

# Viewpoint: PNG, East Timor face different LNG outlooks



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**The island nations of Papua New Guinea (PNG) and East Timor share much in common. Both are relatively young, independent countries with long colonial histories and are dependent on the resource sector, with their main source of income coming from LNG proceeds. But the countries face different prospects for their respective LNG sectors.**

PNG is expected to see further advances in 2019 with the sanctioning of two LNG projects that will more than double its export capacity to 15mn t/yr, as ExxonMobil and Total conduct initial engineering and feasibility work on their respective projects before a possible end-2019 or early-2020 financial sanctioning.

East Timor's exposure to the LNG sector by contrast is through the revenue it receives from ConocoPhillips for the extraction of gas and liquids from the Bayu-Undan field in the Timor Sea. The gas from the field is used as feedstock for the 3.7mn t/yr Darwin LNG venture, which has its liquefaction plant in northern Australia.

ConocoPhillips and its partners in Darwin LNG are looking for backfill gas from fields in Australian waters as output from Bayu-Undan is expected to go into structural decline within the next few years, which in turn means less tax and royalty income for East Timor.

East Timor wants to replace Bayu-Undan with the development of the 5.1 trillion ft<sup>3</sup> (154bn m<sup>3</sup>) Sunrise gas project, which has endured several gestations over the past decade. The project was also at the centre of a maritime boundary dispute between East Timor and Australia before it was settled earlier in 2018.

The settlement has given East Timor more legal certainty on the maritime boundary with its southern neighbour, but Dili's actions since March 2018 when Australia and East Timor [signed a framework](#) to develop Sunrise and the nearby Troubadour gas and condensate fields have created more uncertainty over the project.

The East Timor government has purchased Shell and ConocoPhillips' stakes in Sunrise, giving Dili a 56.56pc share in the project. This removes a 20pc cap on state participation in oil projects and will allow the state to withdraw funds from its sovereign wealth fund, known as the Petroleum Fund.

As part of the framework to develop the Sunrise gas field, Dili managed to get project operator Australian independent Woodside Petroleum to withdraw a plan to develop Sunrise through a floating LNG (FLNG) plant, leaving open two pipeline options for supply of the gas — either to a liquefaction plant on the southern Timor coast or to the existing 3.7mn t/yr Darwin LNG plant. Dili is advocating the former option and intends to build other downstream projects from this, such as petrochemicals.

East Timor may end up spending more of its national savings on the Sunrise field than it has been advised to. The country was once seen as a model for resource finance transparency after it created its Petroleum

Fund to ensure prudent management of revenues from Bayu-Undan and to manage the nation's petroleum resources for the benefit of its current and future generations. The country has also put in place safeguards on how the funds can be spent, but these layers of protection appear to be whittled away by politicians.

## PNG's strategy

PNG politicians have talked about a sovereign wealth fund for decades but have little to show for the mining and petroleum projects that the Pacific island nation has hosted over the past four decades. But Port Moresby is trying to address this perception. It has gained a domestic market obligation from Total so that 10pc of the gas produced for the two-train 5.33mn t/yr Papua LNG venture is directed to the domestic market for PNG to use for power generation and underpin its ambitions of pursuing the development of a petrochemical sector, like Dili.

The PNG government is also pushing for tighter fiscal terms than what was agreed for the construction of the ExxonMobil-operated 6.9mn t/yr PNG LNG venture. The PNG LNG project is by far the largest resource project to be built in PNG, which also hosts large, copper, gold and nickel projects.

PNG has also attracted investment from China as part of its Belt and Road Initiative, which in turn has prompted Australia — which used to govern PNG — and the US to pledge to build a naval base and invest in new power plants to underline the geopolitical significance that PNG has gained as part of a wider battle for influence in the Pacific region between the US and China.

East Timor has so far not attracted the same level of geopolitical influence.

PNG and East Timor also share a common neighbour, Indonesia, which occupies the other half of the respective islands where both countries are located.

PNG said earlier last month that it may sell future gas production to Indonesia because a number of the country's ageing gas fields are depleting at a time when its population and energy consumption are rising.

Indonesia has pledged to buy most of the gas from the 3.8mn t/yr third train of the BP-operated 7.6mn t/yr two-train Tangguh LNG project located in the west Papua province that borders PNG.

The country could also be a potential customer of Sunrise gas and this, in turn, would change the dynamics of the project.