SE Features

HD **Brownfield LNG Offers Majors Growth in Asia**

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What are the majors up to in Asian LNG?

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Royal Dutch Shell's recent scaling back of its LNG exposure in Australia has been at odds with its integrated peers' desire to ramp up Asia-Pacific LNG capacity with an eye on feeding the region's voracious appetite for gas. Shell's peers are under the same investor pressure as the Anglo-Dutch supermajor to improve capital efficiency, and rising LNG development costs have certainly placed them in a bind, but Asia offers scope for future brownfield expansions that should be both cheaper and quicker to bring on line than greenfield schemes in East Africa or Canada. Having earlier this year sold its 6.4% interest in Chevron's Wheatstone project in Australia, Shell is now reducing its 23.1% **stake** in Australian independent Woodside Petroleum to around 4.5% (LNGI Jun.19'14). These sales will see Shell shed some 1.8 **million** tons per year in **equity** LNG capacity, and drop to second place behind Chevron among the majors in Asian LNG, based on its expected **equity** capacity by 2020 of 14.05 **million** tons/yr.

In contrast to Shell, Chevron has made a huge commitment to Australian LNG, leading both the mammoth 15.6 **million** ton per year Gorgon and the 8.9 **million** ton/yr Wheatstone projects. With its existing Asian portfolio limited to just a one-sixth **stake** in Australia's Northwest Shelf project, Chevron is eager to add new trains at both Wheatstone and Gorgon to improve project economics and boost returns. But expansion at Gorgon, which is due on stream in 2015, will present challenges due to the scheme's environmentally sensitive location on Barrow Island off the country's northwest coast, and resistance from partner Shell, which prefers to first stabilize **operations** from the project's three initial trains.

Chevron is also targeting the Asian market with its Kitimat LNG venture on Canada's Pacific coast, but is facing marketing challenges, with Asian buyers deterred, despite the offer of possible upstream stakes in the scheme, by the US major's insistence on 100% **oil**-linked pricing.

Total and Exxon Mobil both have legacy LNG interests in Indonesia, but face uncertain futures, and are trying to carve out new opportunities elsewhere in Asia. Total's Mahakam production sharing contract, gas from which feeds the Bontang LNG plant, expires in 2017, while Exxon's aging Arun plant is set to shut down after October.

Total may well have to cede Mahakam operatorship to state Pertamina, and has also failed to secure a role in Mahakam partner Inpex's Abadi floating LNG (FLNG) project in Indonesia. Against that backdrop, the French major is aggressively pursuing **equity** positions in the Ichthys and Gladstone projects in Australia, and is now eyeing its own operated greenfield project in Papua New Guinea, where it was, in March, the surprise buyer of a 40.1% **stake** in the country's most promising gas license, PRL 15 (LNGI Mar.27'14).

Exxon already has an enviable position in Papua New Guinea, where its PNG LNG project is widely expected to be more profitable than rival Australian schemes, with a third train likely to be added (LNGI May21'14). It is also studying FLNG as a development option for its Scarborough field offshore Australia, and could yet attract Japanese buyers to its giant Alaska LNG project as a result of cooling relations between Japan and Russia.

The LNG laggard among the leading majors, both in Asia and globally, remains BP. Apart from a likely third train to be added at Tangguh in Indonesia, the UK major is also a partner in Australia's delayed Browse floating LNG scheme, which is now looking at project sanction in the second half of 2015 (LNGI Apr.8'14). Rather than pursuing LNG **equity** or operatorship, BP instead appears to be building a flexible trading portfolio, signing up for 4.4 **million** tons/yr from the US' Freeport LNG export venture. The UK major seems to have "lost its way in the LNG game," one observer suggests, attributing this to the strategy rethink and budget constraints caused by the 2010 Macondo blowout, and a view inside BP that Tangguh, which started up in 2009, was poorly executed from a commercial standpoint, offering overly generous pricing to its main offtaker, state China National Offshore Oil Corp.

Energy Intelligence

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RE austr : Australia | papng : Papua New Guinea | apacz : Asia Pacific | ausnz : Australia/Oceania | dvpcoz : Developing Economies | pacisz : Pacific Islands

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