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Developing Timor-Leste's Oil Resources: At What Cost?

By Viji Menon

Synopsis

Timor-Leste's recent action to acquire the majority stake in the joint venture that was to develop the oil and gas in the Greater Sunrise field, gives it a greater say on the controversial issue of the location of the pipeline. However, questions remain about the source of the massive funding required for the project.

Commentary

IN MARCH 2018, Timor-Leste and Australia signed a treaty resolving the issue of the long-disputed maritime boundaries between the two countries. This treaty recognised Australia's and Timor-Leste's shared sovereign rights over the resources in the Greater Sunrise field. Timor-Leste is to get 70-80% of revenues from the field. What was not resolved was the issue of how these resources would be developed: through a pipeline to the south-east coast of Timor-Leste or to an existing LNG facility in Darwin in Australia.

Discussions continued between Timor-Leste and the joint venture. The option preferred by Timor-Leste is a pipeline from Greater Sunrise to an onshore processing facility on Timor-Leste's south coast facing the Timor Sea (Tase Mane project). Timorese leaders want to develop this area as a sub-regional centre for the petroleum industry, providing direct economic dividends for the country. The oil companies have expressed a preference for a pipeline to Darwin as it claims that a pipeline to the south of Timor-Leste will be too costly and not commercially viable.

Timor-Leste in the Driver's Seat?

Little progress was made in these negotiations with the oil companies. In late September 2018, it was announced that former President and Prime Minister, Xanana

Gusmao, the main negotiator on the maritime boundary negotiations, had signed a deal with Conoco Phillips (US) to buy its 30% share in the joint venture for US\$350 million.

Gusmao, whose coalition forms the current government, appealed to all political parties for support. As the development of the Greater Sunrise field was important for the country, he told the media that “we need to trust each other and see eye-to-eye, if not, it is hard to develop our country”.

All political parties in Timor-Leste want the pipeline to come to Timor-Leste. This is a matter of national pride and it is unpatriotic to oppose it. Former Prime Minister Mari Alkatiri, head of the Fretilin party, now in the opposition, said last year that “we firmly maintain our position that the gas pipeline must come to Timor-Leste.”

The Fretilin’s position was supported by other opposition parties in parliament. However no party in parliament raised the issue of how the buy-out would be funded.

Where Will the Money Come From?

On 21 November, it was announced that Timor-Leste had signed an agreement with Shell to buy its share (26.6%) in the joint venture for \$300 million. With this move, Timor-Leste now owns the majority stake, 56.6 percent, in the joint venture. It would be difficult for the remaining companies, Woodside (Australia) or Osaka Gas (Japan) to veto its plans.

Following the buy-out of Conoco Phillips’ 30% share in the joint venture, the Dili Government submitted to parliament an amendment to the Petroleum Activities Law allowing the State to participate in a joint venture with a share larger than 20%. On 14 November, parliament approved the amendment, with 38 votes in favour and 23 against, with Fretilin voting against the amendment. It said the deal was “illegal” as it had violated the 20% limit provided in the 2005 Law.

The \$1.83 billion budget for 2019 includes \$350 million for the buy-out of Conoco Phillips’ share. On 22 November, Prime Minister Taur Matan Ruak told the media that although included in the budget, the funds would be taken out of the Petroleum Fund. He also added that the government had not made any decision on the \$300 million for buying out Shell’s share.

According to *La’o Hamutuk*, a local NGO that monitors closely all petroleum-related activities, Timor-Leste will have to invest at least \$14 billion in capital expenditures to develop the Sunrise and Tasi Mane projects. The NGO has expressed concern “that the issue has financial, economic, environmental and social consequences which will be longer-lasting and more impactful than temporary patriotic emotion”.

It has serious doubts that the benefits of bringing the pipeline to Timor-Leste are enough to justify its huge costs, risks and social impacts. However, the government believes that spinoff jobs, contracts and local economic development on the Tasi Mane coast will more than compensate for the higher costs and risks of bringing the pipeline to Timor-Leste.

The China Factor?

Some political leaders have suggested that most of this money should be invested directly by the Petroleum Fund, rather than taken as an expenditure through the State Budget. Although Article 15 of the Fund allows up to 5% of the Fund (about \$800 million) to be invested in "other eligible investments" approved by the Minister of Finance (which could include petroleum projects), the article also requires that all investments must be located outside of Timor-Leste.

While this law could be amended in future, the revenues in the Petroleum Fund will also be gradually depleted. The Bayu-Undan field is currently the main source of revenue for the Fund but is expected to end production by 2020 or 2022. It is therefore unclear as to where the funding for these projects will come from.

According to oil industry sources, Timorese officials are currently having discussions with Chinese and Korean oil companies. There has been speculation that Timor-Leste could seek concessional loans from China, in return for drilling rights or establishing port facilities.

With the current US sanctions on Iranian oil exports and China's insatiable demand for energy, Timor-Leste's oil resources could appear attractive. Although there is no concrete evidence at present that China would be interested in investing in the oil sector in Timor-Leste, it is a development that bears close watching, especially given its current drive to increase its presence and influence in the south Pacific.

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