

China pays \$162m for right to search for gas off WA coast

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Energy-hungry China has gone to unprecedented lengths to ensure it secures a share of WA's vast petroleum reserves by agreeing to pay \$162 million for the right to explore for gas off the Kimberley coast.

Oil giant CNOOC, which signed a landmark \$25 billion gas supply deal with the North-West Shelf project in 2002, will drill up to 10 wells over five years as a part deal, which covers 4200sqkm of ocean north-west of Wyndham. In return, China will be entitled to any gas it finds.

The strategy is aimed at delivering China the security of supply that comes from direct ownership of gas rather than relying on striking sales contracts with the multinational petroleum giants, as it has done in the past. It also limits exposure to future

price increases.

China's industrial explosion has seen it become a major global gas customer, raising concerns within the country that it is too exposed to Western petroleum producers, most of whom have stakes in WA's North-West Shelf and Gorgon projects.

The perceived benefits of direct ownership have also led it to take stakes in a string of WA iron ore companies and projects in a bid to reduce its exposure to BHP and Rio Tinto.

The gas permit acquired by China sits immediately between Woodside Petroleum's big Laminaria-Corallina oilfield, and ConocoPhillips' \$4 billion Bayu-Undan condensate and LNG project in the Timor Sea. The permit was one of 11 awarded by the Federal Government this week under

its annual program of releasing acreage to encourage the discovery of new oil and gas supplies.

Federal Resources Minister Ian Macfarlane said \$800 million would be spent exploring the latest permits to be auctioned. The total spending commitment at permits issued under this year's release program now stands at almost \$2.2 billion, mostly for work in WA waters.

Mr Macfarlane said the hot competition for Australian permits was proof the Government's strategy to encourage oil and gas exploration was succeeding. "It's good to see new players in the market," he said. "It demonstrates government initiatives to boost exploration are working."

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China agrees to \$162m gas deal

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In addition to CNOOC's bid, French energy giant Total pledged \$295 million to pick up two adjoining permits off Wyndham, while Woodside and US oil and gas producer Hess Corporation will spend \$196 million over five years to explore a permit next to the massive Jansz gasfield at the \$20 billion Gorgon LNG project.

But none of these bids comes close to the record \$503 million commitment promised by Hess in February when it secured another permit adjoining Jansz.

That was Hess' first bid in Australia and demonstrated how desperate global energy companies have become in the hunt for new gas supplies. Last year Shell set a then record by bidding \$127 million to secure a permit off Broome and in May it bid \$114 million to secure a permit surrounding its \$1 billion Crux gas-condensate joint venture.

Further underlining booming global gas demand, Woodside last week approved development of its Pluto LNG project on the Burrup Peninsula despite costs doubling to \$12 billion.