



**HD** LNG boom over as **China** looks to sell out of long-term deals

**WC** 784 words

**PD** 10 December 2014

**SN** PANAPRESS - Pan African News Agency

**SC** PAFAGEN

**LA** English

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**Chinas** state-controlled **energy** giant Sinopec wants to sell some long-term liquefied natural gas (LNG) import deals as a slowing economy makes them unprofitable, sources say, signalling the end of a five-year boom fuelled by rising **Chinese** demand.

Asias thirst for **energy** has helped drive a dash for gas in producer countries from Australia to Canada, with LNG emerging as the fastest growing fuel source since the beginning of the century on the back of soaring **Chinese** imports.

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But just as long-planned projects start to come on stream **Chinas** economy is stuttering, which is likely to crimp demand and pull down domestic gas prices to levels that make imports unprofitable.

We talk about **China** choking on LNG. Theres just too much coming onto the market, said Gavin Thompson, Head of Asia Gas Research at Wood Mackenzie.

Analysts say falling crude prices, which have dropped around 40 percent since June, are another factor weighing on **Chinese** gas prices.

Based on the recent fall in **oil** prices... there is an increased risk that there could be a near-term cut in natural gas price (in **China**) for the first time, Bernstein Research said on Tuesday, adding that at lower levels LNG and pipeline imports make little sense for producers.

And even if retail prices do not fall, imports may not be needed as the high gas price at home caps demand.

Slower economic growth and higher domestic prices ... are tempering demand, said Michal Meidan, director of consultancy **China** Matters.

In response, **China** is trying to find buyers for contracted LNG on the international market, which is already oversupplied due to slowing demand and rising output that have seen Asian LNG prices halve this year, with analysts expecting another 30 percent fall by 2015.

There is at least one SPA (Sales and **Purchase** Agreement) being negotiated with a **Chinese** buyer that has a lot of destination flexibility, including to terminals outside of **China**, said one source involved in LNG shipments from Australia to **China**.

#### UNPRECEDENTED EXPANSION

Sinopec is planning to offload LNG from new export plants in Australia and potentially Papua New Guinea to BP, advisory and trading sources with knowledge of the matter said, amid growing unease over the scale of an unprecedented expansion that has seen the construction of 11 LNG import terminals since 2006 and includes plans for 25 more projects.

BP and Sinopec declined to comment, but the sources said that, beyond selling excess cargoes into the spot market, other options being discussed included selling parts of its long-term agreements to another **company**.

Three industry sources said Sinopec was in early talks to sell off chunks of the 20-year, 4.3 **million** tonne per annum (mtpa) supply it bought from Origin Energys Australia Pacific LNG plant due to start in 2015.

Sinopec invested in the Australia Pacific LNG in 2011 and 2012, when Asian spot LNG prices averaged \$14.8 per mmBtu, compared with less than \$10 per mmBtu now.

It may also sell excess volumes coming from its 2 mtpa **stake** in Exxon Mobils Papua New Guinea LNG, in which it invested in 2009, when LNG prices were low but **Chinas** LNG demand was expected to grow for decades to come.

#### FIRE **SALE**

Tumbling **energy** prices may make reselling LNG difficult as consumers across Asia also scramble to offload excess volumes, contributing to an emerging glut.

Sinopec is exploring options to sell BP up to 1 mtpa over 2016 and 2017 from its Australian project, which could be extended to run until 2020, the sources said.

While **oil** traders, including in **China**, often take advantage of low prices to build up long-term reserves in preparation for supply disruptions or higher prices in the future, stocking LNG is more costly as the gas has to remain liquefied in super-cooled facilities or pumped into pressurized gas storage tanks after being regasified.

The sell-offs could also end a race by **Chinese energy** firms to enter the LNG market.

Sinopec, CNOOC, CNPC and PetroChina all made big LNG investments in the past years, racing to outdo competitors from Japan and South Korea, which remain the worlds biggest LNG importers.

The build-out was driven by competition between the companies for market share, Meidan said.

LNG importers also face stiff competition from other fuels such as pipelined gas, hydroelectric and **coal**-fired power generation, as well as domestic shale gas production.

**Coal** and hydro are hard to beat over price, one LNG trader said. Russian and central gas Asian pipelines will come in, and one day **Chinese** shale will add to our long list of competitors.

**CO** cpetc : China Petroleum and Chemical Corp (Sinopec Corp) | chpc : China Petrochemical Corp

**IN** i13 : Crude Oil/Natural Gas | i1300003 : Crude Petroleum Extraction | i1 : Energy | iextra : Natural Gas/Oil Extraction | i25 : Chemicals | i2512 : Basic Organic Chemicals | i25121 : Petrochemicals | ibasicm : Basic Materials/Resources

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**IPD** Oil & Gas

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**AN** Document PAFAGEN020141210eaca001p6