Timor-Leste: Greater Sunrise Project A Long-Term Opportunity With Significant Risks

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Key View

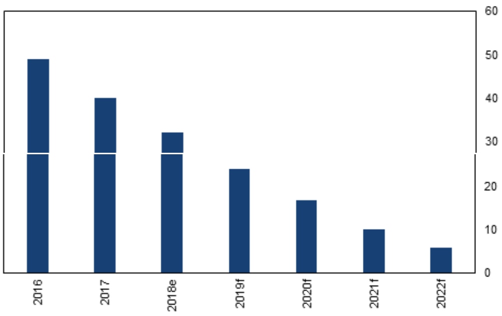
- The government is likely to complete the purchase of a majority stake in the Greater Sunrise oil and gas fields and push ahead with its onshore development plans.
- The project has the potential to deliver considerable long-term benefits, but key questions remain over whether it is commercially and financially viable.
- High up-front spending requirements mean that the project could jeopardise the country's long-term fiscal sustainability if not managed responsibly.

The government is pushing ahead with its ambitious plans to buy and develop the Greater Sunrise oil and gas fields, which is a project that could have a significant long-term impact on Timor-Leste's economy. Government officials have requested that the central bank transfer the USD650mn required from the country's Petroleum Fund (PF) to complete the acquisition of a majority stake in the hydrocarbons project by end March, despite pending legal challenges by opposition parties.

The project as proposed by the government could deliver considerable long-term benefits for the country's economy. However, there is no guarantee that these benefits will be realised as the proposed upstream development faces myriad financial, environmental and regulatory risks. Moreover, friction between the ruling Alliance for Change and Progress government and President Francisco Guterres of the opposition Fretilin party could delay progress, while the large capital investment required could undermine the long-term sustainability of public finances. Moreover, focusing on such a capital-intensive project could divert public resources away from the country's non-oil sector, slowing the pace of economic diversification.

Desperate For More Oil

Timor-Leste - Crude, NGPL & Other Liquids Production ('000b/d)



e/f = Fitch Solutions estimate/forecast. Source: EIA, ANP, Fitch Solutions

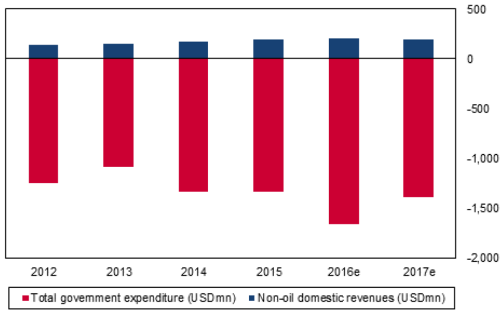
Finding The Money

The government plans to process natural gas from the Greater Sunrise fields at a new LNG terminal at Beaço, which is part of the long-term 'Tasi Mane' project to develop a lucrative onshore petroleum industry. However, existing partners in the joint venture have long argued that it implies too great a risk in a country with limited infrastructure and resources, claiming it makes more commercial sense to pipe the gas back to an existing facility in Darwin or process it on a floating LNG platform. After the buyout of **ConocoPhillips** and **Shell** is completed, state-run **Timor GAP** will be able to push ahead with its onshore plans, but minority partner **Woodside Petroleum** maintains that it would not invest capital in a new onshore LNG plant, potentially leaving an important funding and expertise gap.

The lack of private interest in funding the onshore infrastructure – including a new pipeline across the deepwater Timor Trough – raises broader questions over whether the government's proposal is commercially viable and what impact it may have on Timor-Leste's public finances. Estimates for the cost of exploiting the project range from USD10bn to over USD15bn, with the upper limit representing almost all of the country's PF (around USD16bn). Furthermore, the government is already reliant on large transfers from the PF to cover non-oil budget deficits (*see chart below*), with local NGO La'o Hamutuk warning that even without extraordinary capital outlays the fund could be used up within the coming decade. With current spending trajectories already unsustainable in the long term, a sharp rise in capital investment would increase the risks for fiscal stability over a shorter time frame.

A Big Gap To Cover

Timor-Leste - Budget Revenues & Expenditure



e = Fitch Solutions estimate. Source: Ministry of Finance, Fitch Solutions

Timor GAP President Francisco Monteiro recently told local media that most of the funding for the project would come from other sources, but he did not identify them. Meanwhile, Timor-Leste's ambassador to Australia said that the government may turn to China for support if other allies were unwilling to offer loans. This is likely an effort to play on Australia's concerns about Chinese strategic influence in the region, but given the financial risks involved, it is not clear whether Canberra would act, or what Beijing might demand in return if it were approached.

Even if the government secures low-cost financing to push ahead with its project, the benefits from Greater Sunrise – Monteiro claimed that the project would bring in a minimum USD28bn windfall to the country, not including the additional indirect impact of job creation – would not begin to materialise until near the end of the 10-year forecast period. And that is a best-case scenario: political disputes and legal challenges in Timor-Leste could yet frustrate the development of the project *(see 'Timor Leste's Confrontational Politics Poses The Biggest Threat To Growth In 2019', January 22 2019)*, generating more risks for potential investors.

Given this uncertainty over how the project may advance in the coming years, we at Fitch Solutions have not adjusted our long-term growth forecasts of about 4.4% over the next decade, although we acknowledge upside potential if the government finds a fiscally-responsible way to exploit the fields.

Macroeconomic Forecasts (Timor-Leste 2015-2021)

Indicator	2015e	2016e	2017e	2018e	2019f	2020f	2021f
Nominal GDP, USDbn	3.1	2.7	2.7	2.8	3.1	3.4	3.6
Real GDP growth, % y-o-y	20.9	5.0	-0.5	2.3	4.0	5.4	5.1
GDP per capita, USD	2,499	2,130	2,083	2,135	2,278	2,441	2,583
Population, mn	1.24	1.27	1.30	1.32	1.35	1.38	1.41
Consumer price inflation, % y-o-y, eop	-0.7	0.0	0.8	2.5	4.0	4.0	3.0
Consumer price inflation, % y-o-y, ave	0.5	-1.3	0.6	1.8	3.3	4.0	3.5
Exchange rate USD/USD, ave	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Exchange rate USD/USD, eop	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Budget balance, USDbn	0.1	0.0	-0.1	0.2	-0.3	-0.7	-0.7
Budget balance, % of GDP	4.3	0.3	-2.9	7.5	-8.3	-21.1	-20.2
Goods and services exports, USDbn	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Goods and services imports, USDbn	1.3	1.2	1.2	1.3	1.3	1.3	1.3
Current account balance, USDbn	0.2	-0.5	0.0	0.0	-0.1	-0.1	-0.1
Current account balance, % of GDP	7.7	-19.3	-1.0	-0.4	-1.9	-2.0	-2.1
Foreign reserves ex gold, USDbn	0.4	0.3	0.3	0.3	0.4	0.4	0.5
Import cover, months	4.0	2.9	3.1	3.2	3.4	3.8	4.1
Crude, NGPL & other liquids prod, 000b/d	62.0	49.0	40.0	33.0	24.8	17.3	10.4
Total net oil exports (crude & products), 000b/d	58.9	45.9	36.9	29.8	21.5	14.0	7.0
Dry natural gas production, bcm	6.0	5.8	5.3	5.1	4.7	4.3	3.8
Dry natural gas consumption, bcm	0.0	0.0	0.0	0.0	0.0	0.0	0.0

e/f = Fitch Solutions estimates/forecasts. Source: National Sources, Fitch Solutions