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Natural Gas Daily > Asia Pacific > Exploration & Production

Pressure rising on East Timor to make a deal

By Damon Evans
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Maritime borders are controversial in East Timor, but the government is running out of time to make a decision. (PA)

Without new sources of income East Timor could be bankrupt as early as 2027, new research from Dili-based thinktank La'o Hamutuk shows.

The country is almost entirely dependent on petroleum revenues, but its oil and gas income peaked in 2012 and continues to fall. The ConocoPhillips-operated Bayu-Undan project – East Timor's only producing field – has provided about $20 billion over the past 10 years, but it will produce minimal revenues from next year, Charlie Scheiner, an analyst at the NGO, told *Interfax Natural Gas Daily*.

The 2016 state budget showed the country expected to receive $1.72 billion from oil and gas revenues between 2016 and 2022, but the proposed 2017 budget has forecast petroleum revenue of just $867 million for the same period. And most of that income is expected by 2017, La'o Hamutuk warned in a submission to parliament in early November.

The latest government forecasts continue the trend of downgrading revenue projections, which has happened every year since 2013. While "the 2014 global oil price [fall] was significant, the reality is that the price of oil will soon be irrelevant [as] East Timor's producing reserves have already been almost entirely extracted", said the NGO.

To make matters worse, East Timor has moved from dependence on revenues from selling petroleum to dependence on the returns from its Petroleum Fund investments. But the balance of the fund continues to fall as the withdrawals are larger than the income.

The proposed 2017 budget of $1.39 billion will require a withdrawal of over $1 billion from the fund, and the government plans to take out almost four times the estimated sustainable income every year between 2018 and 2021, La'o Hamutuk's analysis shows. This will cut the future estimated sustainable income to less than $400 million by 2021, by which time the sovereign wealth fund's balance will have fallen by at least $3 billion, to $13 billion, added the NGO.

Nevertheless, the state budget proposes spending almost $2 billion by 2021 on grandiose plans for a petroleum corridor, known as Tasi Mane, that would include a port, fabrication yards and an offshore supply base. But La'o Hamutuk believes it will cost much more to finish the highway and other components of the project, which include a proposed refinery and a petrochemical complex.

The owner of Tasi Mane, Timorese NOC TimorGAP, has failed to publicly produce evidence the project is commercially viable, even though it continues to ask parliament to approve funding. The whole scheme is also predicated on commercialising the Woodside-operated Greater Sunrise fields via an LNG export plant in the south of the country.

But development of the fields in the Timor Sea, which straddle Australia's seabed and contain more than 142 billion cubic metres of estimated gas reserves, has been stalled for years. A feud over maritime boundaries with Australia *(http://interfaxenergy.com/gasdaily/article/21748/un-hearing-puts-spotlight-on-timor-sea)* and the treaties that govern the joint development of Greater Sunrise means Perth-based Woodside – and its partners Shell, Conoco and Osaka Gas – has shelved plans to develop the gas.

Setting sun

Interest was high in 2006, when East Timor and Australia signed the treaties – now contested by Dili – that provided the necessary stability for international investors to develop Greater Sunrise.

In the meantime the opportunity for developing the fields economically has passed unless the existing assets for Bayu-Undan are reused, Jeffrey Feynman, an independent United States-based oil and gas consultant, told *Interfax Natural Gas Daily*.

Feynman, who has consulted on various projects in the region, estimates it would cost $24 billion to develop Sunrise in East Timor *(http://www.artifik.com/open-articles/Sunrise%20options%20flowchart.pdf)* . He also calculated the project would lose $28 billion over its 30-year production life should the gas be processed in East Timor. It would lose much more if it hit technical problems when laying a deep-sea pipeline across the Timor Trench.

However, if the gas is sent to backfill Conoco's existing Wickham Point LNG export plant in northern Australia once Bayu-Undan is exhausted, Feynman estimated East Timor would receive $8.5 billion in revenues based on the 50/50 split under current terms with Australia and an oil price of $45 per barrel.

This means Greater Sunrise could be commercialised by spending just $4.5 billion to connect a 207 km shallow-water pipeline to Bayu-Undan *(http://www.artifik.com/open-articles/Sunrise%20alternatives.pdf)* .

However, time is running out, as Conoco needs to firm up backfill supplies soon. Bayu-Undan is expected to be exhausted sometime between 2020 and 2022. The window of opportunity to send Sunrise gas to Darwin is closing as the US operator is lining up other sources of backfill gas *(http://interfaxenergy.com/gasdaily/article/22784/darwin-lng-prioritises-backfill-over-expansion)* , including its Caldita-Borassa and Poseidon fields as well as other third-party gas sources.

However, a government spokesman told *Interfax Natural Gas Daily* that East Timor "is striving for the delimitation of maritime boundaries [...and that] every decision is attached to the process". He added that the "nation's economy is going well".