Foreign and Military Affairs

Big LNG deal signals better Canberra ties

By Wan Zhihong (China Daily)
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Resources 'backbone of Australia's trading relationship with China'

BEIJING - China's largest offshore oil producer signed a landmark deal on Wednesday to buy liquefied natural gas (LNG) from Australia for 20 years, a move analysts said underscores growing commercial ties between the two countries despite recent hiccups.

Under the contract, CNOOC will buy 3.6 million tons of LNG per year from British gas producer BG Group's Curtis LNG facility in Queensland in Australia.

It is the world's first purchase agreement for the supply of LNG from coal seam gas, and marks the first sale of LNG from coal seam gas to China, CNOOC said in a statement.

It is one of Australia's biggest single company-to-company LNG contracts. The deal is worth about $40 billion based on a crude oil price of $70 per barrel, BG Chief Executive Frank Chapman said after the signing ceremony.

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The multi-billion-dollar deal suggests that Sino-Australian commercial ties have been largely unaffected by other tensions such as the Rio Tinto case, said analysts.

"Energy collaboration will be increasingly important in Sino-Australia commercial ties. The two countries, which have vital roles to play in global energy security, will undoubtedly strengthen cooperation in the area," said Huo Jianguo, researcher at the Trade Research Institute affiliated to the Ministry of Commerce.

Australia's Resources and Energy Minister Martin Ferguson concurred.

"Resources are the backbone of Australia's trading relationship with China. One-third of Australia's mineral exports go to China; and China is our second-largest trading partner for LNG.

"Australia's trading relationship with China is healthy and mutually beneficial," said Ferguson, adding that his country is committed to strengthening that relationship.

More than $26 billion of Chinese investment was approved in the Australian resources sector in 2008 and 2009, he said.

Under the latest agreement, CNOOC will acquire a 5 percent equity interest in the reserves and resources of certain BG Group tenements in the Surat Basin in Queensland.

CNOOC will become a 10 percent equity investor in the first of two liquefaction trains which will form the first phase of the Curtis project.

BG Group and CNOOC will also build two LNG ships in China.

Use of natural gas fits well with China's efforts to build an environmentally-friendly economy, said Liu Qi, deputy head of the National Energy Administration. China will see more natural gas imports as domestic production cannot keep pace with rapidly rising consumption, Liu said.

Natural gas accounted for around 3 percent in the country's total energy consumption last year; and the government plans to raise the proportion to 5 percent this year.

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China imported 5.8 million tons of LNG in 2009, an increase of 67 percent from a year earlier, said Liu. The country has three LNG shipping terminals in Shanghai, and Fujian and Guangdong provinces.

Construction of several LNG terminals is also in the pipeline in coastal areas including Dalian, Zhuhai, and Jiangsu and Zhejiang provinces, said Liu.

As a leader in the domestic LNG market, CNOOC will import 8 million tons of LNG this year, said Fu Chengyu, president of the company.