

Analysis: Timor-Leste one step closer to LNG ambitions but hurdles remain

Singapore — The Southeast Asian country of Timor-Leste is one step closer to its ambition of becoming an LNG exporter with the acquisition of ConocoPhillips' 30% interest in the Greater Sunrise Fields in the Timor Sea.

If successful, Timor-Leste, also known as East Timor, could be the newest LNG exporter in Southeast Asia after Indonesia, Malaysia and Brunei. Other LNG exporters in the region are Papua New Guinea and Australia.

But Timor-Leste faces several hurdles, including getting consensus from stakeholders in the Sunrise Joint Venture, mainly Australia's Woodside Energy, which is the operator with a 33.44% working interest. The partners may also have partner pre-emption rights in the ConocoPhillips transaction.

Woodside said it would engage with Timor-Leste following the ConocoPhillips deal and that "joint venture participants hold certain rights that may or may not be exercised in such circumstances."

"The new Timor Treaty, signed on 6 March 2018, has the potential to unlock Greater Sunrise provided that the underlying arrangements, including the new Greater Sunrise Production Sharing Contracts and agreed fiscal regime, are on terms and conditions equivalent to the existing arrangements and give the Sunrise Joint Venture, the fiscal and regulatory certainty necessary for a commercial development to proceed," Woodside said in an emailed statement.

It said until new PSC arrangements are in place, the joint venture will honor existing ones and maintain an office in Dili.

Timor-Leste has been in a deadlock with its partners over how Greater Sunrise will be developed. It has insisted on an onshore LNG terminal in the country to boost local industry, but its partners view an existing terminal in Australia as more commercially feasible.

RACING AGAINST TIME

Hopes for unlocking Greater Sunrise rose when Australia and Timor-Leste signed a treaty in March 2018, settling maritime disputes in the Timor Sea.

For Timor-Leste, time is running out. It is the world's second most oil dependent economy according to a World Bank paper, but the main source of revenues--the Bayu Undan field, is depleting rapidly.

Oil and gas accounts for 90% of government revenue, but observers warn that the Petroleum Fund could fall from \$16.2 billion in 2015 to \$10 billion by 2020 and to zero by 2026, according to S. Rajaratnam School of International Studies, a Singapore-based think tank.

"We believe the likely forward plan to monetize Sunrise is now through an onshore LNG development in Timor-Leste," Wood Mackenzie analyst David Low said. He said this would require a new liquefaction plant, a floating production storage and offloading vessel, or FPSO, to process condensate and a pipeline to shore.

"We believe the key onshore project risk is the construction of a greenfield LNG project in a country that has historically lacked large-scale infrastructure projects," Low said, adding that the next step is to get partners to agree on a plan.

EAST TIMOR MAKES FIRST MOVE FOR DEAL

On Monday, ConocoPhillips announced the sale of its stake to Timor-Leste for \$350 million, subject to parliamentary approval and partner pre-emption rights.

"Although we differ with the government on its proposed development plan for Sunrise, we recognize the importance of the field to the nation of Timor-Leste, and the sale of our interest to the government gives them a working interest in this important development," Matt Fox, executive vice president for strategy, exploration and technology at ConocoPhillips, said.

On Oct 2, they issued a joint statement saying the deal allows Timor-Leste to hold discussions with the other partners on developing the field. Timor-Leste's Special Representative, Xanana Gusmao, said the partners have always known its preference for a pipeline to Beaco on the South Coast of Timor-Leste.

ConocoPhillips' Australia-West President, Chris Wilson, said the deal followed an approach from the Timor-Leste government and the price of \$350 million recovers the costs it has incurred till date. The transaction covers ConocoPhillips' interest in Production Sharing Contracts 03-19 and 03-20 and Retention Leases NT/RL2 and NT/RL4 and will close in the first quarter of 2019.

Greater Sunrise comprises the Sunrise and Troubadour gas and condensate fields, and are located around 150 km southeast of Timor-Leste and 450 km northwest of Darwin in Australia's Northern Territory. Apart from Woodside and ConocoPhillips, Shell owns a 26.6% interest and Osaka Gas has 10%. -- Eric Yep, eric.yep@spglobal.com

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