SOUTHEAST ASIA ENERGY

Clouds part on ‘Greater Sunrise’ gas fields

Timor-Leste, Australia agreement on long-contested $30-$45 billion gas reserves opens the way for eventual joint exploitation

By DAVID HUTT, @davidhuttjourno | MARCH 1, 2018 5:58 PM (UTC+8)

Two Timorese girls look for cockles on the beach in Dili, Timor Leste in a file photo. Photo: AFP/Candido Alves

Timor-Leste and Australia reached agreement on February 25 over revenue sharing of long-contested offshore gas fields at a Permanent Court of Arbitration session held in Kuala Lumpur.

A formal treaty is expected to be signed on March 6 when the two parties meet in New York. The two countries have sparred for decades over control of the commodity-rich Timor Sea that bestrides the Greater Sunrise gas fields, which could yield anywhere between US$30 billion and US$45 billion in revenue.

The agreement follows another reached in September over the maritime borders between the two nations, a decades-old dispute that Dili feels particularly aggrieved about as, it contends, Australia was given generous border demarcation in the 1980s while Timor-Leste was under Indonesian occupation.

Timor-Leste regained its independence in 2002 after more than two decades of Indonesian colonial rule.

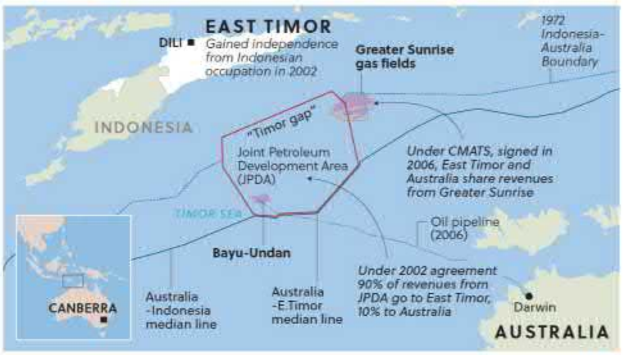
Despite the optimism, ongoing negotiations on issues related to where the gas will be processed are moving slowly and few expect gas extraction to start for several more years.

Dili has long argued that it wants to construct an on-shore facility in the southern Timor-Leste so that gas extracted by the Sunrise LNG project is processed domestically, part of its so-called Tasi Mane petroleum corridor project.

This would significantly augment the domestic economy, currently Southeast Asia's poorest, successive governments have argued.

Contested Waters

Australia and Timor Leste dispute ownership of underground oil and gas



Sources: IMF/WB//DFAT/offshoreenergytoday.com/GeoscienceAustralia © AFP

Damien Kingsbury, a professor of international politics at Australia's Deakin University, says that in an ideal scenario an on-shore plant would lead to the growth of support industries and important technology transfer to Timor-Leste.

The problem with this scenario, though, is that "no-one wants to build an on-shore processing plant," he added. But more than not wanting an on-shore facility, most participants of the Greater Sunrise Joint Venture (barring Timor-Leste) think it's simply not feasible.

They contend the presence of the Timor Trough, a trench on the ocean floor that a pipeline will need to transverse to connect gas fields with an on-shore facility, would make the venture too hazardous.

But even if there is a solution, it would require a significant financial investment, which most think would have to be funded by already cash-strapped Timor-Leste. "If the project, for any reason, failed to

Instead, most of the partners of the Greater Sunrise Joint Venture – composed of Woodside Petroleum, ConocoPhillips, Royal Dutch Shell and Osaka Gas – argue that processing will be simpler and more beneficial if conducted in Australia, at the Darwin LNG Project, or on a floating facility in the Timor Sea.

According to the recently signed agreement, if it is finally decided that gas is to be processed at an on-shore facility then the revenue split between Timor-Leste and Australia would be 70:30 respectively. But if it an off-shore plant goes ahead the split will be 80:20.

An on-shore gas processing plant in Dampier, Pilbara, Western Australia. Photo: AFP

The earlier agreed Treaty on Certain Maritime Arrangements in the Timor Sea, signed in 2006, only provided an equal share of revenue, though this was up from the 18% Timor-Leste would have received under previous agreements.

Considering the Greater Sunrise field is expected to produce as much as US$45 billion in revenue (though this could be less if the price of gas decreases) an extra 10% could mean an additional US$4 billion for Timor-Leste, more than three times the country's current gross domestic product (GDP).

Moreover, an off-shore facility would allow oil and gas extraction to begin earlier, meaning quicker access to funds for Timor-Leste. Some suggest these upsides might be enough of an incentive for Dili to let go of its fixation with on-shore processing.

Timor-Leste has long depended on oil and gas revenue, which funded almost 80% of last year's budget, but the clock is ticking when this will no longer be the case. Its only active gas field, Bayu-Undan, is set to be depleted by 2022 or sooner.

There was an estimated US$16.8 billion left in the country's sovereign wealth fund at the end of 2017, up almost US$1 billion from the previous year, a result of "unrealized gains in stock prices" and the falling value of the US dollar, according to reports by La'o Hamutuk, a local research organization.

But if revenue to the fund falls, as expected, and with current state budgets over US$1 billion annually, it could run dry within a decade or so – meaning revenue from the Greater Sunrise fields will become more urgent in coming years.

Timor Leste's fraught politics could stall progress. The Fretilin party won a majority of votes at last year's general election, but could only form a minority government with support from the Democratic Party.

When Fretilin attempted to put forward its political program, first in October and then in December, it was rejected by three opposition parties – the National Congress of Timorese Reconstruction (CNRT), the People's Liberation Party (PLP) and Khunto – that have formed a coalition. Parliament has since been dissolved and fresh elections called, which are expected to be held in May.

It seems highly unlikely that the country's lead negotiators, including Xanana Gusmao, a former premier and the public face of the CNRT, will accede to an offshore facility before the May polls.

Analysts say it would be electoral suicide to yield to Australia on the issue, given that on-shore processing has become a symbol of national pride.

Rather, Gusmao will likely "use his success in maritime boundary negotiations with Australia as a powerful tool for campaigning for his CNRT party and the AMP coalition," says Michael Leach, a professor in politics and international relations at Swinburne University in Australia.

Analysts say it is almost certain the CNRT will continue its coalition with the PLP and Khunto for the upcoming general election under the banner of the Alliance for Change and Progress (AMP).

Then presidential candidate Francisco Guterres (L) with Xanana Gusmao (R) during a campaign rally on March 17, 2017. Reuters/Lirio da Fonseca

While it has yet to announce who will be its prime ministerial candidate, the two likely options are Gusmao, who resigned from CNRT last year but still pulls the party strings, or Taur Matan Ruak, an outspoken former president and head of the PLP.

There are more urgent economic concerns. La'o Hamutuk warned in January that the state could run out of money by April as the dissolution of parliament means this year's budget has to follow last year's, which was then even too low for state expenditure.

This scenario would be made considerably worse if the new government's economic program is again rejected.

"The imminent cash-flow crisis... is an ominous precursor of what will happen when the Petroleum Fund is exhausted, which could be within 10-15 years," reads a La'o Hamutuk reports.

While progress on the Greater Sunrise gas fields negotiations with Australia is good news, future gas revenues ought not to be viewed as a magic bullet, analysts say.

"Greater Sunrise offers temporary economic relief to Timor-Leste, not a permanent answer to its economic challenges," says Kingsbury. "A permanent solution can only come about through careful long-term planning and avoidance of quick-fix or otherwise unrealistic solutions."