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Maritime arrangements and Timor-Leste’s oil ploy

As Timor-Leste continues its dispute with Australia over oil and gas resources, the tiny nation risks blowing its budget on a giant white elephant.

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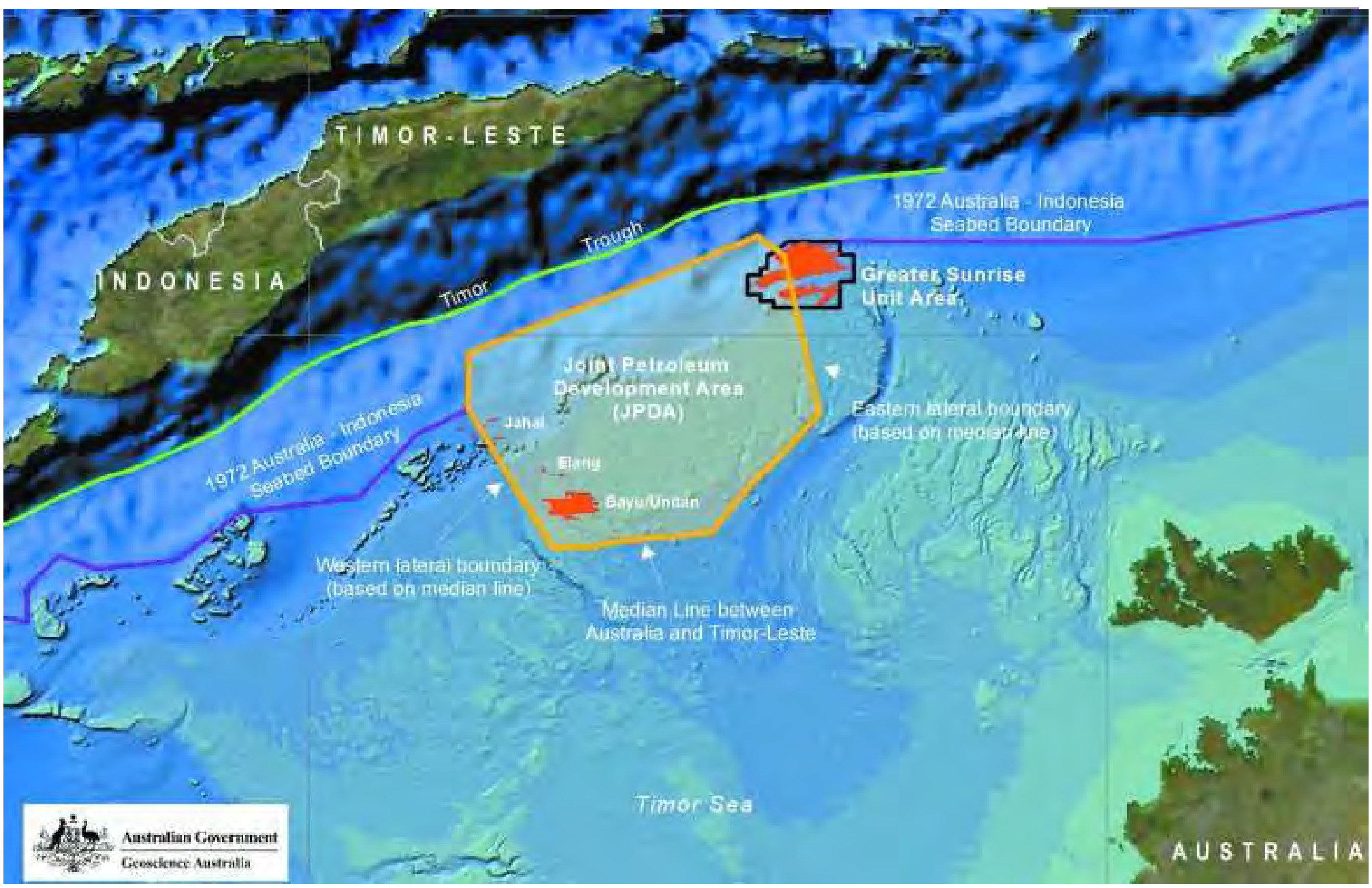

Maritime boundaries at the heart of the petroleum resources dispute between Timor-Leste and Australia. GEOSCIENCE AUSTRALIA / DFAT

The Timorese call it Tasi Mane, the Male Sea: the choppy and sometimes cyclone-swept waters lying between their island's mountainous south coast and distant Australia, in contrast to the placid Tasi Feto, or Female Sea, enclosed by the Indonesian archipelago on the north side.

Who owns the petroleum resources of Tasi Mane is now the subject of diplomatic and legal machismo in a dispute between Timor-Leste and its much larger neighbour. Australia is accused of spying, brinkmanship, oppressive legal tactics and resource robbery. Teams of eminent lawyers are arguing it out before arbitrators in The Hague.

Australia has certainly behaved shabbily towards the Timorese, and the Indonesians before them, about maritime boundaries. Readers will take with a grain of salt Foreign Minister Julie Bishop's concern, expressed in a recent letter to *The Saturday Paper*, that they "will have been left with the impression that Australia's Timor Sea policies are inconsistent with international law and unfair to Timor-Leste. This is not the case … We negotiated the Timor Sea treaties in good faith and remain committed to them."

But the response by Timor-Leste's senior independence leader Xanana Gusmão is unsatisfactory as well. It is misleading to say that Australia "has locked up an unfair share of the resources of the Timor Sea" through the provisional arrangements Bishop defends.

Supporters might ask themselves whether Timor-Leste's leaders aren't

They are referring to the 2006 treaty on "Certain Maritime Arrangements in the Timor Sea" in which Australia agreed to raise Timor-Leste's share of the Greater Sunrise gas field, from what would have been 18 per cent under the existing joint development zone set up during Timor's occupation by Indonesia, to 50 per cent – but on condition that claims on a permanent seabed boundary be set aside for 50 years.

It is misleading because it suggests that if Timor-Leste succeeds in annulling the 2006 treaty and then getting the seabed boundary set much further south, on the median line between the two coasts, this would bring all of Greater Sunrise into Timor-Leste's resources zone. There

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aren't any other major oil discoveries inside the contested zone.

In fact, as Bishop points out, 79.9 per cent of the Greater Sunrise reserve lies in what would remain Australia's zone, to the eastern side of the present joint development zone. Should a median-line boundary with Timor-Leste unravel the present Australia–Indonesia border – Canberra's deepest concern, according to Alexander Downer – this resource would go to Indonesia.

Whether Jakarta would continue with the 50:50 split is moot. Possibly the eastern boundary might be pivoted more to the south-east, to bring more of Greater Sunrise under Timorese control, but again this would depend on negotiations with Jakarta. Timor-Leste has held two rounds of maritime border talks with Indonesia in recent months, but it is not known if this possibility was raised.

Gusmão, who remains a power behind the scenes in new prime minister Rui Maria de Araújo's government as minister for planning and strategic investment, is acting as though Greater Sunrise will inevitably come under his government's direction, and is trying to stir Australian public opinion against Canberra's position.

He and his protégé, Petroleum Minister Alfredo Pires, are driving the wildly ambitious Tasi Mane scheme, premised on all the Greater Sunrise natural gas being delivered by undersea pipeline to the south coast of Timor. The $US5 billion scheme includes a liquefied natural gas plant at Beaco, a refinery-petrochemical complex at Betano, and an offshore oil base and industrial estate at Suai, with the three sites linked by a new fast road.

But the option of piping the gas to Timor across the nearly 3000-metre deep Timor Trench is opposed as risky by the Greater Sunrise partners: Perth-based Woodside Petroleum (with a 33.4 per cent interest) as operator, ConocoPhillips (30 per cent), Shell (26.6 per cent) and Osaka Gas (10 per cent). They have long indicated preference for a floating LNG plant anchored directly over the field. A third alternative is a longer pipeline, but through shallow water, to Darwin.

Timor-Leste's small state oil firm Timor Gás and Petróleo, known as Timor GAP, insists technical studies have affirmed the feasibility of the pipeline to Beaco. In 2008-09, United States offshore engineering firm Deep Gulf did a bathometric survey of the region, then in 2013 Dutch firm Fugro used a small robot submarine to make a high-resolution survey of the pipeline route. Timor GAP says these findings have been conveyed to Woodside.

However, the survey findings have not been published. Woodside declines to say whether it has been shown the survey results and whether they uphold the feasibility of a pipeline.

Marc Moszkowski, the senior Deep Gulf engineer who carried out the bathometric survey, said he was bound by client confidentiality not to disclose his report but would comment on the basis of information publicly revealed by others, including Timor GAP, about Tasi Mane.

Moszkowski said the 286-kilometre pipeline to Beaco would traverse a maximum depth in the Timor Trench of 2830 metres, with pressure requiring a very thick steel pipe. Such a heavy pipe can be laid, he said, but should it flood accidentally the pipe would break and fall, causing severe damage to the laying platform on the surface. Should such a deep pipeline fill with liquids, no existing compressor could clear it. In either case, the operator would have to buy and lay a new pipeline. The rugged sea bottom would also require supports for the pipeline, which no present underwater tool could handle at such depths.

The heaviest pipeline ever built is Blue Stream, a 60-centimetre pipeline at a depth of 2150 metres across the Black Sea from Russia to Turkey, Moszkowski points out. "The Sunrise pipeline would be deeper and thicker, weighing 75 per cent more," he said. "No such pipeline has ever been attempted anywhere in the world, and in such unforgiving terrain. In the absence of alternatives, such a pipeline would not be impossible to install, but given the existing alternatives it is certainly terribly risky."

The Deep Gulf engineer is also scathing about the economics of the on-land Tasi Mane projects. The Beaco location for the LNG plant is presently unprotected from harsh seas, has no power, no road access, no skilled labour, no industrial back-up, and would require huge excavations, while local villagers would be hard to relocate. The Suai supply base requires an unrealistically large number of ship visits to justify costs that could blow out to $2 billion or even $3 billion.

The potential waste has meanwhile been made more urgent by a squeeze on Timor-Leste's Petroleum Fund, a Norwegian-style sovereign wealth fund. From 2004 it has received Timor-Leste's 90 per cent share of tax revenues from the small-to-medium fields inside the joint development zone, principally ConocoPhillips's Bayu-Undan, which pipes its output to an LNG plant in Darwin.

Revenues into the fund peaked at $US3.72 billion in 2012. But production at Bayu-Undan has been declining since 2011 and is likely to end around 2020, while oil prices have fallen drastically from late 2014. The government now expects oil revenues to reach only $US834.1 million this year and $US718.7 million in 2016, a spokesman said.

In addition, the government decided in 2010-11 to diversify the Petroleum Fund's investments away from US dollar-denominated treasury bonds into other currencies and to put 40 per cent of funds into sharemarkets to seek higher yields. Now faltering share prices and a rising US dollar have hit the value of the Petroleum Fund. It stuck around $US16.8 billion from mid-2014 to mid-2015, then fell back to $US16.44 billion by September 30.

For its part, the government says the fund is still earning about $US500 million a year. "The investment strategy of the fund is a long-term strategy," the spokesman says.

Even so, the government has continued with high-spending budgets. Its budget for 2016 is $US1.56 billion, only slightly less than the current year's spend (Timor-Leste uses the US dollar as its currency), and financed by a drawdown from the Petroleum Fund of $US739 million as well as the fund's $US545 million estimated sustainable income.

Spending includes $US56.6 million for a start on Tasi Mane. In June, the government gave South Korea's Hyundai group a $US720 million contract to build a 3.2-kilometre seawall and other facilities for the Suai supply base, but a judicial audit body has halted the contract due to "noncompliance with basic standards in force in Timor-Leste", according to a report by the Portuguese news agency Lusa.

La'o Hamutuk, a well-respected NGO in Timor's capital Dili that questions Tasi Mane's economics, says a 27 per cent increase in infrastructure spending next year will be offset by cuts to health, education, the judicial system, veterans' pensions, the security forces and service, and agriculture.

As the World Bank points out in recent reports, few if any other developing countries have 10 times their annual budget in savings like Timor-Leste. Yet unless its government and Woodside soon converge on how to develop Greater Sunrise, those savings will quickly run out. "If current trends continue, oil and gas revenues will end around 2020 and the Petroleum Fund will be entirely spent five to eight years later," La'o Hamutuk said.

Many former supporters of Timor's independence struggle now cheer the new state in its legal battles with Australia. And perhaps Australia should concede the median-line boundary, not only to Timor-Leste but to Indonesia as well (it has already done so with fisheries). How much longer can this nation play it so ruthlessly over the resources of the region's indigenous peoples?

But supporters might ask themselves whether Timor-Leste's leaders aren't deluding their people about the benefits of winning their case; whether they aren't wasting resources needed to raise health, education and nutrition levels in a fast-growing population, now 1.2 million, by building white elephant facilities such as the Suai port that could need rescue by outside powers, maybe China. They could start by asking Dili why the pipeline survey results can't be made public.

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