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China CNOOC winner in LNG deals to Australia, RI

Owen Brown
Dow Jones
Beijing

China's third major oil company, CNOOC Ltd appears to be the biggest winner in a hotly contested US$20 billion liquified natural gas supply deal which taps both Australia's North West Shelf project and Indonesia's Tangguh gas field.

While the Australian winners were jubilant Thursday, state-run CNOOC appears to have not only secured a cheap supply of LNG but also a long-desired equity stake in an offshore gas reserve for its listed unit.

Struggling to choose between two cutthroat supply bids for its first-ever LNG receival terminal China awarded the $10 billion Guangdong contract to Australia and a second $10 billion supply contract for a yet-to-be built terminal in neighboring Fujian province to Indonesia.

Australian LNG, the marketing arm of the North West Shelf Project, wins a 25-year contract to supply 3 million metric tons a gas a year, increasing to 5 million tons in 2008 to the Guangdong terminal.

But the Tangguh project headed by BP Plc. (BP) and the Indonesian state-owned oil company Pertamina wins a consolation prize with a contract to supply 2.5 million tons a year of LNG to CNOOC's Fujian terminal.

In a three-horse race, Exxon Mobil Corp.'s bid based on the Ras Laffan Liquified Natural Gas Co. in Qatar appears to have been the only loser.

"I think it's the perfect solution that makes everyone happy except Exxon Mobil," HSBC Securities oil and gas analyst Gordon Kwan told *Dow Jones Newswires*.

Kwan said settling the Fujian supply contract at the same time as announcing the Guangdong deal also avoids accusations that BP is being punished for its decision to pull out of China's West-East gas pipeline project.

That $8,5 billion transnational pipeline linking the Tarim gas field in far northwestern Xinjiang province with Shanghai on China's east coast is a centerpiece project of the government's current five-year plan.

The later construction schedule for the Fujian terminal also provides BP's Tangguh project with more breathing space to find other buyers to justify the expense of going ahead with the development of the greenfield site off the coast of West Papua.

Deciding the winner of the Fujian contract also avoids the need to repeat the long drawn-out bidding process which accompanied the Guangdong project, Kwan said. BP will probably begin negotiating with buyers in Japan, Korea and Taiwan for similar supply contracts for the Tangguh field.

State-run China National Offshore Oil Co., which lists part of its assets as CNOOC Ltd., is leading the consortium to build the Guangdong terminal. Its partners include BP PLC, Hong Kong Electric Holding Ltd., and Hong Kong & China Gas Co.

In Fujian, China National Offshore Oil is also a 60 percent equity holder with the remaining stake held by Fujian Investment & Development Co., in the joint venture to construct the terminal in Meizhou Gulf off the southeast coast of China.

Construction is slated to begin in 2004 with plans for the operations to get underway in 2006 with an initial handling capacity of 2.5 million tons a year.

Kwan estimates the Guangdong and Fujian contracts are roughly worth about $10.8 billion each. Financial details of the contract weren't revealed in the announcement of the winning bidders.

However, it was confirmed that the Australia North West Shelf consortium has agreed to set up a joint venture with Hong Kong and New York listed CNOOC to develop gas projects off the Australian coast.

Also under the deal, the North West Shelf and China shipping companies Cosco Shipping Co. and China Merchants, will establish a joint venture to support the transportation of LNG to Guangdong.

Merrill Lynch oil and gas analyst Mario Traviati is wary that the news that Australia has secured the contract will later be tempered by the discounts offered to China to close the deal.

"CNOOC and the Chinese have held all the cards and it's been a stacked game because they are the only game in town," Traviati said. "I suspect that the Chinese have strung this out to get a price that is so low that they (Australian LNG) won't want it announced."

BNP Paribas Peregrine oil and gas analyst Eva Chu said there is nothing in the supply contracts for listed CNOOC as the terminal deals only involve the parent company.

However, Chu said there is potential positive news from the announcement that the listed unit will be given an equity stake in an upstream gas reserve. "But we still don't have enough detail," Chu said.

"It could be really positive but it depends on the price of the acquisition and the value of its reserves. There's still a lot of uncertainty."

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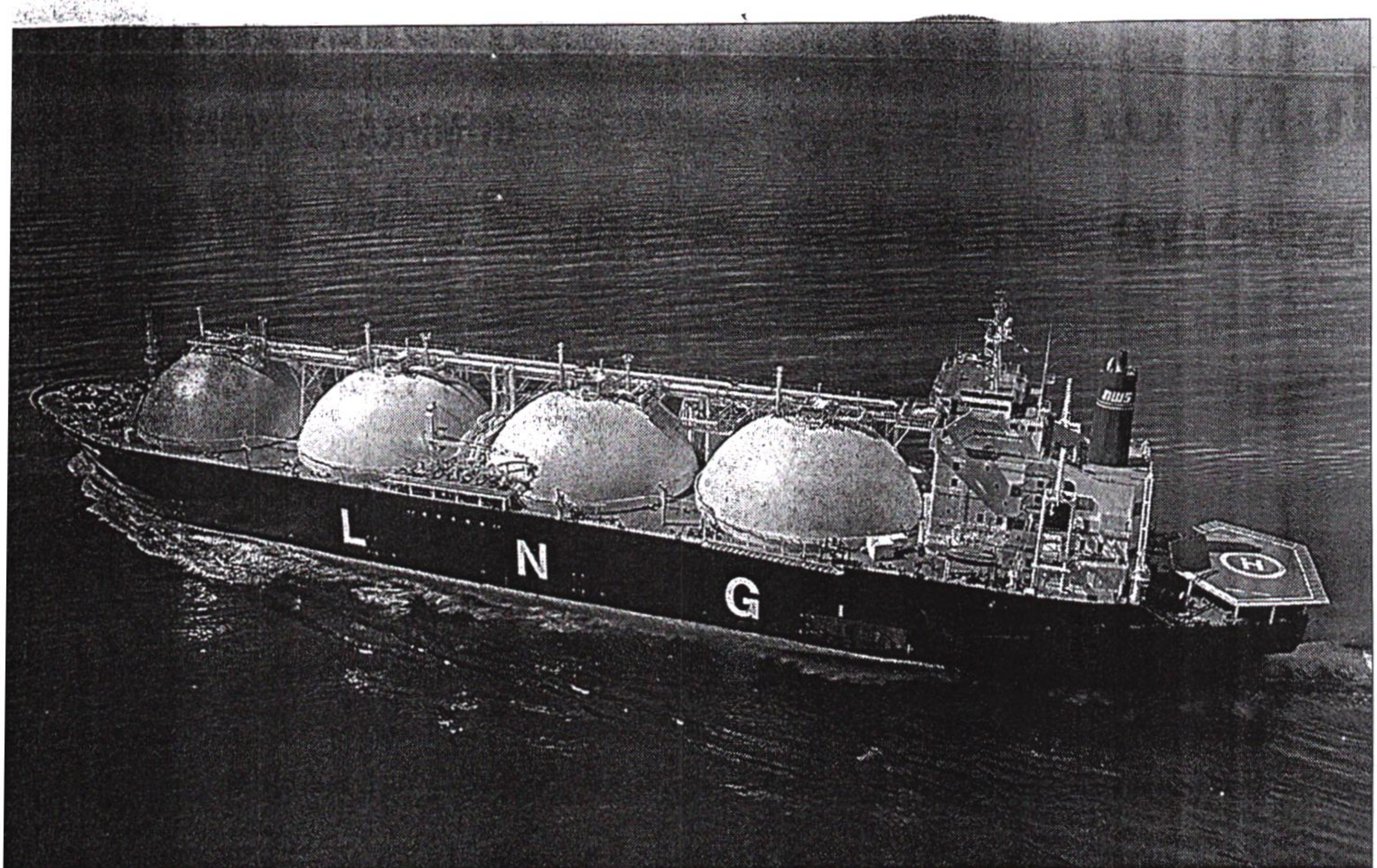

Reuters

BIG GAS DEAL: An Australian liquefied natural gas (LNG) tanker sails off the coast of Western Australia. Australian Prime Minister John Howard announced on Thursday a deal for Australia's LNG, the marketing arm for the North West Shelf gas joint venture, to supply LNG to China's first LNG terminal in the southern province of Guangdong for the next 25 years. The deal is estimated to be worth US$11 billion to $14 billion, Australia's largest single export deal.