Time ticking for Timor-Leste as Sunrise shelved

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THE news that Australia's Woodside Petroleum will shelve the proposed Greater Sunrise liquefied natural gas (LNG) export project does not bode well for the impoverished nation of Timor-Leste.

Timor-Leste, which is heavily dependent on petroleum exports – more than every nation except South Sudan, Libya and perhaps Equatorial Guinea – could see its existing wells run dry within five years. And that means petroleum revenue would dry up, exacerbating the desperately poor country's problems.

Of course, there is the 5.1 trillion cubic feet Woodside-operated Greater Sunrise field, which straddles Australian and Timorese waters, but that looks set to remain in limbo until at least the next decade.

The development of Sunrise has been stalled for years as the government of Timor-Leste and the Woodside-led joint venture have failed to find a mutually agreeable development path. Timor-Leste prefers an onshore LNG export plant, while Woodside wanted to try a novel floating LNG (FLNG) scheme. Woodside, under new leadership, softened its stance in recent years, but the company appears to have hit a wall again with the Timorese leaders.

Australian dispute

Fresh uncertainty shrouds the fiscal and regulatory framework for the development of the gas resource after a resource-sharing pact – the Treaty on Certain Maritime Areas in the Timor Sea (CMATS) – that put a moratorium on maritime boundary claims between Australia and Timor-Leste, was declared void by Dili. The Timorese are now trying to re-open negotiations on a permanent maritime boundary.

Under CMATS, the two nations would equally share the royalties from the Greater Sunrise field. However, setting a permanent boundary based on accepted international legal principles would likely shift the resource entirely into Timorese waters. But historically, Australia has refused to enter into such negotiations in good faith.

As a result, Woodside chief executive, Peter Coleman, said in February that the company was unable to commit more money trying to move forward on Sunrise given the uncertainty around the regulatory and fiscal framework.

"There's just a point where you've worked through all your options, you know what the next step is, but before you take that next step you need to know who you're paying your rent to," said Coleman.

"We can't evaluate this project and we can't put it up to buyers as being a viable project that they would be interested in," he added.

Still, despite the fact that the project appears stalled, Dili continues to spend money to push its plans for an onshore LNG export plant ahead. In early March, Timor-Leste awarded a pre-front end engineering and design contract to Foster Wheeler for $3.8 million.

Timor-Leste resources minister Alfredo Pires says that in contrast to the FLNG plan, the cost of an onshore Timor LNG plant is much more certain, at less than $15 billion for a 5 million tonne per year plant. Pires says his government objects to the FLNG plan as the technology has not yet been commercially proven, while concerns have been raised about a potential conflict of interest for Shell, as owner of the proposed FLNG technology, as well as being a venture partner with Woodside.

In the latest twist, Pires described FLNG vessels as "sitting ducks" for terrorists when he outlined his government's opposition to Woodside's preferred development plan during a recent visit to Perth.

But while the Timorese government procrastinates many more people will join the growing majority struggling to live under the poverty line.

Roughly half of the population already lives in poverty, which is higher than the 36% in 2001, when the country was in transition from Indonesian rule. And worryingly little of the country's oil wealth has been used to promote sustainable development of the non-oil economy. Rather, funds have been channelled towards large-scale infrastructure projects, many of which will create no extra income for the country.

And time is running out. Timor-Leste does not have enough gas to sustain the country for very long.

Falling oil supplies

Large oil revenues began in 2006 and have been declining since 2012. The main source of income is the Bayu-Undan field operated by ConocoPhillips. During 2014, oil revenues to Timor-Leste dropped 42%, largely because production fell 24% as its producing fields go into decline.

Timor-Leste has already received more than 70% of the expected income from its only two producing fields – Kitan and Bayu-Undan.

Despite what its National Petroleum Authority says, the tiny nation is far from prospective. The oil and gas industry has generally given exploration, which has largely been unsuccessful, a wide birth, even in times of high oil prices.

The income from exporting non-renewable petroleum wealth is funneled through a sovereign petroleum fund, which holds over $16 billion. But with the country's active oil and gas fields forecast to run dry by 2020, the fund could be empty five years after that, analysis from Dili-based policy think tank La'o Hamutuk shows.

Based on some optimistic assumptions, including Greater Sunrise going ahead soon, La'o Hamutuk estimates government spending will exceed oil and interest income in 2019, and the petroleum fund will start to shrink. By 2026, the fund will be used up and state spending will have to be slashed by two-thirds from desired levels.

For more than a decade the think tank and others in civil society have encouraged the government to cut its dependency on petroleum income and steer a more sustainable course. Even the World Bank, after years of echoing the government's petroleum-dominated priorities, highlighted the need for non-petroleum economic development in its 2013-2017 Country Partnership Strategy. ●