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Setting Timor-Leste's boundaries

While settling a maritime border dispute with Australia is a step forward in relations between the two countries, it won't resolve all the issues

One of the outstanding points of contention between Timor-Leste and Australia is how revenues from the Joint Petroleum Development Area (JPDA), shared by the two countries, will be divided in the future. The JPDA includes the Greater Sunrise field that, according to Australia's Woodside Energy, contains contingent resources of 5.13 trillion cubic feet of gas and 225.9m barrels of condensate. Located about 150km southeast of Timor-Leste and 450km northwest of Darwin, Sunrise is split between operator Woodside with 33.4%, ConocoPhillips (30%), Shell (26.56%) and Osaka Gas(10%).

Unfortunately for Timor-Leste, nearly 80% of Sunrise lies in Australian waters, and one of the main issues in the arbitration has been the degree to which maritime boundaries may be moved in the small country's favour. The subject is a burning issue in Timor-Leste.

The breakthrough in negotiations was announced on 1 September by the Permanent Court of Arbitration that's been guiding the process throughout 2017. Both sides hailed it as a landmark that would enable them to work together on the development of resources shared throughout the maritime border. So far though, it's still a diplomatic agreement that's seen as

something of a face-saver for both countries, Australia because it appeared to be in breach of the principles of the United Nations Convention on the Law of the Sea (UNCLOS) and Timor because maritime boundaries are an important issue of sovereignty. “We don’t know yet whether it’s served Timor’s purposes,” said one source.

A favourable deal is certainly much more important for the smaller nation. Without a substantial boost in oil revenues, Timor-Leste’s struggling economy faces bankruptcy sometime in the next five-to-20 years, according to various estimates. “Timor-Leste’s oil revenues are currently zero,” points out Bernardo Barradas of Portugal-based law firm PLMJ that’s closely followed the dispute.

Most experts would agree with that conclusion. “Revenues from Bayu Undan [an offshore gas and liquids field] are virtually over,” explains Charles Scheiner of La’o Hamutuk, a Dili-based independent think tank. “Timor-Leste has received more than 98% of the money it will get from that field.”

And because no new fields have been discovered, that just leaves Sunrise, whose reserves are valued at around \$40bn by the Timorese government. But can Sunrise save the nation’s economy? As Scheiner adds: “According to current projections for future oil and gas markets and prices, Sunrise may not be very lucrative and might not even be commercial. [It] depends on how much development costs are and whether there are government subsidies for the capital expenditure.” He also cites the importance of the global petroleum market and the growth of renewable energy.

But even if there are robust revenues (and these are not expected for around a decade), Scheiner warns they’ll only delay the inevitable unless the country develops a more broadly based economy. “We project that non-oil revenues will be around \$0.5bn a year (in a decade),” he estimates. “But the Petroleum Fund, which has invested some Bayu-Undan revenue, will have been emptied by then. If current programmes and projects are implemented, there may still be a \$1.5bn annual deficit, even with Sunrise, and \$2.5bn without it.” However, it’s considered possible that Timor-Leste’s public finances could get a welcome boost if Australia is required to reimburse the country for lost revenues when the maritime boundaries are finalised.

While negotiations have been going on, majors such as Italy’s Eni remain hopeful about the long-term potential of the Timor Sea where, the group reported recently, it “identified a number of oil prospects that, in the case of an eventual discovery, could be exploited in synergy with the nearby Kitan field.” In early 2013, Eni won an exploration permit over an area of 662 sq km alongside the Kitan field. The area has an average water depth of 350 metres. If Eni strikes oil, that would be important for Timor-Leste’s prospects. The government is keen to create an indigenous oil industry—for instance, it wants to build a pipeline from Sunrise to the South Coast and develop related infrastructure.

Opinion is divided over what comes next: whether Timor-Leste will dig in its heels and demand more favourable maritime boundaries; or whether it will accept the status quo in return for a bigger share of direct tax revenues from Sunrise. So far, successive governments have opted for the latter. A clearer picture is expected to emerge in the next few weeks as negotiations over the fine print continue.”