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Eastern Star's $2.5bn LNG plan

A deal with Japan may put NSW in the coal seam gas lead

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ENERGY

NSW could edge out Queensland in the race to export coal seam gas, with Eastern Star Gas joining Japan's Hitachi and Toyo to study the building of a $2.5 billion LNG operation at Newcastle port.

Eastern Star chairman and former deputy prime minister John Anderson flew to Japan late last week to sign a memorandum of understanding to study a million-tonnes-a-year LNG plant at Newcastle that could be completed by 2014.

Queensland's Gladstone port is the current focal point for the nation's CSG export ambitions, with four separate giant projects, costing up to $35bn each, planned by oil majors teamed up with local companies.

Those plants are due to start producing in 2014, if all goes to plan. But delays to approvals processes and the uncertainly of Kevin Rudd's 40 per cent resource tax mean that if Eastern Star can stick to its initial timetable it could export Australia's first liquefied coal seam gas. LNG Ltd has plans for a smaller plant that was to be in production in 2012, but it lost its gas supplier this year after Arrow Energy agreed to be taken over by Shell.

Eastern Star managing director David Casey said the company was pushing ahead with its LNG plans, despite the federal government's plans to tax resource profits at 40 per cent.

"It's not absolutely clear what the impact will be," Mr Casey said.

"The biggest challenge will be attracting offshore capital, should we choose to go down that path, until there is clarity around this tax." Emerging iron ore hopeful Mindax also said yesterday it was pushing ahead with its mine plans, despite the tax, after securing an $8 million deal with Singapore-listed Lion Group.

Managing director Greg Bromley said that when the deal was being finalised, which involved Lion Group taking a 10.3 per cent stake in the junior, the issue of the tax was discussed.

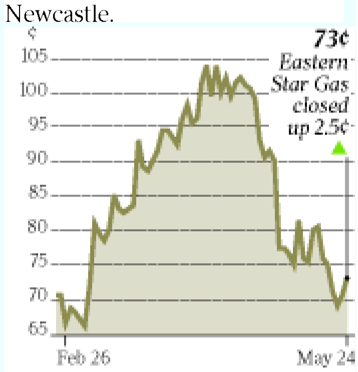
"We're still in an exploration phase and it is at least two years before production will come around and who knows what the situation will be then," he said.

"Discussions were quite open and they (Lion Group) had every opportunity to worry about that and they chose not to; they see it as part of the general risk profile."

Eastern Star's LNG plant would cost about $1bn and a pipeline to the company's Narrabri coal seam gas project would cost about $500m.

The plant being looked at could be expanded to 4 million tonnes a year through the addition of 500,000-tonne-a-year production trains.

A million-tonne-a-year plant would result in between eight and 10 LNG cargoes a year leaving Newcastle.



Source: Bloomberg