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East Timor makes new pitch on stalled Woodside gas project

By Rebekah Kebede

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Aug 30 (Reuters) - East Timor is offering to invest $800 million to build a pipeline to take gas from the Timor Sea to the tiny nation, as it makes a new pitch to resolve a dispute with Australia's Woodside Petroleum over how to develop huge fields in the area.

East Timor has insisted for a decade that a liquefied natural gas plant to process gas from the Greater Sunrise fields should be built on its shores, bringing with it much-needed development. Woodside says the plan is uneconomical and wants to use a floating LNG plant.

Industry insiders say the chance of a near-term breakthrough remains slim, despite the new gambit. That is partly because East Timor also wants to unpick a revenue-sharing agreement after accusing Australia of engaging in espionage when the treaty was struck.

Australia will not confirm or deny the allegations, but has said the accusation is not new.

East Timor has filed for arbitration and if it overturns the treaty, it could open up discussions on a disputed maritime border, risking further delays to the project.

East Timor Secretary of State for Natural Resources Alfredo Pires said Dili is prepared to invest $800 million in a pipeline to help move things forward, using funds from its $14 billion Petroleum Fund.

"It's an indication of our willingness to take on some of the risks of the project," Pires said by telephone, adding it would be a commercial investment and could return around 7 percent, above the 2 to 3 percent the fund is currently seeing.

Soaring costs and the prospect of competition from U.S. shale gas to supply Asia customers have already threatened the future of a number of LNG projects around Australia.

Woodside has previously estimated that an onshore plant in East Timor would add as much as $5 billion to analysts' $12 billion cost forecast to develop the fields using floating LNG.

East Timor says a project using an onshore plant would cost $12-$13 billion and that floating LNG faces a greater risk of cost blowouts because it is a new technology.

Woodside declined to comment on Pires' offer to invest in a pipeline, pointing to an earlier statement from the firm that it remained committed to developing Greater Sunrise.

"We value our relationships with the Timor-Leste (East Timor) and Australian governments, and seek tripartite alignment to allow the timely development of this resource for the benefit of all stakeholders."

CLOSING WINDOW

Six months ago, Woodside said there could be a window of opportunity for a decision to develop the project in 2013 and analysts still saw the project coming online in 2018.

But in a recent speech to investors arranged by UBS Woodside's chief Peter Coleman showcased its most prospective projects and Sunrise was the only big development not mentioned.

"There is logic to the fact that it wasn't mentioned and therefore in their eyes it ranks behind a lot of the other projects they have on their slate," John Hirjee, an analyst with Deutsche Bank in Melbourne said.

At its results briefing last week, Woodside put Sunrise at the end of a list of around 10 developments, with initial design work for the project beginning of 2016.

In the last year, Woodside has cast a wide net for new projects, committing to buying a 30 percent stake in Israel's Leviathan gas development, joining an exploration venture with South Korea's Daewoo International Corp in Myanmar, and buying into a project in Ireland.

Woodside has already invested several hundreds of millions of dollars in drilling exploration at Sunrise but some analysts doubt it will spend more.

"Woodside's not going to spend another dollar on it," said Peter Strachan, an analyst with Stock Analysis in Perth.

ALTERNATIVES

East Timor's insistence on bringing gas to shore has bewildered some industry watchers who say that the benefits of an onshore site would be marginal for fields estimated to contain more than 5 trillion cubic feet of gas.

"From a strictly financial point of view, it's hard for us to understand why the government is so determined to bring the pipeline here," Charles Scheiner, a researcher with La'o Hamutuk, an independent Dili-based research firm.

But an onshore plant has become a unifying cause in Asia's youngest nation, with consensus across political parties.

In past years, East Timor has threatened to pursue other development partners, such as Malaysia's state oil firm Petronas, and Pires says that there remains plenty of interest.

"We'll have no shortage of interest if anyone wants to leave. There will be others who will jump in," Pires said. (Editing by Ed Davies) http://uk.reuters.com/article/2013/08/30/timor-australia-gas-idUKL4N0GS1CT20130830

TIMELINE-Australia and East Timor's struggle to develop Sunrise gas fields

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Below is a timeline of some key events involving the Greater Sunrise project

1972	Australia and Indonesia agree on a maritime boundary based on what Canberra says is the edge of its continental shelf. Portuguese-controlled East Timor does not accept this boundary.
1974	The Sunrise and Troubadour gas fields are discovered in the Timor Sea between the two. They estimated to contain 5.13 trillion cubic feet of dry gas, 225.9 million barrels of condensate and are collectively known as the Greater Sunrise gas fields.
1975	Indonesia invades East Timor, occupies it until 1999.
1982	United Nations Convention on the Law of the Sea finalised, favors delineation of sea boundaries at the midline between two countries.
Mar. 2002	Australia does not accept provisions under the 2002 convention that would subject it to compulsary dispute resolution for sea boundary disputes.
May 2002	East Timor becomes independent.
2003	East Timor signs contracts with Woodside and JV partners for Sunrise project development.
2003	Timor Sea Treaty comes into force. The treaty establishes the Joint Petroleum Development Area (JPDA), a region with overlapping claims from Australia and East Timor. Under the treaty, East Timor receives 90 percent of revenues from oil and gas resources developed in the area, while Australia gets the rest.
2007	International Unitisation Agreement on Sunrise (IUA) and Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS) comes into force. The IUA established that only 20 percent of the Greater Sunrise fields fall in the JPDA and allots 80 percent of the Greater Sunrise fields to Australia. Under IUA, East Timor would have received only around 18 percent of revenues from Sunrise fields. CMATS splits the revenue from the Sunrise fields 50-50 and implements a gag rule that prevents Australia and East Timor from discussing their disputed maritime boundary.
Feb. 2013	As of this month, CMATS allows for unilateral suspension of the agreement if Sunrise fields not developed.
April 2013	East Timor files for arbitration, alleging that Australia engaged in espionage during negotiations for CMATS, making the treaty invalid. Australia will not confirm or deny the allegations, but has said the accusation is not new.
2024	East Timor largest producing field, Bayu Undan, expected to run dry.

Sources: Australia Legal Information Institute, La'o Hamutuk, Australian government websites, East Timor government, United Nations website, International Tribunal of the Law of the Sea website, and Woodside Petroleum.

(Reporting by Rebekah Kebede; Editing by Ed Davies)