

ASIA

Power Play: Tiny East Timor Bets Big on Oil and Gas

The wager risks putting a nation that won independence 16 years ago again at the mercy of foreign powers

By Jake Maxwell Watts | Rony Zakaria for *The Wall Street Journal*

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SUAI, East Timor—Sixteen years after East Timor secured its independence, the government in this tiny nation is gambling on a huge new refinery complex to help secure its economic future.

But there is a problem, according to critics of the plan: If the project falters, a country once colonized by Portugal and later occupied by Indonesia could run short of cash and again end up at the mercy of foreign interests, putting that hard-won independence at risk.

Officials say the project is crucial to the long-term economic survival of East Timor's 1.3 million people. They say it will bring in badly needed revenue and help the country stand apart from its larger neighbors, Australia and Indonesia, as well as China, and that they won't let the country become beholden to outside foreign influence.



People play on the beach in Dili, the capital of East Timor.

The project could buy East Timor—which occupies the eastern half of an island it shares with Indonesia—enough time to develop new businesses, including tourism and agriculture, said Alfredo Pires, the country's acting oil minister.

“We are not asking for charity or aid,” said Eddy Monis, who supervises a construction team on a new highway being built as part of the project. “We just want the right to be respected.”

But while new oil and gas fields are being explored, most of their reserves are unproven and critics say extracting them isn't economically viable.

East Timor's operational fields will run dry by 2022, according to commercial estimates, and the country has already received more than 90% of the revenue it is likely to get from them, according to analysts at local policy think tank La'o Hamutuk.

The oil-funded sovereign-wealth fund that pays for more than four-fifths of government expenditures will run out of cash within a decade unless alternative sources of funding are found or spending slashed, if estimated expenditures on the refinery project are factored in, according to the nonprofit think tank, whose donors include a Catholic charity in Germany and the government of Norway.



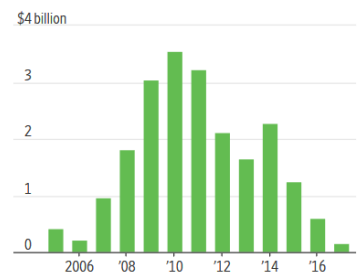
Officials say a plan to build a huge refinery complex is crucial to the long-term economic survival of East Timor's 1.3 million people. Above, a popular tourist attraction in the country.

Note: the following graph is reversed left-for-right and was corrected in the online version after La'o Hamutuk pointed this out to the writer.

Running Dry

East Timor's income from oil is dwindling, leaving the government looking for other ways to generate revenue.

Petroleum revenues



Source: East Timor Petroleum Fund

“Instead of spending billions of dollars on petroleum infrastructure which may never produce a significant return, the country should invest in its human resources,” said Charles Scheiner, a senior researcher at La’o Hamutuk.



A new highway is being built as part of the refinery project, but local farmers see the road as a luxury for rich people.

The project includes an oil refinery and a processing plant for liquefied natural gas, as well as the

highway, an airport and an LNG pipeline from the Greater Sunrise field offshore, which is seen as the most economically viable field to develop and is the largest proven untapped resource. The construction is spread out along the country’s southern coast.

The airport in Suai, a city of 20,000 people, is already open and capable of receiving 200-seat jetliners; it was built by an Indonesian firm. The first 30 kilometers of the highway, built by Chinese state contractor China Overseas Engineering Group, is almost complete. Timorese workmen are touching up the final details, overseen by Chinese supervisors. The government has funded the projects without taking on significant debt, and La’o Hamutuk estimates it has spent more than \$300 million.

The construction stands out in the rural landscape, where many people still live in wood and thatch houses. The airport handles only a few small propeller passenger planes each day. The terminal building hasn’t opened yet, and nearby villagers who were relocated and promised jobs when they gave up their land remain unemployed.

Most residents of the area are subsistence farmers who see the four-lane road as a luxury for rich people. Few own trucks or cars. Joao Gusmao, a local village chief, said residents, including pregnant women, have to cross the highway to tend their crops.



A new airport in Suai capable of receiving 200-seat jetliners was built by an Indonesian firm.

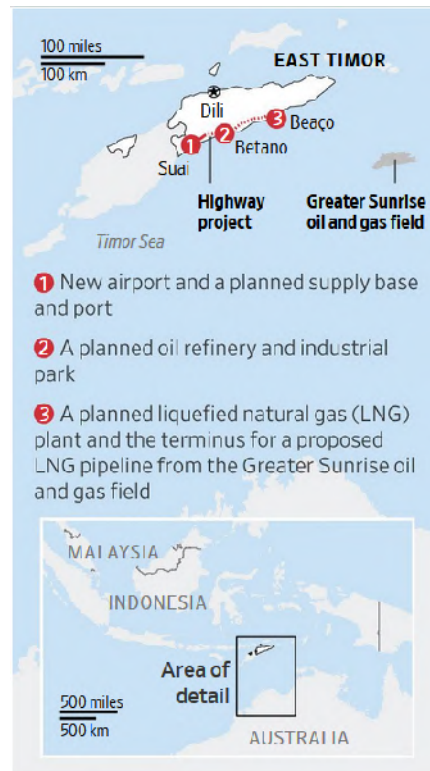
“As a village chief, I’m not against development,” he said. “But the kind of development must not abandon the people.”

The next step will involve even greater expenditures. On Oct. 1, the Timorese government agreed to buy a 30% stake in the Greater Sunrise field

from ConocoPhillips for \$350 million. It will still need to negotiate with three other joint-venture partners to persuade them to pipe the gas to East Timor—and put up their share of extraction costs.

But there are doubts over how much oil and gas East Timor can squeeze from the surrounding oceans. And the joint-venture partners, which are international oil companies, have scoffed at the viability of pumping gas to the new processing facilities in East Timor instead of existing ones in Australia, with which East Timor shares revenue rights to the field.

If the government nonetheless goes ahead and builds the refinery and the LNG plant, the costs will rise far higher. The government hopes that private companies will step in to help pay for



Source: TIMOR GAP



Locals sell fruits and vegetables in Dili, above. Below, people gather for the first Mass at a new church in Zumalai.



the projects, but critics worry that East Timor may end up having to take on significant debt to complete them.

The government dismisses skepticism. Officials say new oil and gas fields, including Greater Sunrise and other reserves, could be worth up to \$370 billion over the next 50 years. East Timor's operational oil and gas fields have earned the country \$22 billion over the past 14 years.

"There is a continuing effort to try to find more resources and they may not always coincide with the production of the declining field, but you shouldn't lose hope," said Francisco Monteiro, chief executive of Timor Gap, the national oil company.

Many East Timorese say the refinery project is a symbol of their right to self-determination after hundreds of years of colonization. Indonesia's army burned settlements across the country to the ground when it left in 1999 after the international community pressured Jakarta into allowing a referendum on independence.

Mr. Monis, the construction supervisor, and others pointed to spots where oil still bubbles up from the ground through spigots drilled by long-gone prospectors. Natural gas also wafts up from the ground. In his backyard, Mr. Monis lit one of these "seeps," allowing it to burn with a small blue flame.

Mr. Pires, the acting oil minister, said that once the refinery complex begins operating, private companies will come to the area to create new businesses. Proposals have already been considered for a cruise-ship port, a slaughterhouse, and a refueling depot, he said.

"Give us a chance," said Mr. Pires. "We are building a country from scratch."

—Robb Stewart in Melbourne contributed to this article.



Locals wait for buses in Dili.