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Sun is setting on Timor-Leste's pipe dream

The Greater Sunrise gas field was supposed to lift the young nation out of poverty but that once hopeful vision is now dissipating

By HAMISH MCDONALD

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Hopes that Timor-Leste would benefit from a gas field bounty are fast falling over the horizon. Image: Facebook

SYDNEY – It was a bit rich for a leader who, less than five years ago, was personally stirring up a 10,000-strong crowd in protest outside the Australian embassy in Dili about Canberra's "occupation" of Timor-Leste's offshore zones and it's oil and gas to aid his push for maritime boundary renegotiation.

"We are facing a great demagogy," former president and prime minister Xanana Gusmao fumed about his political rival Mari Alkatiri, another ex-prime minister but less in the public eye who had had the temerity to suggest Gusmao's multi-billion-dollar petroleum plans needed a proper feasibility study.

For the past decade, Gusmao's vision of an industrial future for a little nation of 1.3 million, mostly subsistence villagers, has been state policy: the large Greater Sunrise offshore gas field reclaimed from the tricky Australians, pipelines laid to bring its gas ashore, and liquified natural gas and petrochemical plants built along the coast facing the "Tasi Mane" or Timor Sea.

Yet over the past four months, this pipe-dream has been steadily dissipating as new eyes in Dili take a harder look into long-standing doubts about its technical and economic rationale – doubts that had previously been pushed aside by Gusmao's populism, which was aided by Australia's reputed devious approach to the maritime boundary.

This review might have happened anyway. Oil prices had been down around US$55 a barrel last year from the 2008 peak of $140 and the coronavirus-induced plunge in petroleum demand has prices at around $40 a barrel, after a deeper plunge into the $20's earlier this year.

But a political reshuffle in Dili has enabled it to happen. Now, a new petroleum minister, Victor Conceicao Soares, is saying that data has been tailored to fit the ambition: "The cart has been put before the horse."

Timor-Leste finally got the lion's share of Greater Sunrise in August 2019. It had been revealed in March 2018 that Australia's secret service ASIS had bugged its offices during previous border and oil share negotiations in 2004.

Canberra had cynically withdrawn from the jurisdiction of international tribunals over maritime boundaries in 2002, just ahead of Timor-Leste emerging from a three-year United Nations interregnum following the end of Indonesia's 24-year occupation in 1999.

The spying revelation enabled Timor-Leste to drag Australia into the Permanent Court of Arbitration at The Hague for conciliation proceedings that resulted in it gaining a much more favorable maritime border, though Indonesia's agreement to the lateral boundaries on either side could be a new question.

Timor-Leste's Xanana Gusmao signs his appointment paper as minister for planning and strategic investment following a swearing-in ceremony on February 16, 2015. Photo: AFP/Valentino Dariell De Sousa

Gusmao, frustrated by the refusal of the Greater Sunrise consortium led by Australia's Woodside Petroleum to buy into his Tasi Mane scheme, this April convinced the Dili government to acquire a majority stake in the consortium by buying out Shell and ConocoPhillips for $650 million. This gave Timor-Leste a 56.6%, with Woodside retaining 33.4% and Japan's Osaka Gas 10%.

The funds **came from** Timor-Leste's Petroleum Fund, the sovereign wealth fund built on revenues from smaller Timor Sea oil and gas fields since 2005 and invested mostly in US Treasury bonds and global blue-chip shares.

Gusmao's demand for an outright purchase had been rejected by Timor-Leste's president, Francisco "Lu-Olo" Guterres. Eventually, the government agreed that the tiny state oil company called Timor GAP could borrow the $650 million from the fund, with an initial eight-year repayment holiday, the accrued interest and principal repaid over the following 10 years.

The loan is still listed as an asset of the petroleum fund. But on current prospects, Timor GAP looks unable to meet repayments due from 2027. Gusmao has been unable to find the finance for Tasi Mane, even reportedly from China. He puts the cost at $12 billion. Other estimates run as high as $20 billion.

Woodside refuses to support it and would clearly prefer the option of connecting Greater Sunrise across a relatively shallow, even seabed to the existing pipeline between the Bayu-Undan field and an existing LNG plant at Darwin, in northern Australia.

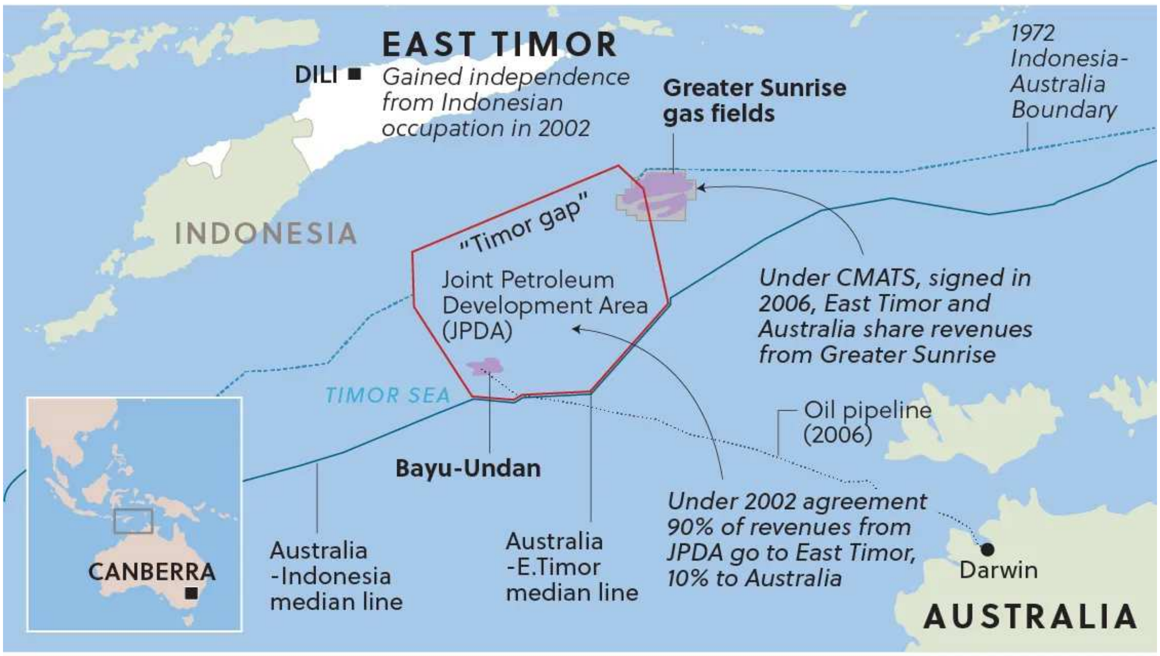
Industry sources put the cost of that option at between US$200 million and US$400 million, in addition to the "upstream" cost of installations on the field.

If this was chosen, the conciliation documents from The Hague show that, as well as Dili's share of revenue rising from 70% to 80% to compensate for the losses of onshore processing, Woodside and the Australian government were ready to throw over $250 million into additional spin-offs for Timor-Leste.

The sweetners include financing a smaller pipeline for domestic gas consumption, use of Timorese supply bases, establishment of a technical training college and jobs for Timorese both on the field and in Darwin.

Contested Waters

Australia and Timor Leste dispute ownership of underground oil and gas



Sources: IMF/WB//DFAT/offshoreenergytoday.com/GeoscienceAustralia © AFP

Woodside is also looking at a third, intermediate option: to extract just the valuable petroleum liquids, estimated at 226 million barrels, which would be loaded onto tankers directly with the dry gas pumped back into the reserves for future **tapping**.

This would cost about $1.5 billion to develop, and earn about $7 billion in profits over several years, according to one industry expert. But if Dili keeps insisting on Gusmao's plan, Woodside would leave any pipelines across the 3,000-meter deep Timor Trench in the seabed and the onshore LNG-petrochemical plants for Timor-Leste to fund and build.

A joint comparative study by neutral experts agreed by the two parties as part of the conciliation found that the proposed pipelines would be "at the limit of current industry water depth capability" and that the LNG plant at Beacu would require a non-recoverable $5.6 billion subsidy of its $7.14 billion cost to get a 7% rate of return that would make it barely financeable through equity or debt.

The Petroleum Fund, currently valued at over **$18 billion**, meanwhile will soon start running down sharply, even if oil prices rebound, interest rates rise and the US stock market boom continues. Its remaining input, from the Bayu Undan field, is schheduled to run out in about two years unless its new Australian owner, Santos Ltd, decides to drill more wells to squeeze out a bit more production.

The Timor-Leste government, running a budget of around **$1.5 billion** a year, is withdrawing about **$1 billion** each year from the fund, almost twice the rate judged as sustainable.

It's delicate to talk about these numbers in Dili. For most of the Timor-Leste state's life so far, Gusmao has dominated its politics, through his charismatic persona, his record as a guerrilla leader against the Indonesians, his years in a Jakarta prison after his capture in 1992 and **re-emergence heading what at first seemed like a coalition of non-ideological nationalists**.

His strongest rivals were in the Fretilin party, formed along Third World liberationist lines in the 1970s against the Portuguese rule which ended in 1975 with civil war and Indonesian invasion. During the guerrilla campaign, Gusmao broke the formal link between Fretilin and the armed resistance to make the struggle more inclusive, starting the estrangement. The president, elected separately from the parliament, belongs to Fretilin, as does Alkatiri.

The scales began to tip against Gusmao in 2018 after another former guerrilla leader, Taur Matan Ruak, **left the presidency** to stand in elections. Taur Matan Ruak's new People's Liberation Party became the swing factor in parliament, and he became prime minister, backed by Gusmao's CNRT group. Gusmao retained special control over **Timor Sea matters**. Fretilin was in opposition.

Around the start of this year, the arrangement unraveled, chiefly over Gusmao's calls on the budget to finance Tasi Mane infrastructure for a gas industry that might never come to fruition. Taur Matan Ruak lost a majority but continued in a tenuous position. In March, Gusmao seemed poised to return as prime minister with a new six-party coalition of 34 seats in the 65-seat chamber.

Taur Matan Ruak delivers a speech as prime minister at the Palacio Nobre Lahane in Dili, June 22, 2018. Photo: AFP/ Valentino Dariell de Sousa

But by May, **the tables were turned** against him. A new alignment formed behind Taur Matan Ruak, including Fretilin and a new party called Khunto that had grown out of the martial arts clubs popular among Timor-Leste's restive youth. If this coalition keeps most of its 41 members, it can rule until the next elections in 2023.

Taur Matan Ruak – his nom de guerre from resistance days meaning "Two Sharp Eyes" – moved quickly, replacing key ministers and sidelining Gusmao from petroleum and sea border negotiations.

Soares, the new petroleum minister, is a Fretilin member and previously a political science professor at the national university. In July, he replaced top officials at state petroleum institutions. Among them was Francisco Monteiro, chief executive of Timor GAP for the previous nine years.

His successor is former deputy Antonio Jose Loiola de Sousa, an experienced petroleum engineer trained in Indonesia and Norway who is bringing to light some of the studies commissioned by Timor GAP and calimed to support allegedly supporting the Tasi Mane scheme, though hitherto kept secret.

At the end of August, Soares gave a candid interview to the Portuguese news agency Lusa in which he said Timor GAP's feasibility studies had been tailored to suit Gusmao's dream. "What has happened so far has been putting the cart before the horse," he said. "The politicians have decided and the technicians have gone after the politicians. We have to reverse that."

A month of recriminations has followed. Monteiro, the dismissed Timor GAP chief, accused Fretilin of wanting to kill the Tasi Mane scheme and his successor of "distorting" the facts. Timor GAP responded.

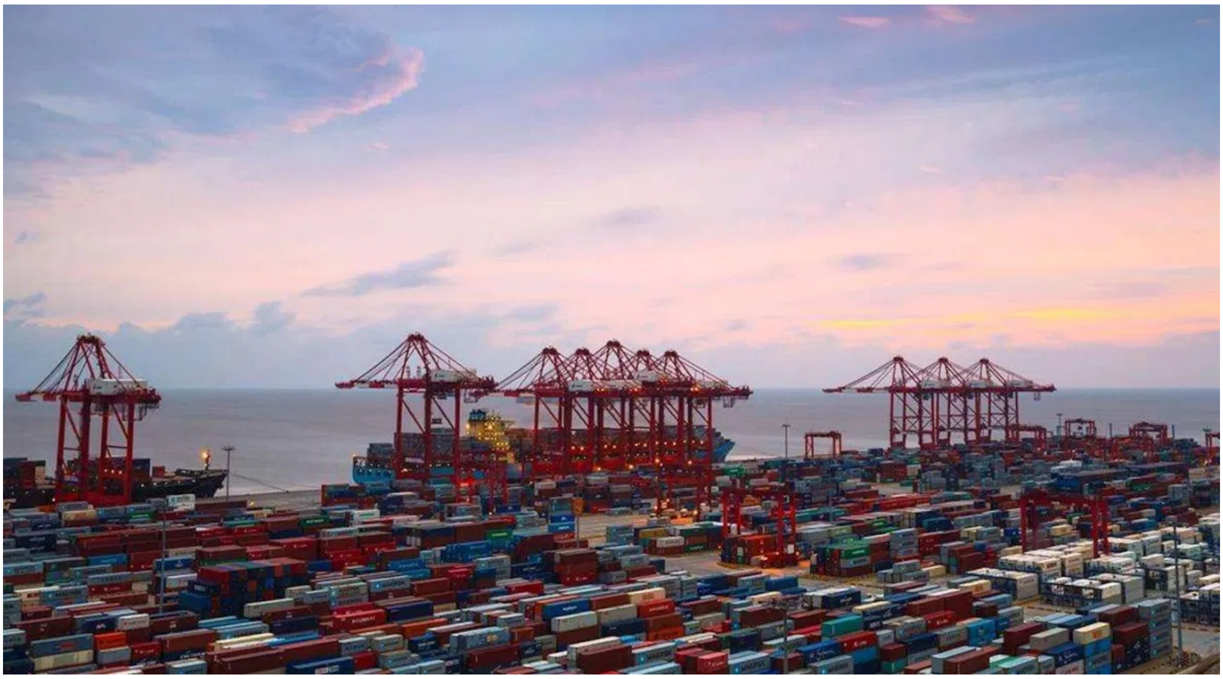
"There was never a proper feasibility study in the years leading up to the Tasi Mane project as a whole," it said in a statement. The government, assisted by Monteiro, had come up with a project and then tried to justify it with "flawed economic data and predictions."

For now, both Soares and Alkatiri, his party's general secretary, are maintaining the line that Tasi Mane can go ahead if supported by proper feasibility studies. "Which means that technical studies have to be done," Alkatiri said. "And don't invent numbers, don't make projections in order to justify the result. Don't make up."

They clearly don't think the numbers for Tasi Mane will stack up. Gusmão, who greeted this with his "demagogy" response, looks worried.

Alkatiri himself is not without accusations of creating white elephants, having overseen some **$500 million** spent on a little-used special economic zone in the Oecusse territorial enclave in the Indonesian half of Timor island.

That’s getting up there with the $550 million already spent by CNRT governments on a highway and airport for Tasi Mane, $1 billion on a central, diesel-fuelled power plant instead of dispersed renewables, and the $490 million on a widely seen as unnecessary new Chinese-built container port near Dili.



China provided finance for Dili’s new container port. Image: Facebook

For now, Tasi Mane has been sent to the national audit office for re-evaluation and external auditors may be called in, Soares told this correspondent from Dili.

“Most of these studies are inconclusive and to a certain extent portray uneconomical investment rates of return in their project economic models,” Soares said, adding: “There is [a] tendency from the past management to use the technical studies to only justify or support their predetermined decision. Therefore, all the concluded studies need to be revisited and reevaluated.”

Soares added that the proposed pipeline route needed close study. “If we eventually found out that the proposed pipeline routes are subject to potential risks or hazards technically, then we should avoid those risks and re-route or redirect accordingly to a safer route,” he said

The minister attacked the purchase of the Shell and ConocoPhillips shares of Greater Sunrise as “politically-motivated” and exposing Timor Gap to long-term debt, “which ultimately will drain up Timor-Leste petroleum funds in high velocity.”

It would also require Timor Gap to fund its share, 56.6%, of the “upstream” development on the field. For the cheapest option, extracting the liquids, that would be about $850 million.

“Has this been factored into the calculation of the revenue that the former regime has been selling to [the] public in Timor-Leste and factoring in the gas markets projection in the years post first gas?” Soares asked in the interview. “This is what we need to find out as well.”

With the rise of renewables, gas is losing favor elsewhere. Oil companies are now writing down the carrying value of their discoveries and postponing development. In July, Woodside wrote down its Greater Sunrise stake to zero. Atlassian’s Michael Cannon-Brookes is even proposing energy going the other way across the Timor Sea: solar-generated electricity flowing by cable from Darwin to Singapore.

Yet for Timor-Leste, the funds that can be generated from Greater Sunrise are vital for lifting its people out of poverty. Gusmao can at least claim credit for gaining a greater share of its revenues, along with his Canberra-based lawyer Bernard Collaery, who is now standing trial for allegedly disclosing the 2004 bugging operation while the former ASIS official, known only as “Witness K”, is also being prosecuted for allegedly leaking classified information.

Soares said it was a heavy responsibility not to waste this opportunity on bad investments. “We recognize that the resources belong **to 250,000 Timorese** who laid down their lives in a long cause for our independence as well as our current and future generations,” he said in the interview.

Timor-Leste's Victor Conceicao Soares takes questions from the press in a file photo. Image: Twitter

"There are so many Timorese who are still living under [the] poverty line, we have [a] high youth unemployment rate, the country is still heavily dependent on imports of goods and basic needs from other countries and our agricultural sector is still on a subsistence basis," he added.

At least for now, however, Tasi Mane is not being declared dead in the water.

"We want to ensure that our onshore LNG project could at least bring a new thrust to our economic growth," Soares said. "Hence, we will carry out a proper and integrated re-assessment towards our Tasi Mane project in ensuring that Tasi Mane is ready as a hub for the Sunrise and other fields development."

Hamish McDonald is former political editor at the Far Eastern Economic Review and ex-foreign editor at the Sydney Morning Herald.