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South China Morning Post

March 5, 2005

SECTION: BUSINESS POST; Pg. 2

LENGTH: 525 words

HEADLINE: China's next move hinges on pipeline approval

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BODY:
Beijing will be forced to consider alternatives if Moscow does not approve the US$ 12 billion Siberia-China-Korea natural gas pipeline this year, China's would-be gas supplier TNK-BP warned yesterday.

If the pipeline failed to materialise soon, the Chinese government might choose to build more liquefied natural gas (LNG) terminals in coastal cities, the company said.

"If the Russian government is unable to make a decision on the proposed pipeline this year, there will be a real possibility for China to go ahead with alternative LNG options," TNK-BP commercial manager Neil Beveridge told the South China Morning Post.

"I don't think the market can wait, Beijing will be forced to make a decision in 2005 between the pipeline and importing LNG," he said, adding it takes four to five years to build a pipeline or LNG processing facilities.

China National Petroleum Corp (CNPC) - parent of PetroChina - signed a letter of intent with South Korea's Kogas and a TNK-BP subsidiary in 2003 to build the 4,000km pipeline and sell gas to China and South Korea.

TNK-BP, a joint venture between Russian investment interests and BP, is the biggest shareholder in the vast, untapped Kovykta gas field in East Siberia.

It is in talks with Russian gas giant Gazprom to sell a stake in the field.

Development cost of the field, which has 2.1 trillion cubic metres (tcm) of gas - more than China's entire gas reserves of 1.82 tcm - is estimated at US$ 6 billion.

CNPC hopes to buy 20 billion cubic metres (bcm) of gas a year and Kogas 10 bcm a year, with delivery expected in 2008.

Russia, CNPC and Kogas will be responsible for building sections of the pipeline across their respective national territories.

Beijing and Seoul have approved the project, but Moscow has yet to signal acceptance.

A pipeline gas price has not been finalised and differences between buyers and seller are reportedly substantial, although Mr Beveridge said pricing was not a major hurdle relative to Moscow's approval.

Mr Beveridge pointed out that northeast China, now an energy surplus region, would be in energy deficit by 2010 as its mature oil and gas fields failed to keep up with demand growth.

China has already made plans to address the region's energy deficiency.

Its west-east gas pipeline, expected to reach its design capacity of 12 bcm in 2007, will be expanded to 17 bcm.

Proposals for LNG import projects have been submitted by PetroChina and China National Offshore Oil Corp - parent of CNOOC - in Liaoning and Hebei provinces, which are key target markets of the Siberia-China pipeline.

The LNG could be sourced in Russia's Sakhalin Island, Australia, the Middle East and Southeast Asia.

Mr Beveridge believes Russia is still keen to see the building of the cross -border pipeline, which has been on the drawing board for more than a decade.

"Russia's plan to raise rail capacity for oil delivery to 15 million tonnes by 2007 from six million tonnes last year is a good indication that co -operation between Russia and China is increasing, but it needs to happen faster," he said.

LOAD-DATE: March 7, 2005