Timor-Leste and Australia Conclude Greater Sunrise Negotiations

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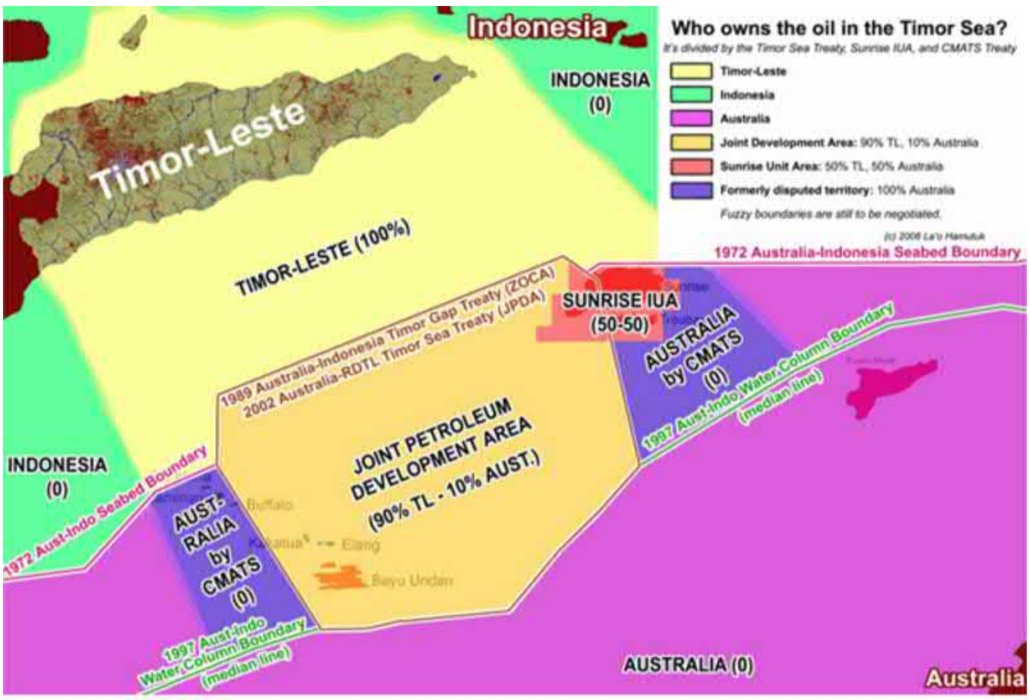
Background

The final meetings between Australia and Timor-Leste, which were held in Kuala Lumpur on 19-24 February, have now concluded. According to a press release from the Permanent Court of Arbitration (PCA), the primary purpose of this last set of meetings was for the Conciliation Commission to present its conclusion to both parties based on previous dialogue. Concerns discussed previously in the *Strategic Weekly Analysis* that political instability in Timor-Leste could delay the treaty have not come to fruition, even though President Francisco Guterres announced the dissolution of the Timor-Leste parliament on 26 January. Now that the negotiations are over, both countries are scheduled to sign the new Maritime Boundaries Treaty in New York on 6 March 2018.

Comment

At the crux of the negotiations is $30-$50 billion worth of oil and gas (depending on commodity prices), in an area commonly known as Greater Sunrise that both Timor-Leste and Australia are vying to control. Who rightfully owns that oil and gas has been the subject of debate for some time as both countries are yet to agree on a maritime boundary that would allocate ownership of the resources within the seabed, something that the latest negotiations have addressed. In the case of other oil fields in the region, Australia and Timor-Leste both opted for joint exploration of those areas, collectively known as the Joint Petroleum Development Area (JPDA), and agreed to a 90/10 revenue split in favour of Timor-Leste. What to do with Greater Sunrise, however, has been a more complicated matter as only 20.1 per cent of the oil field lies within the JPDA.



Source: La'o Hamutuk

To remedy that, two agreements were signed in an attempt to find a similar arrangement as under the JDPA: the 2003 International Unitisation Agreement for Greater Sunrise (IUAGS) and the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS). Under IUAGS, both countries agreed to jointly develop Greater Sunrise and, under CMATS, agreed to a 50/50 revenue split and to delay negotiations on a maritime boundary for either 50 years or for five years after the end of the exploitation of Greater Sunrise (which, of course, never began). The revelation that Australia had committed espionage during the CMATS negotiations, however, and the resulting sense that a 50-50 split was unfair from Timor-Leste's perspective subsequently saw CMATS terminated and spawned the latest negotiations for a maritime boundary.

In this most recent press release, it appears that another milestone in negotiations has been reached. As noted in a previous *Strategic Weekly Analysis*, a sticking point in the negotiations had been the preference of Timor-Leste for the extracted gas to be piped to Beaço, on the country's southern coast, and processed there, as opposed to the preference of operator Woodside for a floating LNG processing facility. That appears to have been addressed in the latest PCA press release, which details the following:

The treaty also establishes revenue sharing arrangements between the governments of Timor-Leste and Australia where the shares of upstream revenue allocated to each of the Parties will differ depending on downstream benefits associated with the different development concepts for the Greater Sunrise gas field.

According to Portuguese news outlet *Jornal Econômico* [in Portuguese], Timor-Leste will allegedly receive 70 per cent of the Greater Sunrise revenue if the extracted gas is piped to Beaço, but 80 per cent if the gas is piped to Darwin. If the report is accurate, it signifies a major increase in potential revenue for Timor-Leste; approximately $15 billion more than what was possible under the previous 50/50 split arrangement. It also gives freedom to Timor-Leste to fulfil its (sometimes controversial) ambition to utilise local refineries for the gas. As to where the gas will be eventually be piped, it is likely that Guterres will still push for the gas to be piped to Beaço, even though Timor-Leste stands to lose approximately $5 billion in extra revenue because it will only receive 70 per cent of Greater Sunrise revenues rather than 80 per cent.

So far, at least from the perspective of Timor-Leste, the press releases coming out of the negotiations have been encouraging. As noted in a previous *Strategic Analysis Paper*, 'the best outcome for both countries would be a maritime boundary drawn along the median line while keeping [IUAGS] intact and re-negotiating the revenue split from it'. After following the ongoing conciliation, it appears that both countries are tracking towards such an agreement. Now that the conciliation process is over, the biggest challenge will be getting both sides to sign the agreement.