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China's LNG traders join clamour for JCC alternative

CNOOC's LNG import terminal in Putian, Fujian province. China is the world's third-largest LNG importer. (CNOOC)

Li Xin Beijing and **James Byrne** Asia Pacific correspondent

CHINESE LNG buyers criticised Asia's traditional oil-linked LNG pricing mechanism during a conference in China this week, claiming the formula was unfair and failed to accurately reflect gas market fundamentals.

"The Japan Crude Cocktail [JCC] pricing system is just not fair to Chinese importers," said Chen Shi, a representative with the strategy and planning department of ENN Energy, speaking to delegates at the Eighth China LNG Conference in the city of Dalian in Liaoning province.

China has had to accept JCC indexation because it was a latecomer to the LNG market and initially imported negligible volumes, said Chen.

China only began importing LNG in 2004, taking delivery of less than 1,000 tons between 2003 and 2006. However, with Chinese demand growing at double digits, the country overtook Spain and Taiwan last year to become the world's third-largest importer – importing 14.7 mt during the year.

Hong Kong-listed ENN Energy has been seeking opportunities to import LNG for a 3 mtpa LNG terminal planned in Zhoushan – a special economic zone in east China's Zhejiang province – but has faced difficulty securing government approval.

China's LNG importers, meanwhile, have faced their own problems with government-capped gas prices. These have caused deepening losses among China's LNG buyers – ones which are directly linked to JCC pricing – Chen told *Interfax* on the sidelines of the conference.

Government caps on the domestic price of gas mean Chinese importers often cannot pass on the high cost of imports to distributors and end-users, forcing them to sell below cost to sustain cash flow, he added.

Competition between imports of piped gas and LNG is also growing, with China steadily increasing pipeline imports from Central Asia. Piped imports overtook LNG shipments for the first time in August last year. An additional pipeline from Myanmar and a planned 38 billion cubic metre line from Russia could also make Chinese buyers less price tolerant when they eventually come online.

Push-back

China and other emerging LNG buyers, such as India, are resisting the explicit link to oil prices as they see a future

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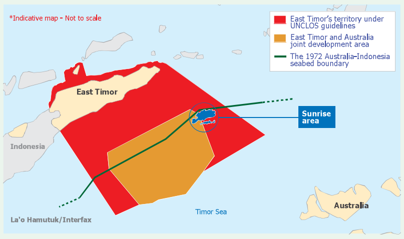


East Timor ups ante with eye on Timor Sea deal

East Timor may be considering a renewed push to put its disputed maritime boundary with Australia back on the negotiating table. **Robert Sullivan** reports

STALLED discussions between East Timor and Woodside Petroleum over development plans for the Greater Sunrise offshore gas field soured further last week, after it was revealed East Timor will seek arbitration over a dispute related to the Certain Maritime Arrangements in the Timor Sea (CMATS) treaty, signed with Australia in 2006.

The government of East Timor accused Australia of espionage during the 2004 negotiations prior to the CMATS agreement, which splits any future revenue from development of the Greater Sunrise field equally between the two countries, but also prohibits any discussions on maritime boundaries in the Timor Sea for 50 years.

While officials from East Timor have yet to clarify what they hope to gain from the arbitration process, some experts have suggested that, in addition to more favourable terms on oil and gas revenues, the government could be mulling a renewed push to bring its disputed maritime boundaries with Australia back to the negotiating table.

Lingering issues

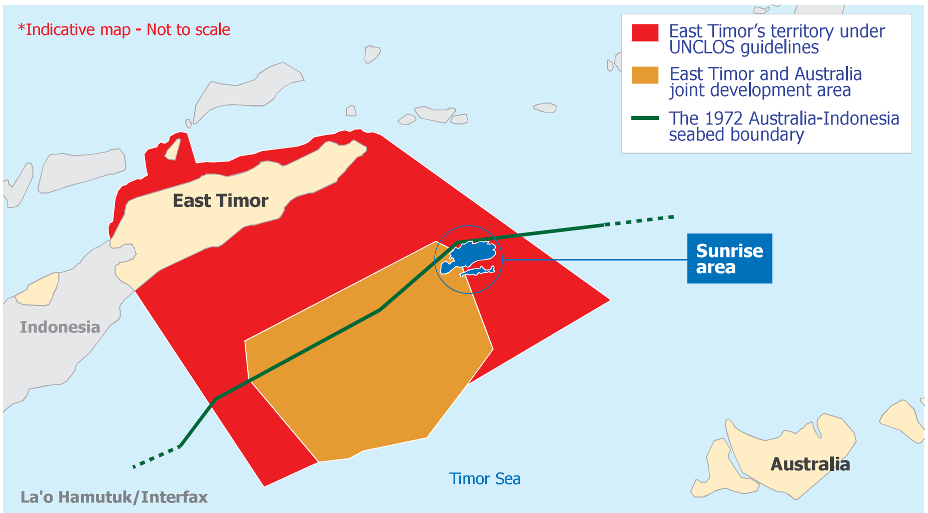
"There is no doubt that the East Timor government has been unhappy with the whole of the Timor Sea arrangement from the outset, which has come to a head over the Greater Sunrise issue," Damien Kingsbury, director of the Centre for Citizenship, Development and Human Rights in Melbourne and co-editor of *The Politics of East Timor: Democratic Consolidation After Intervention*, told *Interfax*.

"Of course, any manoeuvring around the Timor Sea issue will impact upon negotiations with Woodside, which are ongoing," he added. "But it may also be that the East Timor government is genuinely moving towards scrapping the Timor Sea Treaty and CMATS, in the hope of getting something it considers more equitable, and this is the first step in that process."

The Greater Sunrise field's contingent resources are estimated at 145.3 billion cubic metres of dry gas and 225.9 million barrels of condensate but, based on the 2002 Timor Sea treaty and CMATS, the bulk of the resources lie in Australian waters as set out by a 1972 boundary agreement with Indonesia.

"What suspending CMATS would allow is negotiations on maritime boundaries, which CMATS has written is prohibited for 50 years, and was what we thought East Timor should not have given up [in the agreements]," Charles Scheiner, a researcher with the Timor-Leste Institute for Development Monitoring and Analysis (La'o Hamutuk), told *Interfax*.

"Part of being independent is defining where your country is," he added. "It's an important issue for a lot of people here."



East Timor's offshore oil and gas resources.

Risk and reward

Under the United Nations Convention on the Law of the Sea, which East Timor ratified in December 2012, the country could claim an exclusive economic zone that would cover all of the Greater Sunrise field, as well as the Joint Petroleum Development Area.

However, if they were to abandon CMATS without securing a more favourable pact with Australia that also resolved the disputed maritime boundaries, East Timor's share of revenues could conceivably end up being less than under the current arrangement.

In the absence of CMATS, revenue sharing would revert back to the Sunrise International Unitisation Agreement signed with Australia in 2003, which splits the field between the two and gives Australia a 79.9% share.

"East Timor's policymakers will have looked at Australia's record on maritime boundary issues and may believe Australia is going to be very difficult to negotiate with over this," Scheiner said. "I think that is, in part, why they have signed these various revenue-sharing agreements."

Sunrise stalemate

With arbitration expected to take up to a year should it move ahead, the likelihood of further delays at the Greater Sunrise project is growing.

The project has been stalled for years over a disagreement between the joint venturers and the government of East Timor on the development plan for the field. Woodside has been pushing for an FLNG plant, while East Timor has insisted on an onshore facility connected to the fields by pipeline.

A spokesperson for Woodside told *Interfax* the company would continue to engage with both governments to further understand any consequences of the proposed arbitration, but did not comment on whether FLNG remained the joint venturers' preferred option for developing the Greater Sunrise field. ■

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