

UN hearing puts spotlight on Timor Sea



A man protests against the CMATS treaty outside the Australian embassy in Jakarta in March. (PA)

Damon Evans / Singapore

EAST TIMOR HOPES a UN Conciliation Commission hearing in The Hague, which started on Monday, will help solve a feud with neighbouring Australia over maritime boundaries in the Timor Sea.

East Timor started the compulsory conciliation process, conducted under the United Nations Convention on the Law of the Sea, in April. A five-member panel of independent conciliators will try to help the two nations reach an amicable agreement on maritime boundaries, although this looks to be a challenging task given the nature of the dispute.

At the heart of the dispute are the Greater Sunrise gas fields, which will remain

undeveloped until the governments of Australia and East Timor can settle a series of spats over maritime borders and treaties that were initially designed to help unlock the area's hydrocarbon potential.

The Timorese argue that the Treaty of Certain Maritime Arrangements in the Timor Sea (CMATS), signed in 2006 and which governs the development of the Greater Sunrise fields, is invalid because Australia allegedly spied on East Timor during the 2004 negotiations and did not negotiate the treaty in good faith.

Greater Sunrise holds 151 billion cubic metres of gas reserves, enough to support at least one LNG processing train. But if East

Timor successfully invalidates CMATS, plus two other treaties that govern hydrocarbon extraction in the Timor Sea – as it has declared it wants to, the country would be entitled to only 20.1% of the Greater Sunrise fields based on the median-line geometric principles calculated on hydrographer.org.

This would leave East Timor with just over 28.32 bcm of gas from Greater Sunrise, hardly enough to support an LNG plant. Australia would have 79.9% of the fields, or just over 113.3 bcm, large enough to warrant development.

CMATS provides for an even split of revenues from Greater Sunrise between the two countries, despite 80% of the fields lying in an area of exclusive Australian jurisdiction. Significantly, the treaty also put a 50-year moratorium on negotiating permanent maritime boundaries. Given this clause, Australia said at the hearing that it would contest the competence of the commission.

Nevertheless, East Timor hopes invalidating CMATS would mean new maritime boundaries could be negotiated based on its proposed 'adjusted equidistance' principle. It claims most of Greater Sunrise should belong to it. But independent geometric analysis suggests otherwise.

Although the findings of the UN Conciliation Commission are not legally binding and will not be concluded for a year or so, it looks unlikely East Timor can revive its flagging hydrocarbon production any time soon without accelerating the development of Greater Sunrise, which remains indefinitely

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stalled. Independent analysis of the potential outcomes from the commission shows that, under most plausible scenarios, East Timor's share in Greater Sunrise would remain the same or be reduced.

Around 95% of East Timor's revenue is derived from oil and gas, and it has helped the country build a \$16 billion petroleum wealth fund since 2005. But as production tails off the cash flows are fast diminishing – revenues deposited into the fund amounted to only \$34 million for March 2016, the smallest amount since 2007. The ConocoPhillips-led Bayu-Undan project is the country's only producing field, but it is almost exhausted and expected to stop producing by around 2022.

Investment by petroleum firms at the Bayu-Undan project would not have happened without the stability guaranteed by the treaties, Julie Bishop, Australia's minister for foreign affairs, wrote in *The Australian*.

The petroleum fund could be empty by 2025 based on current government spending patterns, local NGO La'o Hamutuk told *Interfax Natural Gas Daily*. But instead of channelling its attention towards diversifying the economy, the current government, which took office in 2012, has focused its efforts on invalidating CMATS, the very

treaty that provides the stability needed for oil companies to invest in the Woodside-operated Greater Sunrise fields.

More oil and gas?

Geologists with experience of studying East Timor told *Interfax Natural Gas Daily* that Timorese NOC Timor GAP's resource estimates of 12-17 billion barrels of oil equivalent are optimistic. After all, 17 billion boe is equal to 2.58 trillion cubic metres of gas. By comparison, the Greater Sunrise fields, the largest known gas deposit in the vicinity of East Timor, hold around 141.6 bcm of undeveloped reserves.

The geologists say it is impossible to accurately estimate East Timor's hydrocarbon potential without much more exploration. But oil companies are not queuing up to spend their exploration dollars in the country. Most have been spooked by the government's erratic behaviour, particularly when it comes to the operating environment and fiscal certainty.

One expert *Interfax Natural Gas Daily* spoke to was not optimistic about the likelihood of more big discoveries such as Bayu-Undan and Greater Sunrise. "I think they would have been found by now," he said. ■

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