

A \$12 Billion Gas Project Could Make or Break This Young Nation

By *Jason Scott*, Bloomberg. Published 28 August, corrected 2 September 2019

The runway at the Xanana Gusmao International Airport on Timor-Leste's southern coast is deathly quiet apart from roosters crowing on nearby farms. Built in 2017 to accommodate a \$12 billion energy project, it's now barely being used: The only scheduled flight last Saturday was canceled.

"I'm very proud of the airport, and I really want more flights to come here," says operations manager Moises de Jesus, 25, as a few cleaning staff idly polish the gleaming tiled floors of the two-year-old airport. "Ultimately the government will handle organizing us to get more business, but for now we're waiting."



An empty hall at Xanana Gusmao International Airport in Suai. Photographer: Dimas Ardian/Bloomberg

[Twenty years on](#) from a referendum that brought independence from Indonesia after a brutal quarter-century conflict killed an estimated 100,000 people, Timor-Leste's birthing pains are evident everywhere. With almost half its 1.2 million people living in poverty, the aging war heroes still in charge are now betting big on a risky energy project that could draw one of the [world's youngest nations](#) into a wider geopolitical tussle between the West and China.

Gusmao, the nation's first president, is currently the chief negotiator of the Greater Sunrise liquefied natural gas development. Fitch Solutions estimates the project, which has been under negotiation for more than a decade, has enough reserves to yield \$50 billion in revenue at today's prices—more than 15 times the country's gross domestic product.



Xanana Gusmao, a former militant and the first President of East Timor, speaks to locals in Dili on Monday. Photo: Dimas Ardian/Bloomberg

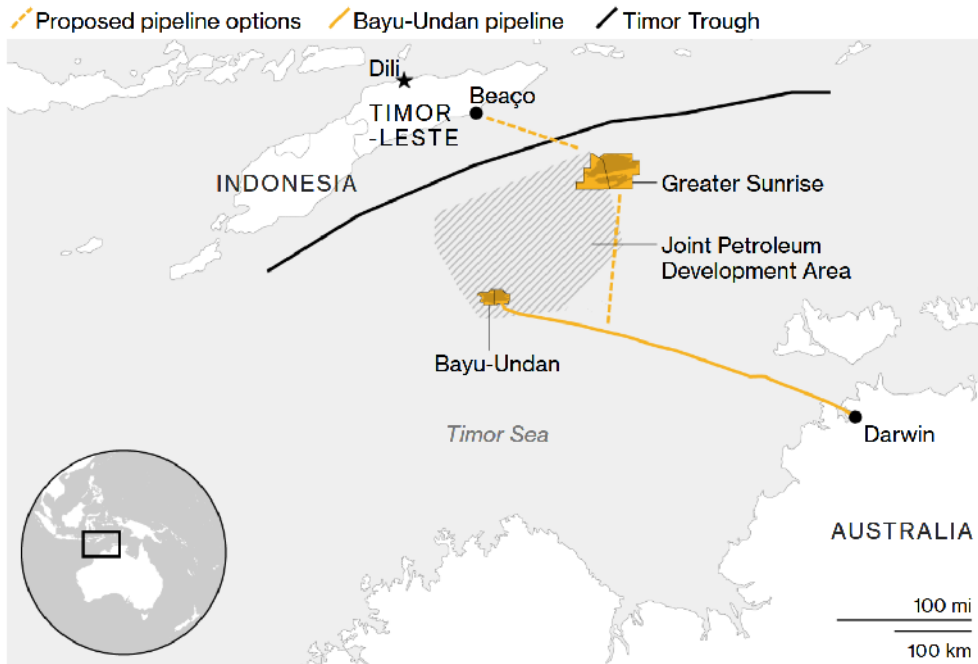
But there's one big problem: Gusmao, 73, has insisted the project is built onshore to create much-needed jobs. For energy giants, that's unfeasible because it requires laying pipeline across a trough to depths of 3,300 meters (about 11,000 feet, or nine Empire State Buildings stacked on top of one another).

Royal Dutch Shell Plc and ConocoPhillips have given up on the project after more than two decades, selling their stakes back to the government last year. The clock is now ticking for Timor-Leste to find international funding so work can start before its existing oil cash cow—a separate nearby gas field—becomes defunct as soon as 2021.

“You could imagine Xanana Gusmao will try to play the political card and could trade Chinese funding and Western funding off each other,” said Saul Kavonic, a Sydney-based energy analyst at Credit Suisse Group AG who has visited and studied the proposed site. “While he’s proven very good at playing that card, on pure commercial terms it’s more of a struggle to see where that money will come from.”

Gas Plan

Timor-Leste wants to develop an LNG export plant on its shores



Sources: ConocoPhillips, National Oceanic and Atmospheric Administration, Bloomberg reporting

The U.S. and China have stepped up competition for influence in emerging economies throughout Asia, with the Trump administration warning countries to avoid becoming indebted to Beijing. Assistant Secretary of State David Stilwell plans to join ceremonies commemorating the referendum on Aug. 30 in Dili, the capital.

It’s not unusual for Timor to be in the sights of great powers. In the mid-1700s, the lure of sandalwood and beeswax led the Portuguese to establish a colony in the island’s eastern half about 250 years ago. Portugal abandoned the territory in 1975, paving the way for Indonesia’s invasion and the war that followed.

Stunningly beautiful and offering world-class diving, the country has nevertheless failed to reap tourism dollars as it struggles to shake off its war-torn reputation. Timor-Leste has already extracted 95% of revenues expected from its only producing oil field, Bayu-Undan, according to [local think-tank La’o Hamutuk](#).



In Baucau, Timor-Leste’s second-largest city, local youths escape the heat by diving into a spring-fed swimming pool, a well-maintained relic of the Portuguese era.



A Chinese tourist poses for a photograph with the backdrop of paddy fields and mountains in Selo.



Worshippers in the Catholic church in Viqueque, where youngsters defer to the older generation who sit in pews, while they stand to listen to the sermon. Photographer: Dimas Ardian/Bloomberg

The nation will get some relief with completion of a long-stalled oil and gas maritime boundary treaty with Australia; La'o Hamutuk estimates the previous arrangement cost Timor-Leste \$5 billion in lost revenue. The new deal is due to be formalized in Dili on Friday by Australian Prime Minister Scott Morrison, who will also attend commemorations for the 20th anniversary of the independence referendum.

But the need to find more cash is acute: The research group says the government is spending “unsustainable amounts” on infrastructure and has been forced to draw on the country’s [only insurance policy](#), a Petroleum Fund that had a \$15.8 billion balance at the end of 2018. That’s the lowest since 2014, and it’s in jeopardy of being erased within 10 years.

While higher government spending will help gross domestic product expand a forecast 3.9% this year and 4.9% by 2021, [the World Bank](#) warns that the withdrawals from the Petroleum Fund and declining petroleum production will threaten the government’s finances.

“The costs of Greater Sunrise will outweigh its benefits, and that’s already happening because the government is focusing the nation’s attention and funds on the project at the expense of developing other industries, like agriculture and tourism,” said Berta Antonieta, 28, a researcher at La'o Hamutu. Still, she said, “I wouldn’t say Timor-Leste will go through a period of being a failed state.”



Children stand on the hillside in Railaku Kraik, a village of less than 100 people about 50 kilometers (31 miles) from Dili.



Cocoa fruit from expatriate Australian David Boyce's farm in Railico, where young farmers are trained.



Children play as the sun sets over a paddy in Viqueqe. "The only time the bulk of the population sees or hears anything about the oil and gas industry is through the government talking about its future, but it doesn't mean anything to their everyday lives," Boyce said.

Photographer: Dimas Ardian/Bloomberg

Part of the reason is China, which has won numerous contracts from the Timor-Leste government in recent years. It's built everything from the Presidential Palace to an electricity grid that's given power to at least 80% of the population, as well as winning a sub-contract for a \$490 million deep-water port near Dili. And it's also building roadworks near the proposed location of the on-shore part of the Greater Sunrise project, known as Tasi Mane.

China has built the first leg of a new four-lane highway linking the airport in Suai with other southern coastal towns that will host the LNG plant, a petrochemical refinery and a supply base. And in April, state-owned company Timor Gap signed a \$943 million contract with a China Railway Construction Corp. unit for a new port to help facilitate the main LNG plant.

"China will always take the interests of developing countries into account," said Wang Huiyao, a Beijing-based adviser to China's cabinet and the founder of the Center for China and Globalization. "If they need investment, China will always look into opportunities even if there are risks."

Timor Gap, which is responsible for developing the on-shore part of Tasi Mane, says it's arranging \$9 billion of the \$12 billion needed to fund the Greater Sunrise project, and it's agnostic about where the money will come from. It's denied media reports that the funds would come from Export-Import Bank of China.

"The financing strategy involves exploring multiple sources," including potential equity partners, export credit agencies, and EXIM and commercial banks, Timor Gap said in a written reply to questions. It expects "production and revenues" from Greater Sunrise to start by early 2026.

Gusmao declined an interview request through a government spokesman, who instead referred questions to former president and Nobel Peace Prize Laureate Jose Ramos-Horta.



A deserted section of the Chinese built highway near Zumalay, which stands in stark contrast to the nation's notoriously bad road network.



A Chinese worker supervises construction in Laleila.



The Chinese are helping to build the Tibar Bay deep-water port about 10 kilometers from Dili. Photographer: Dimas Ardian/Bloomberg

On the outskirts of Dili, Ramos-Horta sipped an espresso at his sprawling, leafy compound. Retired from politics, he was a founder of the nation's Fretilin independence group that fought against the Indonesians, returning from exile to become president and prime minister and famously surviving a 2008 assassination attempt during the nation's last period of bloody upheaval.

Ramos-Horta, 69, said any speculation that Timor-Leste's exposure to China could result in increased sovereign risk was overblown, pointing to neighboring Australia's reputation as the most China-dependent developed nation.

"I talk with the Chinese and I hear from the Chinese that China would be interested" in helping to fund Greater Sunrise, he said. "They've said they are prepared to work with any partner Timor has."

Now working with non-government aid organizations, Horta's confident the Greater Sunrise project will succeed and help eliminate Timor-Leste's poverty within the next 20 years, leaving the next generation healthier and more educated.

"So far, we've sometimes been impressive, sometimes been sloppy, and sometimes we've had to completely improvise without any blueprint," he says. "It's normal for a young country to make mistakes."



Young people gather at Sauí beach on the site of the Tasi Mane Project.



A Chinese worker unloads construction supplies at a store close to the site.



In a nearby settlement an antenna dish provides Indonesian television to villagers in Suai. Photographer: Dimas Ardian/Bloomberg

At Sauí beach near the airport, the only sign of the planned supply base is its rough foundations, as fishermen check their nets after the morning's catch.

About 50 kilometers (31 miles) from Dili in Railkaru Kraik, a village of less than 100 people, Eugidio de Jesus, 27, says he's a supporter of Gusmao's vision for Greater Sunrise. Getting by on seasonal work at corn and coffee farms, he says while the chances of him winning employment at the project are negligible, its development is vital for the future of the next generation.

"It's very difficult to get more work and money is always tight, but I don't want to live in a big city like Dili," he says while cradling one of his three children. "Timor-Leste is slowly getting better and if the nation starts getting more money from oil and gas, that's something that hopefully these kids will get to see."



The sun sets on the Christ the King Statue near Dili. Photographer: Dimas Ardian/Bloomberg

((Corrects to show Bayu-Undan revenue expectations in 10th paragraph, Petroleum Fund balance in 12th paragraph, and to clarify Chinese investment in 15th paragraph.))