

Public Meeting

The Social and Economic Effects of the Tasi Mane Project

Juvinal Dias
 Researcher on Economics and Natural Resources
 La'o Hamutuk
 Timor-Leste Institute for Development Monitoring
 and Analysis

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Tasi Mane Petroleum Infrastructure Project

- TL began working on the Tasi Mane petroleum corridor in 2010.
- The project is in the 2011-2030 Strategic Development Plan.
- According to MPRM, the project will cost up to \$14-\$15 billion.

"To bring petroleum development to our shores and provide economic profit from petroleum industry activities..."
 (SDP)



Social and Environmental Impacts

- Takes over farming land
- Threatens agricultural productivity
- Many people lose their land, must find new sources of income
- About 230 hectares for refinery
- 1300 hectares for SSB and Nova Suai
- Potential for resistance and social conflict in the community
- Pollution of water, land, sea and air
- Threatens biodiversity (TL is part of Wallacea Region of SE Asia)
- Threatens cultural values of the community

Components of the TMP



Suai Supply Base

- **RDTL just signed a contract for \$719,212,000 with Hyundai Engineering and Construction to build the SSB.**
- **This is more than the state has spent on education from 2002 until today.**
- **There are more than \$50 million in other contracts.**

SUAI SUPPLY BASE (SSB) CONTRACT SIGNED *From TimorGAP Newsletter, September 2015*

TIMOR GAP has been mandated to, on behalf of the Ministry of Petroleum and Mineral Resources / Government, manage and administer the day to day activities for the implementation of three clusters of development situated along 155 km of Timor-Leste's southern coast. These projects are called "Tasi Mane" and includes three clusters: Suai Supply Base, Betano Refinery, Beapo LNG Plant, plus additional infrastructures, such as Airport, Highway and New Cities to resettle the affected Communities.

On 23rd June 2015 the Korea's Hyundai Engineering & Construction was awarded with \$719 million equivalent contract by Timor-Leste's Ministry of Petroleum and Minerals Resources (MPRM) for the design build of the Suai Supply Base Project located on the southern coast of Timor-Leste.

HYUNDAI Hyundai Engineering and Construction Co., Ltd is a major construction company in South Korea which has carried out projects not only in Korea but around the world.

The National Oil Company (TIMOR GAP, E.P.) through Exploration & Production and Supply Base Unit conducted the SSB Contract Signing Ceremony on 27th of August, 2015. The Signing Ceremony held in the Conference Room in the Office of H.E. Minister of Mentor, Planning and Strategic Investment of RDTL, Mr. Xanana Gusmão, started with a brief introduction of the Process of Procurement by Mr. Aniceto Guterres, Director of NPC, followed by a brief introduction of the Project by Mr. Vicente Lacerda, Director of E&P and SB Unit of TIMOR GAP.

The Ceremony counts with the participation of H.E. Minister of MPIE, Mr. Xanana Gusmão, H.E. Minister of MPRM, Mr. Alfredo Pires and the President & CEO of Hyundai Engineering & Construction (HDEC), Mr. Soo Hyun Jung, President & CEO of TIMOR GAP, Mr. Francisco Monteiro, E&P and SB Unit's Director, Mr. Vicente Lacerda among .



H.E. Minister of MPIE, Mr. Xanana Gusmão, H.E. Minister of MPRM, Mr. Alfredo Pires, President & CEO of Hyundai Engineering & Construction (HDEC) and his Team, Mr. Soo Hyun Jung, President & CEO of TIMOR GAP, Mr. Francisco Monteiro, E&P and SB Unit's Director, Mr. Vicente Lacerda, H.E. Korean Ambassador Mr. Yoon Pye, Director of the OCR, Deputy President & Builder, Confucius Institute, and other officials.

The Korean Government has Blacklisted this Company

KOREA JOONGANG DAILY

Agency bans 21 builders from business with gov't

Apr 26, 2014

The Public Procurement Service (PPS) yesterday banned Korea's largest builder, Hyundai Engineering and Construction, and 20 other builders from receiving government contracts as punishment for collusion.

Collusion penalties

• **Two-year bans**

Daelim Industrial, Daewoo E&C, Doosan E&C, GS E&C, Hanyang Corp., Hyundai Development Company, Hyundai E&C, Kolon Global,

Contracts already signed: \$837 million

Award date	Vendor name	Procurement document (follow links to get vendor or contract details from the Procurement Portal)	Award amount
21-May-2010	TOKE OIL & GAS SA	Offshore Geovial Investigation and Bathymetric Survey Services in Three (3) Inshore Areas at Suai and Beava	\$1,289,141
19-Nov-2010	TOKE OIL & GAS SA	Contract No. STA-SE/09-001/2010 Provision of Metocean and Ground Investigation Survey nearshore and offshore Timor-Leste	\$6,839,517
16-Dec-2010	PT. BENKULLEN ATTRA CEMERLANG	Suairail design planning for southern coast of Timor-Leste (Districts of Suai, Manufahi and Viqueque) (No. 005/MPS/MD/SDPS/0/2010)	\$1,181,046
16-Dec-2010	PT. DSI MANANIR SEHAJIRA	Suairail Design Planning for Southern Coast of Timor-Leste, (Districts of Suai, Manufahi and Viqueque) (No. 004/MPS/MD/SDPS/0/2010)	\$900,000
17-Dec-2010	EASTLOG HOLDING PTE LTD (Inscoded on the portal as Timor-Leste's embassy in China)	Provision of the Commercial and Financial Feasibility Study, Detail Design with complete Engineering of Suai SUPPLY (No. 007-MPS/08/0/2010) See Government Resolution No. 26/2011 (Also Portuguese) later appointing Eastlog as Supply Base Technical Consultant.	\$1,500,000
22-Dec-2010	EASTLOG HOLDING PTE LTD	Provision of the commercial and financial feasibility study, detail design with complete engineering of Suai Supply Base (Contract no. 007-MPS/08/0/2010)	\$1,900,000
17-Nov-2011	WORLDVIEW ENGINEERING PTE LIMITED	Environmental Impact Assessment/Study (EIA) Study on Tasi Mane (Consultant for Suai, Betano, Same, and Beapo - Viqueque) (Contract No. RDTL-12000011)	\$1,079,876
10-Jan-2013 (amended 9-May-2013)	EASTLOG HOLDING PTE LTD	Consultancy services for the preparation and execution of an international public tender aimed at selecting a qualified Design and Build Contractor for the Suai Supply Base Project and subsequent supervision of the Project's construction phase (Contract No. 01/MPRM/1/2011)	\$6,958,348
8-Nov-2013	PT. WASKITA KARYA (PERSERO)	Upgrading Suai Airport (ICR/035/10AP-13)	\$67,681,130
2-Jul-2014	PT. WASKITA KARYA (PERSERO)	Upgrading of the Existing Suai Airport (ICR/035/10AP-2013)	\$19,000,000
28-Sep-2014	Juridena Perunding Zaiba Sdn Bhd	Consulting Services for the Upgrading of the Existing Suai Airport	\$1,000,000
15-Nov-2014	Banco Nacional Comercio de Timor-Leste	Payments for land acquisition for Suai Supply Base, first phase (two contracts)	\$4,874,348
15-Nov-2014	Banco Nacional Comercio de Timor-Leste	Payments for land acquisition for Suai Airport, first phase (three contracts)	\$2,785,108
29-May-2015	Juridena Perunding Zaiba Sdn Bhd	Consulting Services - Construction Supervision for the Upgrading of the Existing Suai Airport	\$784,616
12-Jun-2015	Hyundai Engineering & Construction	Design and Construction of the Suai Supply Base (ICR/012/MPRM-2011)	\$719,212,000
TOTAL			\$836,600,720

Economic Predictions

- MPRM assumes that Bayu-Undan (BU) spends \$500 million each year on goods and services; half of this will be for goods.
- SSB can mark-up goods that it handles by perhaps 10%.
- Therefore, if MPRM's assumptions are correct, the SSB could take in \$25m per year from a large project like Bayu-Undan.
- If 2/3 of this goes for taxes, operational and personnel costs, that leaves \$8m/year for profit and to repay capital investment.

Continued...

- If BU uses SSB for five more years (it will run dry in 2020), this is \$40m net revenue (leaving \$679 to recover from other fields).
- Another field about the size of BU, operating for 20 years, will produce \$160m in net revenue.
- Therefore, SSB needs at least five new fields the size of Bayu-Undan just to break even.

Refinery in Betano

- TimorGAP wants to build a 'small' refinery which can process 30,000 barrels of crude oil (condensate) per day.
- The design was originally based on the production of Bayu-Undan, but now expects crude to come from Greater Sunrise.
- Investment cost: TimorGAP estimates \$1 billion, but La'o Hamutuk's research shows \$2 billion or more.

How much will be sold to the local market?

- TL plans to sell 30% of refinery products in the country and export 70% to international markets.
- In 2015, Government allocated \$92m for EDTL fuel and \$12m to fuel state vehicles.
- The country imported \$160m worth of fuel in 2014.

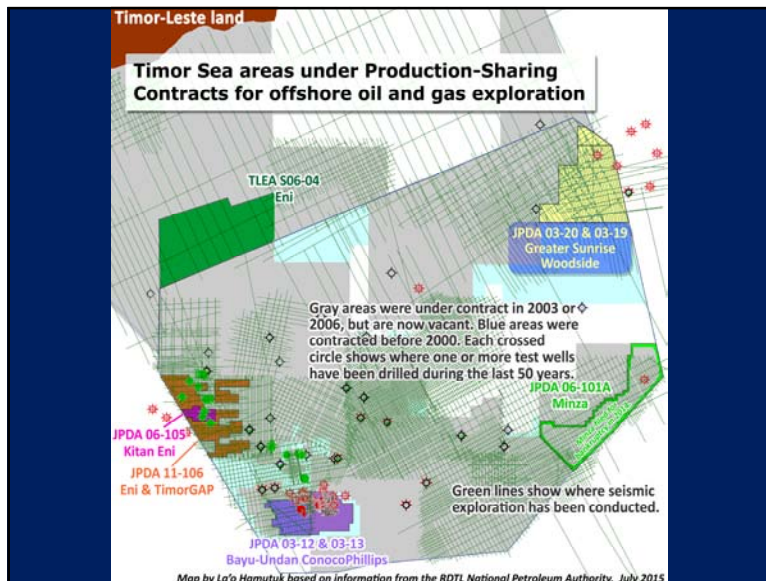
Table 4: Merchandise Import of Major commodities by country of Origin (2013)

HS Code	Goods Description	Country Of Origin	Value (\$US)
27101931	DIESEL	Malaysia	62,678,534
27101931		Taiwan	22,067,945
27101931		Singapore	15,230,379
27101931		HongKong	8,806,133
27101931		Indonesia	5,656,542
Total 27101931			114,439,533
27101131	Motor Spirt	Indonesia	13,720,442
27101131		Taiwan	8,002,652
27101131		Australia	71
Total 27101131			21,723,164
HS Code	Goods Description	Country Of Origin	Value (\$US)
27101921	Jet Fuel	Australia	1,721,298
27101921		Singapore	592,548
27101921		United Kingdom	144,324
27101921		France	1,774
27101921		Indonesia	40
Total 27101921			2,459,984



Petroleum in Timor-Leste

- Bayu-Undan will be empty by 2020.
- Future of Sunrise is uncertain.
- We could import from abroad, but cannot control prices
- In the past two decades, Kitan is the only new commercially valuable discovery.
- TL has not held a bidding round since 2006 because oil companies are not interested.



Challenges to get input crude

- Refinery market highly competitive. Refineries with good management, strategic location, and accessible logistics can be profitable.
- There may be no source of crude oil after Bayu-Undan is empty. Greater Sunrise's "situation" excludes it from planning
- TL could try to buy crude oil from projects in Australia or elsewhere.
- Other countries have their own refineries – can TL compete?

Where can TL sell its products? What are they worth?

Joint venture with PTT - Thailand

- PTT will sell TL refinery products to its markets.
- How will profits be divided between TimorGAP and PTT?
How much will TimorGAP pay to Timor-Leste?
- This will reduce “profit oil” taxes from Sunrise.
- If TimorGAP receives profit oil in kind, this will reduce state revenues which would have gone into the Petroleum Fund and state budget.

Without PTT

- TL’s products must compete with those from refineries in Australia, Indonesia, and Singapore.
- TL must clearly understand and explain the relationships between the refinery, LNG plant and supply base.

Continued...

- But TL will not be able to add value to its own condensate if the refining margin is too small.
 - In that case, the State Budget will have to subsidize capital or operating costs.
- If the project depends on Sunrise, the contract must ensure that TL can get our production share “in-kind.”
- Will Sunrise’s gas and oil go somewhere else?

Projections

- A typical refinery works on a refining margin of \$5-6 per barrel.
- High operational and capital costs will reduce profitability
- If:
 - Capital investment in the refinery is \$1 billion
 - It processes 30,000 barrels per day for 30 years
 - The refining margin (mark-up) is \$5/barrel
- Therefore \$3/barrel will pay for recovering capital investment, even with no interest or profit.
- If operating costs are more than \$2/barrel, the refinery will lose money.
- If the refinery need a larger margin, it will sell its products at higher than market prices. Should Timor-Leste subsidize them?

LNG Plant in Beaçu

- Totally depends on pipeline from Sunrise.
- Woodside has shelved the Sunrise project.
- TL recently awarded a \$3.8m contract to Foster Wheeler Energy from U.K. to prepare a preliminary design.
- TL does not have the capacity to finance this project – which could cost \$9 billion or more – by ourselves.
- Companies may be interested after Sunrise's future is certain and when T-LNG is approved.

Problems with the Tasi Mane project

- It makes TL more dependent on oil and gas, crowding out sustainable development sectors.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- Nearly all the money spent will go to foreign companies, providing hardly any local jobs or subcontracts.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- It will be a burden on our local economy.
- What if Sunrise gas doesn't come to Timor-Leste?

La'ó Hamutuk's Recommendations

- Postpone the Tasi Mane Project until it is certain that the Sunrise pipeline will come to TL.
- Do not keep working on TMP until new commercially viable oil/gas fields are discovered.
- TL must review the costs and benefits of TMP.
- If TMP is commercially viable, the private sector should invest its own money and share the risk.
- We should give more attention to other sectors to achieve sustainable and equitable development.

Obrigado

For more information, please go to:

- La'ó Hamutuk's website
<http://www.laohamutuk.org>
- La'ó Hamutuk's blog
<http://laohamutuk.blogspot.com/>

Timor-Leste Institute for Development Monitoring & Analysis

Rua Martires do Patria, Beborá, Díli, Timor-Leste
+670 77234330 (mobile) +670 3321040 (landline)
Email: info@laohamutuk.org