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$25bn gas deal boosts China ties

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TRADE COUP

"The China gas deal reinforces Australia's role as the partner of choice for the burgeoning energy needs of the world's fastest-growing economy."

– Rowan Callick, page 58

An Australian consortium has won a $25 billion deal to supply natural gas to China over the next quarter century, cementing the country's role as China's favoured commodity supplier.

Prime Minister John Howard, who flew to Beijing in May to lobby for the deal, seized on it yesterday as a foreign-policy triumph for the Federal Government. He described the agreement as Australia's largest single export contract.

The Woodside-led Australian Liquefied Natural Gas consortium will supply 3 million tonnes of North-West Shelf gas a year from 2005 to a terminal being built at Shenzhen, near Hong Kong. This will feed six new power stations and other converted oil-fired plants. Australia's win comes just over a year after the Government vetoed a Shell takeover of Woodside, whose shares ended up just 12¢ at $9.01 yesterday, after initially soaring 90¢ on the news.

West Australian Premier Geoff Gallop pointed to substantial benefits for the state and the national economy, with a new production train expected to directly create 2,000 extra jobs.

The decision to award the contract to Australia appears to have been made at the very top in China.

Premier Zhu Rongji, a consistent campaigner for closer commercial links between the countries, told Mr Howard the news yesterday.

ALNG's Beijing-based vice-president (China), Alf D'Souza, said yesterday: "It's very gratifying that we were able to make it in the end, given that our competitors were so

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capable." But Indonesia, the runner-up in the long-running battle over the contract, has been awarded a substantial consolation prize – the next gas contract, to supply a terminal to be built in Fujian province.

China's decision was based on security of supply as well as on price.

The North-West Shelf, which will produce the gas, has delivered just over 1,000 shipments of gas since 1989, all on time and to quality.

The attraction of such reliability was reinforced, in China's perspective, by ALNG's agreement to sell its chief customer, China National Offshore Oil Corp, a substantial stake in the upstream: ownership of just under 5 per cent of the North-West Shelf's gas reserves.

Another significant element in winning the contract was ALNG's agreement to bring CNOOC into a joint venture to own and manage the ships carrying the gas, which cost up to $380 million each.

Substantial presentations were also made by ALNG to the potential buyers in Guangdong, China's richest province, of the gas-driven power from Shenzhen.

Analysts said China was impressed with the track record of its Australian resources joint ventures over many years, starting with Rio Tinto's Hamersley in the Channar iron-ore mine in Western Australia and with Alcoa in the Portland aluminium smelter in Victoria.

Although ALNG suffered some criticism for not tendering for the development of the receiving terminal in Shenzhen – BP, leading the rival Indonesian bidder to supply gas, won that tender – this clearly did not prove a significant strategic blunder.

Arthur Dixon, president of the ALNG consortium, said the development of another train would depend on the existing buyers of the trains. Train four was under construction at the moment. "Almost certainly, train five will be required."

He said: "The gate is open for Chinese equity to come into the project."

The next step, he said, was to complete the sale and purchase agreement, a major element in LNG contracts. He said the role of the Prime Minister and of the embassy had been crucial.

"China was impressed with the track record of its Australian resources joint ventures."

Melbourne-based lawyer Robin Chambers, the only Australian director of Chinese joint-venture companies involved in the Channar project, said that yesterday's decision confirmed Australia's position for China as a central supplier of key resources.

Australia and China are also negotiating a new multi-faceted agreement to mark the 30th anniversary of diplomatic links, expected to be finalised before the end of the year.

The participants in the ALNG consortium are Woodside, BHP Billiton, BP, Chevron Texaco, Japan Australia LNG and Shell.

Announcing the consortium's victory, Mr Howard said winning the contract could lead to the development of a fifth processing train on the Burrup Peninsula for the North-West Shelf, worth about $1.5 billion.

He said: "This is the kind of outcome that will underpin the economic strength of this country especially in the Asia-Pacific region for years into the future."

It will add about 14 per cent – almost $1 billion a year – to Australia's exports to China, which grew by almost 50 per cent in 2000 and 26 per cent last year.

Mr Howard said the win "demonstrates the great competitive capacity of this country when companies and governments work together".

The contract, to supply natural gas to China's Guangdong Province, was valued at $20 billion to $25 billion.

Mr Howard thanked the Australian Ambassador in Beijing, David Irvine, many of his ministerial colleagues and representatives of the West Australian Government who played a part in the lobbying effort that won the contract against Qatar and Indonesia.

He said that when he visited China in May "I was particularly pleased the way the Chinese Premier [Mr Zhu] and President Jiang Zemin received the representations which I made on behalf of the consortium and the Australian Government."

with Ben Power