

PM with Mark Colvin

Monday to Friday from 6:10pm on ABC Local Radio and 5:00pm on Radio National.

Coal seam gas a takeover delight

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MARK COLVIN: Australia may be running out of oil but it's not running short on international interest for its resources.

The latest comes from Royal Dutch Shell and Petrochina. They've made a \$3 billion takeover bid for Arrow Energy.

The Queensland-based company operates a mine where gas is extracted from coal seams. Extracting gas from coal is a relatively new industry in Australia. There's only a handful of companies attempting to do it.

Analysts say the interest from petroleum giants indicates that the industry is about to boom and it could be big enough to rival the more traditional gas projects which are usually located offshore.

Di Bain reports.

DI BAIN: Arrow Energy isn't the biggest gas company in the market, however it supplies 20 per cent of Queensland's natural gas using a very unconventional method. It mines for natural gas which has become trapped in coal beds. Traditionally this type of mining hasn't been viable but with advances in technology and higher energy prices, independent energy analyst, Peter Strachan, says it's fast become the darling of the energy sector.

PETER STRACHAN: Arrow has, has worked very carefully and cleverly over the years to build up a very strong level of, of coal seam methane under their control and it's in Queensland which is obviously part of Australia where you know it's a stable political environment. The royalties are sort of 10 per cent royalties, payable on oil and gas production on-shore Australia for the state royalties.

DI BAIN: Dutch oil company, Shell, in partnership with Chinese firm PetroChina, have made an offer for Arrow Energy which amounts to \$3.3 billion. Arrow Energy hasn't agreed to the deal instead telling its shareholders today to sit tight.

Shell and Petrochina say they want to build an LNG facility and export the gas. Currently there are no coal seam gas players exporting LNG.

Resource analyst, Andrew Pedler, says it's just a matter of time before that changes and he says international firms have the money and expertise to do it.

ANDREW PEDLER: Arrow has been progressing its Fishman's Landing LNG project which is smaller than the other three or four that have been proposed. If this offer is successful and does result in the acquisition of Arrow, then yes Shell would be the first exporter of coal seam gas LNG in Australia.

DI BAIN: The bid for Arrow Energy tops off a big two years for the industry. Since 2008 international energy companies like BG Group, ConocoPhillips and Petronas have invested about \$20 billion in buying up coal seam methane projects.

These have all been in Queensland where the resource is abundant, particularly in the Gladstone region.

Analyst Andrew Strachan says the resource in Queensland is very large and could rival Australia's mainstream LNG projects which are typically located offshore.

ANDREW STRACHAN: They've all got plans to build processing plants in and around Gladstone, not, I don't think all of those will necessarily get up and certainly not in the time frame that they're currently being promoted but Arrow to its project at Fisherman's landing would appear to be the first cab off the rank and Shell wants to, to make sure that it controls that.

DI BAIN: Will that mean that the majority of coal seam methane projects are owned by foreigners?

ANDREW STRACHAN: Yes, yes they will be. The original protagonists in the game, companies like Queensland Gas, Sunshine Gas, Sydney Gas and now Arrow, have all effectively been taken over by international companies.

DI BAIN: Neither company would talk about the deal today. However, it helped Arrow Energy, whose share price soared more than 40 per cent on the news.

MARK COLVIN: Di Bain.

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