

TEMPO SEMANAL

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ARE THERE OBSTACLES TO A PIPELINE FROM SUNRISE TO THE SHORES OF TIMOR-LESTE?

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The Author of the article who was involved in a company which get a contract from AMP government.

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Synthesis:

In the last 6 years there has been no indication that the Sunrise gas will ever come to the shores of Timor-Leste. Nevertheless, a great amount of money has been spent for the preparations, such as: the bathymetric survey; the AUV survey; a geotechnical and geophysical survey at Beasu; Environmental Impact Assessments for the LNG plant, for a refinery and for a Supply Base; engineering design for a refinery, for the LNG plant, for a supply base, for ports, for a four lane toll road from Suai to Vikeke, for the rehabilitation of Suai airport, etc. The total cost for these mega projects at this early stage is already \$100 million.

Further to all these massive preparations for the Tasi Mane project, Mr. Alfredo Pires in the course of the last 6 years made repeated statements in the national and international media, arguing that the pipeline must come to Timor-Leste because Australia already has one, from Bayu Undan to Darwin and that as a consequence the country needed to conduct pipeline feasibility studies such as the Bathymetric and AUV Surveys, but also studies about an LNG plant, supply base, refinery and four lane toll road which are an integral part of the Tasi Mane project.

Controversy:

A few months before the potential deadline to terminate the CMATS Treaty (February 23, 2013), Mr. Pires loudly announced to the press that Timor-Leste was willing to terminate the treaty because it did not benefit the country. Concurrently, an American lawyer hired by Mr. Alfredo Pires, Mr. Pierre Prosper, declared in Canberra in mid-October of last year that "East Timor is mulling leaving the treaty when it expires in February next year", that "Timor could easily find a new partner that would be willing to have a pipeline to come through" and that "up in the northern part of Asia there is a big country there that I am sure would be very interested in an opportunity to have some gas."

Just before February 23, Mr. Alfredo Pires made a new statement in the local media, to the effect that "CMATS would be continued to defend (the) national interest". These dual statements, both in favor and against CMATS, reveal a definite ambiguity in Mr. Alfredo's mind, and his contradictions inhibit public understanding. Some days Mr. Alfredo says one thing and some days the opposite, which tell of a lack of consistency, in conjunction with a very poor vision and an unclear understanding of the subject.

At the end of February, Mr. Alfredo Pires again told the media that the pipeline to Timor-Leste still faced some "minor problems", thus explaining the delays.

Why not first solve these "minor problems" with Australia prior to making statements and spending billions of dollars for pipeline infrastructure? Such a silly behavior demonstrates an authentic lack of capacity, serious infantilism and an adventurous mindset on the part of those in charge. Last February, the Energy Minister from Thailand came to Timor-Lest to sign an MOU with Timor GAP for a Condensate Splitter Plant in Betano. Condensate reserves at Bayu Undan are estimated to last only for another 4 years or less, and then they will be exhausted. Therefore, from which source are the condensates needed to feed the plant expected to come from? Here we see again unwise spending of money. The root cause of this disaster is lack of professional reasoning.

What are the obstacles to a pipeline to Timor-Leste?

Prior to discussing this issue, let us first get acquainted with and understand the Treaties or Agreements that were signed between the First Constitutional Government of Timor-Leste and Australia.

If there are still delays in bringing the pipeline to Timor-Leste, it seems obvious that there is something yet to resolve or still missing. No doubt Timor-Leste and Australia have not reached yet a final agreement.

What are the missing points and the differences that cause the deadlock?

Timor-Leste is located between Northern Australia, Maluku, and the eastern part of Nusa Tenggara Timur. The land mass is close to 15,000 km², the twelve mile territorial sea extends over 16,000 km² and the Exclusive Economic Zone over 82,000 km², of which 35,000 lie within the JPDA. The known offshore oil and gas reserves are all located offshore the southern coast: Bayu Undan, Kitan, and Sunrise. To uphold Timor-Leste's sovereign jurisdiction over maritime waters and mineral resources, the First Constitutional Government led by Mr. Mari Alkatiri signed with his Australian counterpart the following agreements:

i. Timor Sea Treaty- Timor-Leste's Prime Minister Mari Alkatiri signed with his Australian counterpart John Howard this treaty which devolves 90% of the resources in the JPDA to Timor-Leste and 10% to Australia.

ii. Unitisation of the Sunrise and Troubadour Fields- signed in Dili, on March 6, 2006. Entered into force February 23, 2007 *[sic -- this was actually signed on 6 March 2003. -- LH]*

Content encompasses:

- Annex 1: Delineation of Unit Area and Unit Reservoirs;
 - Attachment 1: Map showing outline of the Unit and outline of the unit reservoirs;
 - Attachment 2: Geophysical Logs of the Sunset -1 Well
- Annex 2. Legislation applicable in the Unit Area as referred to in Articles 19,20 and 21.
- Annex 3. Petroleum valuation Principles
- Annex 4. Dispute Resolution Procedure
- Annex 5. Expert Determination Procedure.

Article 7: Apportionment of Unit Petroleum

Production of Petroleum from Unit Reservoirs shall be apportioned between the JPDA and Australia according to the Apportionment Ratio 20.1 :79.9 with 20.1 % apportioned to the JPDA and 79.9% apportioned to Australia.

iii. Certain Maritime Arrangements in the Timor Sea (CMATS)

Signed in Sydney on January 12, 2006, entered into force February 23, 2007

The CMATS treaty outlines Greater Sunrise profit sharing of 50% for each government despite the apportionment ratio of 20.1 : 79.9 with 20.1 apportioned to the JPDA and 79.9% to Australia.

Article 12: period of this Treaty

This Treaty shall remain in force until the date 50 years after its entry into force, or until the date five years after exploitation of the Unit Areas ceases.

Having fully understood the meaning of the Sunrise and Troubadour Unitisation Treaty which is clearly described in 25 pages and CMATS in 19 pages, we can make the following deductions:

1. Regarding the Sunrise pipeline to Timor-Leste, according to article 7 of the Sunrise and Troubadour Unitisation Agreement, only 20% of Sunrise falls into the JPDA while 80% belongs to Australia. Therefore it will be quite difficult for Australia to concede its rights to fully satisfy Mr. Alfredo's demands over the pipeline, beside other technical and commercial problems. Mr. Alfredo's threats to exit the CMATS treaty do not overly worry Australia at any given time.
2. Reading carefully the Unitisation Agreement and CMATS Treaty, there is no legal ground for East Timor to claim 100% of Sunrise unless all treaties were nullified a new claim was made through the International Court of Justice with the long subsequent wait for the Court decision. It would take a very long time for the Court to reach a final decision, with no guarantee whatsoever of any improvement to Timor-Leste's future income.

Altering the south lateral lines close to Sunrise is not as simple as some people think. Such an ambitious endeavor might be quite understandable for the country but also plainly unrealistic and un-pragmatic due to the fact that these lines already obey the rule of equidistance according to UNCLOS. Anyone could easily check these lines and understand the existing boundaries, and quickly draw the conclusion that it was the law of equidistance that determined that 20% of Sunrise only fell inside the JPDA.

3. If Mr. Alfredo is in a hurry for the pipeline to come to Timor-Leste, he is entitled to 20% of Sunrise, according to the Unitisation Agreement. This means that of the overall 5.13 tcf of gas, his 20% share is 1.26 tcf; likewise, 20% of 226 million barrels of condensate corresponds to 45.2 million. With 1.26 tcf of gas only there is no economic viability for the pipeline. Therefore all investment for the Taci Mane Project becomes just a –disaster, a waste of money characterized by unwise and irresponsible actions.

Economic value of Greater Sunrise

Alkatiri and Horta had struck a good deal with Australia regarding Bayu Undan with Timor-Leste entitled to 90% of the resource. Bayu Undan currently generates an income in the range of \$150 to \$200 million monthly. Total current savings are now \$ 12 billion in the Reserve Bank of America. Specifically for Greater Sunrise, even though through the Unitisation agreement Timor-Leste gets 20% only, the profit sharing is 50% between the two countries. This was an outstanding and remarkable achievement for Timor-Leste negotiators.

If Mr. Alfredo were smart, he would have grabbed the golden opportunity of exploring all possible means of obtaining additional income for Timor-Leste during these last 6 years instead of creating unnecessary disputes and conflicts, while seeking a 100% ownership of Sunrise.

There are fascinating Portuguese adages that say: "quem tudo quer tudo perde" and "mais vale um passaro na mão do que dois a voar", or in English: "If you want all you lose all" and "better a bird in your hand than two flying in the air".

Similarly, better have 50% of the Sunrise revenue now than 100% in an uncertain future. In finance, better have \$10 dollar today than \$1,000 in ten years.

Estimates at Sunrise are: gas 5.13 tcf and condensate 226 millions barrels.

Optimistically, the reserve could be worth \$50 billion in total, about 55% of which will be paid as tax and royalties to the two government (\$27.5 billion), 35% will go to production and investment costs (\$17.5 billion) and 10% will be profit for the operators (\$5 billion).

Each country will be entitled to about \$13.75 billion, based on Article 5: Division of Revenues from the Unit Area in the CMATS treaty.

If I, Mauboc, were in Mr. Alfredo's position, I would be quite happy to receive a 50% share revenue. In addition I would ask Woodside and its partners for the following support to Timor-Leste's development:

- I. The Sunrise Consortium would be invited to establish their headquarters in Timor-Leste, thus allowing for extra tax revenue;
- II. Woodside would be invited to support training and offer scholarships for 1,000 Timorese to specialize in various industries, at low, medium and high levels, from welding to engineering;
- III. Supplies for Sunrise would be delivered as much as possible from Timor-Leste, using Baukau airport for airplanes and helicopters and upgrading the port of Com for boats and ships;
- IV. Woodside and partners would support the delivery of cheap gas to Timor-Leste for at least 25 years. Cheap energy and electricity will trigger the development of lots of industries to come and will foster job creation; population will stop cutting trees for fire, the environment would be protected and turn green again, inviting visitors to visit Timor-Leste and its beautiful landscapes.

Why am I against Mr. Alfredo mega projects?

Is it because I don't like Alfredo or vice-versa? Is it because I received some bribe from Woodside? Because I am anti-pipeline? Or anti-supply base? Or anti-refinery? Or anti-toll road? Or because I am resentful of not getting any project from Timor Gap for myself?

Rationale :

1. The Taci Mane Project has direct links with the Sunrise pipeline to Timor-Leste. To materialize the pipeline to Timor-Leste, Australia and Woodside must first endorse and support the project. Otherwise the pipeline obviously won't come. Australia and Timor-Leste have not yet reached a settlement for the pipeline. Why did Mr. Alfredo already spend multi-million dollars? What happens if the pipeline at the end does not come? Who will be responsible for all the losses?
2. Timor-Leste is a small country with a small population and access to limited markets. The Suai Supply Base would be the biggest port in South East Asia, bigger than the ports of Surabaya, Jakarta, Singapore, Melbourne and Sydney. Does it make any sense to build such a huge port? Where is the market? Why does Mr. Alfredo have such out of proportion ambition in spending billions on such a port?
3. We are in the second decade of the 21st century. Our neighbors Indonesia, Australia, Singapore and Malaysia all have had oil refineries since decades ago. Besides, Timor-Leste's oil reserves are limited. Is the Timor-Leste oil refinery going to steal markets from neighboring countries? If not why have such a stupid and crazy plan? Where are the raw materials for the Condensate Splitter, considering that the Bayu Undan condensates will be exhausted in four years or less?
4. The four lane toll road on the South Coast, what is it for? Bearing in mind that the road's function is to serve the people, and the majority of the population is living in the North, why then build the road in the South? Not many people live close to the new proposed road, due to a lack of clean water and mosquito infestation, a tough place to live! How much will the new road cost? How long will it take to complete? Is the new toll road a top priority to eradicate poverty and hunger in the short term?

How and where to use the Taci Mane budget?

- i. The Taci Mane budget should be utilized to fix roads in Dili; open a new road from Mataduro to Komoro to avoid traffic jams on the Komoro river bridge; build national roads links from Dili to Lospalos; from Dili to Batugade in first phase; second phase Dili-Same; Dili -Ermera; Baukau-Vikeke; Maliana-Suai; intersection Flecha to Ainaro then to Suai.
- ii. The Taci Mane budget should help build a reasonable extension to the existing port in Dili in order to facilitate the unloading of imported goods; another port in Betano or close by where nature offers natural protection while not requiring breakwaters, to facilitate the transportation of fuel for the power stations and heavy equipment for other industries.

My opposing keys concerns:

- a. Spending money for a pipeline without any previous agreement with Australia; the pipeline is still fraught with uncertainty which will need to be determined in a very short time;
- b. Already 6 years of negotiation without any positive result; this means that Australia does not support the pipeline with its share of 80%;
- c. without Australia's consent the pipeline to Timor-Leste will never happen;
- d. The Supply Base with its bizarre sizing is uneconomic and is a waste of money; and
- e. The Petroleum Fund is the product of 24 years of a popular struggle that devastated many lives and caused a lot of suffering, tears and bloodshed. Therefore every penny must be used wisely and economically with the only purpose of directly benefiting the poor people in the villages.

Conclusion:

1. Mr. Alfredo has deceived himself and the public over a pipeline that did not happen yet. He should have reached a settlement with Australia first before spending any money;
2. The Taci Mane Project is an imaginary project that absorbs a lot of state finances. Its impact will not bring any economic growth or employment generation in the long run;
3. Mr. Alfredo has proven his total failure on the Sunrise pipeline. Therefore, he must voluntarily resign and be replaced.

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