



HELL, PETROCHINA IN \$3.3BN BID FOR GAS ASSETS

Global giants target Arrow

The takeover will give China a key stake in the LNG industry

MATT CHAMBERS
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ENERGY

OIL giant PetroChina has teamed up with Royal Dutch Shell for a \$3.3 billion tilt at coal seam gas producer Arrow Energy that would give China a firm footing in Gladstone's burgeoning liquefied natural gas industry.

But it could also delay Queensland's first LNG exports because, it is understood, the two oil majors do not want to go through with Arrow's planned purchase of LNG Limited's smaller but more advanced Fisherman's Landing project. They also do not want to supply it with gas.

PetroChina is the second Chinese state-owned company to try to take a stake in Queensland's vast CSG reserves, after China National Offshore Oil Corp last year struck an offshore and equity stake agreement with BG Group's Gladstone LNG project.

The other three projects are owned by BG, Origin/ConocoPhillips and Santos/Petronas.

If the takeover goes ahead, Shell would also sell PetroChina half its existing Queensland CSG assets, which consist of a planned LNG project on Curtis Island and a 30 per cent stake in Arrow's reserves, so the pair would have a 50-50 joint venture.

PetroChina and Shell want to use Arrow's gas for Shell's planned Curtis Island plant, which is the least advanced of the four projects. Arrow is finalising a deal to buy Fisherman's Landing from LNG Ltd that superseded a previous agreement to supply gas to the project. It had been targeting first exports in late 2012.

The Fisherman's Landing deal and the prospect of losing potential gas supply was the catalyst for Shell, which has previously been in talks to buy Arrow, it says.

The non-binding, indicative and conditional offer is for \$4.45 cash per share plus a share in Arrow's international business, which the company has recently said it planned to spin off.

arrowenergy

ARROW ENERGY

- Shell and PetroChina yesterday launched a \$3.3bn bid for Arrow Energy.
- Arrow is negotiating a deal to buy LNG Ltd's Fisherman's Landing LNG project at Gladstone.
- Shell already owns 30 per cent of Arrow's reserves.

BG GROUP

- BG Group bought Queensland Gas Company for \$3.4bn in 2008.
- China National Offshore Oil Corp has an agreement to buy 5 per cent of BG's reserves.
- BG is also buying a small amount of gas from Origin/ConocoPhillips.

Origin Energy

- The Australian-based company has a 50-50 joint venture with US oil giant ConocoPhillips.

SANTOS

- The Australian-based company owns 60 per cent of its project.
- Malaysia's Petronas owns the rest.

Eastern Star Gas

- The company has recently said it planned to spin off.

Queensland Premier

Anna Bligh welcomed the takeover bid, saying that Shell would be in a better position to accelerate its LNG plans if it had Arrow's deposits.

"Obviously this is a matter for commercial partners to decide, but the Queensland government would welcome a larger company with a stronger contractual basis for its investment, being in a position to then accelerate its development here in Queensland," Ms Bligh said.

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Move to the mainstream powers big CSG deals

government concerns over the involvement of a major Chinese state-owned enterprise in the bid.

From Shell's perspective, plainly the issues before FIRB are very, very different to those that triggered Peter Costello's landmark rejection of the oil international's attempt to take control of Woodside back in 2001.

Full ownership of Woodside would have delivered Shell with shaping leverage over the North West Shelf project and the government, perhaps rightly, felt that the oil major would be driven by the commercial strategies or its own project pipeline rather than by Australia's national interest in directing what was and still is our biggest single resources project.

Arrow's plans to export Queensland CSG in the form of LNG are both less ambitious and strategic than the northwest's 16 million tonnes a year giant.

Until Shell finally lobbied a long-expected offer on Friday evening, Arrow had evolving plans to build two 1.5mtpa LNG trains at Fisherman's Landing with production from the first \$2.2bn train expected by very late 2012. To that end, on February 11 Arrow announced it would pay \$168 million to buy the Fisherman's development site from Maurice Brand's Liquid Natural Gas Limited.

Now that offer would seem unlikely to be completed should this offer proceed and Fisherman's Landing would seem destined to remain just that should the bid ac-

ment at the time, in the midst of rapidly deteriorating relations with China, when Resources Minister Martin Ferguson dashed to Beijing for a signing ceremony despite no Australian companies being involved.

PetroChina is the listed arm and common name of China's largest energy company, China National Petroleum Corporation.

It's the largest of China's three energy giants created in 1984, the others being Sinopec and CNOOC. The three groups were re-organised in 1998 and have since been snapping up oil and gas exploration rights and assets around the globe.

It is the second Australian coal seam gas deal by a Chinese energy group in the past 10 months. In May last year, CNOOC stiched up a deal with British Gas to buy 3.6 million tonnes a year of LNG from the Australia arm of Britain's BG Group. CNOOC also agreed to buy 5 per cent of BG's interest in

Nation's gas a natural focus for China

MICHAEL SAINSBURY
CHINA CORRESPONDENT

AUSTRALIA's coal seam gas fields have become a pit-stop in China's race for energy.

The resource is fast emerging as a significant alternative in a strategy that originally focused on oil, natural gas and coal.

It's a new way into Australia's burgeoning gas reserves for the world's largest energy group, PetroChina, which pulled out of an agreement to buy up to 3 million tonnes of LNG a year from Woodside's Browse development in January.

But PetroChina last year signed a \$50 billion deal with ExxonMobil — one of the three owners, along with Shell and Chevron, of the Gorgon natural gas field off the coast of Western Australia — to buy LNG over 20 years. That deal was only trumpeted by the Australian govern-

ment at the time, in the midst of rapidly deteriorating relations with China, when Resources Minister Martin Ferguson dashed to Beijing for a signing ceremony despite no Australian companies being involved.

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coal seam gas facilities in Australia, but no pricing on the deals was released.

Yesterday's announcement came just one day after PetroChina, which already supplies 81 per cent of China's gas, said it had been given permission by China's state assets chiefs to develop coal bed methane with foreign companies.

Joint ventures with Western energy companies remain a constant theme with China's energy groups, particularly in areas such as Australia, where there can be political sensitivity to outright bids.

"PetroChina has been developing its downstream gas distribution business through asset injections from the parent since 2008," a report by Deutsche Bank issued last month said.

"In the longer term, we think there is scope for the oil majors to build on relationships to further align with or even take over large

gas utilities, to extend the value chain." PetroChina's involvement in the bid underpinned the economics of the deal, providing a guaranteed market for at least half of the gas, people familiar with the deal said. Shell and PetroChina have a history of co-operating and sharing technology over the past few years and Shell has its foot on its own coal seam gas assets in China.

Like its co-major, PetroChina is a fully vertically integrated group, with assets ranging from oil and gas fields to petrol to refineries and Chinese petrol stations.

It has experience in tapping the dangerous gas that lies in coal beds and often explodes. Such accidents cause dozens of deaths in China's mines every year.

PetroChina recently began tapping into China's own reserves of coal seam gas in coal-rich Shanxi province, feeding the gas into its landmark west-to-east pipeline.

MATTHEW STEVENS



COAL seam methane's rapid drift from petroleum exotic to gas industry staple is the essential motivation for a \$3.3 billion bid for Queensland's Arrow Energy by an intriguing alliance of the once and the future king of global petroleum, Royal Dutch Shell and PetroChina.

Queensland's coal seam gas potential has, so far, fattered three international unions but arguably none with the financial clout and potential political delicacies as this. Here we have the Seven Sister that was blocked from buying Woodside Petroleum teaming up with China's biggest state-owned company to bid for the most mature CSM business left listed on the Australian Securities Exchange.

Which means only that the Foreign Investment Review Board process here might be a little more precarious than could otherwise be expected. Mind you, not only does recent precedent in the CSG space suggest that the regulator will allow this offer to proceed to shareholders, but the structure of this deal might well mitigate any

government concerns over the involvement of a major Chinese state-owned enterprise in the bid.

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tionally succeed. Shell has talked about building a NWS-sized plant on nearby Curtis Island, which has emerged as Queensland's LNG hub with four projects currently planned there. But the other three, led separately by Santos, BG Group and Origin Energy, are much further down the track to defining the gas resources to support their plans than is Shell. To even start down the road to a 16mtpa operation, Shell needs to find more gas. And from the moment Arrow, as the biggest tenant owner in SE Queensland, aligned itself with Shell in 2008, it has loomed as the obvious answer to that mission.

Doubtless, reports that Arrow's deal with Brand, and subsequent discussions about funding the Fisherman's project through a one-for-one capital raising, drove the timing of Shell's pitch are accurate. The closer Arrow got to actually spending real money on Fisherman's, the more Shell was forced to either bid or walk away from its own grand plans for Queensland LNG.

Which brings us, in a roundabout way, to the issue of price. Has Shell offered enough with an indicative price of \$4.45 a share plus a share in Arrow's international business, valued internally at around 55¢? The answer is no.

Yes, the market pretty quickly settled just above the implied valuation of \$5 a share and the indicative offer represents a

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