Timor Sea: messy politics

An increasingly bitter disagreement between Australia and East Timor over exploration rights dominates the headlines, but a couple of major gas projects are starting to hit their stride. James Gavin writes

IT IS FIVE YEARS since East Timor gained independence from Indonesia, and oil and gas prospects in the Timor Sea are still mired in messy politics. A long-standing dispute with Australia over territorial rights to offshore oil and gas shows no signs of nearing resolution, to Dili's increasing resentment.

In March 2003, the countries reached a partial agreement on the maritime borders demarcating a Joint Petroleum Development Area (JPDA). At first sight, the Timor Gap agreement seemed suited to East Timor, splitting royalties from the 62,000 square km concession area – which includes the Bayu-Undan fields, Elang, Kakatua, sections of Greater Sunrise and Kuda-Tasi and Jahal – on a 90:10 basis in its favour.

Maritime border disputed

But the two sides have still not agreed an exact demarcation of the maritime border and Dili has strongly disputed the legal framework of the JPDA. In particular, East Timor has criticised tough Australian negotiating tactics over disputed claims to gas reserves, which it says will force it to accept that long-promised revenues are unlikely to materialise for several more years at the earliest.

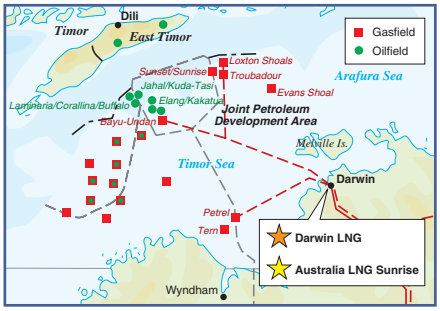
Greater Sunrise's 7.68 trillion cubic feet (cf) of gas reserves are closer to East Timor than Australia, but they were granted to Australia under a treaty signed in 1989 with Indonesia – whose illegal 24-year occupation of the territory ended in 1999. The JPDA was designed to redress a perceived imbalance in that treaty, but the failure to reach agreement on maritime borders means cash-strapped East Timor is unable to exploit its Timor Sea reserves.

Australia stands accused of stalling on a final treaty in an attempt to maximise its revenues from the Greater Sunrise gasfield before depletion, at which point Timor would have received less than 20% of the revenues.

The two countries have spent the past year engaged in a highly public spat. In December, East Timor's foreign minister, Jose Ramos Horta, called on Australia to expedite negotiations on the border, arguing it "had an international legal obligation to exercise restraint in regard to the exploitation of resources in disputed maritime areas". He also said developers should refrain from new actions that would complicate the issue of how the resources would be distributed.

Australia, which claims production rights to the Laminaria, Corallina and Buffalo fields – which lie outside the JPDA – on the basis that these lie within its existing maritime boundary, has been accused of "unilaterally" exploiting them. The Timorese prime minister, Mari Alkatiri, has threatened to claim the $1.2bn in royalties that Canberra has drawn from the 50,000 barrels a day (b/d) oilfields operated by Woodside, BHP Billiton, Nexen Petroleum and Royal Dutch/Shell.

East Timor's preferred solution to the border dispute is to draw a median line equidistant between the countries. Under international law, each side can claim boundaries 200 nautical miles from their coasts, but the distance between the countries at their nearest point is just 130 nautical miles.



Map 1: The Joint Petroleum Development Area

Australia argues that its maritime border extends as far as its entire continental shelf and claims the 90:10 production distribution ratio compares favourably with the 50:50 split in the original treaty with Indonesia. And it is ready to tough it out in talks, steadfastly refusing to offer Dili a timetable for agreeing a permanent boundary. Aware that East Timor urgently needs the revenue from the fields, Australia hopes its strategy of stalling will ultimately reap dividends.

Meanwhile, Canberra is preparing to offer new offshore blocks in the Timor Sea area that are within the maritime boundary claimed by East Timor. In February 2004, it awarded an exploration permit to Methanol Australia, 60 km west of its Tassie Shoal methanol project. Methanol Australia hopes the permit will supply gas for its Tassie Shoal methanol project and the Darwin LNG (liquefied natural gas) project. The NT03-3 permit covers 12,070 square km and lies outside the JPDA.

East Timor is looking to develop onshore acreage, although tenders for exploration contracts must wait for the passage of the National Petroleum Act, expected by mid-2004, which will allow East Timor to hold licensing rounds. A number of international players, including Australia's Woodside, are keen to assess prospects, but must wait for the results of an independent survey commissioned by the government. PetroChina is due to present the results of an onshore mapping project in February, which will be followed by the appointment of a seismic contractor.

But the main project action remains firmly focused on the JPDA and wider Timor Sea area. Fortuitously for developers, East Timor's revenue concerns are not impinging on project activity. January saw the flow of first gas from ConocoPhillips' Bayu-Undan gas and liquids field. The two wells opened for production as part of commissioning and start-up for Wellhead Platform 1. Under the $1.8bn first stage of the project, Bayu-Undan is on schedule for first liquids production in April 2004. Full liquids output of 115,000 b/d of condensate is set for the end of the year.

The second stage, LNG development, costed at $1.5bn, will involve piping the residual gas to Darwin, in Australia's Northern Territory, where it will be processed for export to Japan from first-half 2006. Tokyo Electric Power and Tokyo Gas will lift 3m tonnes a year of LNG over a 17-year period.

Bayu-Undan is estimated to hold 3.4 trillion cf of gas and 400m barrels of liquids. Full production of 1.1bn cf/d is expected during the third quarter. ConocoPhillips says most of its 2004 exploration and production spend of $1.3bn will go towards continued Bayu-Undan development, along with projects in Indonesia and China.

Greater Sunrise options

Dili is also sounding out the operators of the Greater Sunrise project to build an LNG terminal in East Timor – some 150 km from the fields, compared with the 500 km the gas must be piped to Darwin. The other option for Greater Sunrise is a floating LNG plant – favoured by three of the project partners Woodside, Shell and Japan's Osaka Gas. But ConocoPhillips, which has a 30% interest in the fields, favours the link to its Darwin LNG plant, which is under construction.

Greater Sunrise (comprising the Sunrise and Troubador gasfields) is subject to a unitisation agreement between Australia and East Timor, under which 79.9% of the deposit – the part lying outside the JPDA – is attributed to Australia.

The difficult economics involved in offshore developments has thwarted one Timor Sea oilfield development. Last month, Woodside said it would drop a proposed oilfield development at Kuda-Tasi and Jahal after unsatisfactory drilling results. First oil had been expected before year-end.

The project was deemed uneconomic after plans for a floating production, storage and offloading vessel to develop the field were shelved, and the failure to reach an agreement on a tie-back to a floating production unit at the Laminaria/Corallina oilfield. □