East Timor buys ConocoPhillips' Greater Sunrise share for $484m

- EXCLUSIVE
- Sep 30 2018 at 11:00 PM

Xanana Gusmao has been keen to capture for East Timor the downstream benefits of jobs and the creation of a new industry. *Pamela Martin*

by Michael Sainsbury

East Timor's former president and prime minister Xanana Gusmao has taken the first step in a planned $US5 billion ($6.9 billion) gamble to create an onshore gas-processing industry, inking a deal to buy out US energy giant ConocoPhillips' 30 per cent share in the Greater Sunrise gas consortium for $US350 million.

A delegation led by Mr Gusmao, East Timor's proposed new petroleum energy minister Alfredo Pires, state-owned energy group TIMOR GAP chief Francisco Monteiro, and Perth businessman James Rhee – who has been assisting in negotiations – signed the deal in Bali on Friday with ConocoPhillips' Australia West president Chris Wilson.

As *The Australian Financial Review* reported recently, the government of Prime Minister Taur Matan Ruak has set aside $US5 billion from the nation's sovereign wealth Petroleum Fund for investments directly into the project and associated infrastructure and costs.

The Greater Sunrise consortium, headed by ASX-listed Woodside Petroleum which holds 33.4 per cent, is now in discussions to construct a pipeline from the gas field to Suai on East Timor's south coast. It is part of the Tasi Mane Project, being developed by TIMOR GAP, which includes
plans for an LNG plant at Becao and the road linking Suai to Zumalai, and an upgraded international airport at Suai.

There is a sense of urgency for East Timor because the Bayu-Undan reserves are forecast to end production by 2022.

The move appears to have bipartisan support in East Timor, as Mr Gusmao was kept in the role by Opposition leader Mari Alkatiri who, as prime minister last November, said "we firmly maintain our position that the gas pipeline must come to Timor-Leste".

**Uneconomic**

Energy companies have long resisted gas processing in East Timor, with Woodside expressing concern it would be uneconomic. Various sources, including the UN Conciliation Commission, suggested Dili would have to make subsidy payments to defray the financial risk for its partners.

The exit of ConocoPhillips, which owns the Darwin gas-processing plant, changes the equation, people familiar with the deal said.

There is a sense of urgency for East Timor because the Bayu-Undan reserves, which have been the primary input to the Petroleum Fund, are forecast to end production by 2022. The fund held $17.1 billion at the end of last month and is the source of funds for about 90 per cent of the nation's annual $US1.3 billion-$US1.4 billion budget.

As of early 2017, Bayu-Undan had generated approximately $US23.5 billion in upstream revenue for Timor-Leste and about $US2.4 billion in upstream revenue for Australia, the UN commission reported. "The precise quantification of downstream economic benefits, which have largely accrued to Australia, is the subject of some debate," it said.

Mr Gusmao has been keen to capture for East Timor these downstream benefits of jobs and the creation of a new industry.

"Xanana Gusmao has been determined to bring to fruition a south coast development and this has been his aim through the negotiations with Australia," Swinburne University politics professor Michael Leach, an East Timor expert, told the *Financial Review*.

"It has always formed a key plank of his strategic development plan for the country and underscores his continuing dominance of the government."
Sources in the Timorese government told the Financial Review they are keen to announce the pipeline next month and are in talks with Chinese financiers about a range of options.

**Chinese influence**

Dr Leach said any deal involving Chinese money would likely "trigger debate" inside the country, where rising Chinese influence is an issue.

It would also give Australia pause for thought amid rising concerns about China's economic influence in the Asia-Pacific.

The deal to join Greater Sunrise follows the fresh agreement between Australia and East Timor, in negotiations led by Mr Gusmao for his country, on a new maritime boundary signed in March 2018, 18 months after a UN court forced Australia to renegotiate its boundary with Timor-Leste a 2006 treaty.

Under the new deal with Australia, East Timor will give up 10 per cent of its royalties if the gas is piped to and processed in East Timor rather than Darwin. It would receive 70 per cent of an estimated $US11 billion in royalties, based on revenues of $US65 billion, over the project's life. The Australian government has said it is agnostic about where the gas is processed.

Still, the experience of Papua New Guinea provides a cautionary tale. A report released in May by advocacy group Jubilee Australia claimed that PNG's economy has been negatively affected by the ExxonMobil-led $US19 billion LNG export project that was once promised to transform that country's economy.

A Woodside spokeswoman said the company was aware of unofficial reports of the ConocoPhillips agreement but "the Sunrise Joint Venture has not been approached formally by Timor-Leste or ConocoPhillips on this matter". ConocoPhillips declined to comment.

*AFR Contributor*