



## China is Angling to Access More Canadian Natural Gas

### Description

China continues to lock up its access to global natural resources. The country's energy companies have been actively acquiring Canadian energy companies. However, the next target, according to the *Wall Street Journal*, appears to be an investment in a Canadian LNG export project. The *Journal* says that Sinopec is already in talks with **Apache** (NYSE: APA) to buy a minority stake in the Kitimat project.

### A closer look at Kitimat

The proposed Kitimat project is currently jointly owned with **Chevron** ([NYSE: CVX](#)). However, this wouldn't be the first time a new investor joined in on the project. In fact, Chevron bought its stake just last year from **EnCana** (TSX: ECA) (NYSE: ECA) and **EOG Resources** ([NYSE: EOG](#)). Neither of those previous partners had the financial capacity or the desire to invest in LNG, which is why the decision to sell to Chevron made sense.

Chevron already has experience building LNG export facilities as it's partnering on two in Australia, including Wheatstone where Apache is a minority investor. Because of this, it already has well-developed relationships with potential Asian customers.

The issue, however, is the overall cost of the project. Current estimates suggest the project will cost more than \$15 billion to build. That's substantially more than the \$3 billion that Apache, EnCana and EOG Resources initially estimated just a few short years ago. This is where Sinopec would come into play as its investment would help offset some of the costs of the project. Further, it could open the door for Sinopec to also become a buyer of the LNG that's produced from the project.

### Why it matters for Canada

America's shale boom has really hurt the Canadian natural gas industry as our industry had been a supplier to our neighbour to the south. With the U.S. already approving several LNG export facilities, Canada needs to get its own projects up and running if it expects to compete in the global energy marketplace.

While the oil sands get all the press, Canada has vast natural gas resources. The primary purpose of Kitimat will be to export gas from two major plays in British Columbia: Liard Basin and Horn River. It is believed that these two plays hold 50 trillion cubic feet of resource potential. That's enough gas to meet the needs of 50 million households for 15 years. Because both the U.S. and Canada have more than enough natural gas to meet domestic needs, the only way to grow production is to export it.

### Final thoughts

It's no surprise that Sinopec is interested in helping Apache bankroll the project. The pair have a close relationship and earlier this year Apache sold a 33% stake in its Egyptian assets to Sinopec. It wouldn't be surprising to see a deal announced that likely will include a stake in Kitimat as well as a long-term LNG supply agreement.

### CATEGORY

1. Investing

### TICKERS GLOBAL

1. NYSE:CVX (Chevron Corporation)
2. NYSE:EOG (EOG Resources)

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