



Business - Page 19:

China puts its foot on the gas in \$60bn deal

BG's contract with CNOOC is the largest binding, detailed deal in Australian history

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ENERGY

QUEENSLAND'S emerging coal seam gas industry has received a \$60 billion boost from China with the official signing of Australia's largest liquefied natural gas deal.

Britain's BG Group and China National Offshore Oil Corp yesterday sealed a deal announced last May for the supply of 3.6 million tonnes of LNG per annum to

CNOOC for 20 years. The deal takes the value of binding LNG sales secured by Australian projects in the past year to more than \$500bn.

The agreement for the supply of LNG from BG's proposed Queensland Curtis LNG project at Gladstone, beginning in 2014, was yesterday hailed as the world's first fully termed sales and purchase agreement for LNG sourced from coal seam gas.

"These agreements are a landmark development in the relationship between our two companies, building on what is already a close and productive partnership in deepwater exploration offshore China," BG Group

chief executive Frank Chapman said.

Resources and Energy Minister Martin Ferguson, in Beijing for the signing, said that in volume, the deal was the biggest single company-to-company LNG contract in Australian history, totalling 72 million tonnes over 20 years.

"This deal makes Australia the world leader in the coal seam gas-based LNG industry and it brings us one important step closer to opening up a new LNG province on Australia's east coast in Queensland," he said.

BG's LNG deal, estimated to be worth about \$60bn, follows a string of major deals between

producers and key customers from China and Japan.

Chevron's \$90bn deal with Tokyo Electric Power — for the annual delivery of 4.1 million tonnes of LNG for up to 20 years from Wheatstone — is the largest to date. However, the deal is only a heads-of-agreement and has not yet been made binding.

Australia's largest trade deal to date was ExxonMobil's \$50bn sales contract with PetroChina, signed in August last year, for the supply of LNG from the massive Gorgon project in Western Australia.

Continued on Page 24

DON'T SUBSIDISE GAS P24

CNOOC puts foot on the gas

Continued from Page 19

BG's deal will also see CNOOC buy an interest in BG's coal seam gas resources in Queensland's Surat Basin and become an equity partner in one of the two LNG trains at Gladstone.

Chinese investment in Australian resources has been the centre of heated debate over the past year, with concerns about state-owned entities acquiring assets, but Mr Ferguson was keen yesterday to point out the importance of China to Australia.

"Resources are the backbone of Australia's trading relationship with China," he said.

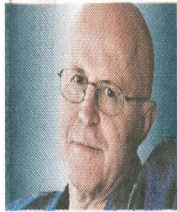
"Australia is committed to strengthening that relationship and being an important partner in our region's economic growth."

He highlighted that in 2008-09, more than \$26bn of Chinese investment was approved in the Australian resources sector.

"Just as the Japan-Australia trade and investment relationship matured and grew into a lasting friendship over the last 50 years, so will the China-Australia relationship," he said.

Regional centres are best bet when resources projects inflate local housing demand

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HOTSPOTTING



THE small Victorian town of Mortlake is finding out what happens when a big project arrives on your doorstep.

The results are a lesson for property investors trying to work out how to exploit this kind of situation.

One of the local newspapers in southwestern Victoria wrote about the repercussions for the rental market.

Under the heading "Rents through the roof as power workers seek shelter", it said shearers' quarters and rental houses in distant towns were being sought to cope with the accommodation demand created by 450 new workers in a town of barely 1000.

Origin Energy is building the \$600 million first stage of a gas-fired power station just outside Mortlake, which sits a little north of Warrnambool, 230km west of Melbourne.

When the project was being planned in 2007, I wrote that the

smartest way for investors to benefit from the promised economic and property activity was to buy or build real estate in Warrnambool.

There were three clear reasons: Mortlake couldn't begin to cope with the accommodation demand, so workers would have to rent further afield; many would prefer to live in the major regional centre, anyway, because of its better services and amenities, and commute to Mortlake; and the Mortlake situation shaped as a classic boom-bust scenario, with high demand creating high rentals and prices for a short period, and fizzling out once the big construction project was completed.

The wisdom of that rationale is

now being seen in and around Mortlake.

Despite recent new home construction, Mortlake can't provide accommodation for so many new workers.

Towns in the surrounding area, including Warrnambool as the major regional centre, are receiving a rental boost.

There are reportedly daily waves of traffic, starting as early as 5am, carrying power station workers from Warrnambool and Koroit to the power station site.

There is now nothing to rent in Terang, a larger town 25km south of Mortlake, and some workers are travelling as far as Camperdown, about 50km from Mortlake.

The demand has pushed rents in Terang up to \$350 a week and modest homes in Mortlake that previously fetched \$135-\$140 a week are now being let for more than \$320.

Farmers are opening up shearers' quarters, vacant cottages and other buildings to accommodate workers from the power station. Caravan parks are doing good trade.

It'll be great while it lasts, but it won't.

Most of the workers hail from the Melbourne area, the Latrobe Valley east of Melbourne, or interstate.

They're likely to remain in the Mortlake area only until the

construction is completed on the power station.

The number of staff required to operate the completed facility is only a fraction of the numbers needed to build it.

That's the normal situation with major infrastructure, energy and resources projects. There's always a bigger workforce in construction than in operation.

A vivid illustration is provided by one of the big liquefied natural gas projects planned for Gladstone, in Queensland.

The \$7 billion development proposed by Santos and its Malaysian partner Petronas includes production of coal seam gas in the Surat Basin, a 435km gas pipeline

to Gladstone and a processing facility to create LNG on Curtis Island, near Gladstone.

It's estimated it will take 5000 people to build the processing facility but only 1000 to operate it.

There will be massive rental demand for perhaps three years and then thousands of people will be looking elsewhere for work.

Gladstone, as a regional city with critical mass, can cope. The Santos development is just one of several multi-billion-dollar LNG projects in the pipeline, as well as a planned steel mill, massive expansion of the port and new rail and water infrastructure. Other industries will spin off all that. There will be accommodation demand in

Queensland's industrial muscle city well into future.

Small towns such as Mortlake have greater concerns about what will happen once the power station is built.

One possibility is continuing activity from other proposed developments. The southwest of Victoria is alive with wind farm projects at various stages of the planning-construction cycle, including one just outside Mortlake. There may be scope for landlords and businesses in the area.

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