

Gas deal to benefit Taiwan, Australia

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Taiwan possesses minimal domestic energy sources and is therefore almost totally dependent on imports. Currently 98 percent of the island's energy needs are sourced from overseas, making the guaranteed procurement of supplies almost the top economic priority of Taiwan.

This situation is highlighted by a recent agreement signed in November between CPC Corp., Taiwan and Woodside Petroleum Ltd., Australia's largest publicly traded oil and gas exploration and production company. The immediate significance of the agreement is underlined by data released, also in November, by the Bureau of Energy in Taipei, which revealed that during the first nine months of the year energy consumption in Taiwan had risen by 3.9 percent.

Large amounts of minerals, notably coal, iron ore, aluminum, crude petroleum and copper, are supplied to Taiwan by Australia. At present, coal is by far the largest contributor to the trade. It provides approximately one third of Taiwan's imports from Australia and in the period from 2005 to 2006 Taiwan was Australia's third most important market for coal, exceeded only by Japan and South Korea.

The recent agreement, however, is about to change this situation by substantially increasing the volume of liquefied natural gas to be provided by Australia to Taiwan. Woodside confirmed Nov. 20 that the agreement involved the annual supply to Taiwan of 2 to 3 million tons of LNG from its proposed Browse Basin development. Shipments are likely to begin in 2013 and last for 15 to 20 years with a value of about US\$40 billion. The Browse Basin is one of a number of gas-rich geological basins situated in the Timor Sea to Australia's northwest. It covers approximately 140,000 square kilometers and contains significant but as yet undeveloped reserves of gas and condensate--hydrocarbon gases rich in naphtha that condense to form liquids at atmospheric conditions.

The Woodside contract with Taiwan is the second development planned for the Browse Basin following a similar contract signed with China's PetroChina in September, and is Australia's first such contract with Taiwan after 20 years of marketing efforts. It follows a top-level meeting in Perth, Western Australia, in September 2004. On that occasion, then Minister of Economics Lin Yi-fu led a Taiwanese delegation of senior business leaders representing over 50 companies and including the CPC president, which met with executives of Australia's major mineral conglomerates.

Taiwan had been the subject of unsuccessful marketing efforts by Australian LNG suppliers for over two decades. The contract has therefore been seen as a major breakthrough as Taiwanese energy officials have agreed in recent months to higher prices than previously offered.

This change has been attributed in The Australian newspaper as due to concern by Taiwan over increasing demand for LNG from the East Asian market as a whole. This has led to bids from Japan and China at prices much higher than those being negotiated in earlier years.

However, it is likely that other issues affected Taiwan's decision to buy LNG from Australia. CPC anticipates an increase in natural-gas demand due to the construction of additional power plants and government plans to triple LNG consumption by 2010 as the island moves toward cleaner energy. It is therefore seen as necessary to diversify its sources of supply and guarantee their reliability, especially in the light of concerns over the stability of an erratic Indonesian supply.

The contract is considered by Woodside's chief executive as the first step to establishing further talks with CPC for potential future sales. Both the existing and possible future contracts could make CPC a foundation customer, with Japan, for the proposed expansion of Woodside's Burrup LNG plant located on the coast of Western Australia's Pilbara region and currently based on gas from another of Woodside's projects.

The LNG plant, where the natural gas having been pumped 900 kilometers from the extraction site would be condensed into a liquid by cooling, would become part of the Burrup Industrial Park. This park offers almost 1,400 hectares to prospective tenants for heavy industry in close proximity to Dampier, Australia's largest tonnage port.

The Burrup peninsula, where the industrial park is located, is a region extremely rich in ancient Aboriginal rock art, with hundreds of thousands of Aboriginal petroglyphs, or rock carvings, being distributed over an area of 88 square kilometers. This has raised heritage issues about the industrial growth. The importance of the site was recognized by its listing on the World Monuments Fund's 100 most endangered heritage sites in 2003 and on the Australian national heritage list in July 2007. Although the site for Woodside's LNG plants has been excised from the listing to permit development, some 150 inscribed rocks are being relocated to avoid damage to their 30,000-year-old Aboriginal petroglyphs.

Taiwan and Australia are clearly both benefiting from the LNG agreement and it seems that a workable compromise has been reached regarding the issue of national treasures.

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