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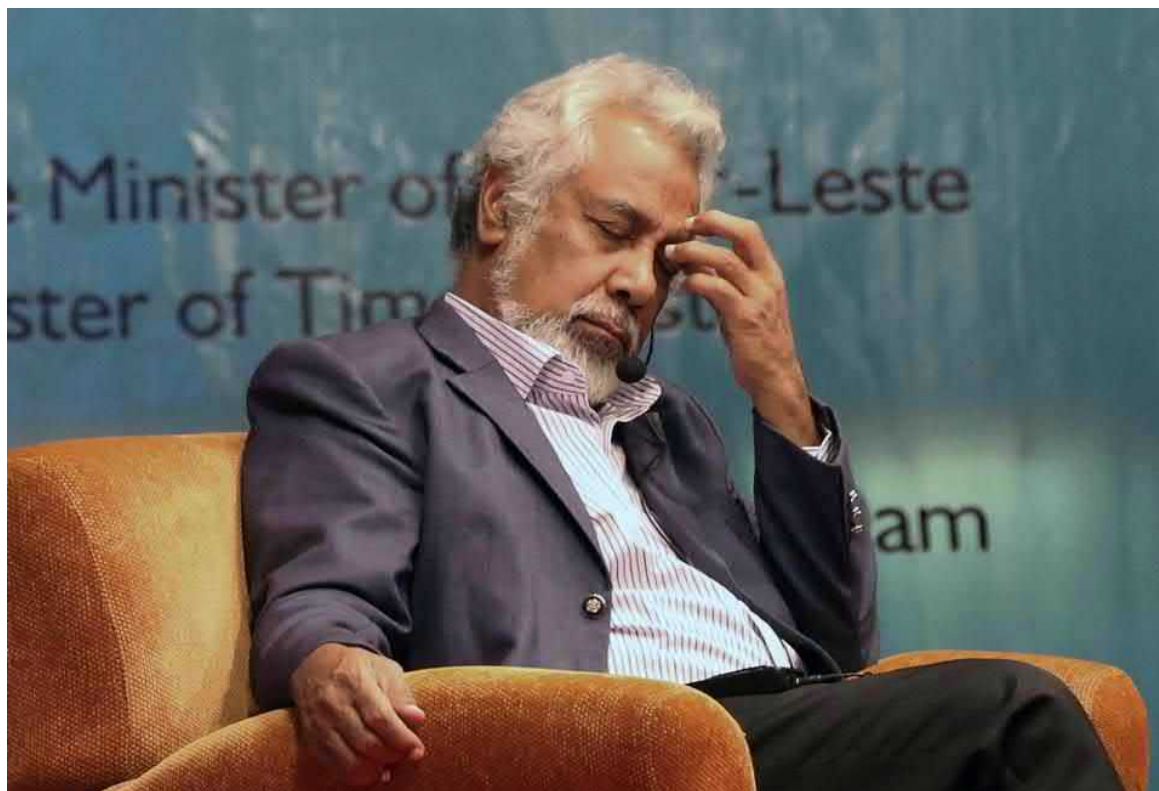
## Overblown Expectations For East Timor's Greater Sunrise Oil And Gas



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*East Timorese former Prime Minister Xanana Gusmao, who is the country's chief negotiator over maritime boundaries and revenue[+]*

Reports that East Timor is set to bank tens of billions of dollars from the potential development of the Woodside Petroleum-operated Greater Sunrise oil and gas fields that straddle the Australian and East Timorese seabed are wide of the mark.

The Sydney Morning Herald, among others, recently [reported](#) “East Timor could receive up to 80% of revenue from the A\$50 billion (US\$40 billion) Greater Sunrise oil and gas field in the Timor Sea under a still-secret agreement with Australia”.

But those big numbers set unrealistic expectations for the Timorese and their ardent supporters. The US\$40 billion number refers to sales revenues from potential production of liquefied natural gas, or LNG for short, not royalties to a country.

In fact, the Timorese government is more likely to pocket around US\$8.16 billion of royalties over 20 years, if it gets an 80% cut from any potential development of the oil and gas fields. Australia, would net around US\$2.04 billion, or the remaining 20%.

Assuming Greater Sunrise can produce 92.6 million tonnes of LNG with a sales value of

US\$432 per tonne, then the sale of gas generates US\$40 billion, Peter Strachan, an independent oil and gas expert based in Perth, told me. It may cost US\$12.5 billion to produce that revenue after an initial capital cost of US\$15.7 billion. So net cash generation before taxes is US\$11.8 billion.

Therefore, if the governments typically took 50% of that, then Woodside and its partners, Shell, ConocoPhillips, and Osaka Gas, might end up with US\$5.9 billion and the governments of East Timor and Australia would split the remaining US\$5.9 billion over a 20-year project life, calculates Strachan.

But Greater Sunrise also holds oil, which makes developing the gas attractive. Assuming an oil price of US\$70 per barrel then some US\$12.5 billion worth of revenue could be generated from the fields, adds Strachan.

Operating costs might be US\$3 billion to US\$4 billion with much of the capital cost included in the gas side of the project, so developing the oil would generate operating cash after all costs of US\$8.6 billion. With governments taking half of that as royalties and the project developers keeping about US\$4.3 billion, oil would be about as valuable as the gas, says Strachan.

Put simply, there is a total estimated royalty for both oil and gas of US\$10.2 billion available to be shared between the governments of Australia and East Timor, if the Greater Sunrise fields are ever developed.

These estimates are based on the oil and gas being produced using existing pipelines in the Timor Sea, as well as an existing processing plant in Darwin, Northern Australia.

Australia and East Timor will sign an agreement aimed at opening the way to sharing revenue from any potential development of Greater Sunrise at the United Nations in New York on 6 March.

But so far intense negotiations have failed to settle how the field could be exploited by the Woodside-led consortium. The Portuguese news agency Lusa quotes a Dili-based source familiar with the high-level negotiations as saying, East Timor would receive 80% of the revenue if gas from the fields is piped to the existing ConocoPhillips-operated Darwin LNG processing terminal in northern Australia, but could agree to 70% if gas is piped to a yet-to-be built industrial complex on its southern coast.

Recommendations by the Permanent Court of Arbitration at The Hague, which has overseen negotiations between the neighbouring countries, on how a maritime dispute, which covers Greater Sunrise and its development, should be settled are expected to be released in mid-April.

East Timor has long advocated development of Greater Sunrise on its shores, which Dili claims would provide Greater Economic benefits, rather than allowing the gas to be piped to Australia using existing pipelines and processing facilities.

As I wrote [previously](#), processing the oil and gas in East Timor, which Dili remains bent on, would render the development of Greater Sunrise uneconomic and there would no government royalties to be shared. The costs and risks of laying brand new pipelines across a

technically challenging deep-sea trench and building new processing infrastructure in East Timor are just too high.

Jeffrey Feynman, an independent US oil and gas consultant, who has consulted on various projects in the region, [estimates](#) it would cost US\$24 billion to develop Sunrise in East Timor. 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 technically challenging Timor Trench, he told me.

In fact, no sane investor, unless compensated for their losses, would consider building new infrastructure in East Timor, except perhaps the state-backed Chinese oil companies. But in return for losing billions of dollars on a white elephant, Beijing would want its pound of flesh from East Timor. Building long concrete runways for its fighter jets and ports for its navy in the Southeast Asian nation is a tantalising prospect. But it's hard to see neighboring Indonesia and Australia letting the Chinese move into their neighborhood.

Yet time is running out for East Timor. Its revenues, largely generated from the ConocoPhillips-operated Bayu-Undan project, are shrinking rapidly. Bayu-Undan, the country's sole producing field, is expected to cease production around 2022.

The US-based major has said that the owners of Darwin LNG in northern Australia – which include Santos, Inpex, Eni and Tokyo Gas – are assessing several options to backfill the LNG plant from 2023. By that time, the plant's current offshore gas supply from the Bayu-Undan field, which lies in the joint petroleum development area (JPDA) between Australia and East Timor, will be exhausted.

The logical and most cost-effective backfill supply option would be Greater Sunrise. But the maritime dispute between Australia and East Timor, and Dili's insistence that the gas be processed on its shores, has stalled any progress on development of the field.

As a result, ConocoPhillips has said its proposed Barossa and Caldita fields off northern Australia are the leading candidates to backfill the plant's sole LNG processing unit. It is targeting to start engineering works for the fields in the second-half 2018.

Santos is also looking at developing its long-held gas assets in the Bonaparte Basin offshore northwest Australia, with ConocoPhillips' Darwin LNG facility a possible export point, the group said last month.

If Dili does not relent on its demands for Greater Sunrise gas to be processed on its shores soon, it's hard to see the fields being developed at all in the next decade. By which time, East Timor could be broke, data from Dili-based think-tank La'o Hamutuk shows.

Ultimately, Greater Sunrise is probably best left undeveloped for another decade, which will force East Timor to diversify its economy away from oil revenues. Perhaps, now the revenue sharing agreements and maritime boundaries are settled, the next government, due to be elected in May, will finally focus its energies on doing just that. Only time will tell.

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