LNG collapse threatens East Timor trade

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East Timor's future as a major LNG exporter remains in the balance, after the collapse of the US$17bn Sunrise project this week.

The Australian company Woodrise Petroleum walked away from plans to process the offshore gas field after the government in East Timor stood by its commitment to redraw its maritime borders with Australia.

East Timor would like a permanent maritime boundary settlement, which it says would put Greater Sunrise entirely within East Timorese territory, not in a Joint Petroleum Development Area with Australia as it is now. A standoff over development and tax issues between the two countries has ensued.

Woodrise subsequently cited an uncertain regulatory and fiscal environment for its decision to walk away from the project, with analysts warning that the 5 trillion cubic field resource may lie undeveloped until the dispute is resolved, at great economic cost to the government in Dili.

"There is little indication that Australia accepts East Timor's interpretation. In the past the main issue with oil and gas in East Timor was the country's demand for onshore gas processing which for many years Woodside rejected. Several months ago Woodside agreed to consider onshore gas processing in East Timor, but it seems that the government remains unmoved. Before the maritime border issue is resolved, I don't see Greater Sunrise being developed. This could take many years. So I am pessimistic," Anton Alifandi, Southeast Asia analyst at IHS tells **GTR**.

The move may force East Tior to consider floating LNG technology, but the government in East Timor has since reiterated its confidence that the field would be developed and that a pipeline to East Timor would be installed.

"The pipeline to Timor-Leste has been proven to be economically and technically viable and will be used when Greater Sunrise is developed," says Minister of State Agio Pereira.

"We have no doubt that it will be exploited in the coming years and be an important resource for the further development of our nation," he adds. "We do understand that fiscal certainty is important for business and believe that the best way to achieve long-term fiscal certainty and an optimal investment environment is to `draw the line'. The most straightforward way to achieve this would be by friendly engagement in this process by both countries under the norms of international law."

East Timor's economy is heavily dependent on energy and analysts say it is underdeveloped, in terms of trade infrastructure. Only ANZ, Bank Mandiri of Indonesia and Portugal's Banco Nacional Ultramarino are operating in the company, while other areas of industry remain nascent.

Analysts have previously claimed that the LNG field at Greater Sunrise has the potential to put the country on the trade map.

"The oil and gas sector dominates the economy. I think oil and gas revenue makes up 95% of state income in 2014. Coffee is the only other cash commodity of significance. The government has tried to promote tourism and fisheries but so far with little success. The government is also spending money on infrastructure development. Operational risks are high because of red tape, poor infrastructure, and a lack of skilled labour. There are also issues regarding judicial independence following the government's decision to terminate the contracts of all foreign court officials, including judges, in November 2014. Having said that East Timor is politically stable as shown in the peaceful change of prime minister earlier this month," Alifandi says.