Royal Dutch Shell to leave SE Asia's largest gas field

Anglo-Dutch giant to depart the $20 billion Masela gas field project in latest blow to Indonesia's capital-starved energy industry

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The absence of Royal Dutch Shell executives from a recent meeting in Tokyo between Indonesian Mines and Energy Minister Ignasius Jonan and Japanese majority partner Inpex appears to confirm reports that the Anglo-Dutch oil giant has withdrawn from Southeast Asia's largest gas field venture.

The US$20 billion Masela project is scheduled to come on stream by 2027, but with Shell staying tight-lipped on its intentions and the government and Inpex avoiding the subject it is clear that despite progress in contract talks further delays are inevitable.

Industry sources say it is normal for upstream regulator SKKMigas to deal only with the operator of the field, but for a deal of this magnitude a 35% stakeholder like Shell would almost certainly have been expected to be present.

"It looks from this that they're out," says one analyst, noting Shell's silence and its penchant for trying to avoid embarrassing host governments, particularly in Indonesia where it has a flourishing petrol station and retail business.

The meeting between Jonan and Inpex chief executive Takayuki Ueda did appear to clear away two main hurdles, with the government finally relenting on the $20 billion project cost — $4 billion more than it was holding out for — and Inpex agreeing to the government's cherished 50% profit-sharing split.

Indonesian Mines and Energy Minister Ignasius Jonan gestures during an interview in a 2016 file photo. Photo: Twitter

On the vexed issue of capital cost, it is understood Jonan finally prevailed over Deputy Energy Minister Arcandra Tahar, who has been responsible for guiding the project so far. Tahar spent 20 years in Houston, Texas, working for a company specializing in offshore development.

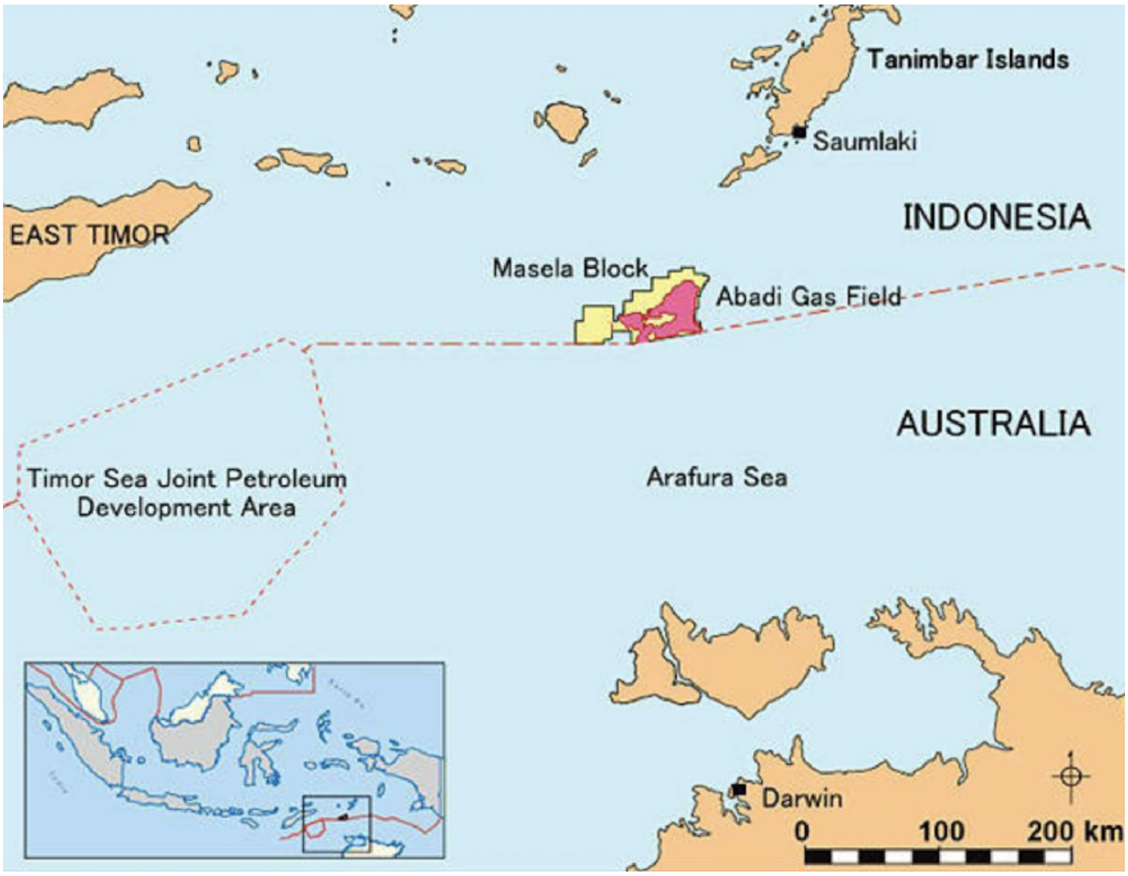
Hard up against the maritime border with Australia, the Masela block contains a proven 18.4 trillion cubic feet of gas, but possible and probable reserves could push that to more than 40 trillion cubic feet, making it one of Indonesia's biggest discoveries.

The final Plan of Development (POD) is to be signed on the sidelines of the G20 summit in Osaka on June 28-29, ending two decades of often fraught talks over the future of the rich Abadi field in the southern reaches of the Arafura Sea.

Inpex and Shell had always planned on Masela being an offshore project, using new floating liquefied natural gas (FLNG) technology. But President Joko Widodo insisted on a processing plant on remote Tanimbar Island to spur development across eastern Indonesia.

The resulting stalemate between the investors and the government – and the election of Widodo to a second term – led to speculation that authorities were reconsidering the FLNG option just to get the project off the ground. But the president has persisted.

Building the 9.5 million-ton-a-year onshore facility means laying a 180-kilometer pipeline from the Abadi field to Tanimbar, made costly by having to cross a 3,000-meter-deep trench marking the active fault line that skirts the southern edge of the Nusa Tenggara island chain.



Map depicting the location of the Masela gas field. Image: Facebook

The pipeline may be only one of the challenges. Inpex's reputation for project management took a heavy hit with Western Australia's Icthyius venture, which saw costs balloon from $34 billion in 2012 to $45 billion when it finally went into production in 2018.

Gorgan, another onshore LNG project on Barrow island, 50 kilometers off the Pilbara coast of Western Australia, ended up costing joint venture partners Chevron, ExxonMobil and Shell more than $90 billion, nearly four times the original estimate.

But analysts say construction began at the top of the market when costs were historically high and Chevron had to compete with several other projects for skilled manpower. The result was further delays, compounded by unhelpful government regulatory changes.

Shell's reported decision to sell its 35% stake in Masela has raised questions about whether Inpex will be seeking a new partner to share both the costs and also the risks inherent in developing a green field so far from any supporting infrastructure.

A natural gas facility at the Masela gas field in the Arafura Sea, Maluku, Indonesia. Photo: Facebook

State oil company Pertamina, which has taken over a slew of producing fields over the past two years, including East Kalimantan's Mahakam block, is an unlikely candidate for such a venture.

With Chevron's 200,000-barrel-day oil field in northern Sumatra as the next takeover target, the state company has already fallen far behind in its efforts to maintain production at Mahakam because of a shortage of finance to drill new wells.

Asia Times has learned from knowledgeable industry sources that the presentation Shell gave to Jonan and Vice President Jusuf Kalla in 2015 clearly laid out the alternative road maps, all linked to Indonesia's 2019 electoral cycle.

Under an FLNG schedule, the company said, final investment decisions (FID) and engineering procurement construction (EPC) would be completed during Widodo's first term and the facility would be on stream during his second 2019-2024 term.

For the onshore option, Shell estimated that front-end engineering design, known as FEED, would be delayed a minimum of five to seven years, but possibly 12-14 years or more, because the existing technology could not do the job.

Shell executives said privately that the onshore option would result in a 15-year delay, or three electoral cycles. Corporate policy is to link the two because of a rule of thumb that has FID achieved in the second or early in the third year of a presidential term so construction can be well under way at election time.

Apparently because of a long history of shifting regulations and other uncertainties, Indonesia falls in Shell's "significant risk category" where change-of-government rules apply.

It is for that reason the firm may have put Masela in the "too difficult" basket and decided to walk away.