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People Of East Timor Misled Over Sunrise Oil And Gas



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Former East Timorese guerrilla leader Xanana Gusmao, now chief negotiator for maritime boundaries and development of Greater Sunrise oil and gas in East Timor is unviable, contrary to what East Timor's government claims. [+]

Findings from UN-backed Conciliation Commission show development of Greater Sunrise oil and gas in East Timor is unviable, contrary to what East Timor's government claims.

In a letter to the UN-backed Conciliation Commission tasked with resolving a long-running maritime boundary dispute between East Timor and Australia, East Timor's leaders appear to misunderstand the importance of timing regarding the development of the Greater Sunrise oil and gas fields.

In the [letter](#) leaked to ABC News, East Timor accuses Australia of colluding with oil companies to ensure oil and gas from the Greater Sunrise fields, which straddle the Australian and East Timorese seabed, is piped to northern Australia for processing, instead of to East Timor. East Timor also asserts that the Woodside Petroleum-led joint venture, which has the rights to develop the Greater Sunrise oil and gas fields, fabricated a false deadline for the agreement

on a single development concept, which if not met, meant the fields would never be developed.

This “window of opportunity” the letter refers to relates to the opportunity to reuse, or backfill, an existing gas processing facility operated by US oil company ConocoPhillips in Darwin, northern Australia.

This facility currently freezes gas into liquefied natural gas, known as LNG for short, so that it can be shipped to gas hungry-nations, such as Japan, South Korea and China.

In recent years, as export projects started up in Australia and elsewhere, the global market has been swamped with LNG. As a result, no new projects have been approved, as there was more supply than demand. But existing LNG producers, such as Qatar and Papua New Guinea, are now racing to approve expansions to existing facilities to meet an expected shortfall in supply post-2023.

Expansions of existing projects are more competitive than building a completely new project, such as the one East Timor proposes at Beaco on East Timor’s southern coast. Understandably, buyers in Japan and China want the best deal possible on new supplies. This is what expansions, of existing projects in Qatar, Papua New Guinea and Australia, offer. New build projects, that cost more money to build, as investors have to start from scratch, cannot compete with expansions of existing projects. It’s pretty logical.

Now, East Timor’s only producing oil and gas field, Bayu Undan, which supplies the existing Darwin LNG export facility, is expected to run dry by around 2022-23. The operator of the Bayu Undan field, ConocoPhillips, needs to find new supplies to feed this export plant from 2023. Demand for LNG is expected to exceed supply from around 2023-24 so it’s the perfect time for the US major to market new gas supplies. But it usually takes four or five years to develop new fields. Engineering studies need to be done, wells need to be drilled, pipelines laid etcetera. So, ConocoPhillips, and its partners need to take investment decisions soon, so that they can take advantage of the expected shortfall in global supplies post 2023 and make money. After all, like it or not, that’s why the oil companies are in business, to make profits.

So this “window of opportunity” was not fabricated. Any LNG expert or research consultancy across the globe will tell you about it. [It’s plain to see.](#)

Understandably, East Timor is upset because the Conciliation Commission, did not validate their insistence that a new LNG export plant be built in East Timor.

The Commission cites independent analysis that proves proposals for the Timor LNG project, by East Timor’s national oil company, TimorGap, are not economically viable.

“The Commission anticipates that, under currently expected market conditions, TimorGap’s concept would generate a return in the order of 7% on a capital investment of \$15.6 billion. This would not be sufficient to meet the industry standard for investment by an international oil company,” it reported on 6 March after the signing of the new Maritime Boundaries Treaty between the Australia and East Timor.

It added, that TimorGap’s proposal could be done, but only with a direct subsidy of \$5.6 billion by the government of East Timor or another funder. That’s nearly a third of East Timor’s sovereign wealth fund. As I wrote [previously](#), Beijing might be willing to subsidise East Timor’s gas project, but they would want control of the Southeast Asian nation in return.

Conversely, the analysis shows that sending Greater Sunrise gas to Darwin is commercially attractive. The Woodside-led joint venture, which includes ConocoPhillips, Shell and Osaka Gas, could reuse the existing pipelines from Bayu Undan and existing export plant in Darwin. Greater Sunrise gas could then compete with expansions in Qatar and Papua New Guinea for new customers post 2023. But that’s just five years away. So the “window of opportunity” is real as it would take between five and seven years to get engineering studies finished, regulatory and investment approvals, as well as actually develop Greater Sunrise, if all stakeholders hypothetically agreed on commercialising Greater Sunrise using the existing facilities for Bayu-Undan.

If Dili does not agree to reusing the Bayu-Undan infrastructure, then the oil companies will just backfill the Darwin LNG export plant with gas from other fields. In this instance it’s hard to see Greater Sunrise being developed in the next ten years, if at all. To develop Sunrise would mean building another LNG export facility in Darwin, which would be less competitive than using the existing depreciated plant. Or East Timor will need to stump up nearly \$6 billion itself to build a new LNG plant on its shores, as well as find a competent LNG developer to do this. And then Dili would probably not get any profits.

If East Timor accepted the Darwin option it will get 80% of the royalties from production, as oppose to 70% if the resource were developed in East Timor. That extra 10% is worth \$3.1 billion to \$3.5 billion, reported the commission. Certainly, better than 70% of nothing.

It’s interesting that many of the reports carried out by leading energy experts on the viability of Timor LNG, commissioned by the government, have all been buried. This [report](#) by leading energy consultancy Poten & Partners commissioned by the CNRT-led government some seven years ago concluded the commerciality of Timor LNG was marginal at best, while the socio-economic benefits for East Timor paled in comparison to the overall level of capital investment required. It also said the Timor option was fraught with technical risks.

Wood Mackenzie another leading energy research firm has a less than optimistic view on Timor LNG. Earlier this year a former Wood Mackenzie analyst told me that due to uncertainty about how the resource is likely to be developed, the company does not expect Greater Sunrise to be developed until the late 2020s.

The analyst told me the most likely development scenario would be via the Darwin LNG plant. But, he said ConocoPhillips and its partners are much closer to starting engineering works for its Barossa field, which would backfill Darwin LNG, instead of Sunrise. They are targeting production from Barossa in 2023.

In Wood Mackenzie's view the gas resource at Greater Sunrise is among the best in the region and development would probably have progressed by now if not for the political uncertainty. While Barossa will be more expensive to develop compared to Sunrise, it is more attractive because unlike Sunrise it is not mired in politics and there will be no delays in developing the resource to meet the projected market shortfall in 2023.

So in summary, there will be no LNG project in East Timor, unless East Timor goes it alone. And there would be no royalties, just losses. Developing Greater Sunrise in East Timor makes no commercial sense. Even if the whole field sat in East Timor's sovereign territory the government would be hard pushed to find investors to back its Timor LNG proposal, let alone come up with a direct subsidy of \$5.6 billion for the development. The numbers simply do not add up.

Maybe it's time the political elite in Dili put their egos aside, otherwise there really will be no development of Greater Sunrise. That "window of opportunity" will close, if it hasn't already. After all, investors crave certainty and recent experience shows that East Timor cannot deliver that yet.

Damon covers the energy industries globally, with a particular focus on the politics and economics in Asia Pacific, as well as LNG and oil markets.