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Under the Radar: East Timor's \$40 billion oil conundrum



by Global Risk Insights , January 28, 2017

East Timor and Australia have agreed to a new maritime border which would give East Timor control of a \$40 billion oil field. But not everyone is happy.

With the host of maritime disputes in the Pacific, it is encouraging to see efforts at reconciliation and compromise, as Australia and East Timor have announced their intention to create a new maritime border agreement in 2017. In the wake of [meetings](#) in Singapore, which the Permanent Court of Arbitration Conciliation Commission described as “productive” where both parties “reaffirmed their commitment to work in good faith,” an agreement is likely to emerge in September 2017.

The area of contention concerns the maritime border between Australia and East Timor in the Timor Sea. After its independence from Indonesia in 2002 – an event which was facilitated by Australian support – East Timor created the Joint Petroleum Development Area with Canberra, which created a profit sharing scheme for oil and gas extraction in the Timor Sea. After independence, East Timor had no permanent maritime border with Australia, yet this very area housed significant oil and gas resources. This agreement was hastily signed by East Timor, as the nascent nation desperately needed income sources.

In 2006 Australia and East Timor signed a temporary border treaty, which saw a 50:50 revenue sharing scheme and also delayed final border arbitration for 50 years. In recent years, there has been growing

discontent in East Timor over the terms of this treaty, which many Timorese see as an unfair agreement negotiated with a far stronger partner. Relations between the two countries hit a low point in 2013 after allegations emerged that Australia had bugged Timorese cabinet meetings during the 2006 negotiations.

East Timor's Prime Minister Rui Maria de Araujo summed up the island nation's feelings towards Australia in a 2015 interview, [stating](#) that "having [spying devices] as an advantage for you to negotiate something that is a matter of death and life for a small country, I think is – at least morally – a crime [sic]." The fact that East Timor has managed to agree on 98 percent of its borders with Indonesia – its former oppressor and genocidal overlord – with the remaining two percent to be finalized in 2017-2018, before reaching a deal with Australia shows how broken bilateral relations with Canberra have been.

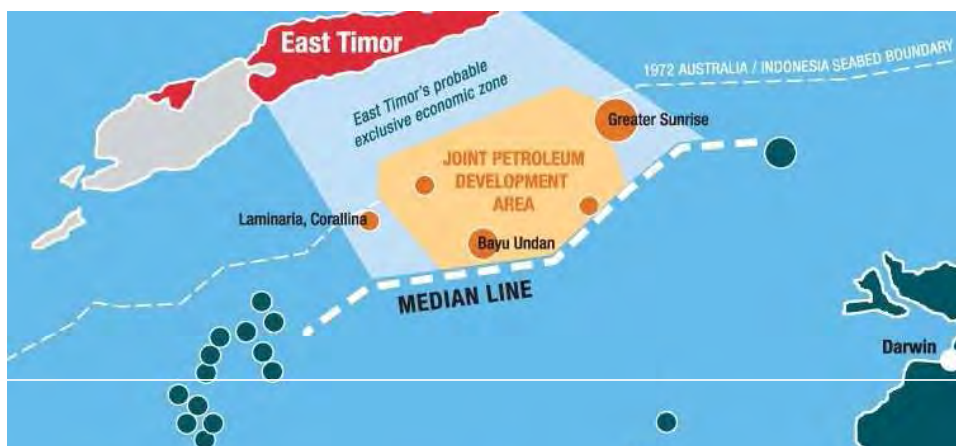
East Timor looking towards a new sunrise

At the heart of the longstanding dispute is the Greater Sunrise oil and gas field. Discovered by Woodside Petroleum in 1974, the field's five trillion cubic feet of gas and 225.9 million barrels of oil ([valued at \\$40 billion](#)) has remained stuck in political limbo and untapped. Woodside owns 33.44% of the field, with Phillips-Conoco controlling 30%, Shell 26.56% and Osaka Gas 10%. This group has sought to finally develop the field, yet East Timor's 2015 suit in the Hague scuppered those plans. Woodside is predicting a commodity price rally in 2019, and encouraged by improving bilateral ties, has called on Canberra and Dili to reach an agreement as soon as possible.



The core point of contention has been thus: Australia has argued its border extends along the continental shelf, whereas East Timor has called for the border to be halfway between the two countries, a move which would place the majority of the Greater Sunrise field within Timorese waters.

It is therefore encouraging that despite such animosity, both countries are making steady progress towards a permanent resolution in 2017. Having taken Australia to the Hague and invoking the United Nations Convention on the Law of the Sea (UNCLOS), both countries have decided to work together to enlarge East Timor's maritime territory in order to give it more access to the region's oil and gas resources. UNCLOS is a friend to small nations, yet has been challenged by countries like China, especially in the South China Sea.

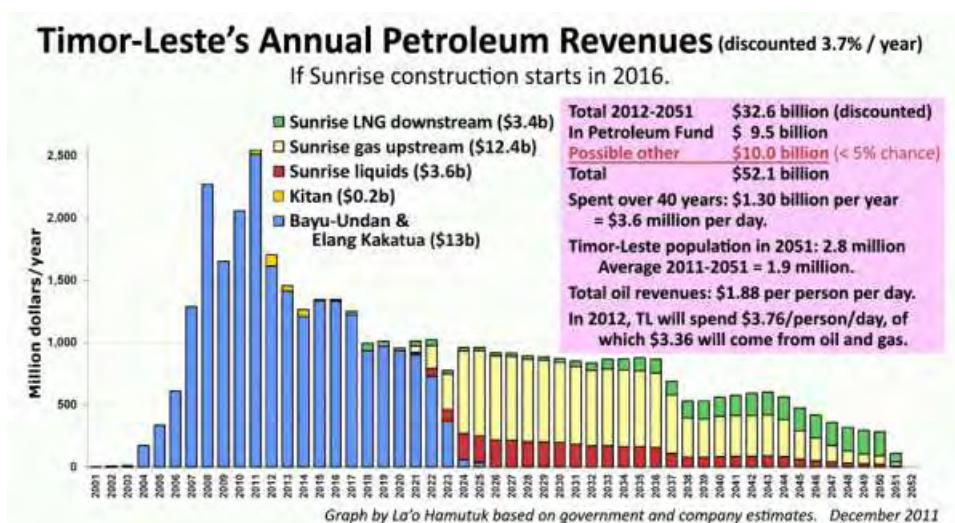




Australia and East Timor's commitment to working in good faith could offer an example for productive regional dispute resolution. Australia withdrew from the UNCLOS' compulsory dispute settlement procedures in 2002, yet it has managed to cooperate with UN organs to work on a solution with East Timor. Australia's reservations about UNCLOS are mirrored by China's resistance to outside mediation. Furthermore, the power disparity between Australia and East Timor is just as stark as that between China and countries like the Philippines. Furthermore, both the Timor and South China seas are contested for their oil and gas wealth, involve gross power disparities among claimants and dominant powers skeptical of UN arbitration.

Why is progress happening now?

Recently, Australia agreed to East Timor's demand to scrap the 2006 treaty. In return East Timor dropped its espionage case against Australia in January; allegations which were being used to validate its efforts to abolish the treaty. East Timor is facing significant pressure to resolve the maritime dispute, as the country is quickly running out of viable oil reserves. East Timor's oil and gas income peaked in 2012, and has been declining ever since; its Kitan oil field stopped producing in 2014, and the country's last remaining field – Bayu-Undan – is expected to cease production between 2020-2022. This is a very troubling scenario for East Timor as oil and gas revenues account for 75% of the state budget. It is therefore in the country's interest to resolve the dispute as soon as possible.



Despite wisely investing in the development of a petroleum fund, East Timor cannot sustain itself on investment revenue alone, and is being forced to withdraw from the principal: at current rates the country will be bankrupt in a decade. Moreover, alongside international pressure from the UN, it is in Australia's best interest to ensure East Timor's stability. If East Timor becomes a failed state, Australia will undoubtedly face not only a refugee crisis, but potentially renewed Indonesian efforts to reacquire the island. Indeed, Australia led the UN intervention in the country in 1999: failing to act on the border issue, and letting East Timor fall would severely damage Australia's international image and increase regional instability.

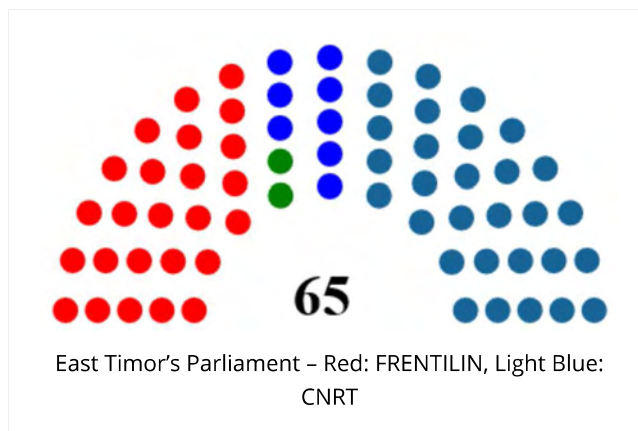
East Timor's pending bankruptcy has led some Timorese to question the government's reliance on oil and gas, arguing that the country needs to address basic needs and diversify the economy, rather than engage in more mega-projects. This has been echoed by both the IMF and World Bank, with the latter stating that "East Timor must employ its finite resources effectively and implement key reforms to support a more diversified economy [...] a combination of marginal investment and high costs also raise important questions [about] the quality and prioritization of the infrastructure programme."

Indeed the \$2 billion price tag to get Greater Sunrise off the ground dwarfs the \$1.39 billion 2017 state budget. The current government also wants to build a processing plant in the country in order to create

jobs. Opponents of this plan argue that the costs of such a project would outweigh the benefits, especially since existing infrastructure exists in Darwin, or could be repurposed from the Bayu-Undan floating platforms. Opponents have also criticized the government for being out of touch with the needs of ordinary citizens, focusing instead on prestige projects such as [joining ASEAN](#).

2017 elections complicate matters

These criticisms come as the government touts its successes and engagement with Australia ahead of upcoming presidential and parliamentary [elections in 2017](#). The problem for those who oppose the government's trajectory is that both major parties – FRETILIN and the National Congress for Timorese Reconstruction (CNRT) – have been in an informal power sharing agreement since the 2012 election created a hung parliament, which has left the country without an effective opposition.



In 2016 a new party – the People's Liberation Party (PLP) was founded by the popular former corruption commissioner Aderito Soares in order to fill this gap. The PLP is critical of the government's development strategy and is seeking to make corruption and basic service provision key election issues.

East Timor's current president, Taur Matan Ruak, joined the current government as an independent in 2012. As the election – slated for sometime between mid March and the end of July – gets closer, Ruak is expected to resign as president and run as the PLP's prime ministerial candidate. Currently there is no declared CNRT presidential candidate, so it remains unclear whether the party will field its own candidate or support FRETILIN's Francisco Guterres.

Soares and Ruak are a popular couple, and put the PLP in a good position. While support for the PLP is growing, it is unlikely to form government: capturing 20% of the vote is seen as a good result, especially for such a young party. The PLP is angling for third party status, a role currently occupied by the languishing Democratic Party. While not expected to form government, the PLP could benefit from a protest vote, and it would certainly not be the first populist upset in recent months.

Regardless of East Timor's ultimate development focus, the main threat facing the government in 2017 is its ability to present a united front in, and thereby successfully concluding negotiations with Australia. Any fragmentation will present Australia with an opportunity to play on the FRETILIN government's fears about anti-development / anti-oil critics to force more concessions out of Dili in return for a speedy resolution to the border dispute. It remains to be seen whether Greater Sunrise will see a rising East Timor or if the light of day lays bare the country's divisions.

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