

OPINION

COVID-19 wipes out East Timor's dreams of oil and gas riches

Chinese investment the only hope for project championed by Xanana Gusmao

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Boys watch an Australian Navy ship maneuver off the coast of Dili, the capital of East Timor: the country's long-held dream to create a domestic petroleum industry is in jeopardy. © AP

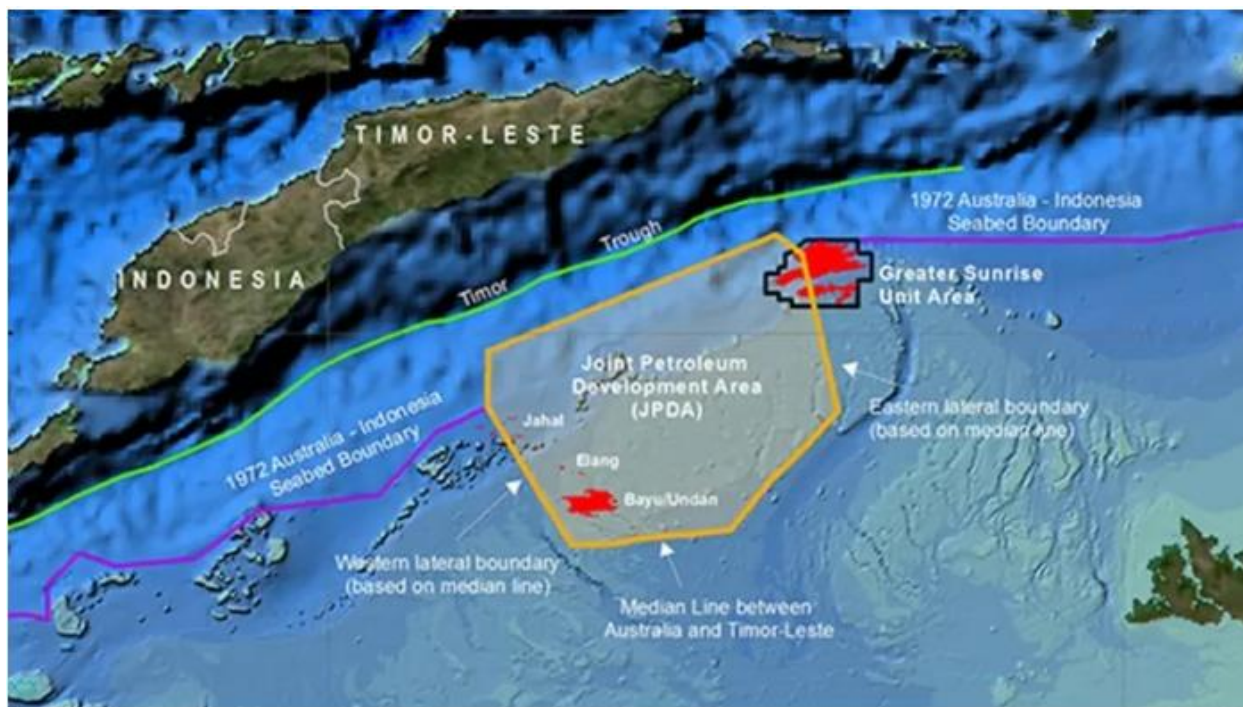
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COVID-19 and the global collapse in oil and gas prices appear to have put the final nail into the coffin of East Timor's long-held dream to create a domestic petroleum industry that would end its dependence on foreign aid and secure its viability as a sovereign state.

Since gaining independence from Indonesia in 2002, Southeast Asia's youngest and poorest nation has dueled with oil companies as well as its much larger neighbors for majority control of the Greater Sunrise Gas Field, 70% of which lies in East Timor's territorial waters, and the remaining 30% in Australian waters. With estimated reserves of over 5 trillion cubic feet (141.5 billion cubic meters) of natural gas and 226 million barrels of oil, Greater Sunrise was valued at around \$50 billion before the pandemic struck.

Championed by independence hero Xanana Gusmao, the country's first president and a former prime minister, East Timor has proposed the \$18 billion Tasi Mane project that would include an onshore LNG plant and oil refinery connected to the Greater Sunrise field via a 286 km pipeline across cross the Timor Sea. Under Gusmao's stewardship, East Timor has already spent hundreds of millions of dollars building an unused airport for Tasi Mane as well as a Chinese-made highway now overrun by jungle.

After buying out its former partners in Greater Sunrise -- ConocoPhillips and Shell -- for \$650 million, East Timor is the 57% majority owner of the resource, with Australia's Woodside Petroleum holding a 33% share and Japan's Osaka Gas owning 10%. And while Gusmao won praise at home for persuading the multinationals to sell up, he has repeatedly dismissed concerns over the project's viability.



Australia's maritime arrangements with East Timor. © Department of Foreign Affairs and Trade/AP

So determined is Gusmao, that he has appeared willing to jeopardize East Timor's hard-won independence to get Tasi Mane off the ground. Courting China's state-owned Exim Bank for a \$16 billion loan, Gusmao exposed his country to the same kind of debt-trap that has ensnared other countries in the region. Yet even Exim balked at financing the project after a U.S. survey found the project carried huge risks.

Gusmao's promise of desperately needed jobs for East Timorese was also misleading. "East Timor does not have the skill base to construct a complex megaproject. Lots of the expensive labor would have to be imported to make it a success," David Low, a senior analyst at global energy consultancy Wood Mackenzie, told me. Like every other analyst in the business, Low said that it would be far easier to use existing facilities connected to the Australian city of Darwin. "With Greater Sunrise, everything has to be built from scratch. That makes it more difficult to monetize," he said.

Momentum for Tasi Mane first stalled in March after East Timor confirmed its first cases of COVID-19 and declared a state of emergency. The petroleum-dependent state also had to radically cut public spending in April after crude oil prices in the U.S. entered negative territory. There were more setbacks in June when Gusmao's Timorese Reconstruction party was ousted from the ruling coalition, and Gusmao ally Francisco Monteiro, the CEO of state oil company TimorGAP, was sacked.



Xanana Gusmao exposed his country to the debt-trap. © Reuters

While East Timor's government has said the change of leadership at TimorGAP was necessary to align the state oil company with its new strategic vision for the oil sector, it has remained tight-lipped over the future of Tasi Mane. Still, the writing is on the wall, according to James Scambary, a lecturer in international business at Melbourne's RMIT and author of *Conflict, Identity, and State Formation in East Timor 2000-2017*.

"Even if gas prices were zero, it was Gusmao's baby and he would have driven it home through by the force of his will, no matter what," says Scambary. "But

now that he's no longer in the driving seat, I suspect it will be quietly mothballed." With little investor interest, not even from the Chinese, Scambary suspects that everybody except Gusmao realized that the costs were too astronomical for the project to proceed.

It is still conceivable that China could bankroll the project as part of its geostrategic rivalry with the U.S. Beijing's price could include the right to build a Chinese naval base on East Timor's south coast -- the one thing Australia fears most. Australian Senator Rex Patrick said in February that Australia should consider backing Tasi Mane to prevent East Timor from becoming a vassal of China.

While Gusmao could not be reached for comment, another former president and Nobel laureate Ramos Horta told me that Australian fears over the Chinafication of East Timor are misguided. "Our hard, 24-year struggle against Indonesia taught us about the real meaning of independence," he said. "And in reality, we have much more active relations with Indonesia, Australia and the U.S. than with China."

Still, Rebecca Strating, a politics lecturer at Melbourne's La Trobe University and author of *Social Democracy in East Timor* said a Chinese buy-in is not off the cards. "It all comes down to who East Timor's leaders are and how far they are prepared to do to get Tasi Mane off the ground," she said. "And as we know, China is the only actor prepared to consider the project."

Watch this space.