

Project Insights

Big decisions for East Timor as treaty is ratified

The maritime boundary treaty between East Timor and Australia has been ratified, giving the Southeast Asian nation control over valuable assets in the Timor Sea, but a strategic plan for further development is lacking

By [Damon Evans](#) 5 September 2019
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A platform at the Bayu-Undan field. (ConocoPhillips)

The key issue: *East Timor ratified a treaty with Australia on 30 August that gives the Southeast Asian nation full jurisdiction over the Bayu-Undan field in the Timor Sea as well as most of the undeveloped Greater Sunrise field.*

Interfax analysis: The formalisation of the maritime boundary treaty between East Timor and Australia could pave the way for the development of the Woodside Petroleum-led Greater Sunrise field. It also provides an opportunity to extend the life of the ConocoPhillips-operated Bayu-Undan field, which is due to be shut down in 2022.

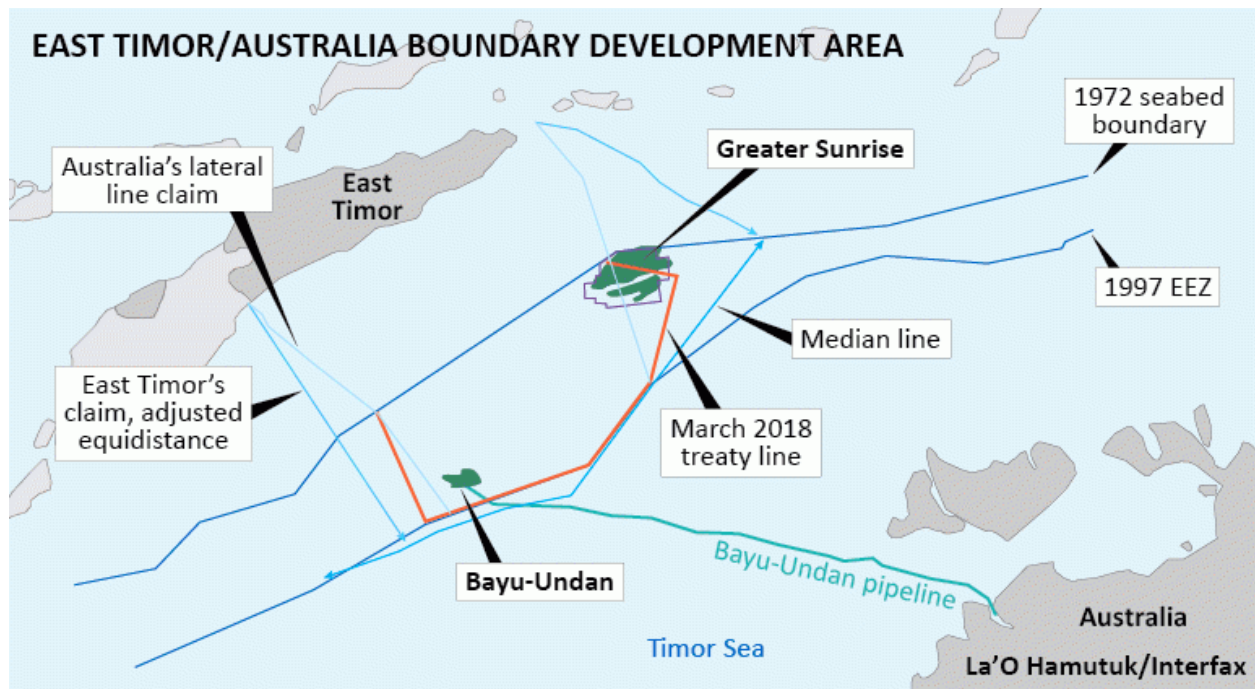
The treaty, [which was agreed in March 2018](#), defines the maritime border between the two nations and formalises the governance structure and tax-sharing agreements for offshore resources. Aside from putting all of Bayu-Undan inside East Timor’s territorial waters, most of the undeveloped Greater Sunrise is now within the country’s maritime boundary.

Revenues from Bayu-Undan feed a sovereign wealth fund that underpins East Timor’s economy. But with the petroleum money set to dry up within four years when the field is expected to cease operations, the country’s leaders have made the development of Greater Sunrise a top priority.

[IOCs considered Greater Sunrise to be politically stranded and of negligible value](#) after the maritime boundary negotiations with Australia in 2018, in which the Timorese refused to agree to a development concept that would have used the field’s estimated 142 billion cubic metres of gas to backfill Australia’s Darwin LNG plant. Shell and Conoco subsequently finalised the sale of their shares in Greater Sunrise to East Timor in April this year, leaving Woodside as the operator and Osaka Gas as a minority shareholder.

However, Woodside insists it will not invest in any LNG export infrastructure onshore East Timor as it is considered commercially unviable. [The Australian operator has said it may invest in the project’s upstream section only](#), leaving East Timor to finance the onshore plant and pipelines. This makes the Timorese development plan hypothetically feasible only if it can secure financial backing, which seems unlikely just now.

Some financial support may be forthcoming from China. Last month, China’s Foreign Ministry said Beijing was “ready to draw up plans with [East Timor] on co-operation under the Belt and Road Initiative, and [to] expand co-operation in such areas as [the] petrochemical industry”.



Risky business

Nevertheless, the Greater Sunrise gas project remains inherently risky and seems unlikely to start up before 2030, if ever. Woodside may first develop the field's large liquids resources in the late 2020s, leaving the gas to be produced through an onshore liquefaction facility at a later date. But in the meantime, East Timor's petroleum-dependent economy will shrink dramatically if Bayu-Undan closes as planned in 2022, when Conoco's production-sharing contract (PSC) ends.

Instead of focusing their efforts on Greater Sunrise, East Timor's leaders could attempt to find alternative options for Bayu-Undan, which is still a valuable asset.

Although Bayu-Undan will not have enough gas to support Darwin LNG by itself, if another field such as Barossa were to be used there is no reason why one of the plant's owners – whether it be Conoco or Santos – would not continue operating Bayu-Undan with a reduced output after 2022. However, a new PSC would have to be agreed with the Timorese first. East Timor appears to have no political will to do this and has focused on pursuing an onshore scheme for Greater Sunrise.

In recent years, East Timor's leaders [have consistently frustrated Conoco's plans](#) to backfill Darwin LNG with Greater Sunrise gas while extending the life of Bayu-Undan. Therefore, it is unsurprising that Conoco is happy to walk away from Bayu-Undan and exit East Timor. Once the field is shut down, it will be irreversibly closed.

But now East Timor has full jurisdiction over Bayu-Undan, the country could seek technical and commercial bids from interested investors to extend the life of the field. Offering improved fiscal terms would help entice potential late-life operators too. The trouble is, the country's NOC, Timor Gap, will want its share of any development costs paid for or carried by the other project partners, which increases the costs for potential investors.

Still, Conoco is understood to be seeking a complete exit from Darwin LNG and the in-development Barossa project, which is the preferred source of backfill gas for the plant. Santos, which owns a share of Bayu-Undan, has said it will consider buying a controlling stake in Darwin LNG and Barossa. If this comes to pass, the Timorese could seize the opportunity to negotiate an extension at Bayu-Undan with Santos instead.