

NEW CONTRACTS FOR AUSTRALIAN GAS POSE NO THREAT TO SAKHALIN II

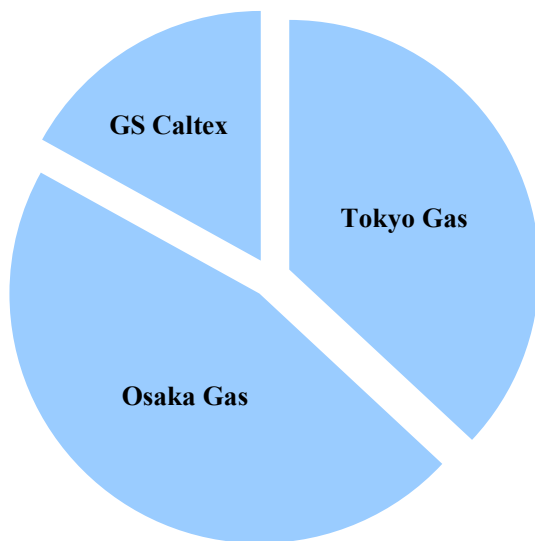
BY KIRILL LEBEDEV, IFS SENIOR ANALYST, 22 SEPTEMBER 2009

Competition on the global liquefied natural gas (LNG) increases, as does the role of Australia on the vast LNG market.

South Korea and Japan have awarded a \$60 billion long-term contract for LNG supplies from the Australian Gorgon gas field to the US' ChevronTexaco.

The buyers agreed to buy Australian liquefied methane over 20 to 25 years with annual shipments of 3 million tons.

Figure 1. Gas supplies by contracts



ExxonMobil announced earlier that it signed deals with Asia-Pacific countries: China's PetroChina and India's Petronet will receive 2.25 and 1.5 million tons of LNG per annum respectively. The two contracts are worth more than 62 billion dollars.

The US' corporations' success is accompanied by an increasingly important role of Australia, for the moment ranked sixth among the largest LNG exporters. Provided that American operators of the Australian gas fields (with Gorgon reserves exceeding 1.1 trillion cubic meters) continue to perform well, Australia will take a leading position in the region.

For the time being, there is no reason to fear about Gazprom's position in the Asia-Pacific LNG markets as all gas to be produced in the frame of the Sakhalin II project has been sold for the next 20 to 25 years.

An island country and one of the world's largest LNG consumers, Japan will definitely continue to import gas. Even when the Japanese market is saturated, consumers may prefer to sign new contracts. Long-term gas deals guarantee that in case of gas deficit the Japanese importers will not be able to find additional LNG suppliers in a short time.

With this in mind, if Gazprom aims to sell 9.6 million tons of gas produced on Sakhalin island, it has already reached its goal. After the effective contracts expire, Japan, no doubt, will award new contracts to Gazprom. To expand its footprint into European and US markets, Russia has to build new plants in the East and in the West.