

PRESS CUTTING  
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China intent on being the fastest swimmer in the new world of unconventional gas

By Rowena Mason

The world is swimming in gas – wonderful, abundant, unconventional stuff that nobody counted on being able to extract from rocks and coal mines until a few years ago.

Given the current glut and depressed prices, who does Shell think is going to buy its wares, if the oil major manages to pull off its £2bn takeover bid for Australian producer Arrow Energy? The clue is in Shell's choice of a joint venture partner for Arrow, PetroChina – the little-known company that was once the biggest in the world and serves the globe's fastest growing gas market.

China is remarkably unreliant on gas at the moment, generating the vast proportion of its energy needs from coal. Only about 4pc of its energy needs come from natural gas.

This is going to change. China has been snapping up oil reserves across Africa over the last 12 months and is so worried about heavy reliance on imported petrol that officials have proposed strict fuel economy standards and mileage restrictions. Realising that this won't be enough to feed the 1m new cars appearing on its roads every month, it has placed its hopes on more gas transport as well as electric vehicles. More than 18,000 Beijing city buses already run on gas rather than gasoline.

To serve this nascent market, it has made developing coal-bed methane one of the 16 planks of its overall five-year plan to improve China's economic outlook. You only have to look at where Chevron, Exxon and Shell are sending the future gas produced from the massive Gorgon development in Australia under long-term contract – China, India – to realise that Asian nations are looking for a more balanced mixture of fuel supplies to serve their transport and electricity needs.

Interestingly, China actually has more coal-bed methane gas (50 trillions cubic metres) than Australia (15 trillion cubic metres). But what it lacks is the expertise to develop its resources. Two leading independent coal-bed methane developers are London-listed Green Dragon Gas and Houston-based Far East Energy. In fact, China is so keen for companies to start taking advantage of this untapped resource that even foreign producers are allowed to sell the output at market prices instead of the state setting the price, as it does for conventional gas.

Enter Shell, with its proprietary technology to extract gas from coal bed formations for conversion into liquefied natural gas. The company wouldn't tell me whether PetroChina gets to share its know-how under the terms of the deal, but given that's likely to be a 50-50 joint venture, it would be pretty hard to keep this to itself.

The partnership with a Western oil major also has the benefit of making the takeover more palatable to Australian politicians. There has been some nervousness about China's efforts to grab its natural resources in the wake of Chinalco's failed tie-up with Rio Tinto.