

# Timor-Leste's gas dreams fade

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*Timor-Leste's plans for developing its oil and gas industry, made possible after winning back control of offshore fields from Australia, have stalled as the coronavirus pandemic drives down prices and the country's new leadership questions the scheme's economic rationale.*

Tensions are rising in Timor-Leste as the country's long-held dream for a domestic oil and gas industry appears to be slipping away, hastened by the Covid-19 crisis. "We are facing a great demagoguery," former president and prime minister Xanana Gusmão said of his political rivals in an interview last month. The comments were a rebuke of his fellow former prime minister Mari Alkatiri, who said Gusmão's multibillion-dollar petroleum plans needed a proper feasibility study.

For the past decade, Gusmão's vision of an industrial future for Timor-Leste has been state policy: a plan to develop the Greater Sunrise offshore gas field reclaimed from Australia, with pipelines laid to bring gas ashore and refineries built along the coast facing the Tasi Mane, or Timor Sea.

Yet over the past four months, this pipedream has been dissipating as new eyes in Dili take a closer look at longstanding doubts about the technical and economic rationale of this strategy.

This may have happened anyway, but the coronavirus-induced plunge in petroleum demand and prices has sharpened the criticism. A political reshuffle sent Gusmão into opposition and detached him from his long-time role as chief Timor Sea negotiator. Now a new petroleum minister, Vítor da Conceição Soares, is saying that data supporting the Greater Sunrise plan was tailored to fit the ambition: "The cart has been put before the horse."

Timor-Leste finally got the lion's share of the Greater Sunrise gas field in August 2019, after revelations that Australia's secret service, ASIS, had bugged the offices of Timorese ministers during negotiations between the two countries in 2004. In the midst of a long battle in The Hague, Australia agreed to renegotiate, and the maritime boundaries were redrawn, becoming far more favourable to Timor-Leste.

In April 2019, Gusmão, frustrated by the refusal of the Greater Sunrise consortium, led by Australia's Woodside Petroleum, to buy into his refinery scheme along the Timor coast, got the Dili government to acquire a majority stake in the consortium, buying out Shell and ConocoPhillips for \$US650 million. This gave Timor-Leste a 56.6 per cent share, with Woodside retaining 33.4 per cent and Japan's Osaka Gas 10 per cent.

The money came from Timor-Leste's Petroleum Fund, the sovereign wealth fund established in the mid-2000s after independence was finally wrested from Indonesia.

Gusmão's demand for an outright purchase of the Greater Sunrise shares was rejected by Timor-Leste's president, Francisco "Lú-Olo" Guterres. The government eventually agreed that the tiny state oil company, Timor GAP, could borrow the \$US650 million from the Petroleum Fund to buy out Shell and ConocoPhillips.

For Timor-Leste, the funds that can be generated from Greater Sunrise remain vital for lifting its people out of poverty.

On current prospects, Timor GAP looks unable to meet its repayments from 2027. And Gusmão has been unable to find the finance for the Tasi Mane scheme, even reportedly from China. Woodside refuses to support the plan and would clearly prefer the option of connecting Greater Sunrise across a relatively shallow and even seabed to the existing pipeline to Darwin's liquefied natural gas (LNG) plant. Industry sources estimate this would cost between \$US200 million and \$US400 million.

If this option were chosen, the conciliation documents from The Hague show that Woodside and the Australian government would be ready to pay more than \$US250 million in spinoffs for Timor-Leste, including the financing of a smaller pipeline for domestic gas consumption, use of Timorese supply bases, a technical training college, and jobs for Timorese both on the field and in Darwin. This was aimed at assuaging Timor-Leste's concerns that the country would miss out on highly skilled jobs and economic activity.

Woodside is also looking at a third, intermediate option – extracting the estimated 226 million barrels of petroleum liquids and loading these onto tankers, with the dry gas pumped back into the reserves for future tapping. This would cost about \$US1.5 billion to develop and earn about \$US7 billion over several years, according to an industry expert.

If Dili keeps insisting on Gusmão's plan, Timor-Leste will be left to fund and build any onshore LNG-petrochemical plants. Woodside will not tip in. According to a joint comparative study by "neutral" experts as part of the conciliation process, making even one such refinery financeable would cost the Timor-Leste government \$US5.6 billion in non-recoverable subsidies.

Meanwhile, Timor-Leste's Petroleum Fund, currently valued at more than \$US18 billion, will soon start to run down sharply – even if oil prices rebound, interest rates rise and the United States sharemarket boom continues. The fund's remaining input, from the Bayu Undan field, runs out in about two years. The government is withdrawing about \$US1 billion annually from the fund, almost twice what's judged sustainable.

In Dili, it is delicate to talk about these numbers. For most of the Timor-Leste state's life, Xanana Gusmão has dominated its politics. He is a charismatic persona, lionised for his record as a guerrilla leader against the Indonesians; he spent years in a Jakarta prison after his capture and re-emerged as the head of what seemed a coalition of non-ideological nationalists.

But the scales began to tip against Gusmão in 2018 after another former guerrilla leader, Taur Matan Ruak, left the presidency to stand in the country's elections. His new People's Liberation Party became the swing factor in parliament, and he became prime minister, backed by Gusmão's CNRT party. Gusmão retained special control over Timor-Leste's maritime boundaries. Fretilin – Gusmão's long-time rival – was in opposition.

Then, earlier this year, the arrangement unravelled, chiefly over Gusmão's calls on the budget for more preliminary work on the Tasi Mane scheme. Taur Matan Ruak lost a majority but continued in a tenuous position. In March, Gusmão seemed poised to return as prime minister with a new six-party coalition of 34 seats in the 65-seat chamber.

Then the Covid-19 pandemic hit, and plummeting oil prices shifted the political dynamic in Timor-Leste. A new alignment formed behind Taur Matan Ruak, including Fretilin and a new party, Khunto, grown out of the martial arts clubs popular among Timor-Leste's restive young. If this coalition keeps most of its 41 members, it can rule until the next elections in 2023.

Taur Matan Ruak moved quickly, replacing key ministers and sidelining Gusmão from petroleum and sea border negotiations.

Soares, the new petroleum minister, is a Fretilin member. In July, he dismissed top officials at state petroleum institutions. Among them was Francisco Monteiro, who was chief executive of Timor GAP for nine years.

At the end of August, Soares gave a candid interview to the Portuguese news agency Lusa. He said Timor GAP's feasibility studies had been tailored to suit Gusmão'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 former 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." The government, assisted by Monteiro, had come up with a project, it said, and then tried to justify it with "flawed economic data and predictions".

Both Soares and Mari Alkatiri, now secretary-general of Fretilin, are maintaining that Tasi Mane can go ahead – if the project is supported by proper feasibility studies. "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 [things] up." It was this comment that drew Gusmão's rebuke about "demagogy".

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

"Most of these studies are inconclusive and to a certain extent portray uneconomical investment rates of return in their project economic models," he said. "There is 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 re-evaluated."

Soares attacked the purchase of the Shell and ConocoPhillips shares of Greater Sunrise as being "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 per cent, of the "upstream" development on the field.

"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. "This is what we need to find out as well."

With the rise of renewables, gas is losing favour elsewhere. In July, Woodside wrote its Greater Sunrise stake down to zero. Atlassian co-founder Mike Cannon-Brookes is even proposing energy going the other way across the Timor Sea: solar-generated electricity flowing from Darwin to Singapore.

Yet for Timor-Leste, the funds that can be generated from Greater Sunrise remain vital for lifting its people out of poverty. Soares said it was a heavy responsibility not to waste this opportunity on bad investments.

"We recognise that the resources belong to 250,000 Timorese who laid down their lives in a long cause for our independence," he told me, "as well as our current and future generations."

*This article was first published in the print edition of The Saturday Paper on Oct 3, 2020 as "Fuel throttled".*