

HD Australia's Santos says LNG to fill half of Asian gas needs by 2030

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More than half of Asia's gas needs will be supplied by LNG by 2030, Santos Ltd . CEO David Knox said Thursday, adding that this will provide the Australian LNG exporter opportunities to grow.

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Speaking from the Brisbane **Mining** Club, Knox also said the gap between supply and demand for LNG will be about 100 **million** mt/year of LNG by 2050 thanks to Asia's increasing reliance on imported fuel, adding that LNG's share of total Asian gas supply could grow to 52% from the current 35% by 2030.

"The market we operate is a very competitive one," Knox said, outlining Australia's need to adopt new technologies for both onshore and offshore liquefaction facilities in order to drive down the cost of developing projects in the country, which has seen huge cost blowouts in recent years.

Santos has already invested in three LNG projects: Darwin LNG, Papua New Guinea and Gladstone.

All have sold volumes based on traditional crude **oil** linked term contract pricing, increasing Santos' exposure to **oil** prices from 30% some 8 years ago to 70% by 2015, when all three projects will be operational, Knox said.

US COMPETITION

With Asian buyers now preferring to sign LNG term contracts linked to other indexation points, such as US gas price Henry Hub, rather than traditional crude **oil** linked pricing, Knox warned that such pricing will not necessarily make LNG prices lower for Asian buyers given the high liquefaction and transportation costs.

"If you use a Henry Hub Price of say \$6-7/MMBtu in 2020, by the time you add the 15% capacity market up...you will see that you have landed US LNG into Japan or Korea at around \$14-14.50/MMBtu," he said. "This landed price is pretty close to the price of a conventional **oil** linked project, which at \$100/**b** is around \$14.50/MMBtu."

"US LNG will be important but not a silver bullet," Knox added, highlighting that Russia will also play a role, but will only meet around 6% of **China**'s gas demand by 2030 through the two countries new pipeline gas deal.

The argument appears to hold little weight for Asian buyers however, with Korea Gas Corporation -- the world's single-largest buyer of LNG -- still understood to be mulling a potential **sale** of 10% of its 15% **stake** in the Gladstone LNG project, despite rising domestic demand for gas.

Kogas had paid \$607.8 **million** for a 15% **stake** in the Santos-led Gladstone project, after agreeing to import 3.5 **million** mt/year of the plant's output for 20 years beginning 2015 in December 2010.

PROJECTS ON TRACK

Gladstone LNG is on track to ship its first cargo in 2015, according to Knox, who said the project will eventually deliver about 11% of Korea's domestic gas needs and around 9% of Malaysia's gas demand for the next 20 years.

Santos operates and holds a 30% **stake** in GLNG. Its partners in the project are Malaysia's Petronas (27.5%), French major Total (27.5%) and Kogas (15%).

Santos also expects the ExxonMobil operated PNG LNG project -- which became operational in May this year, six months ahead of schedule -- to ship a cargo every four to six days to term buyers in **China**, Taiwan and Japan for the next 30 years. PNG's long-term contractors include Tokyo Electric Power Co., Osaka gas, **China's** Sinopec and Taiwan's CPC.

Currently, volumes from PNG are being sold largely to term offtakers at spot prices, applying downward pressure on the LNG spot market.

"There are a range of reasons why the market has been nose diving; mostly it is PNG LNG effect, its additional length is such that the demand in Asia has subsided," a major northeast Asian buyer said. "This is just the beginning. Next year we have the affects of QC LNG, Gladstone LNG, APLNG and possibly Gorgon," he added.

Santos' new projects are expected to hit the market at the same time as a slew of new developments in Australia which will add over 40 **million** mt/year to the market by 2015.

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