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Line in the sand

Trying to squeeze money from the last drop of oil

A strong central tendency around the median line

THOUSANDS of people recently rallied in front of the Australian embassy in Dili, the seaside capital of Timor-Leste, in probably the biggest demonstration since the tiny country's birth 14 years ago. The protesters were angry at Australia's refusal to negotiate a permanent boundary in the Timor Sea, beneath which lie untold quantities of oil and gas. Timor-Leste claims that the refusal is costing it billions of dollars and is a slight to its sovereignty.

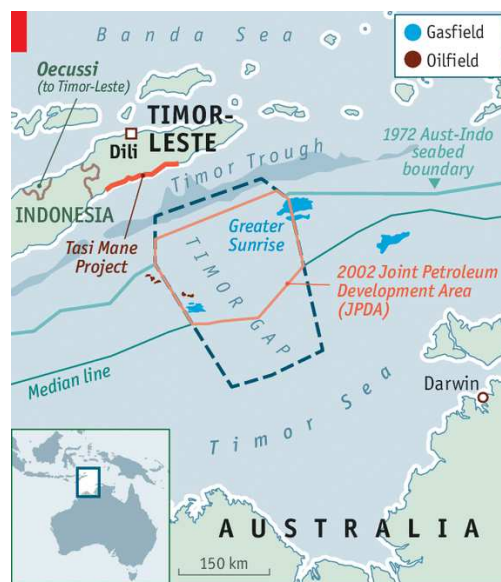
Australia maintains that revenue-sharing agreements the two countries signed years ago remain in force. One of them postpones discussion of permanent maritime boundaries until 2057, though recent statements by Australia's opposition Labor Party in favour of negotiations have given Timorese hope. Yet a successful resolution to this dispute will merely postpone the most critical question facing Timor-Leste: what to do when the oil runs out. Nine-tenths of state revenues come from oil and gas. Only a handful of fragile states, among them South Sudan and Libya, depend more on hydrocarbons.

Timorese long saw Australia as their friend. It won goodwill when it led an international force into East Timor (as Timor-Leste was more often known) in 1999 to protect its people from Indonesia, from which Timorese voters had just voted for independence. (Indonesia had invaded and annexed the former Portuguese colony in 1975.) The goodwill dissipated over three treaties Australia then struck with Timor-Leste. On the face of it they look generous. The Timor Sea treaty of 2002 established a "joint petroleum development area" (see map), giving 90% of the area's oil revenues to Timor-Leste and the rest to Australia. A second

treaty covered Greater Sunrise, a lucrative gasfield, most of which lies outside the area, beneath waters Australia still claims as its “exclusive seabed jurisdiction”. A third treaty in 2006 agreed to split the Greater Sunrise revenue evenly between Timor-Leste and Australia.

Yet many in Timor-Leste say that without an agreement over the two countries’ maritime boundary, the treaties are unfair. Although Australia agreed a seabed boundary with Indonesia in 1972, it has never negotiated one with Timor-Leste. Under international law, Timorese argue, such a boundary should run halfway

between the two countries. That would leave the Greater Sunrise field completely inside Timor-Leste’s 200-nautical-mile exclusive economic zone.



Australia’s behaviour has been high-handed at times. In 2002 it withdrew from the mechanism for adjudicating maritime boundary disputes under the UN Convention on the Law of the Sea (UNCLOS). During talks on the third treaty, Australia is alleged to have bugged government offices in Dili. This has left Timor-Leste feeling bullied into accepting an unfair deal. It is, says Tomas Freitas of MKOTT, an activist group, why so many demonstrators went to the Australian embassy on March 23rd.

But it may also have been a sense that Australia is now more susceptible to pressure. Woodside Petroleum, the Australian firm which heads the Greater Sunrise development consortium, says that future investment depends on “government alignment” between the two countries. The implication is that the dispute must be settled before it will spend big money on exploration. A recent Australian defence white paper cites a strong, secure Timor-Leste as one of the country’s top strategic interests—and a boundary agreement would undoubtedly make it more secure. The foreign-affairs spokesman for Australia’s Labor party, Tanya Plibersek, promises to start “good-faith” negotiations over the maritime boundary if her party wins a general election expected in July. She also says Australia should accept international adjudication under UNCLOS, if ever such negotiations failed.

Yet even the most favourable outcome would be less than Timor-Leste hopes for. For instance, the government wants a pipeline from the Greater Sunrise field to run ashore at Tasi Mane, a planned refinery project on the south coast. But that would mean laying it across the Timor trough, which is 3.3 kilometres (2 miles) deep. Woodside and its partners prefer floating terminals nearer the field, which would be more profitable for Timor-Leste.

With Greater Sunrise, Timor-Leste can keep pumping oil and gas until around 2031, though other fields will be exhausted in four years or so. The question looms: what happens after the oil money runs out? Timor-Leste was careful during the boom years earlier this century to put lots of petrodollars into a sovereign-wealth fund. But the fund is dwindling and may be gone entirely by 2025, claims a local NGO, Lao Hamutuk. More than half of Timor-Leste’s population of 1.2m is under 17; all will one day need jobs. Yet in a dirt-poor country that relies too much on subsistence farming, too little is being done to plan for a post-oil economy.

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