

# Slugcatcher and the new dawn for Sunrise

IT'S EASY to think that after 44 years a way has been found to develop the stalled Sunrise gas project off the coast of East Timor but Slugcatcher reckons there are a two more steps to take, one quite easy the other quite hard.



The easy step is for Woodside Petroleum to sell its 33.44% stake in the gas fields in the same way ConocoPhillips and Shell have sold their respective interests in Sunrise over the past two months to the government of East Timor.

The hard step is for the government of East Timor to prove that its plans for an LNG development on its coast is a commercially viable proposition given the engineering challenges and the funding requirement.

Until recently it seemed unlikely that Woodside would quit Sunrise which has occupied a place in its project-design department for decades while never actually moving off the drawing board because of the engineering challenges and political impediments.

Everything started to change for Woodside when Conoco accepted a US\$350 million offer from East Timor for its 30% stake in the project with Shell's decision to take US\$300 million for its 25.56% effectively isolating Woodside.

Rather than arguing with commercial interests over its political objectives East Timor can now dictate what happens at Sunrise thanks to its majority ownership position of the project, government control of approval and design, and abundant international goodwill.

If East Timor has not already made an offer to buy out Woodside then it's a dead-certainty that one is on the way because it's fairly obvious that a drive is underway to clean the Sunrise slate and bring in new development partners.

China, and its desire to exert influence throughout the Indian-Pacific region, is the obvious candidate for a deal with East Timor, securing a future supply of LNG while embedding itself on an island which is part of the Indonesian Archipelago.

Speculating about a deal between China and East Timor is getting ahead of the game but it is also one of the more interesting potential moves because of the dark history of Chinese influence in the region.

Long before China's possible entry into the Sunrise question there is the need to finalise the ownership clean-up and that means asking Woodside whether it wants to remain a minority investor in the project, with the same question asked of Japan's Osaka Gas which has a 10% stake in Sunrise.

Osaka Gas could retain its small stake in Sunrise because it is only interested in securing a future supply of LNG, leaving construction and operational decisions to partners with expertise in those matters.

Woodside is in a very different position because for decades successive management teams at the Australian oil and gas leaders have argued that it doesn't make technical or commercial sense to pipe Sunrise gas to East Timor for onshore liquefaction.

The better options for the gas are for either a shallow-water pipeline for mainland Australia, rather than braving the deeper water to East Timor, or floating liquefaction using technology such as that being used on Shell's nearby Prelude LNG barge.

Australia and floating LNG are now off the agenda for the obvious reason that East Timor as the new, majority-owner, of Sunrise doesn't approve of either.

Woodside, given its past position, would find it tough to stick with Sunrise as a minority investor in a development that it has always opposed and which it reckons is too technically difficult and might not be profitable.

There is another reason for Woodside following Conoco and Shell out the door and that's the double-header of new LNG projects it is already championing, Scarborough and Browse.

The idea of being involved as a partner in a third LNG project at almost the same time as Browse and Scarborough is hard enough to accept, but the idea of Woodside being involved in a third LNG project that it has always argued is unviable is a step too far.

So, if Woodside's exit from Sunrise is merely a matter of time the more interesting questions are the ones of proving that an onshore LNG processing option in East Timor can work and finding partners with the money and technical expertise to make it happen.

No-one can say for certain that it can't be done, and there are ways to massaging the financial factors to ensure that the capital is provided with East Timor able to argue in places such as the World Bank that it needs cheap loans to develop its economy.

Exactly how the design and construction challenge are handled will be watched closely because it could be the making of East Timor, or it could be a monumental disaster.

Whatever the eventual outcome a process has finally started that will decide the next stage in the life of a long dormant gas project.