The great game for Greater Sunrise


**Timor-Leste is caught between the competing interests of two major Asia-Pacific powers**

Timor-Leste faces a stark choice in its search for a partner to develop its Greater Sunrise natural gas project, as its operational domestic fields approach end of life. Leaders in Dili must choose between the only two viable options: Chinese funding that threatens the country’s sovereignty or Australian investment that recalls perceived grossly lopsided resource-sharing arrangements.

One day after its 20th independence day was celebrated on 30 August, Timor-Leste marked the completion of a maritime border treaty with Australia that secured it 70-80pc of Greater Sunrise revenues. The Sunrise and Troubadour fields are estimated to hold 5.1trn ft³ of gas and 226mn b/l of condensate with a combined value of $50bn.

That treaty has freed Timor-Leste, recognised as an independent country since 2002, to pursue a bold vision for Greater Sunrise. It wants the gas to flow into a new multi-billion-dollar LNG plant and petrochemicals complex called Tasi Mane to be built on the Timorese southern coast, rather than be processed in Darwin as envisioned by a consortium led by Australia’s Woodside.

The scale of the project has led observers to believe that the Timor-Leste government may turn to China for funding. A Chinese state-owned enterprise helped build the country’s $490mn deepwater port and in June Timor-Leste’s NOC, Timor Gap, denied reports that it was set to borrow $16bn from China’s Exim bank to finance Tasi Mane.

Australia is wary of the prospect of a permanent naval Chinese presence just 450km north-west of Darwin. The two Asia-Pacific powers are already at loggerheads over various flashpoints across the region—most pointedly over Beijing’s aggressive oil and gas exploration tactics in South China Sea zones claimed by Vietnam.

**High stakes**

Xanana Gusmao, Timor-Leste’s special representative for boundary negotiations, could use the regional rivalry to his advantage. “We expect Gusmao to play the geopolitical card,” says Credit Suisse analyst Saul Kavonic. “He will try to access funding on favourable terms, playing Chinese and Australian geopolitical goals against each other.”

Gusmao’s gamble has high stakes for his country’s economic future—hydrocarbons accounted for 43pc of GDP in 2017, according to the World Bank. The impoverished country’s Bayu Undan gas field, its main source of revenue since 2004, is set to run out of gas as soon as 2021 and the planned Tasi Mane megaproject would potentially drain its petroleum-based sovereign wealth fund of $17bn.
“[Gusmao] will try to access funding on favourable terms, playing Chinese and Australian geopolitical goals against each other” Kavonic, Credit Suisse

The dwindling of the fields explains the NOC’s urgency. Timor Gap announced on 18 June that FID should be achieved by 2022, with gas to be brought to market as early as 2025. Late last year, it bought ConocoPhillips and Shell out of the project for $650mn.

Tasi Mane faces other challenges besides funding. It would require a pipeline over the 3,000m-deep Timor Trench to link with the Beaufort LNG plant, which would feed gas to Suai supply base and the Betano petrochemical refinery. The project will also be in competition with a range of LNG projects coming on stream years earlier, including in Papua New Guinea, Qatar, Mozambique, Russia and perhaps the US.

“Timor-Leste has a committed vision to building an LNG plant in Timor-Leste, and has shown willingness to back this up with its own money,” says Kavonic. “But the development of Sunrise via an LNG plant onshore remains challenging due to scale, cost, funding requirements, market conditions, a potentially complex commercial structure and Timorese capacity to navigate these issues.”

**Hobson’s choice**

The downside of accepting Chinese credit for a major infrastructure project was exposed by the case of Hambantota port in Sri Lanka. In 2010, the South Asian country was forced to hand over the port to China on a 99-year lease after it was unable to repay the loan taken for its construction, giving Beijing a strategic foothold near India.

$50bn Value of Greater Sunrise hydrocarbons

Turning to Australia could reignite resentment over oil and gas royalties post-Indonesian rule. Temporary resource-sharing agreements gave it as little as 18% of hydrocarbons revenues. Australia faced allegations of bugging cabinet discussions in 2004 to gain an edge in negotiations, although Canberra denies this took place.

Ultimately, the future of Greater Sunrise could rest on whether Canberra is willing to lend its diplomatic support for Australian funding. For Timor-Leste, this solution presents the nation’s best shot at diversifying its economy and entering Asean without ceding sovereignty to China. Australia demonstrated it is willing to pay to extend its influence—when Huawei offered China-linked internet to neighbouring Papua New Guinea it responded by paying for a cable from Sydney. Let the game begin.