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TIMOR LESTE

The great game of Greater Sunrise

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A solution to the impasse over the Greater Sunrise gas development is at hand, but requires compromise and transparency from Timor Leste and Woodside. Damon Evans reports from Dili

A HUGE hydrocarbon bonanza, known as Greater Sunrise, sits off the south coast of fledgling country Timor Leste. The resource, discovered in 1974 and estimated to hold 5.12 trillion cubic feet (cf) of natural gas, as well as 226 million barrels of condensate, has the potential to provide a better future for the impoverished nation.

But a bitter battle between the government of Timor Leste and the Woodside-led Sunrise joint venture – the project operator – has halted development, jeopardising the future of the project and Timor Leste. This small Southeast Asian country, highly dependent on its oil and gas resources to fuel its small, developing economy, has been locked in a dispute with the consortium over how oil and gas from the Sunrise and Troubadour fields, which straddle Australian and Timor Leste waters, is to be processed.

For the 1.1 million Timorese – of which more than 40% live below the poverty line – it's crucial a solution to the impasse is found. The Greater Sunrise development has the potential to help the Timorese escape from poverty, and achieve energy independence and security.

Not forgetting the shareholders in the Sunrise joint venture – Woodside (33.34%), ConocoPhillips (30%), Shell (26.56%) and Osaka Gas (10%) – which have spent vast amounts of time and money studying development options and deserve a return on their investments.

Under a governing treaty – the Treaty on Certain Maritime Areas in the Timor Sea (CMATS) - between Australia, Timor Leste and the Sunrise partners, Woodside is required to develop the gasfield to the best commercial advantage. But in recent times, talks between the Australian operator and the government in Dili have virtually collapsed. Both parties hold opposing views on the most commercial development route, as well as rights to downstream processing – worth billions of dollars in revenues.

Timor Leste's leaders and spokesmen on the Sunrise development have been in a technically demanding and politically challenging position since the fall of the country's first government in 2007. They have scant technical and commercial resources compared with those available to Woodside and its partners. And the Australian government has remained largely absent from the debate, perhaps because of a conflict of interest. Consequently, Timor Leste has been isolated and left to deal with Woodside alone.

The Greater Sunrise resource is jointly administered by Timor Leste and Australia, and requires the approval of both governments before development can proceed. Australian minister for resources and energy Martin Ferguson told *Petroleum Economist* that his government has no preference for any particular development concept, other than to ensure that it occurs in accordance with CMATS obligations.

Woodside is pushing for a floating liquefied natural gas (FLNG) option; while Timor Leste – which as co-resource owner has a right of veto – is determined to pipe the gas across the technically challenging deep-water Timor Trough to a proposed LNG-export plant on its soil. It says this option will bring numerous economic benefits for its people, as well as forming part of Timor Leste's bold vision to make its south coast a petroleum province.

Having invested about A$30 million ($31 million) and 300,000 man-hours studying the various development concepts, Woodside concluded that FLNG is the best commercial option – gas would be liquefied offshore, using new ship-based technology, for direct export to international markets. But Timor Leste refuses to accept the results.

It claims piping the gas to an onshore LNG plant is the best option and has commissioned various studies from international consultants to prove its point. The government says it is not prepared to accept the commercial risk of as-yet-untested FLNG technology for fear of losing valuable revenue.

The studies, commissioned by Woodside and Timor Leste, appear to have reinforced opposing opinions on both sides of the Timor Sea.

At loggerheads

Woodside's decision to go with the 4 million tonnes a year (t/y) FLNG option was made after the proponents also considered piping the gas 500 km to ConocoPhillips' Darwin LNG plant in northern Australia, for processing in a new train; and building a 200 km pipeline across the deep-water Timor Trough to an onshore LNG plant on Timor Leste.

Woodside maintains that the FLNG option would be $5 billion cheaper than piping gas to Timor Leste, adding it also maximises petroleum revenue for the governments in Dili and Canberra. The Perth-based company, which wants to reach a final investment decision (FID) this year, estimates this option will deliver Timor Leste around $13 billion for its agreed 18.1% share of the Greater Sunrise resource, with Australia receiving about $19 billion for its 81.9% share.

But the Timorese are wary, having missed out on the downstream economic benefits when ConocoPhillips brought the Bayu Undan gas and liquids project on stream in 2004. Bayu Undan sits in the joint petroleum development area (JPDA) and the gas, as well as the downstream benefits, is piped to Darwin. Critics claim Timor Leste got poor deal, but, at the time, the newly independent Timorese had a weak negotiating position and were in a hurry for funds to start building their nation.

This time, they are playing the game harder; and studies commissioned by the government and conducted by engineering companies, as well as energy consultancies, including JP Kenny, Norwegian DNV, Malaysia's Scientage, and Poten & Partners, offer different conclusions to Woodside.

Timor Leste's ministry of natural resources says that, according to a report finished this year, the Sunrise consortium's net present value under the Timor LNG (TLNG) option is $6.4 billion, compared with $4.7 billion with FLNG. TLNG would also provide higher tax income for the Timor Leste government: on an undiscounted cash-flow basis, TLNG nets $22 billion, compared with $13 billion for FLNG. Based on the same report, there is little difference on the tax income for either option for Australia.

This is contrary to what former Woodside chief executive officer Don Voelte told the UBS Resources conference in Sydney in June 2010. He claimed the FLNG concept maximises total revenue to Australia and Timor Leste, while also maximising the return to the Sunrise partners.

The ministry of natural resources says its fiscal regime is more favourable for the Sunrise partners under the TLNG option, because it is subject to local corporate taxation, where income tax applicable to the plant is only 10% and capital expenditure (capex) can be written off immediately for income tax purposes. Such favourable terms and higher returns reduce the financial risks for TLNG compared with FLNG.

The two most significant economic risks to Greater Sunrise are oil prices and downstream capex. Under the FLNG concept, Timor Leste is highly exposed to both oil price and downstream capex risk, because of the untested nature of the technology; while, according to Timor Leste's advisors, downstream capex does not pose significant risks to TLNG.

Woodside found that there were no technical impediments to TLNG, but cliamed it has a higher capital cost, by about $5 billion, compared with FLNG and presents significant technical risks – including the construction, maintenance and operability of a pipeline in the seismically active Timor Trough, where water depths approach 3,000 metres.

Nonetheless, Timor Leste is pushing ahead with a detailed marine-route analysis to test the integrity of the seabed and determine an optimal pipeline route. The government is sceptical about gambling the development of its country on a novel FLNG option – in a country where one in every 16 children dies before their fifth birthday it's easy to understand such caution.

CMATS treaty under threat

A continuation of the impasse may lead to the collapse of the CMATS treaty and failure for all involved. But Timor Leste is prepared to raise the stakes if the oil companies are not willing to compromise. And it holds a stronger hand now that it did when negotiating the Bayu Undan development. This time, the Dili government is prepared to leave the hydrocarbons in the ground; the Greater Sunrise resources are an investment fund for future generations – a scarce resource that will only gain value with time.

For now, it has enough money in its Petroleum Fund to cover expenses. Timor Leste's leaders are fully aware that the Sunrise consortium must make the best commercial decision, but, crucially, they have the right of veto. And there is no absolute truth on which option is best – it's a subjective decision, depending on which side of the sea one sits.

Timor Leste is prepared not develop Greater Sunrise and has seriously considered terminating CMATS at the first opportunity, in February 2013, if the dispute remains unresolved. Although minister for natural resources Alfredo Pires told *Petroleum Economist* he wants to avoid tearing up the treaty, if possible. The failure of CMATS would set the project back decades, undoing all the strained negotiations carried out between Australia and Timor Leste since independence in 2002. Indeed, pragmatism may be the only way out of this dilemma.

Both sides have entrenched themselves in their respective positions, particularly Timor Leste. The government has seized the TLNG option and prime minster Xanana Gusmao has tried to use the pipeline idea to unite the Timorese. But it remains to be seen whether his party, the National Congress for Timorese Reconstruction, and the other political parties, can re-adjust to the new reality

Internationally, and particularly in Australia, there is much ambivalence towards Timor Leste, with many claiming the country's criticisms of the FLNG concept are naïve. The reality is that FLNG is here to stay and in a short space of time will no longer be seen as a novel technology (*PE* 6/11 p22).

Flex LNG's maiden FLNG unit is expected to begin producing, off Papua New Guinea, by 2014; Malaysian Petronas expect its first FLNG producer on stream in 2015; Shell's huge Australian Prelude project is scheduled for start-up in 2017; while Inpex, working with Shell, expects its Abadi FLNG unit up and running in the Arafura Sea, not far from Sunrise, by 2018.

Rapid development and industry acceptance of FLNG has undermined the onshore TLNG argument. In 2011, Timor Leste must live with and accept the reality of FLNG as arguably the most economic means for commercialising smaller, remote offshore gasfields.

A 2007 report by Dili-based non-governmental organisation La'o Hamutuk took a hard-headed look at the social and environmental

Exploration round two for Timor Leste

TIMOR Leste is preparing an exploration licensing round for early next year, covering acreage in its exclusive waters and in the Timor Sea Joint Petroleum Development Area (JPDA).

The round will cover all previously unreleased acreage in an offering of between 10 and 15 blocks, Gualdino da Silva, president of the National Petroleum Authority (ANP), told *Petroleum Economist*. About 50% of its exclusive zone is open acreage, with about 60% of the JPDA available.

Dili-based ANP regulates all oil and gas activities in both offshore regions: Timor Leste owns 100% of its exclusive zone; and 90% of the JPDA, with Australia holding the balance. The offering will be the country's second licensing round since independence in 2002.

There are a number of active blocks in the JPDA, led by operators, Woodside, ConocoPhillips, Eni and Oilex. Malaysia's Petronas has surrendered its block following disappointing results.

ConocoPhillips-led Bayu Undan is the only large producing project in the JPDA, producing 110,000 barrels a day (b/d) of liquids and 1.1 billion cubic feet of gas. The Eni-led Kitan oilfield is due on stream in the fourth quarter, flowing up to 40,000 b/d at peak.

But following a string of dry exploration wells in recent times, there are no more developments in the pipeline. Both Eni and Reliance have drilled probes in the exclusive zone this year, without commercial success. But despite the dry wells, da Silva claimed there is continuing industry interest.

Meanwhile, the government is aiming to launch a national oil company, Timor Gap, by early next year, in an effort to take part in future commercial finds, although it will not be allowed to participate in existing joint ventures — specifically the Bayu Undan, Kitan and Greater Sunrise projects. ●

effects of a potential stand-alone onshore LNG plant in Timor Leste. The report dampened dreams of the benefits of a single-location, mega-project run by foreigners. The facilities might be in Timor Leste, but not for Timor Leste, the NGO warned. Woodside's FLNG choice would have an indirect consequence of eliminating most of L'ao Hamutuk's environmental and social concerns.

And onshore LNG projects generate very little social-economic benefit compared with the overall scale of investment. Taxation is usually the much more important benefit. Government rhetoric about the onshore plant bringing jobs and prosperity is also emphasised. LNG projects are large enclave industries with little direct connection to the hinterland. Most materials and equipment are sourced globally from a few specialist suppliers. For Timor Leste, with no pool of skilled labour, no manufacturing industry and limited agricultural capacity, there are very few automatic knock-on benefits.

Such large-scale development also brings a clash of cultures and a local window into global economic injustice, as highly paid foreign workers and executives meet locals unaccustomed to their priorities and values. So far, Timor Leste's experience with the petroleum industry has been offshore and out of sight. The potential risks from onshore and downstream projects are much larger and the Timorese are unfamiliar with such operations.

Unrealistic social expectations

There is also a great risk of social unrest, because the government has raised unrealistic expectations of employment opportunities and economic benefits. Rather than a blessing, piping Greater Sunrise gas to an onshore plant may be a curse.

Employment for Timorese in both construction and operation would be limited. Typically on an LNG project, about 600 jobs, requiring limited training, could be created without hitting costs during construction. During operation, 50 to 100 positions would be created. Other short-lived employment opportunities would arise from improving infrastructure, such as roads, airports and ports. Apart from the gains from new gas-fired power generation, the economic benefits are relatively small.

As one industry consultant pointed out, it would be misleading to allow these benefits to dominate any analysis to the detriment of the FLNG option. One government study suggests the socio-economic benefits for Timor Leste from TLNG are small, about $154.48 million over five years, but significant in terms of the size of the economy – GDP stood at $701 million in 2010. The benefits for the nation under FLNG are negligible, but it would not be a significant cost to stimulate benefits for the FLNG option by paying third parties for compensatory benefits.

Voelte told the UBS Resource conference that FLNG would stimulate social development in Timor Leste, but this is vague and unquantifiable. What is required is clean, affordable Greater Sunrise gas to underwrite Timor Leste's economic development and reduce energy poverty.

The nature of the debate must shift from reactionary and negative, towards a more positive and creative outlook on both sides. "I would avoid criticising FLNG and avoid viewing TLNG as the only means of achieving a particular end. I would instead use arguments about energy security, which is directly linked to the notion of national security," said Geoff McKee, a petroleum-engineering consultant, directly involved with Timor Leste's energy industry since before independence.

Indeed, it's imperative for Timor Leste to secure a more reliable and affordable source of gas and Greater Sunrise is the logical fuel-substitute for expensive imported diesel and heavy fuel oil.

According to McKee, by investing heavily in a new power grid, the government recognises the relationship between society's energy consumption and that of its health, welfare and economic wellbeing. But the administration must better communicate this understanding to the outside world in relation to the Greater Sunrise dispute, making a strong case for onshore processing.

The Dili government hopes to use an onshore LNG plant in Baucau in the southern district of Viqueque as the centrepiece of a petroleum corridor, known as Tasi Mane, stretching west along the coast to Suai. The blueprint includes a port, fabrication yards, and supply base for offshore operations, as well as a refining and petrochemicals complex at Betano.

By developing local industry, expertise and spin-offs, it hopes to wean the country from dependency on hydrocarbon revenue, towards productive activities that can thrive once Greater Sunrise and Bayu Undan are depleted.

A middle way

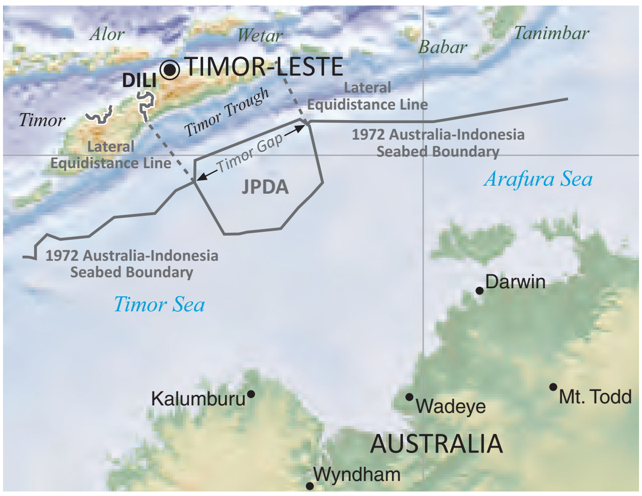
McKee claimed the FLNG concept could be modified to satisfy Timor Leste's development needs. Rather than outright rejection of onshore facilities, Woodside could offer a politically acceptable proposal; while, Timor Leste must adapt to the FLNG plan, not reject it outright.

McKee, who has strongly advocated the pipeline to Timor Leste since 1999, said that the idea was based on the belief that without a sound economic footing brought about by energy infrastructure, the result would be a failed state. That almost happened in 2006, with Bayu Undan, and could happen again if frustration and unemployment increase.

The primary benefit of the pipeline for Timor Leste is not so much the localised export industry, but the domestic energy supply that can benefit the population and stimulate foreign direct investment. Transporting the production from Sunrise to Timor Leste, only to transport it again to Japan, South Korea or China, however, makes little sense when gas can be exported directly from the FLNG unit.

McKee proposes a middle way: a development concept involving the landing of LNG, liquefied petroleum gas (LPG) and condensate directly from the FLNG facility, rather building an onshore liquefaction plant. This would mean constructing a lower-impact LNG storage and regasification

Figure 1: Saudi Aramco's main production capacity



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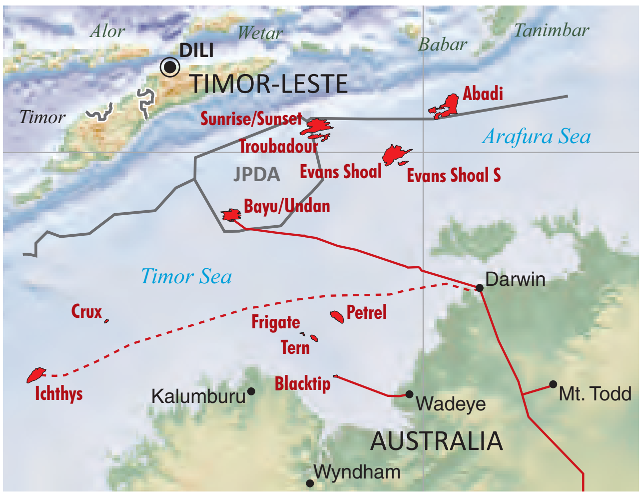

The history of the Sunrise impasse

TO UNDERSTAND the Greater Sunrise impasse requires a grasp of the history and geography of the Sunrise and Troubadour fields. Collectively known as Greater Sunrise, the fields were discovered in 1974 by Woodside, then Burmah Oil.

Shortly after the fields' discovery, in 1975, Portugal, which first settled in East Timor in 1769, granted the colony independence. Indonesia invaded East Timor in December of that year and its brutal occupation lasted until 1999.

Australia stood to benefit considerably from this geopolitical shift and, in 1978, recognised Indonesian sovereignty over East Timor and began negotiations over the Timor Gap (see map). The Timor Gap was a gap in the seabed boundary between Australia and Indonesia negotiated in 1972 – it referred to that part of the boundary which could not be defined because Portugal declined to participate in the talks. For Australia, it would be easier to negotiate the seabed boundary, and access to oil resources, with Indonesia than a newly decolonised East Timor.

In his book Shakedown, Paul Cleary, a former East Timor government advisor, claims Australia calculated that turning its back on East Timor was a fair price to pay for closing the Timor Gap and securing a potential oil and gas bonanza on the southern side of the Timor Trough. "These critical decisions were made during the bloodiest year of Indonesia's military campaign in East Timor, when the country was completely sealed off from the outside world."

Independence vote

In 1999, East Timorese voted overwhelmingly for independence in a United Nations-sponsored referendum. It formally became the first new sovereign state of the 21st century on 20 May 2002. For the East Timorese, independence meant freedom, exercising their right to self-determination and an end to a brutal 24-year struggle, which took the lives of more than 180,000 people. For the oil industry and the Australian government, East Timor's passage to independence was inextricably linked with hydrocarbons in the Timor Sea.

In 2000, one of the poorest nations on earth began negotiations with Australia over rights to the sea's hydrocarbon resources. Based on international legal principles, all states have a right to claim an Exclusive Economic Zone stretching 200 nautical miles for shore and the UN Convention on the Law of the Sea strongly advocates applying an equidistant line to resolve overlapping claims. The right to claim a continental shelf, which Australia does, is not absolute when there is an opposite or adjacent state that also has a claim for the area when two were less than 400 nautical miles apart.

Based on the horizontal equidistance, or median line, between Australia and Timor Leste, all of Greater Sunrise, which is twice as close to Timor as it is to Australia, as well as the Bayu Undan, Kakatua Elang, Kelp, and Laminaria, Buffalo and Corallina (BCL) fields would belong to East Timor.

But in 1989, after a decade of negotiations, Australia and Indonesia concluded the Timor Gap Treaty, establishing a 61,000 square km Zone of Cooperation in which revenue from Area A, which included Bay Undan and Kakatua Elang, was shared 50:50. Critics claimed the treaty was illegal, because Australia had an obligation not to recognise Indonesian sovereignty in East Timor.

Roger Clark, a member of the UN Committee on Crime Prevention and Control at the time the treaty was signed, said it was "the same as acquiring stuff from a thief. [Australia and Indonesia] neither have historical, nor legal, nor moral claim to East Timor and its resources."

Following tough negotiations after Timor Leste formally declared independence on 20 May 2002, prime minister Mari Alkatiri and his Australian counterpart, John Howard, signed the Timor Sea Treaty. This gave Timor Leste 90% of the revenues from petroleum resources in a new Joint Petroleum Development Area (JPDA) – which transposed Area A of the Zone of Cooperation – in a move designed to allow mainly Australian oil companies in the area to continue operating.

Treaties, treaties, treaties

The treaty, which entered force on 2 April 2003, backdated to 20 May 2002, was to run for 30 years or until a seabed boundary was established. The subsequent signing of the Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS), which came to force in 2007, extended the validity of the Timor Sea Treaty to 2057, when CMATS also expires.

The Timor Sea Treaty provides for the sharing of the proceeds from JPDA discoveries, but does not determine the sovereignty and maritime boundary between the countries – it states that either country has the right to claim the overlapping portion of the seabed.

The significant difference between the Timor Gap Treaty and Timor Sea Treaty is that the latter creates just one JPDA, with Timor Leste receiving 90% and Australia 10% of revenues. The former created three zones, with the revenue from the middle Zone of Cooperation divided equally between the countries.

Soon after signing the Timor Sea Treaty, Australia moved to make it a permanent settlement by withdrawing from the jurisdiction of the International Court of Justice on maritime issues and the International Tribunal for the Law of the Sea. This meant any settlement could only come about through direct negotiation with Australia. In his book, Cleary argued that with East Timor about to become independent and challenge for control of Timor Sea resources, Australia did not want an umpire.

In March 2003, East Timor signed the Sunrise International Unitisation Agreement (SIUA), designed to enable exploitation of Greater Sunrise, which straddles the border between the JPDA and Australian territorial waters – determined by the 1972 seabed boundary agreement between Australia and Indonesia. Unitisation of the fields would enable them to be treated as one as far as exploitation, regulation, revenue taxation, management and others purposes were concerned, giving certainty to investors by providing a financial framework and international legal basis for development.

An unfair share

The SIUA deemed 20.1% of the Greater Sunrise resources lie in the JPDA, attributing 20.1% of production to the JPDA and 79.9% to Australia. With East Timor receiving 90% of revenue from the JPDA, it would receive only 18.1% of the revenue. This share ratio was later amended under CMATS, so both Australia and East Timor receive an equal share. After difficult and drawn-out negotiations, the SIUA and came into force on 23 February 2007.

But the day it tabled legislation for the Sunrise agreement, in March 2004, the federal government advertised new blocks for exploration – in the disputed areas near Sunrise and the BCL fields.

Alkatiri's government responded accordingly, saying a permanent boundary was an integral part of Timor Leste's right to self-determination. He further claimed that as long as Australia "continued to illegally occupy this area of the Timor Sea, it was undermining Timor Leste's territorial integrity". This was a direct reference to the production licences issued by Australia for the BCL fields before 1999 and its continued issuing and advertising of exploration licences in the disputed areas.

But the signing of CMATS, which can be terminated after February 2013 if a development plan for Greater Sunrise is not approved, or if production from the field does not start by 2017, put a moratorium on maritime boundary claims for both sides while the treaty remains in force.

Timor Leste's history goes some way to explaining why it is determined to secure a fair deal from Woodside over Greater Sunrise. As far as the East Timorese are concerned, they are the rightful owners of the resource and, if need be, are prepared to fight a long, drawn-out battle to protect their rights. ●

Warding off the resource curse

THE JURY is still out on whether Timor Leste's hydrocarbons are a blessing or a curse. Managed correctly, using the wealth produced from oil and gas to build a sustainable non-oil economy is surely a blessing. But rarely is this the case for developing countries, particularly those ravaged by conflict.

Fortunately for the East Timorese, their government fully comprehended the dangers of abundant natural resources and has embraced the concept of sustainable development. In 2005, it set up a petroleum fund to manage revenues for the benefit of future generations.

The fund, modelled on Norway's petroleum fund, was designed to safely invest hydrocarbon revenue to pay for services with a stream of interest earnings when the oil and gas resources are exhausted. The fund's role is crucial, considering the Bayu Undan gasfield could be depleted by 2024 and, if it comes on stream by 2020, the Greater Sunrise development could deplete by around 2050. Along the way, it is hoped the nation will avoid the resource curse by controlling the flow of petrodollars into the economy.

The policy of saving a significant proportion of its resource wealth is challenging in a post-conflict country. The notion of saving for the future in such circumstances can be an alien concept. But, to date, the government has succeeded where many other developing nations have failed.

Overall, the petroleum fund has provided a strong foundation for fiscal stability. At the end of June 2011, the fund balance reached $8.3 billion. Of that, $7.1 billion was sitting in the US Federal Reserve with the rest invested in international equities, plus other government bonds.

Economic stabilisation

The fund has helped stabilise the economy. As the IMF observed in 2010: "Driven by higher oil-financed public spending and a rebound in agriculture from the 2007 drought, non-oil growth averaged 11% during 2007-09." A recent estimate by the World Bank also shows a decline of poverty incidence from 50% in 2007 to 41% in 2009.

Significantly, Timor Leste did not stop with the petroleum fund. It has pushed for improved transparency and, in 2010, became only the third country to be granted

© ConocoPhillips

Exploration at Bayu Undan, which could be depleted by 2024

terminal at Baucau, in place of a greenfield export plant. This scaled down vision, compatible with FLNG, would fuel Timor Leste's power network and future industrial, residential and transport needs.

And this vision has potential. Senior consultants involved with the Sunrise development confirmed that Woodside has plenty of LPG to dispose of from the project. Indeed, as Voelte once remarked, Sunrise is a liquids project with associated gas.

The adjusted Sunrise development concept would be aimed at achieving the economic development objectives desired from an onshore LNG export project, said McKee, but tailored more to the energy security and supply needs of Timor Leste, which would have 90% jurisdiction over the downstream facilities, satisfying its nationalistic agenda.

And the country is in a position to help the Woodside joint venture avoid Australia's planned tax on carbon dioxide (CO_2) released from the Sunrise FLNG ship. The unit could sit a few kilometres within Timor Leste's JPDA, beyond Australian jurisdiction, potentially saving the joint venture A$60 million a year - a win-win situation for both sides.

Without such an imaginative, alternative onshore development vision, the CMATS treaty will more likely than not, be terminated, causing failure for all parties, McKee claimed.

The political solution

Before any agreement can be successfully negotiated for the development concept, the joint venture must first engineer a political solution. And it appears that, only from the outside, all sides of Timor Leste politics want the pipeline option. Clinton Fernandes, who served as the Australian Intelligence principal analyst in East Timor during the final years of the nation's struggle for independence, said neither Timorese political party wants to back away from the pipeline agenda for fear of being accused by the other of not being unpatriotic.

Fernandes, who is not an advocate for the Timorese or the Sunrise partners, but whose observations follow involvement with Timor Leste since independence, sees a political solution to the impasse.

After elections in early 2012, when patriotic fervour is at its highest, but before February 2013 – the first trigger for CMATS – if one of the joint-venture partners proposed a transparent analysis of the FLNG option, showing exactly what Timor Leste would receive and increasing the financial incentives, the ruling political party would accept on two conditions: that there was bipartisan agreement in parliament; and that the analysis shows how the benefits for Timor Leste from FLNG will be greater than TLNG.

For now, the pipeline has become a political doctrine and those working under prime minister Gusmao do not want to rock the boat. But Fernandes believes natural resources minister Pires, who stands firmly behind the nationalistic agenda, would back down gracefully with bipartisan support.

Even if the largest opposition party, Freitlin, wins, it will be open to rational arguments, but will need the consent of all parties. If the joint venture wants to pursue FLNG, it must engineer a bipartisan consensus, said Fernandes. "After the elections, there is a golden opportunity to change the politicians' minds with a rational analysis that includes everyone – all political parties, oil companies, civil society – nobody can be left out, or the result will be failure."

Mandy Whyte, a former Woodside representative in Timor Leste argued in a recent paper – *Cowboys, Ogres and Donors: Corporate Social Responsibility in Practice* – that the oil firm adopted an "us and them approach". She claimed the operator has failed to build partnerships through consultation, education and participation and, predictably, this stance invited resistance and opposition.

Whyte said that Woodside's drive to FID without Timor Leste's backing showed an arrogant lack of regard for the relationship; and relied heavily on competitive negotiation as a communication tool, placing itself in opposition to the resource owner, the Timorese. "This did nothing to allay the fears of the community, either to dispel myths or create a sense of confidence and trust in the company."

In April, outgoing chief executive Voelte accused the Dili government of acting against the interests of its people by not supporting FLNG. He admitted he "didn't get it", adding that the government "must be objecting to promoting the quality of life and improving the livelihood of their people". Hardly endearing comments. The government responded by saying it was regrettable for both the people of Timor-Leste and Woodside's shareholders that Voelte "doesn't get it".

compliance status under the Extractive Industries Transparency Initiative (EITI) and the first in Asia-Pacific.

The EITI, established in 2002, aims to set a standardised, internationally recognised procedure to ensure financial transparency in the energy and mining sectors. It requires participating governments to report revenues received from companies operating in the resources sector and for those firms to report payments made to host governments.

Transparency for the sake of transparency is not enough. It should be used to advance society

But as Shell chief executive Peter Voser told the EITI conference in Paris earlier this year, transparency for the sake of transparency is not enough. It should be used to advance society (*PE* 4/11 p23).

If used wisely, Timor Leste's small hydrocarbons cache could help expand the country's young economy. Resource wealth could improve infrastructure and significantly boost the non-oil economy, primarily agriculture, as well as health and education.

But despite some successes, the petroleum fund has failed in other aspects, argues Guteriano Neves, a researcher with Dili-based non-governmental organisation (NGO) La'o Hamutuk. Timor Leste's state of development possesses certain features of the resource curse, says Neves.

There is no indication that dependence on petroleum revenues is lessening in the near future – in 2005-11, more than 90% of the government's revenue came from petroleum; since independence, investment in productive sectors has been low; while unemployment, which could trigger civil unrest, has yet to be addressed. The petroleum industry provides few jobs for East Timorese, who lack the education and training for the high-technology industry. And the agriculture sector, the main employer, is still underdeveloped.

La'o Hamutuk says the government's Strategic Development Plan, launched in July, shows that Timor Leste will depend on oil revenues for decades. Processes to revise the Petroleum Fund Law, create a national oil company, and invest heavily in feasibility studies for the Tasi Mane Petroleum Corridor contradict the goals of the plan, exacerbating the nation's dependence on petroleum and long-term economic instability.

The NGO warns moves to revise the Petroleum Fund Law weaken essential articles that safeguard the resources, allowing half the fund to be invested in financial markets, using the fund as collateral for borrowing and weakening the sustainable-spending rule. "The revision is a dangerous step that allows the state to endanger future generations' rights for short-term opportunism," says La'o Hamutuk.

Indeed, both local and international groups have urged the government to keep the nation debt-free. They argue that rather than repeating the mistakes of other developing countries that have struggled with debt, Timor Leste should learn from their experiences, which often inflict great hardships on the people.

They are concerned that Timor Leste, one of the most petroleum-export dependent countries in the world, will struggle to repay the debts when the oil and gas runs out. And, crucially, they point out that if Greater Sunrise is not developed, petroleum revenues will dry up within 15 years. ●

"It's crucial to not just try and talk to the government. Had Woodside adopted a cohesive approach and not just public relations, to gain bipartisan support, the story could be different, but Voelte wanted a quick result for shareholders," explained Fernandes.

Unfortunately, Voelte underestimated Timorese patience, resilience and nationalist fighting spirit. And Timor Leste is far from desperate; it has billions of petrodollars in hand from Bayu Undan.

If the project is to proceed, a collaborative approach is needed from the Sunrise consortium as well as from the Timor Leste and Australian governments. Joint ownership of the development will be achieved only through joint study teams working closely together, not against each other, alongside independent, third-party experts providing impartial advice to both sides.

Opportunity for Woodside

Woodside has a chance to put its blunders behind it. Under the new leadership of ExxonMobil veteran Peter Coleman, it has the opportunity to start a new dialogue with Timor Leste. And following a courtesy visit to Dili from the new chief executive, Pires told *Petroleum Economist* that he welcomed the appointment. He hopes Coleman, who was closely involved with ExxonMobil's Papua New Guinea LNG project, will bring that experience to the Sunrise consortium.

For Woodside, the successful development of Greater Sunrise would be a huge achievement and its first high-profile international success, compared with domestic peers such as BHP Billiton. It can even be argued that Woodside produced a failed development plan for Sunrise, resulting from insufficient knowledge or the wrong conclusions about political risk.

It's time for both sides to put the past behind them and start working together. Woodside has a duty to reward its partners and shareholders. And the government in Dili has a duty to its people. It must down its nationalistic agenda and secure affordable gas from Greater Sunrise to underwrite its development. Only then can Timor Leste move forward and focus its resources on the creation of its non-oil economy, ensuring that when its petroleum wealth dries up, it has developed a sustainable economy for future generations. ●