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ConocoPhillips Challenges Tax Reassessment Action In East Timor

By Joe Schneider and James Paton - 2012-07-12T03:41:55Z

ConocoPhillips, a U.S. oil and gas producer, challenged a new tax assessment by the government of [East Timor](#) that may add billions of dollars to the Asian nation's treasury.

ConocoPhillips and about a dozen other companies involved in gas production have been "aggressive" in the use of deductions to lower tax payments, said Pierre-Richard Prosper, a Los Angeles-based partner at Arent Fox who represents East Timor in the case. The Houston-based company sued after the government rejected the deductions, he said.

East Timor gets 90 percent of revenue from petroleum developments in the [Timor Sea](#) while [Australia](#) receives 10 percent, according to an agreement between the two countries after the Asian nation split from [Indonesia](#) in 2002. The Bayu- Undan field in the region, which is operated by [ConocoPhillips \(COP\)](#), may be worth \$15 billion to the 10-year-old country, according to Australian [government estimates](#).

"As far as we're concerned, we've paid the taxes that have been assessed," Robin Antrobus, a Perth-based spokesman for ConocoPhillips, said by phone today. "We have some disagreements with some of the assessments, not all, and we will pursue the remedies available to us."

Bayu-Undan is connected by pipeline to the Darwin liquefied natural-gas project in the Northern Territory, one of three LNG ventures operating in Australia.

The development is being followed by \$180 billion of additional LNG projects under construction in Australia to meet rising Asian demand.

Tax Audits

East Timor hasn't been able to enforce its [tax code](#) until recently and has been conducting an

audit of petroleum production for the past 12 to 18 months, Prosper said. The audit found deficiencies in a series of assessments on a range of operations, he said.

"It is a David and Goliath fight," Alfredo Pires, East Timor's Secretary of State for Natural Resources, said in a July 11 statement. The oil and gas companies owe "hundreds of millions, possibly billions" of dollars, he said.

No court dates have been set for the tax hearing, Prosper said. The government can press for back taxes owing and add additional penalties, according to the tax law, he said.

"I wouldn't want to put a specific number on it," he said, but "it's a significant amount of money."

The East Timorese government is examining the scope of offshore energy production and auditing existing projects such as the Bayu-Undan and reviewing new developments such as Sunrise.

Sunrise Dispute

[Woodside Petroleum Ltd., \(WPL\)](#) Australia's second-biggest oil producer and leader of the Sunrise project, has been in dispute with East Timor over how to develop the [gas field](#).

East Timor is pressing for the construction of a plant, while Woodside says it would be too expensive. Pipeline construction and an onshore processing plant would add about \$5 billion to the cost of the project, Woodside has said.

Costs to build gas developments are rising, with [BG Group Plc \(BG/\)](#) saying in May that gains in the Australian dollar, higher labor and material costs and increased regulatory expenses boosted the bill for its Curtis LNG project in Queensland state by 36 percent.

Prosper said the pipeline issue, and the tax dispute, are open to negotiations as East Timor seeks to establish itself as an economically stable neighbor for Australian.

"It would be one less country to worry about in an unstable region," he said. "We're using all the tools available."

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