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HD **Gas buyers jittery as Ukraine crisis flares**
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Analysis - Leviathan project even more attractive

It's an ill-**wind** that blows nobody any good, and that is clearly true of Ukraine's stoush with Russia which has caused jitters in Europe's **energy** markets.

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Along with **oil** supplies, Europe sources one-third of its gas from Russia, with half of this flowing through Ukraine. And security of supply is essential - there is no ready alternative supply source.

Russia has threatened previously to cut supplies to Europe when rowing with Ukraine, which has pushed up gas prices. The fears have been rekindled as Russia has taken control of Crimea, in Ukraine's south.

For Woodside, which is finalising agreement to buy into the giant Leviathan gas project in Israel, potential disruption to gas supplies to Europe potentially adds to the attraction of finalising its buy-in. While it has been negotiating to acquire a **stake**, the price has risen as reserves have increased.

Woodside's decision to buy into this project is the potential to liquefy the gas for export, which is the Australian **company**'s perceived area of expertise. It has its own LNG carriers and has discussed shipping gas from Israel to west Asia.

But the blunt reminder to Europe that Russia could allow its political interests to override "security of supply" for European **energy** users will give the Leviathan gas sales team automatic entree to Europe's main buyers.

And the proximity of Europe to Israel means that market will be a much more valuable outlet than shipping the gas to Asia.

That same logic will result in more gas flowing from the US to Europe, rather than to Asia, as its gas export ambitions take wing, ignoring the hand-wringing of some Australian analysts and observers that US exports may undermine the prospects for additional sales of Australian gas into Asia.

Additionally, Russia playing hardball with its gas exports to Europe will keep Asian buyers on the backfoot when looking to Russia for supplies.

Political risk from dealing with Russia is not new. Gas producers saw this first-hand a decade ago, when the Russian government forced Shell to cede control of the Sakhalin II gas project in north Asia to Gazprom at a price which bore little resemblance to the cost of the project.

Shell's **stake** was halved to 27.5 per cent with Russia buying in for just \$US7.5 **billion**, at a time when the project cost had risen to more than \$US22 **billion** with Shell and its Japanese partners forced to shoulder the cost overruns. In this light, it is no little wonder that **China** has been reluctant to buy Russian gas, even though its markets are so close to the source of supply, Siberia.

Its talks with Russia about buying its gas have dragged on for years with little tangible progress, with **China** turning to Turkmenistan in the west and Myanmar to the south, where Woodside is now stepping up its presence by opening an office and committing to exploration wells.

With Russia largely sidelined in Asia, this market is likely to be split increasingly between Australian and potential Canadian suppliers.

Canada is anxious to get a seat at the table, although its projects are yet to progress, with environmental, government and financing approvals all several years away at best.

Quite apart from liability for federal taxes in Canada, the British Columbia government is planning to levy a tax of 1.5 per cent on a project's net income - revenues less expenses - once production begins.

When capital costs are recouped, a further tax of as much as 4.5 per cent will be levied. On this basis, the initial tax cost would be about \$C50 **million** (\$50.5 **million**) annually, rising to about \$C250 **million** once the project has recovered the initial investment.

IN i1 : Energy

RE russ : Russia | austr : Australia | ukrn : Ukraine | apacz : Asia Pacific | asiaz : Asia | ausnz : Australia/Oceania | bric : BRIC Countries | devgcoz : Emerging Market Countries | dvpcoz : Developing Economies | eeurz : Central/Eastern Europe | eurz : Europe | ussrz : CIS Countries

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