

Exploration & Production

China may join Greater Sunrise fray after Shell sells out

East Timor has bought Shell's stake in the Greater Sunrise project, giving it a majority share and putting more impetus behind the project's development

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

East Timor's decision to buy out Shell's stake in the Greater Sunrise fields has revived momentum in the project, which will require billions of dollars of investment, and paves the way for Chinese participation.

Dili agreed on Tuesday to pay \$300 million for Shell's 26.56% stake in the fields, which straddle the Australian and Timorese sea beds. [The move follows a recent agreement to buy out ConocoPhillips' share of the fields.](#)

The Greater Sunrise project was considered to be politically stranded and of negligible value after the Timorese refused to agree to a development concept that would have used the estimated 142 billion cubic metres of gas held in Greater Sunrise to backfill Australia's Darwin LNG plant during [maritime boundary negotiations with Australia earlier this year](#).

However, [after buying out Shell and Conoco's equity](#), East Timor will hold a 56.56% majority share in Sunrise, putting more impetus behind its development. It is no secret that the government of East Timor is determined to build a greenfield onshore LNG export facility on its south coast to monetise the gas. However, the Sunrise joint venture partners, which include operator Woodside Petroleum and Osaka Gas, have long argued that the proposed development in the Southeast Asian country is uneconomic. However, last month [Woodside said it may invest in the project's upstream](#) only, leaving East Timor to finance the onshore plant and pipelines. This makes the Timorese plan hypothetically feasible, if it can secure financial backing.

Nevertheless, East Timor would need to invest in and/or subsidise any pipelines in the country as well as the export plant. Investment for the gas portion of the project, which would include the pipelines and LNG processing scheme, would reach more than \$10 billion and possibly as much as \$20 billion.

James Rhee, managing director of Timor Leste Cement, who helped the Timorese broker the deals with Shell and Conoco, claims to have support from South Korean offtakers and export credit agencies to help fund development.

Chinese interest

Significantly – and much to the chagrin of Australia – China, which has large and expanding energy needs, will be keen to invest as part of its 'Belt and Road' Initiative, which focuses on strategically important trade and supply-chain links.

Only last week, East Timor passed an amendment to its 2005 Petroleum Activities Law that will limit the ability of the country's Audit Court to review contracts relating to petroleum operations – a move that would make it easier for China to finance future onshore oil and gas infrastructure related to Greater Sunrise.

The law is being revised under the pretext of allowing the state to take a 30% share in Sunrise after having signed the sales deal with Conoco in late September. Before the amendment, it was interpreted that the state could not have more than a 20% interest in petroleum projects – although in practice the rule was not strictly adhered to. For instance, state-owned TimorGAP has a 50% share in an onshore exploration JV. Critics believe the real reason for passing the reforms was to weaken oversight – which increases the risk of corruption as well as making it easier for the Chinese to invest.

China has deep pockets and is probably one of the few players that can make East Timor's development vision a reality. But Beijing will want something in return for its investments, especially if the project economics are dubious.

However, Australia will not be pleased about China potentially setting up radar stations or naval bases in its backyard. Canberra will no doubt try to prevent the Chinese creating a debt-trap in East Timor as it has a vested interest in both the long-term prosperity and stability of its northern neighbour. But whether Australia can pump billions of dollars into the Timorese vision for a petroleum industry remains to be seen.

Even if the Timorese can subsidise as well as raise funding for the onshore project, known as Timor LNG, startup would be years away – particularly given East Timor's limited institutional experience and capacity. In addition, fiscal terms need to be negotiated, more mergers and acquisitions need to happen, especially if the Timorese seek to farm down their share to reduce risk. Gas sales or tolling agreements will also need to be signed, making startup before 2030 extremely unlikely.

It is a huge gamble for East Timor's government, but the country's de facto power broker, Xanana Gusmao, and the Timorese have a stubborn habit of making the impossible happen.