

Argus LNG Daily

Daily LNG Prices, News and Analysis

Issue 1 - 206

Tuesday 15 November 2011

Argus spot LNG price assessments (27 Dec-10 Jan)				
	\$/mn Btu	+/- 14-Nov	+/- NBP	+/- Nymex
Northeast Asia	17.850	0.000	7.690	14.301
China des	17.450	0.000	7.290	13.901
India des	15.050	0.000	4.890	11.501
Australia fob	16.511	0.002	6.351	12.961
Middle East fob (Asia-Pacific bound)	16.173	0.004	6.014	12.624
Middle East fob (Europe-bound)	9.356	-0.105	-0.804	5.806

Methodology

Argus LNG price assessments are based on a volume-weighted average of confirmed trades and market participants' view of prevailing prices, bids and offers. For the full methodology, see www.argusmedia.com/methodology

Benchmark price snapshot

Market	Delivery	Price	Unit	Date
Natural Gas				
Nymex	27 Dec-10 Jan	3.55	\$/mn Btu	14 Nov 2011
NBP	27 Dec-10 Jan	10.160	\$/mn Btu	14 Nov 2011
Zeebrugge	27 Dec-10 Jan	9.985	\$/mn Btu	14 Nov 2011
Peg Nord	27 Dec-10 Jan	9.838	\$/mn Btu	14 Nov 2011
PSV	27 Dec-10 Jan	13.085	\$/mn Btu	14 Nov 2011
Crude				
WTI	Dec	99.67	\$/bl	15 Nov 2011
Brent	Dec	112.42	\$/bl	15 Nov 2011
JCC	Aug	114.59	\$/bl	na

Market commentary

Spot LNG prices steady

Asian spot prices were flat on 15 November with little buying interest for January cargoes.

A South Korean LNG importer is facing high inventories at its terminals because of lower than expected demand from the country's industrial sector and relatively warm weather in the country curbing heating demand.

Japan's power utilities are holding back on their plans to buy additional volumes for end-January delivery, awaiting results of their stress tests for their nuclear reactors from the country's nuclear regulator and the government. A preliminary decision is expected by January, providing a clearer outlook on the restart of much of Japan's shut nuclear power capacity. Additional volumes for January cargoes are expected to be marginal prior to the announcement.

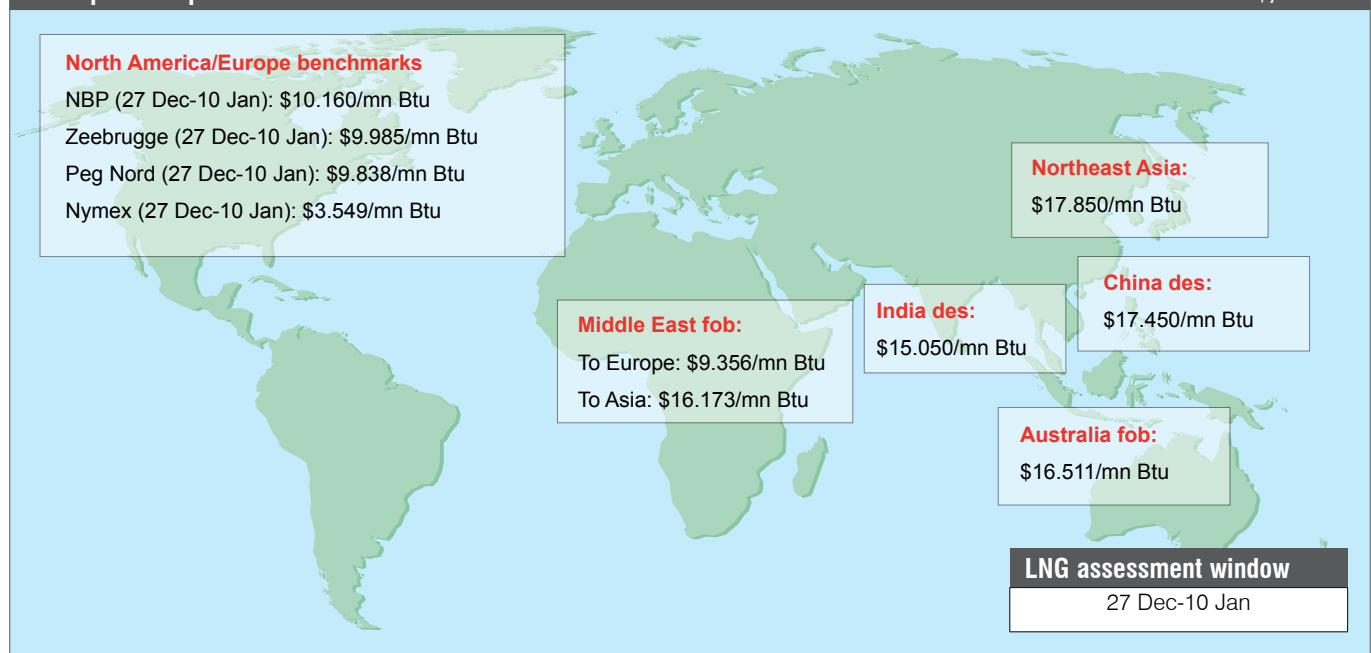
Demand for February cargoes is perceived to be slightly higher, with offers for the month slightly above \$18/mn Btu, but concluded

Table of contents

LNG prices	p2
Shipping movements	p3
Marker prices	p4
Comparative fuels	p5
News	p6

Latest price snapshot

\$/mn Btu



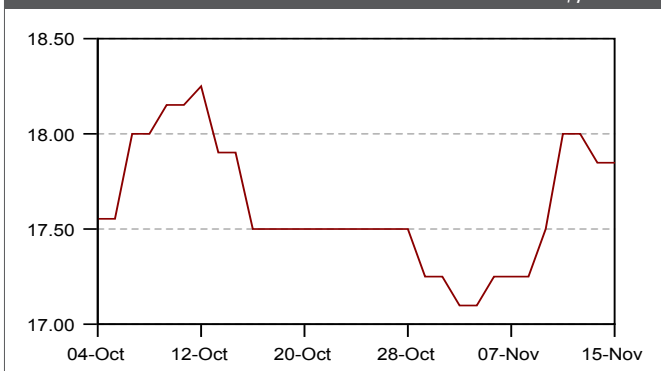
Market commentary

prices for January delivery cargoes are expected to be slightly lower amid muted demand. February prices could also fall given the weakening market outlook. The northeast Asia des price was flat at \$17.85/mn Btu, after 14 November's fall of \$0.15/mn Btu.

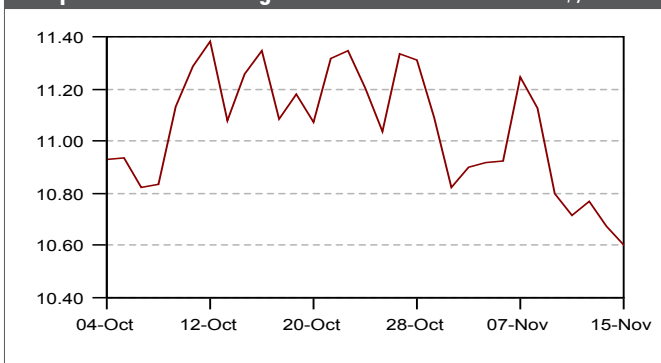
Sentiment was equally weak in China. Bids for January delivery cargoes were at a low \$17/mn Btu level. The country's state-controlled oil firm PetroChina is finalising its plan to start loading cargoes early next year via its 3mn t/yr term contract with Shell and Qatargas from the Qatargas 4 project. This is likely to reduce their spot requirements once the contract is enforced. The China des price was unchanged at \$17.45/mn Btu. With buying interest for January cargoes on the wane in South Korea and Japan, a few market participants pointed out that the spread in the delivered price between northeast Asia and China could narrow in the short term.

The only Asian demand outlet continues to be India, with two Indian suppliers still seeking an early January delivery and a cargo for 22 December delivery. But bids remain low at a \$14/mn Btu level. India's state-controlled LNG importer Petronet will start loading its term cargoes from France's GDF Suez next year. Petronet signed an agreement with GDF Suez on 14 November to secure 600,000 t/yr of LNG, or around nine cargoes. The India des price was unchanged at \$15.05/mn Btu.

Northeast Asia LNG \$/mn Btu



European market average* \$/mn Btu

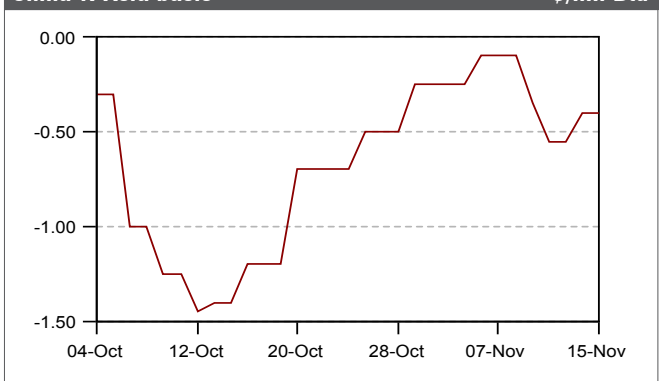


*Note: Average European traded market price for LNG assessment period (NBP, Zeebrugge, Peg Nord, TTF, PSV)

Key prices					
	\$/mn Btu	¥/t	€/MWh	p/th	\$/GJ
Northeast Asia	17.85	71,416	45.09	112.79	16.96
China des	17.45	69,815	44.08	110.27	16.58
India des	15.05	60,213	38.01	95.10	14.30
Australia fob	16.51	66,057	41.70	104.33	15.69
Middle East fob (Asia-Pacific bound)	16.17	64,708	40.85	102.20	15.36
Middle East fob (Europe-bound)	9.36	37,430	23.63	59.12	8.89
UK NBP	10.16	40,648	25.66	64.20	9.65
Belgium Zeebrugge	9.98	39,948	25.22	63.09	9.49
France Peg Nord	9.84	39,362	24.85	62.17	9.35
US Nymex	3.55	14,200	8.96	22.43	3.37

Note: Prices converted using assessed exchange rates and constants. All prices for LNG contract delivery window

China-N Asia basis \$/mn Btu



Netbacks \$/mn Btu, (27 Dec-10 Jan)

	India	China	Japan	S. Korea	Taiwan	Belgium	France	Nether-lands	Italy	UK	US North-east	US Gulf
Middle East	14.80	16.25	16.49	16.57	16.76	8.64	8.68	8.59	12.04	8.83	5.54	1.81
Australia	14.30	16.77	17.09	17.10	17.30	8.06	8.11	8.01	11.43	8.25	5.09	1.41
Nigeria	13.64	15.38	15.63	15.70	15.89	9.19	9.11	9.14	12.21	9.39	6.27	2.59
Norway	13.38	14.88	15.12	15.20	15.38	9.74	9.38	9.71	12.36	9.90	6.47	2.65
Algeria	13.92	15.43	15.67	15.74	15.93	9.70	9.68	9.65	12.89	9.89	6.46	2.67
Trinidad	12.98	14.80	15.05	15.11	15.31	9.25	9.12	9.20	12.18	9.45	6.79	3.22
Russia	13.78	17.05	17.50	17.51	17.39	7.57	7.61	7.52	10.91	7.76	4.71	1.03

Note: Based on LNG and gas market assessments. Assumptions: One-way voyage, Suez costs where appropriate, local bunker fuel prices, LNG boil off used as fuel. See methodology for further details www.argusmedia.com/methodology

Key shipping movements

Asia-Pacific

The destination of the 147,200m³ Grand Aniva, which departed Australia's Dampier terminal earlier this month, has been confirmed as Japan's Nagoya. The vessel is expected to unload on 16 November. And the 135,333m³ LNG Jamal is expected to arrive at the country's Senboku facility on 16 November, with Omani cargo.

Elsewhere, South Korea's Incheon terminal is expected to take receipt of an Indonesian cargo aboard the 126,300m³ LNG Aquarius on 17 November. And the 153,500m³ Gaselys is scheduled to arrive at Incheon on 23 November, carrying a Yemeni cargo.

The 10,100m³ Al Karaana, laden with Qatari LNG, is headed towards an as yet unspecified Chinese port for an expected 26 November arrival date.

The 266,000m³ Bu Samra is scheduled to arrive at an unspecified Far East destination on 16 November, laden with Qatari cargo. The vessel is currently located just off the shore of Taiwan.

Europe

The 122,000m³ LNG Port Harcourt is expected to deliver a Nigerian cargo to Spain's Huelva terminal on 16 October. And the 177,000m³ Energy Horizon is now set to unload at Spain's Sagunto terminal on 20 November. The vessel is carrying a re-exported cargo loaded at Zeebrugge.

Portugal's Sines continues to see its November LNG import schedule develop. The 126,530m³ LNG Edo is expected to deliver a Nigerian cargo on 5 December. The vessel made an identical shipment on 2 November. Portugal has now scheduled

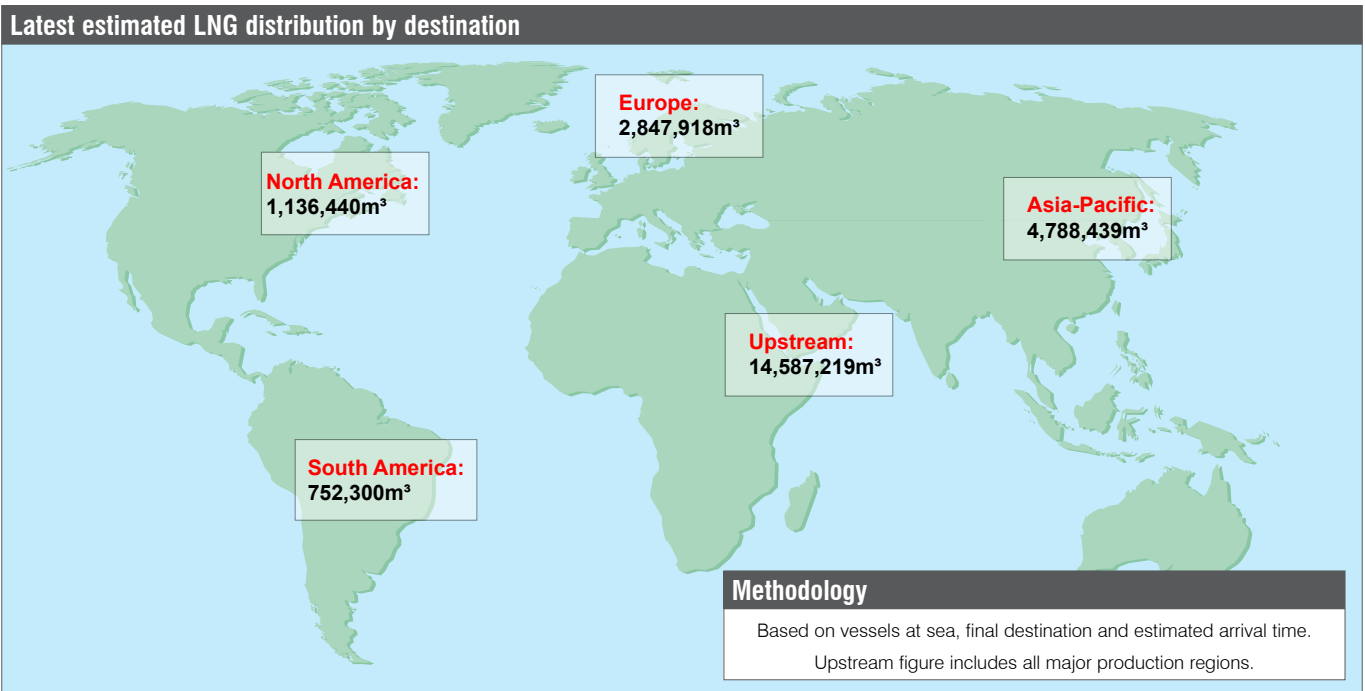
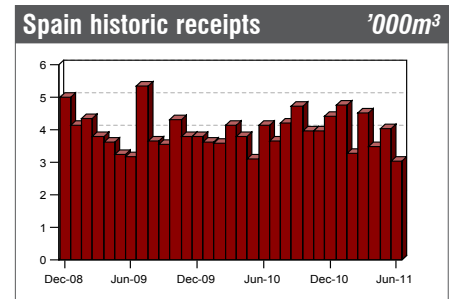
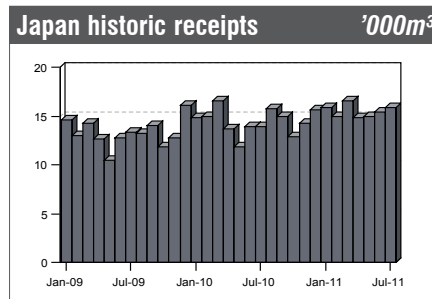
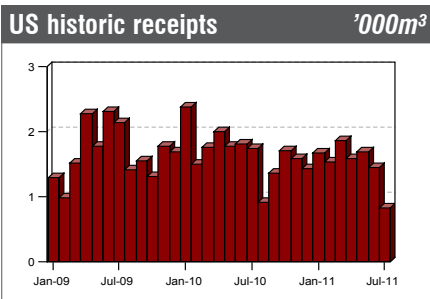
at least 386,000m³ of imports by vessel volume, against a November 2010 total of 180,000m³.

Americas

The 155,000m³ British Sapphire appears to be headed for Chile for a 29 November arrival. The vessel apparently loaded at Point Fortin, Trinidad, and is currently anchored off the coast of Port-of-Spain. Chile has now scheduled at least 300,000m³ of LNG imports by vessel volume for November delivery. The total figure for November 2010 was around 200,000m³.



Data provided by:
Vesseltracker.com



Markets

US: Nymex flat

US gas futures were nearly unchanged on 15 November. Nymex gas for December delivery had climbed by 1.1¢/mmBtu, or 0.3pc, at \$3.469/mmBtu at 16.00 GMT. The contract declined by 3.5pc on Monday, to close at its lowest level of the year.

The mild seasonal weather could prolong the gas injection season, when stockpiles are replenished to meet winter heating needs. US stockpiles are closing in on last year's record high of 109bn m³ reached at the end of October, according to the US Energy Information Administration (EIA).

Oil: Crude mixed

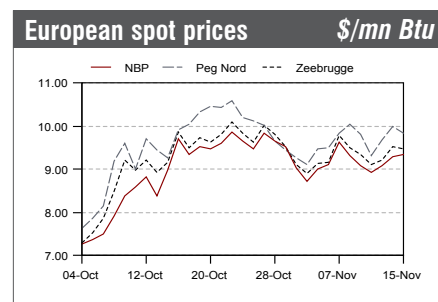
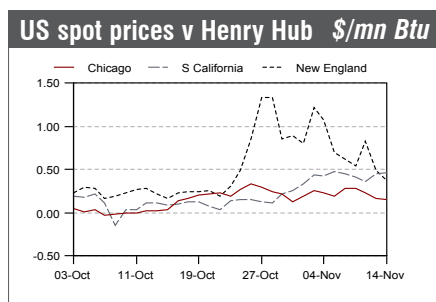
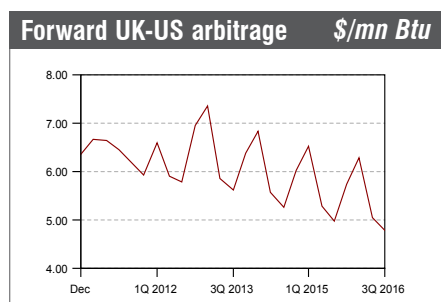
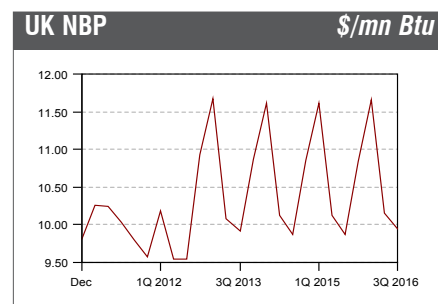
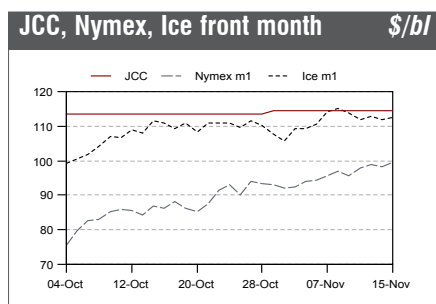
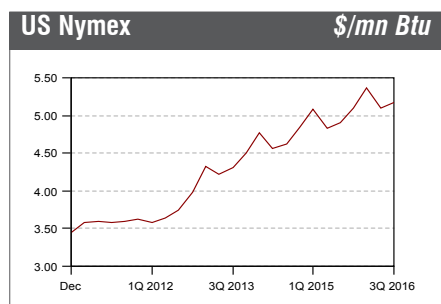
Brent crude oil futures dropped slightly on 15 November. The Ice Brent December contract shed about 20¢ on Monday's level to trade at around \$112.20/bl in the late afternoon session. WTI reversed the previous day's losses, climbing by about \$1 to reach \$98.80/bl.

The futures curve remains slightly inverted, with WTI for December delivery trading at a discount of about 10¢ to the January contract. The Brent-WTI spread tightened on WTI's strong relative performance, narrowing to around \$13.40. The expiration of the Brent December contract at Tuesday's close added to volatility.

Europe: NBP mixed

Day-ahead gas for delivery in the UK edged slightly higher on 15 November against Monday's price. The contract rose by about 30¢ on the day in later afternoon trade, reaching \$9.50/mn Btu at 17.20 GMT. The front-month contract was trading at around \$10.00/mn Btu, increasing by 10¢ on the day, and the front-season future at around \$9.70/mn Btu, also up by about 10¢.

Supply in Europe remains plentiful, with at least six vessels carrying Qatari gas at sea on 15 November and two planned Belgian exports to Asia now cancelled.

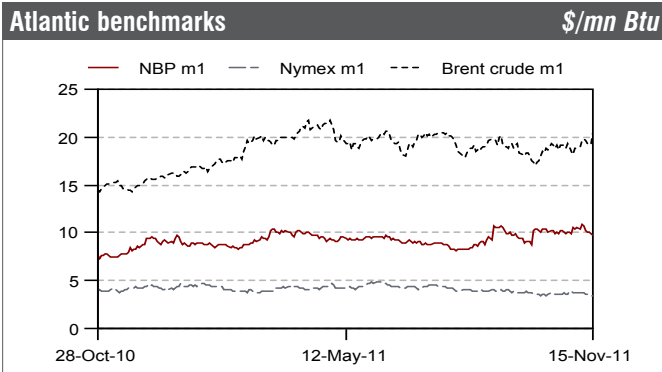


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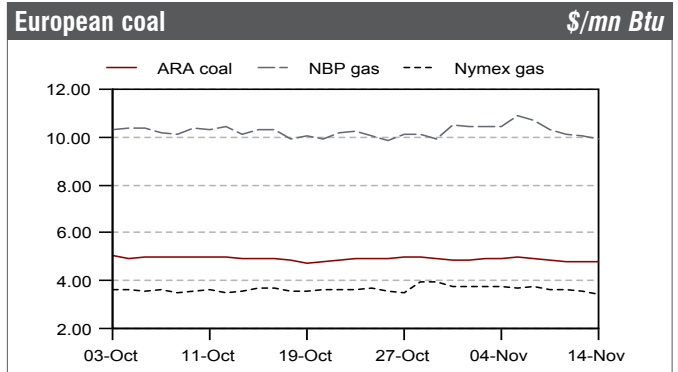



Competing fuels

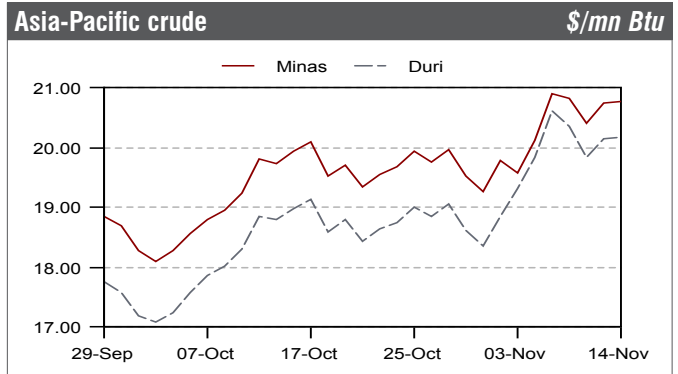
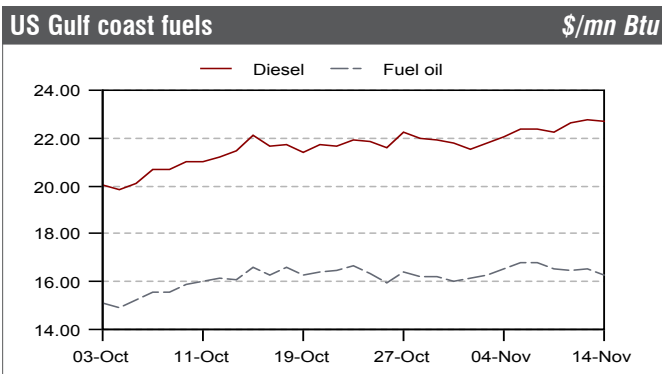
Show regional competing fuels in \$/mn Btu compared with benchmark gas and LNG prices



Above: UK and US month-ahead gas and Brent month-ahead crude
Below: USGC Diesel, USGC Fuel Oil

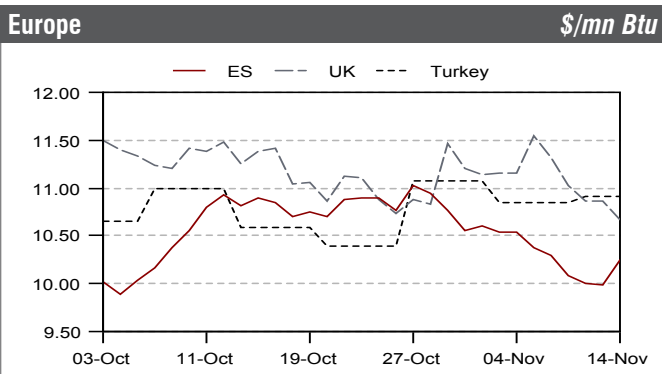


Above: ARA coal, UK and US gas
Below: Duri and Minas crudes, spot

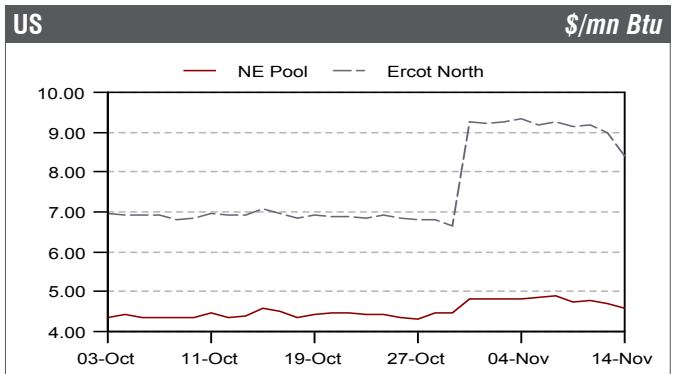


Power market indicators: Breakeven gas prices for generation

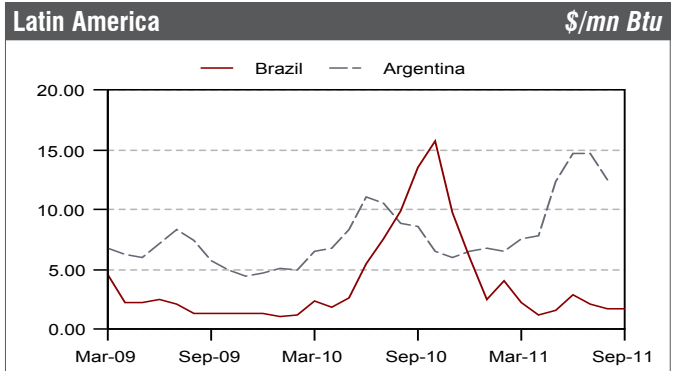
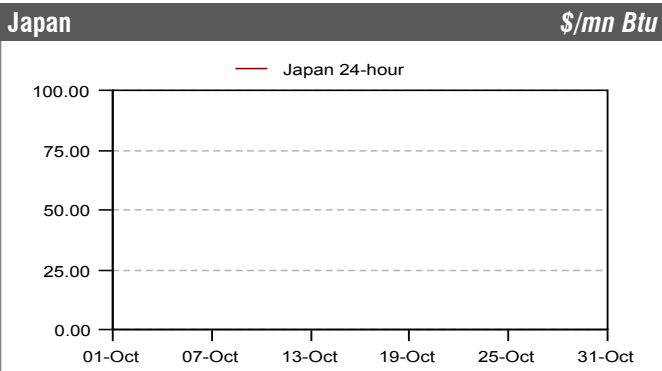
Show implied breakeven gas prices for power generation, assuming a 49.13pc CCGT selling power into the month-ahead market, adjusted for CO2 emissions prices where noted*. Values indicate the maximum price at which such a plant could buy fuel before accounting for operating, maintenance and other costs.



Above: Spanish*, Turkish and UK* base load month ahead.
Below: Japan Electric Power Exchange, 24-hour for date of delivery



Above: Ercot North (Texas) and NE Pool (New England) front-month peak
Below: Brazil wholesale clearing price, Argentina MEM, monthly average



News

Asia-Pacific

Kyushu gets funds for Wheatstone

The state-owned Japan Bank for International Cooperation (JBIC) on 14 November agreed to loan utility Kyushu Electric Power around \$400mn to help finance its participation in the Chevron-led 8.9mn t/yr Wheatstone LNG project offshore Australia.

Kyushu signed a deal in September this year to buy a 1.83pc stake in the Wheatstone field licence and a 1.46pc interest in the liquefaction plant to be built at Ashburton North, near Onslow in Western Australia. Kyushu will also secure loans from private-sector banks to fund its investment.

The deal will see the utility buy 130,000 t/yr of LNG once the project comes on stream in 2016. Kyushu has a separate contract with Chevron and the other Wheatstone partners US independent Apache and Kuwait's state-owned overseas upstream firm Kufpec to buy 700,000 t/yr of LNG from the project, taking its purchases to 830,000 t/yr for up to 20 years.

Origin raises more funds for APLNG

Australian upstream group and utility Origin Energy said on 15 November it plans to raise another A\$500mn (\$510mn) to help finance its share of the two-train, 9mn t/yr Australia Pacific LNG (APLNG) venture at Gladstone, Queensland.

The funds will be raised through a note issue that will be listed on the Australian Securities Exchange.

Origin Energy and its APLNG partners ConocoPhillips and Chinese state-controlled oil firm Sinopec have sanctioned the project's first 4.5mn t/yr train at a cost of \$16bn, with first shipments planned for 2015. The partners remain on track to sanction the second train in the first half of 2012, Origin Energy executive director finance and strategy Karen Moses said.

Origin and ConocoPhillips each have a 42.5pc stake in the APLNG project, with Sinopec owning 15pc. The Chinese firm has a binding agreement to buy 4.3mn t/yr of LNG from the venture, which is more than

95pc of projected output from the first train.

Origin's share of funding for the first train is \$6.8bn. The firm has raised A\$5.47bn so far this year, with A\$2.3bn raised through a share issue, A\$2.15bn through a syndicated loan and \$350mn through a bank facility, all in April, and A\$680mn through the issue of hybrid securities in June.

Americas

Cameron applies for US exports

Sempra Energy has asked the US Department of Energy (DOE) for authorisation to export up to 12mn t/yr of LNG from the Cameron, Louisiana, terminal for 20 years to nations holding free trade agreements (FTA) with the US.

Cameron is the sixth proposed US liquefaction project to date and the third-largest by potential export volume. The projects' combined export capacity is 286.9mn m³/d, or 15pc of US dry gas production at present.

In line with most US projects, Sempra plans to turn its existing regasification terminal at Cameron into a bi-directional facility. Brownfield projects have a cost advantage because they can utilize existing LNG storage tanks, according to US regulators.

"We have strong interest from large creditworthy counterparties who want to procure liquefaction services from Cameron LNG on long-term 20-plus-year contracts," Sempra chief executive Debra Reed said earlier this month.

Sempra is seeking to contract out all of the liquefaction capacity and will not take on commodity risk, Reed has said.

"We have not really spelled out ourselves here internally how we would fund this, but it would not necessarily be our capital that we would put at work," Sempra president Mark Snell has said.

Sempra said it plans to start construction in 2013, targeting 2017 for start of operations.

DOE authorisation for exports to nations enjoying preferential treatment in natural gas trade with the US is the first and easiest regulatory hurdle to overcome. The department grants unrestricted export licenses

based on the public benefit of a project, an amorphous legal definition that implies analysis of a range of economic, social, and political factors.

But liquefaction projects separately must secure the approval of the Federal Energy Regulatory Commission, which also looks at economic and environmental viability of the projects.

Cheniere awards Sabine Pass contract

Bechtel Oil, Gas & Chemicals won the engineering, procurement, and construction (EPC) contract for the first two of four planned liquefaction trains at the Sabine Pass terminal in Louisiana, Cheniere Energy said on 15 November.

The lump sum turnkey EPC contract deal is valued \$3.9bn. The first two liquefaction trains will install 9mn t/yr — equivalent to 34mn m³/d — of capacity at Sabine Pass, and Cheniere said it plans to contract out 7mn t/yr of capacity under long term sales and purchase agreements. The total expected cost of the project's first phase is \$4.5-\$5bn, excluding costs of financing, according to Cheniere.

Shale gas development is helping to reduce the US trade deficit by driving down LNG import volumes, consultancy IHS Cambridge Energy Research Associates chairman Daniel Yergin said on 15 November at an event hosted by the US House of Representatives Energy and Commerce committee. LNG cargoes imported into the US in January-September landed at a total price of \$1.4bn, down from \$1.5bn in the same period last year, US Department of Energy records indicate. Import volumes declined by 18pc year-over-year but the cost of total imports fell by 8pc, reflecting higher landed prices this year.

Europe

Russians claim Qatar export agreement

Russia's energy minister Sergei Shmatko says Qatar, the world's largest LNG exporter, agreed not to increase its LNG supplies to Europe in the medium to long term.

"Qatar told us that they are not going to increase gas exports to Europe, focusing

News

on Asia-Pacific markets," Shmatko said on the sidelines of a Gas Exporting Countries Forum (GECF) summit in the Qatari capital of Doha.

The Russian minister emphasised that the decision "was made in principle" and would not bind Qatar to take any specific action.

Qatar's oil minister Mohammed Saleh al-Sada declined to confirm or deny Shmatko's remarks. "On 15 November, the Asian market definitely has more potential for the gas. In the future, maybe we will see other areas show appetite for gas, like South America."

Shmatko's remarks reflect a "common understanding" between Qatar and Russia about how to support and stabilise gas prices in Europe, a Russian oil official told Argus. The countries did not sign a written agreement.

Whatever the understanding, Qatari deliveries to at least parts of Europe have risen dramatically this year despite mild weather at the end of the winter and additional demand from Japan to replace lost nuclear output. Supply to the UK during the first nine months of this year was around 12.3mn t, up by almost 90pc compared with the same time last year. Supply to EU importers as a whole has climbed by more than a third.

And northbound LNG traffic through Suez — the primary western route to market for Middle Eastern LNG — has also risen sharply on the year, with cargo tonnage climbing by over 39pc in January-September.

Much of this additional supply appears to have been a function of both recent increases in Qatari liquefaction capacity and finite demand in other, higher priced, markets outside of Europe. When investment decisions were taken, a number of the Qatargas mega-trains were intended to supply, at least in part, the North American market. But the advent of US shale gas production in the intervening years has all but completely closed the US to LNG imports, stripping away what was expected to have been a significant part of global

LNG demand and leaving Europe as a more attractive option for spare LNG.

The 12-member GECF — sometimes misleadingly referred to as the "Gas Opec" — is increasingly posing as a unified front of gas producing countries pushing for a "fair" price for gas in close parity with oil.

But member states said on 15 November in a joint statement that the group does not seek to coordinate production by member countries or try to influence global gas prices.

"GECF does not set prices or production quotas for member countries," GECF secretary general Leonid Bokhanovskiy said.

"We acknowledge the need to reach a fair price for natural gas based on gas to oil/oil products prices indexation with the objective of an oil and gas price convergence, taking into account its advantages both in terms of energy efficiency and environmental premium," the GECF said.

But several of the group's members have accepted an increasing role for gas to gas pricing in their long-term contracts to supply gas to Europe.

Russia's state-controlled Gazprom has introduced gas market indexation in a number of its contracts with European buyers.

And Qatari LNG delivered into Europe — most notably in Belgium — is often landed at prices closely tracking those prevailing in the local wholesale market.

But differences remain between the producers — who are seemingly united in their interest in oil and gas price parity — which could potentially result in differing production and export profiles. In the UK North Sea, associated gas — which is produced in conjunction with crude oil and liquids — tends to flow regardless of the gas price, while dry gas output has historically been far more gas price-sensitive.

The GECF member countries are Algeria, Bolivia, Egypt, Equatorial Guinea, Iran, Libya, Nigeria, Oman, Qatar, Russia, Trinidad and Tobago and Venezuela.

Qatar mulls Russian LNG investment

Qatar's state-owned oil firm QP is considering taking a stake in Russia's 15mn t/yr Yamal LNG project, Qatar's oil minister Mohammed Saleh al-Sada said at the Gas Exporting Countries Forum (GECF) summit in the Qatari capital of Doha on 15 November.

"Qatar is interested in investing outside Qatar. We created a dedicated company for this, Qatar Petroleum International. This [Yamal LNG] is a project that is in line with our investment strategy," al-Sada said.

Russia would benefit from Qatar's expertise in project implementation, financing, construction and marketing, Russia's energy minister Sergei Shmatko said. Qatar is the world's biggest LNG producer with 77mn t/yr of production capacity.

Yamal LNG holds the licence for the 1.26 trillion m³ South Tambi field in the Yamal peninsula. The first 5mn t/yr LNG train will be built in Sabetta in the Yamal peninsula and is likely to start up in 2018. Russia's largest independent gas producer Novatek will retain a 51pc in the project, while Total agreed earlier this year to take 20pc.

In addition to Qatar's QP, Novatek is in talks with Japanese trading firms Mitsui and Mitsubishi on potential co-operation. QP and Novatek have not given any indication of when they intend to conclude their negotiations.

Damietta LNG France-bound

An Egyptian LNG cargo loaded at Damietta has been scheduled for delivery to France in December, the first from Egypt's other liquefaction facility since at least the start of 2010.

The 138,000m³ Cadiz Knutsen is expected to reach the Fos Cavaou terminal on France's Mediterranean coast on 5 December. The tanker was anchored offshore Egypt on 15 November. It arrived there earlier this month, after delivering a Belgian re-export cargo to Spain's Huelva terminal in late October.

France is a relatively frequent recipient of Egyptian LNG, but that gas is generally

News

sourced from the BG-operated liquefaction facility at Idku. BG sold all 3.6mn t/yr of the output from the first of its two trains there to GDF Suez under a 20-year contract that started in 2005. So far this year, France has taken nine cargoes from Idku, slowing from the roughly one cargo each month that it received in 2010.

The Damietta facility is operated by a joint venture between Spain's Gas Natural Fenosa and Italy's Eni, whose holding company — called UFG — gives each firm a 40pc stake in the plant. Egyptian state-owned energy companies hold the remaining 20pc. Gas Natural Fenosa said 21 of the 35 cargoes loaded at the facility over the first nine months of the year went to UFG and the remainder to "other operators".

The Cadiz Knutsen is on a 25-year charter to UFG and was delivered to the joint venture in July 2004, according to Norwegian shipper and vessel owner Knutsen. The tanker shipped the first LNG from the Damietta facility to Huelva in January 2005.

Belgian re-export Spain-bound

The 177,000m³ Energy Horizon has set a course for Spain, after loading a re-export cargo at Belgium's Zeebrugge LNG terminal, although it remains unclear if that will be its final destination.

The tanker is expected to arrive at Sagunto, on Spain's east coast, on 20 November. But as of this afternoon, the Spanish system operator's shipping schedule had only a single 74,000m³ shipment booked for the terminal during the second half of November, set for delivery on 24 November.

The tanker, a recent addition to Tokyo Gas' fleet of LNG carriers, had sailed to Belgium from Japan.

And an earlier cargo loaded at Zeebrugge has remained in Europe, at least for now. The 140,648m³ Golar Arctic loaded a cargo on 2-4 November before sailing for Gibraltar. The tanker has been in a holding pattern east of the strait since then.

The two Belgian re-exports are not the only European LNG shipments to stay in the region. Two Norwegian cargoes loaded late last week at Snohvit have been dispatched to European destinations. The 150,000m³ Neo Energy, which loaded over the weekend, is expected to deliver its cargo to France's Atlantic terminal at Montoir on 30 November. And the 130,000m³ Gemmata, which loaded on 7 November, indicated that it was headed for an unspecified European destination when it departed Hammerfest. The tanker is expected to head for the Mediterranean, arriving on 22 November.

Middle East

Iraq approves Basrah Gas JV

The Iraqi cabinet on 15 November approved a much-delayed project to capture flared gas at three giant oil fields in southern Iraq for processing.

Under a 25-year contract signed in Baghdad on 12 July, Shell will own a 44pc stake in the Basrah Gas (BGC) joint venture that will oversee the project, alongside state-owned South Gas (SGC) with 51pc, and Japan's Mitsubishi with 5pc.

The contract provides for BGC to gather and process all the associated gas from the Rumaila, Zubair and West Qurna 1 fields. This includes 7.2bn m³/yr of gas flared at the three fields, and additional volumes as crude output rises under the foreign operators' service development contracts.

BGC will buy the raw gas from SGC at a price partially indexed to fuel oil and resell the processed products to SGC at a marked-up price determined by capital investments and linked to the price of oil. BGC's output will be used to meet rising domestic demand for gas-fired power generation, LPG and other liquids. LNG exports from southern Iraq will start once domestic demand is met.

Investment over the life of the project is forecast at \$12bn-17bn.

Algeria targets project completions

Algeria plans to complete its 4.5mn t/yr Skikda LNG project in late 2012 and the 4.7mn t/yr Gassi Touil LNG project by 2013, the country's energy and mines minister Youcef Yousfi told Argus on the sidelines of the Gas Exporting Countries Forum in Doha today.

The project at Skikda will see the three trains that currently comprise the facility replaced by a single new train. But Algeria may struggle to provide enough gas to feed the new projects. Spanish firm Repsol-YPF's fields in the southeast will not come on stream until 2014 at the earliest, while output from Total's Ahnet and Timimoun concessions will not start before 2014-15. Algeria already exports significantly below its capacity.