

'Gold medal' LNG deal loses gloss

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The North-West Shelf joint-venture liquified natural gas contract with China is the lowest priced long-term LNG contract in Asia, ensuring prices well below market rates for producers, led by Woodside Petroleum.

Customs figures show that in June, China imported 57,410 tonnes of LNG from Australia worth \$US11.4 million (\$15.1 million), excluding taxes, equating to a unit import cost of about \$US198.40/tonne (\$3.8/MMBtu).

This compares with an average LNG contract price for sales to Japan in May of \$US360 a tonne and Taiwan of \$US450 a tonne. The June figures are not yet available.

The Woodside-led joint venture with China's third-largest oil group, CNOOC, signed in 2002, was Australia's biggest energy deal and Prime Minister John Howard hailed it as akin to winning a gold medal.

But the price negotiated suggests the rewards are far lower than initially hoped.

When he attended the opening last month of China's first LNG

receiving terminal in Shenzhen, to which the North-West Shelf LNG is shipped, Mr Howard distanced himself from the pricing of the deal.

"It's a 25-year contract and we intend to implement the terms."

He said pricing was a matter for the market participants and "at no stage was the government involved in the pricing of the contract".

But press reports after the deal was negotiated suggested the federal government had played a key role in negotiations for the Australian LNG group and the Prime Minister was heavily involved.

The timing of the negotiations was unfortunate because it was at the low point of the LNG price cycle. But the deal did not allow the Australian exporters to participate in the benefits of a rising market or renegotiate the contract if the market rallied.

Thomas King, president of Guangdong LNG, said: "We have

a 25-year contract and we intend to implement the terms of that contract.

"The contract has a number of provisions but price reopening is not one of these."

The contract was capped at a crude oil price equivalent of about \$US25 a barrel. Crude oil is now trading about \$US74 a barrel.

The spot LNG price has soared over the past four years from about \$US3 per MMBtu (\$US155 a tonne cost, insurance, freight Far East) to more than \$US12 per MMBtu (\$US620 a tonne) in January.

It has eased back to about \$US7 a barrel today, although few spot cargos are being traded in Asia.

The price of another deal done at the same time by China's CNOOC with the BP-led Indonesian Tunggah LNG project enabled this contract to be renegotiated.

Just recently it was revised up by 40 per cent to equate to \$US38/bbl crude, up from the original price of \$US25/bbl agreed for the 15-year deal for \$US2.6 million.