

Exploration & Production

Australia aims to limit China's role in Timor LNG

The prospect of China becoming more involved in East Timor is pushing Australia to increase its interest in Timor LNG

By [Damon Evans](#) 7 February 2019



ConocoPhillips' Bayu Undan platform in the Timor Sea. (ConocoPhillips)

The key issue: *Australia is exploring ways to invest in East Timor's planned LNG export industry to block any potential Chinese involvement under Beijing's 'Belt and Road' Initiative.*

Interfax analysis: East Timor is set to become part of a wider battle for influence in the Pacific region between China and Australia as it forges ahead with plans to build an LNG plant and develop an associated petrochemicals industry.

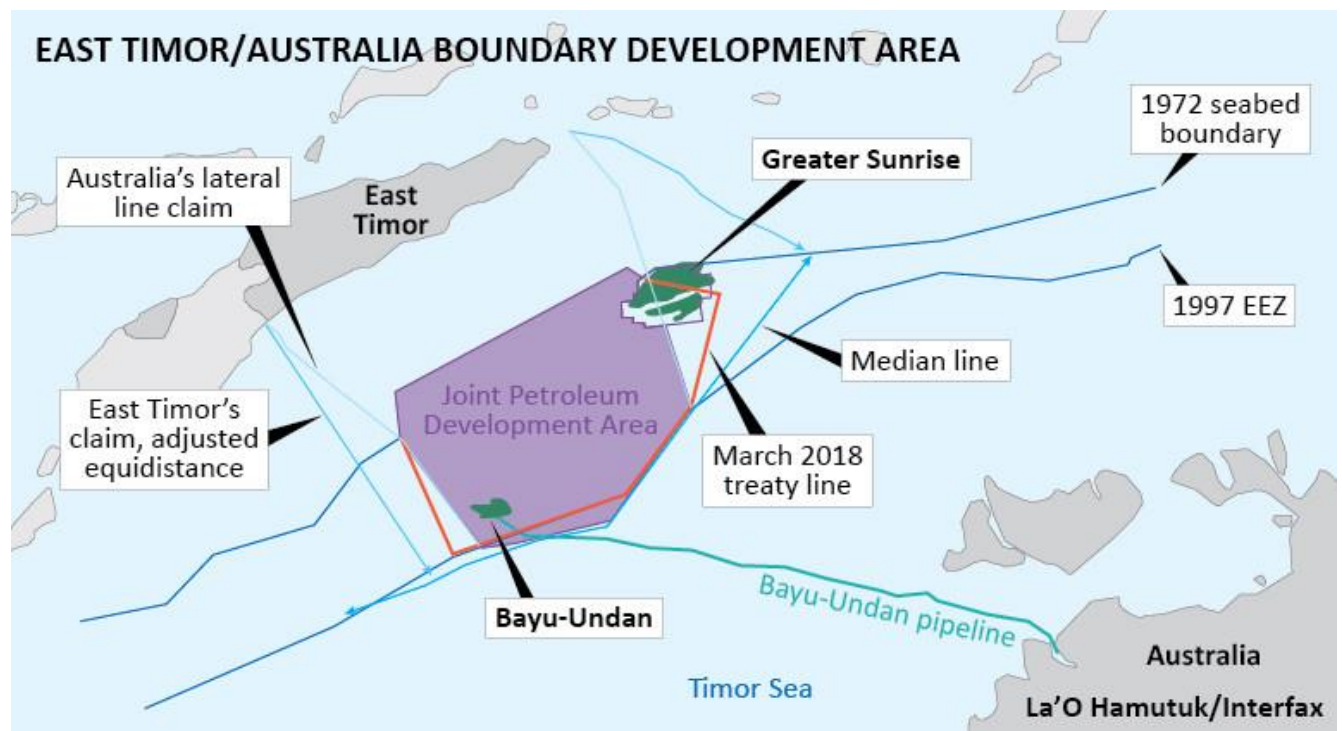
Timorese President Francisco Guterres approved a decree on 17 January that will allow East Timor to use its petroleum fund to cover a \$650 million buyout of ConocoPhillips' and Shell's

shares in the Greater Sunrise gas fields. Guterres vetoed the proposal in December, but it subsequently won overwhelming parliamentary backing. With this stumbling block overcome, momentum for Timor LNG (TLNG) – which requires billions of dollars of investment – will pick up.

The deals will give East Timor a majority stake in the Greater Sunrise project, which Timorese leaders view as central to the country’s economic development plan. But the government will need help financing its multi-billion-dollar LNG project, and the approval paves the way for Chinese participation.

The decree enforces an amendment to East Timor’s 2005 Petroleum Activities Law limiting the ability of the country’s Audit Court to review contracts relating to petroleum operations. The court previously blocked potential Chinese investments in East Timor. Critics argue that, while weakening oversight makes it easier for China to finance infrastructure related to Greater Sunrise, including ports, it also increases the risk of corruption.

Australia’s military leaders are uneasy about China establishing stronger ties with their northern neighbour. The threat of Chinese backing for East Timor’s planned LNG facilities could see Canberra step in with financial assistance, such as loans, aid and investment – helping to make TLNG a reality while also blunting Beijing’s influence in the country.



Military base

The Australian Department of Defence's most pressing regional concern appears to be that Beijing may seek to establish a military base in the South Pacific, particularly in Papua New Guinea. The Pacific island, an LNG exporter, has already attracted investment from China as part of the Belt and Road Initiative. This has in turn prompted Australia and the United States to pledge to build a naval base in PNG and invest in power plants to keep a lid on Beijing's rising influence.

A potential Chinese military base in East Timor – as hypothetical as it may be – scares Canberra even more, given its close proximity to the Australian mainland and key shipping routes in Southeast Asia. Critics of China's involvement believe that, in exchange for helping the Timorese fund the development of Greater Sunrise, Beijing will want access to East Timor's runways and ports for its air force and navy. This poses an unacceptable risk to Australia – as well as Indonesia – which occupies the other half of the island where East Timor is located.

It is no surprise Australia is exploring ways to help fund TLNG. Australia has a vested interest in the long-term prosperity and stability of its neighbour as well as a specific financial interest in the development of Greater Sunrise, which straddles the maritime border between Australia and East Timor. Following a new royalty-sharing agreement signed in March 2018, Australia will receive a greater share of the revenues from production if the gas is processed in East Timor.

So far Canberra has been a neutral stakeholder in the decision over where the gas from the Greater Sunrise fields will be processed. Canberra left it to the commercial partners, which included Perth-based Woodside Petroleum, to argue for the gas to be processed at existing facilities in Darwin. Meanwhile, East Timor insisted the gas should be processed on its shores, which it believes would provide greater economic benefits for its people.

The Timorese understand Australia will be loath to see China expand its geopolitical and military reach in the region. East Timor's leaders will be gambling that Australia takes the threat seriously enough to help make their petroleum dreams a reality without having to rely on Beijing's assistance – which would put it at risk from debt-trap politics.

Neighbouring Indonesia, which is expected to start importing LNG after 2025, could also be a supporter and potential customer of Sunrise gas, which would change the dynamics of the project.

TLNG remains a speculative project at best, but the simmering geopolitics could – unlike in most instances – eventually help it succeed.