



IPRIS Viewpoints

JULY 2011

Timor Leste and Woodside: time for take two?

PEDRO SEABRA

Portuguese Institute of International Relations and Security (IPRIS)

Is it possible for a change at the top to directly affect the outcome of long-stalled, high-staked negotiations? As simple as it sounds, this is currently the million-dollar question – quite literally in fact – being floated around in Southeastern Asia, and more precisely in Timor Leste, with regards to the country's lasting feud with Woodside Petroleum over the extraction of vastly coveted natural resources in its waters.

Indeed, since early 2010, both parts have been engaged in a publicly bitter quarrel surrounding the development of the Greater Sunrise natural gas field and the best course of action to make the most out of it: for Woodside,¹ this necessarily involves the use of a four million mt/year Liquefied Natural Gas (LNG) floating platform, as the most profitable option from a strictly economic point of view – despite criticism of the fact that it is still a largely untested technology. However, from Timor Leste's perspective, this opportunity should be used to try and promote its own homegrown petrochemical industry, and in that sense any natural gas obtained should instead be primarily processed through an onshore plant, thus impacting local social fabric and the national economy positively.

What then followed has been a year and a half of public acrimony by both Woodside executives and Timorese

officials, extensively showcasing the existing redlines separating them both.² The fact that Timorese authorities have a say on the final decision is naturally the key element here that needs to be taken into consideration. In light of the legal instruments signed with Australia for the management and exploration of this particular area,³ both governments' approval is thus required for the advancement of any extraction project.

But a small window of opportunity seemed to emerge as Woodside's CEO Don Voelte announced his impending exit from the helm of the company. As it so happens, Voelte himself was an integral part of the company's public push for the LNG option and never really shied away from controversy when it came to dealing with the

² See for example, "Greater Sunrise negotiations forces Woodside to halt all operations" (*RDTL Media Release*, 24 January 2011); Matthew Stevens, "Squabble darkens Sunrise LNG outlook" (*The Australian*, 5 February 2011); Heidi Couch, "Woodside's CEO Says East Timor Negotiating 'Through Newspapers'" (*Bloomberg*, 24 February 2011).

³ These include, among others, the 2003 International Unitization Agreement (IUA) – which requires the Sunrise partners to develop the Greater Sunrise fields to best commercial advantage, consistent with good oilfield practice – but most importantly the 2006 Treaty on Certain Maritime Arrangements in the Timor Sea (CMTAS) which regulates the exploration of the Joint Petroleum Development Area (JPDA). It also stipulates that when it comes to the Greater Sunrise, eventual revenues are to be shared on a 50/50 basis, instead of the 10/90 split for the remaining JPDA area.

¹ The Greater Sunrise project is 33.44% owned and operated by Woodside, alongside partners ConocoPhillips (30%), Shell (26.56%) and Osaka Gas (10%).



Timorese government. Even in one of his last official appearances, he made sure to assign responsibilities for the ongoing impasse to the country's authorities while stating that "[f]or a government that was such great freedom fighters ... 12 years later now, what's the measurement of this government on nation building? (...) By objecting to Sunrise being built, they must be objecting to promoting the quality of life and improving the livelihood of their people".⁴ As expected, another round of public uproar followed.⁵ However, with the choice of Exxon Mobil Vice-President Peter Coleman as a replacement for Voelte in May, tempers began to cool off noticeably, as if in a way giving the new leadership a chance to properly address this issue and find a mutually acceptable solution. For his part, President José Ramos-Horta quickly expressed his availability for further talks.⁶ But perhaps more importantly, the remaining interested part in this conundrum, Australia, also appeared to finally surpass its non-compromising stance by apparently acknowledging the need for an official – albeit, always discreet – nudge in order to incite a better working relationship between Timor Leste's leaders and Woodside's executives. That much was made clear when Australian Foreign Minister Kevin Rudd visited Timor Leste on July 8th and 9th and was asked about this particular matter: "I think it is a good time for the government here in Timor Leste to continue engaging with Woodside, and Woodside's new CEO (...)"⁷ Later on, Timor Leste's Sec-

retary of State for Natural Resources Alfredo Pires confirmed that Rudd had asked Timorese authorities to meet with Coleman the following August to reignite the entire negotiation process.⁸

Naturally, this latest change of tone reflects Australia's growing unease with the present stalemate. Long accused of not intervening in what it considers to be "commercial considerations", Australia is evidently keener on laying the ground for a more constructive outcome, as it considers this situation to have lasted far too long. Indeed, although Timor Leste has the most to gain in the short-term with massive revenues from any exploration of this area, Australia also has its fair share of interests in the matter, not the least of which some geopolitical predicaments that could arise rather sooner than later. Obviously, the most significant includes the future viability of the CMTAS Treaty, which foresees a preemptive 2013 'expiration date' if exploration of the Greater Sunrise does not start until then. If that were to happen, not only would the development project go back to square one but maritime boundaries between Australia and Timor Leste – precisely 'frozen' by the

It is not likely that Timor will suddenly back down from its initial claims anytime soon. Especially if we take into consideration that the 2012 elections in Timor Leste are right around the corner and that any meaningful concession could politically damage many of the current intervening actors. But be that as it may, the cautious reactions to the new Woodside leadership by local authorities might indicate a new willingness to sit at the table rather than negotiate through rumors, leaks and outraged declarations to the media, as both sides have frequently done in the past.

CMTAS until 2057 – would once again be open for dispute. In that sense, the fact that such a possibility was even mentioned by Timor Leste's chief petroleum negotiator Francisco da Costa Monteiro back in March,⁹ surely did not go unnoticed among policymakers in Canberra. In truth, it is perfectly clear that Timor Leste holds the best cards in this game. For all purposes, its veto power gives the country an unparalleled gravitas over Woodside, as it

4 "Woodside asks East Timor for Sunrise talks" (AAP, 20 April 2011).

5 "Parting comments of Woodside CEO dishonor Timor-Leste" (RDTL Media Release, 21 April 2011).

6 "East Timor Open To Talks With New Woodside CEO" (Dow Jones Newswire, 29 May 2011).

7 "Australian Foreign Minister Kevin Rudd in Press Conference with East Timorese Foreign Minister Zacarias Da Costa", Díli, 9 July 2011.

8 "MNE da Austrália pediu abertura para com o novo presidente da petrolífera Woodside" (Lusa, 9 July 2011).

9 Peter Alford, "East Timor ups ante in LNG dispute, as floating processing plan is deadlocked" (The Australian, 10 March 2011).



allows negotiations to drag on indefinitely until Timorese terms are finally met, while as time grows short indirectly forcing Australia to intervene in order to prevent a full commercial debacle, with (un)predictable consequences. On the other hand, to put it in simple terms, Timor Leste views this standoff as nothing short of a matter of national sovereignty given that “its economic future [will be] built upon the oil and gas reserves in the Timor Sea”.¹⁰ That much is evident in the recently disclosed Strategic Development Plan, which points out that the country’s energetic wealth will play an instrumental, if not absolute, role in sustaining the massive investments that will be required in the near future.¹¹

Hence, it is not likely that Timor will suddenly back down from its initial claims anytime soon. Especially if we take into consideration that the 2012 elections in Timor Leste are right around the corner and that any meaningful concession could politically damage many of the current intervening actors. But be that as it may, the cautious reactions to the new Woodside leadership by local authorities might indicate a new willingness to sit at the table rather than negotiate through rumors, leaks and outraged declarations to the media, as both sides have frequently done in the past. In that sense, a second act in this complex entanglement is expected, although a final resolution of such an imbroglio will surely remain at arm’s length for the time being.

10 Damien Kingsbury, “Impasse on deal to plunder Timor’s gas riches” (*Sydney Morning Herald*, 10 May 2010).

11 See Timor Leste, “Strategic Development Plan 2011-2030”.

EDITOR | Paulo Gorjão

ASSISTANT EDITORS | Laura Tereno • Vasco Martins

DESIGN | Atelier Teresa Cardoso Bastos

Portuguese Institute of International Relations and Security (IPRIS)
Rua Vitorino Nemésio, 5 - 1750-306 Lisboa
PORTUGAL

<http://www.ipris.org>
email: ipris@ipris.org

IPRIS Viewpoints is a publication of IPRIS.
The opinions expressed are solely those of the authors and do not necessarily reflect the views of IPRIS.



Hello! We're  and
over % of the energy
we create is renewable,
from  and . We
can  the future,
as we're creating it. Let's
make the  together.
Feel our energy. Join us
at  www.edp.pt