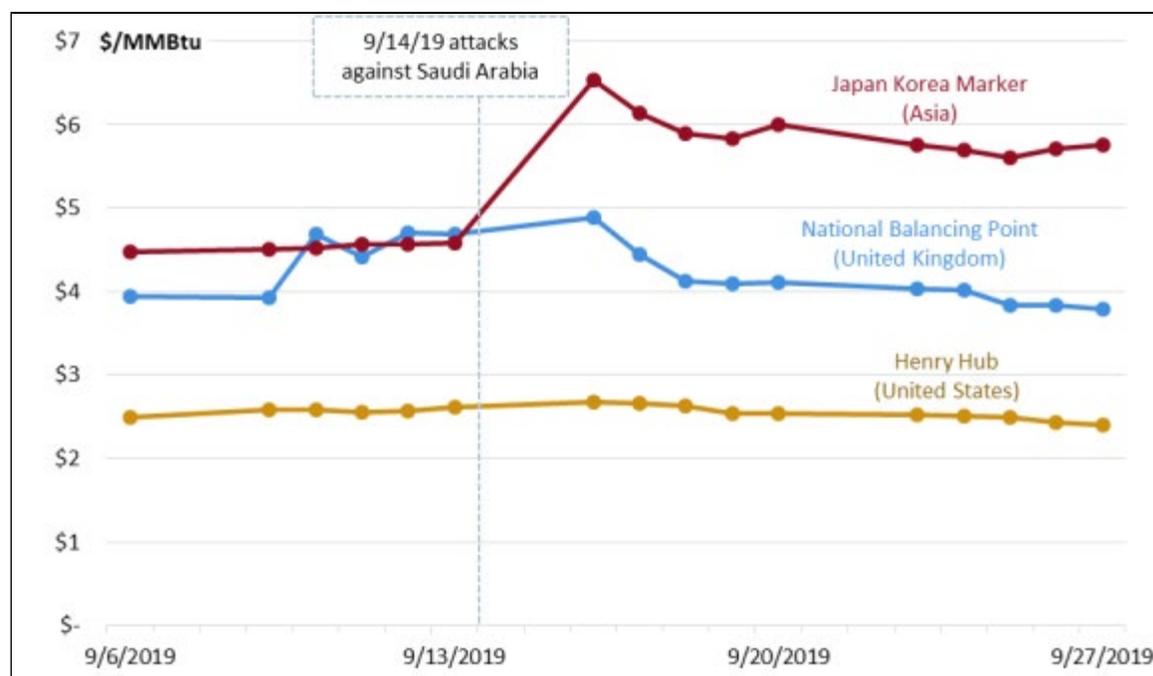
[Heightened U.S.-Iran tensions](#) since May 2019 have arguably led to several Iran-backed attacks on Gulf oil and gas infrastructure. Just one month prior to the September 14th attacks, the [Shaybah](#) light oil and natural gas liquids facility in Saudi Arabia, near the border of UAE, was attacked, causing a small fire. The Iran-backed Houthi movement in Yemen, which has been supplied with [Iranian weaponry](#) including short-range ballistic missiles, claimed responsibility. Shaybah produces crude oil, natural gas liquids, and natural gas. While this attack did not result in production loss, this incident provides an example of energy infrastructure vulnerabilities in the region.

Regional Natural Gas Prices

Natural gas is not fully a global commodity, which is reflected in price variations among regional markets (see [Figure 2](#)). Most LNG exports are tied to long-term contracts, about 20 years in duration, and linked to an oil indexed price. The Japan Korea Marker (JKM) is a proxy for LNG prices delivered in Asia, which in 2018 received 30% of its LNG from Qatar, Oman, and the UAE. South Korea and Japan globally were the largest recipients of LNG from these three countries and all their imports come via LNG tanker. JKM prices spiked when markets opened after the attacks against Saudi Arabia (see [Figure 2](#)), though there was little price movement in the National Balancing Point (NBP), a European gas hub, and U.S. prices (known as Henry Hub). The jump in JKM highlights the change to the global LNG market as a growing share of natural gas is being sold on a short-term or spot basis. Although Europe imported about 31% of its natural gas from Qatar in 2018 (none from Oman or the UAE), the majority of its imports come by pipeline from Russia, Norway, and Algeria. The United States is a net exporter of natural gas and does not import any LNG from Qatar, Oman, or the UAE. U.S. natural gas prices and LNG export contracts are not tied to oil prices and tend to have contracts that are less stringent than other countries. Any additional attacks in the region may create more uncertainties, potentially prompting greater market interest in U.S. LNG export projects.

Figure 2. Select Regional Natural Gas Prices

September 6–27, 2019



Source: CRS, based on data from Bloomberg.

Notes: The attacks on Saudi Arabia occurred on a Saturday, when natural gas markets were not open; therefore, there are no actual prices for September 14 and 15 as the chart implies. When markets opened on Monday, September 16 prices reflected the attacks. Units = U.S. dollars per million British thermal unit (\$/MMBtu).

U.S. Interests

There has been no direct impact from the attacks against Saudi oil infrastructure on U.S. natural gas production, consumption, exports, or prices. However, the JKM price jump portends a possible market change in natural gas as a more tradeable commodity, which may benefit U.S. LNG exporters. The U.S. natural gas sector is the most market oriented in the world. Even before the United States started exporting LNG from the lower-48 states, it influenced how natural gas was bought and sold. U.S. contracts do not contain destination restrictions, which was the industry norm for a long time. The ongoing conflict in the Persian Gulf region, highlighted by the September 14 attacks against Saudi

Arabia, and the possibility of escalation and spillover were reflected in the JKM price rise. Should the conflict persist, a possibly higher risk premium on Persian Gulf LNG exports may bode well for greater U.S. LNG exports as importing countries seek less risky supply sources.

In addition to natural gas, the United States and Qatar have a long-standing security relationship. The extent of this relationship is highlighted by the approximately 10,000 U.S. Air Force personnel who are based at the [Al Udeid](#) air base in southwest Doha. Al Udeid serves as the hub of U.S. regional military air operations, and hosts the forward headquarters for [U.S. Central Command](#) (CENTCOM).