

TIMOR SEA FACT SHEET V CORRECTIONS

Timor Sea Office

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GAS PIPELINES FROM THE TIMOR SEA

CORRECTIONS TO THESE FACTS, NOTED IN RED, WERE PROVIDED BY PETROTIMOR.

What does the Timor Sea Treaty say about a gas pipeline to Timor-Leste?

The Treaty explicitly allows for a pipeline to Timor-Leste.

Who decides to which country the pipeline should go?

Under the Treaty, the decision on a pipeline destination is left to the investing companies and subject to the approval of a Joint Commission, established under the Treaty. The companies – who are experts in petroleum development – are in the best position to determine which pipeline option will maximize the revenues for the project overall (and thereby maximise tax and royalty revenues for Timor-Leste).

THE GOAL OF PETROTIMOR IS TO MAXIMIZE THE BENEFIT OF TIMOR SEA ACTIVITIES FOR TIMOR-LESTE, IN SUPPORT OF ITS 1974 EXPLORATION AND PRODUCTION CONTRACT.

What factors affect pipeline decisions?

Investing companies, when evaluating alternatives will look at technical feasibility, risk and costs.

Based on these factors, is a pipeline to Timor-Leste possible?

Most reports received by the Government of Timor-Leste so far indicate that, a pipeline to Timor-Leste is technically possible. However, there are some serious challenges. For example, the depth of the Timor Trough is 1500m to 3200m, potentially subjecting any pipeline to very high pressure. It is likely that any pipeline to Timor-Leste would require the use of expensive new technology. Reports also indicate that there is seismic activity in the Timor Trough, and strong currents. These factors indicate that a pipeline to Timor-Leste would be relatively expensive to install, maintain, repair and insure.

BASED ON BOTH THE INTEC REPORT OF 2002 AND THE J P KENNY REPORT OF 1996 (COMMISSIONED FOR BAYU UNDA). A PIPELINE TO TIMOR-LESTE FROM BAYU UNDA WOULD COST LESS THAN A PIPELINE TO DARWIN FROM BAYU UNDA.

A DEEPWATER PIPELINE ACROSS THE TIMOR TROUGH IS A LITTLE MORE COSTLY PER UNIT LENGTH, BUT BECAUSE ONLY HALF THE DISTANCE AND A SMALLER DIAMETER IS REQUIRED, THE OVERALL CAPITAL COST OF THE PIPELINE IS SIGNIFICANTLY LOWER THAN A PIPELINE TAKING THE ALTERNATIVE SOUTHERN ROUTE TO DARWIN.

THE CURRENTLY PLANNED PIPELINE FROM BAYU-UNDA TO DARWIN IS REPORTED TO COST

US\$500 MILLION DOLLARS. THIS PLANNED 480 KM PIPELINE IS BELIEVED TO BE OF SIZE 24-INCH DIAMETER AND HAVE A CAPACITY OF 0.5 BILLION CUBIC FEET OF GAS PER DAY (BCF/D), SUITABLE FOR A SINGLE TRAIN 3 MILLION TONNE/YEAR (MTPA) LNG PLANT. THE INTEC REPORT INDICATES THAT THE CAPITAL COST OF A 230 KILOMETER 28-INCH PIPELINE FROM BAYU-UNDAN ACROSS THE TIMOR TROUGH TO TIMOR LESTE, CAPABLE OF TRANSPORTING TWICE THIS CAPACITY (I.E., 1 BCF/D FOR A 2-TRAIN 6 MTPA LNG PLANT) IS US\$343 MILLION.

MANY EXPERTS BELIEVE THE TIMOR TROUGH HAS NO MAJOR SEISMIC OR CURRENT HAZARDS.THE WORLD'S LEADING GEOLOGICAL EXPERTS ON THE TECTONICS OF THIS REGION ADVISE THAT THERE IS NO MORE SEISMIC ACTIVITY IN THE TIMOR TROUGH THAN THERE IS IN THE SHALLOWER JPDA GENERALLY. A SEISMIC MAP PREPARED BY CONSULTANTS TO THE SUNRISE OPERATOR WOODSIDE SUPPORTS THIS CONCLUSION. ("EARTHQUAKE HISTORY IN THE SUNRISE GAS FIELD AREA SINCE 1900", FIGURE 6-4, PROJECT NO.: DE2090.100, FIGURE PREPARED BY T.LEE, DATE PREPARED: 16/10/01, SINCLAIR KNIGHT MERZ. DRAFT ENVIRONMENTAL IMPACT STATEMENT FOR WOODSIDE ENERGY LTD, DECEMBER 2001.)

On the other hand, the ocean between the Bayu-Undan field and Australia is only 160m at its deepest point. Reports indicate that the seabed is stable. The cost of building, maintenance and insurance appears to be much lower.. Where the options for an investing company are i) a high risk, costly and technically challenging operation, or ii) a low risk, much less costly and technically easy operation, the likely investment decision is obvious.

Why doesn't Timor-Leste push for a pipeline to Timor-Leste? Surely this will be where most of the economic benefit will be for Timor-Leste?

As mentioned above, a pipeline to Australia is much less expensive than a pipeline to Timor-Leste.

THIS IS INCORRECT – THE INTEC REPORT COMMISSIONED BY PETROTIMOR CLEARLY STATES THAT A PIPELINE FROM BAYU UN DAN TO TIMOR-LESTE WOULD COST LESS THAN A PIPELINE FROM BAYU UN DAN TO DARWIN. NO OTHER TECHNICAL REPORTS HAVE BEEN MADE PUBLIC. WHY CAN'T THE PUBLIC HAVE THE BENEFIT OF SEEING THE REPORT BY J P KENNY FOR BAYU UN DAN THAT WAS PREPARED IN 1996? THE J P KENNY AND INTEC REPORTS HAD VERY SIMILAR CONCLUSIONS.

Therefore, the only way Timor-Leste would be able to persuade a company to build a pipeline to Timor-Leste is for Timor-Leste to subsidize the pipeline. This means in effect that Timor-Leste will have to pay the company to cover the extra cost of the pipeline to Timor-Leste. It also means, therefore, that overall revenues to Timor-Leste would be significantly lower because the project would be less profitable.

THIS IS INCORRECT. BECAUSE IT WOULD COST LESS TO BUILD A PIPELINE TO TIMOR-LESTE, THERE WOULD BE NO NEED FOR A SUBSIDY. PETROTIMOR BELIEVES THAT A PIPELINE TO TIMOR-LESTE AND AN LNG PLANT THERE FOR GAS EXPORT MAY HAVE BETTER PROFITABILITY THAN THE DARWIN PLAN.

IN FACT, THE CURRENT OPERATOR OF THE BAYU-UNDAN FIELD (CONNOCOPHILLIPS) FOUND THE COST OF THE PROPOSED PIPELINE TO DARWIN MADE THE LNG EXPORT PROJECT SUB-ECONOMIC FOR THE QUANTITIES OF GAS AVAILABLE, AND THEREFORE IN SEPTEMBER 2001 SENT DELEGATIONS TO DILI IN ORDER TO NEGOTIATE TAX CONCESSIONS FROM THE TRANSITIONAL

GOVERNMENT OF TIMOR-LESTE. THESE TAX CONCESSIONS ARE DOCUMENTED IN THE "BAYU-UNDAN UNDERSTANDINGS AGREEMENT" OF DECEMBER 2001. THEREFORE, ACCORDING TO THESE AGREEMENTS, TIMOR-LESTE MAY SUBSIDIZE A PIPELINE TO DARWIN BUT NOT TO HER OWN SHORES. THIS IS A CONTRADICTIONARY POSITION AND CLEARLY NOT IN EAST TIMOR'S INTERESTS.

It is important to remember that, as of now, there has been no final decision made on the destination of any pipeline from the Treaty area. For the Bayu-Undan field, for example, ConocoPhillips (the developer of the field) has not yet submitted its gas development plan and therefore, the Joint Commission has not yet approved any pipeline for the project. Development concepts for other possible pipelines (for instance, from the Greater Sunrise field) also remain undecided.

CONOCO-PHILLIPS SEEMS TO BE WELL ADVANCED IN THEIR PLANS TO BUILD A PIPELINE TO DARWIN AND TO BUILD LNG FACILITIES THERE. AUSTRALIAN PERMITS HAVE BEEN OBTAINED FOR THIS PLAN. THE ALTERNATIVE OF LAYING A PIPELINE TO TIMOR-LESTE AND BUILDING THE LNG PLANT IN TIMOR-LESTE HAS NEVER BEEN DISCUSSED PUBLICLY, AND IT APPEARS THAT THIS POSSIBILITY HAS NEVER BEEN STUDIED. CONSIDERING THE POTENTIAL BENEFIT TO TIMOR-LESTE, PETROTIMOR STRONGLY URGES SUCH AN OPTION TO BE STUDIED. THIS WOULD BE A PROJECT FOR GAS TO BE EXPORTED TO WORLD MARKETS – NOT A DOMESTIC SUPPLY PROJECT.

Anticipating the likelihood of a Darwin pipeline from Bayu-Undan, UNTAET insisted that the Treaty prevent Australia from vetoing any subsequent proposal for a pipeline to Timor-Leste (see Article 8 of the Timor Sea Treaty).

What feasibility studies have been done and by whom?

ConocoPhillips: In 1996, ConocoPhillips (then called Phillips Petroleum) conducted an extensive feasibility study of a pipeline from the Bayu-Undan field to Timor-Leste. The decision of ConocoPhillips to build a pipeline to Australia is based on the results of this study. The study recognised that a pipeline to Timor-Leste was technically feasible, but found that a Timor-Leste pipeline was not economic. The ConocoPhillips assessment was based on market demand for gas, seismic activity in the Timor Trough, subsequent pressure on the pipeline, the risk of the pipeline breaking, and the high cost of insurance for high risk operations.

IF THIS IS TRUE, WHY WILL CONOCO-PHILLIPS NOT MAKE THE 1996 J P KENNY STUDY PUBLIC? WHAT DO THEY HAVE TO HIDE?

THE CONCLUSIONS OF THE 1996 AND THE 2002 REPORTS ARE SIMILAR. THIS SHOULD BE EXPECTED SINCE PIPELINE TECHNOLOGY IS FAIRLY STRAIGHTFORWARD AND THERE HAVE BEEN NO MAJOR TECHNOLOGICAL CHANGES SINCE 1996.

PHILLIPS PETROLEUM COMMISSIONED INTERNATIONAL PIPELINE CONSULTANTS J P KENNY TO CONDUCT THIS STUDY. THE STUDY BRIEF GIVEN BY PHILLIPS TO THE CONSULTANT WAS TO INVESTIGATE THE FEASIBILITY OF A 36-INCH PIPELINE ACROSS THE TIMOR TROUGH. THIS DIAMETER WAS GENERALLY KNOWN TO BE IMPRACTICAL AT THE TIME DUE TO EXCESSIVE "LAYING STRESS". HOWEVER A TECHNICAL REPORT WAS REQUIRED TO CONVINCING THE TIMOR GAP JOINT AUTHORITY (IN WHICH INDONESIA AT THE TIME HAD A 50% INTEREST) THAT A PIPELINE TO DARWIN WAS THE ONLY FEASIBLE OPTION. THE CONSULTANTS HOWEVER RECOMMENDED TWIN 28-INCH PIPELINES ACROSS THE TIMOR TROUGH AS THE FEASIBLE ALTERNATIVE AND

PROVIDING THE SAME LARGE CAPACITY. AT THE TIME OF THE STUDY A LARGE 36-INCH DIAMETER PIPELINE WAS BEING CONSIDERED TO SUPPLY A 9 MTPA LNG PRODUCTION FACILITY IN DARWIN PLUS DOMESTIC SALES. WHEREAS AT THE PRESENT TIME A 24-INCH PIPELINE IS BEING PLANNED TO SUPPLY A 3 MTPA FACILITY IN DARWIN. THEREFORE CIRCUMSTANCES HAVE CHANGED AND IT WOULD BE PRUDENT FOR THE ALTERNATIVE TIMOR LESTE PIPELINE PLAN TO BE RE-EXAMINED AGAINST UPDATED TECHNICAL AND ECONOMIC DATA REGARDING THE LNG PRODUCTION PLANT FACILITY SIZE.

Woodside Energy: Woodside Energy have investigated the possibility of a gas pipeline from the Greater Sunrise field to Timor-Leste. Their findings indicate that the depth of the Timor Trough, and seismic activity in the Trough, make it impossible for a pipeline to be built from Greater Sunrise to Timor-Leste.

IF THIS IS TRUE WHY WILL WOODSIDE NOT MAKE THE STUDY PUBLIC? IS THERE SOMETHING TO HIDE? WHO CONDUCTED THESE STUDIES?

Petrotimor: Finally, Petrotimor, a Portuguese-registered company owned by US-based General Atomics, and which holds no interests in the Timor Sea, paid for another study into the feasibility of a pipeline to Timor-Leste from the Bayu-Undan field.

PETROTIMOR IS A PORTUGUESE-REGISTERED COMPANY OWNED BY OCEANIC EXPLORATION, A U.S. PUBLIC BASED COMPANY IN DENVER, COLORADO, WHICH IS SUPPORTED BUT NOT OWNED BY GENERAL ATOMICS. PETROTIMOR WAS AWARDED A PETROLEUM CONSESSION BY PORTUGAL COVERING THE ENTIRE AREA NOW OCCUPIED BY THE TIMOR SEA TREATY'S JOINT PETROLEUM DEVELOPMENT AREA, BEFORE EAST TIMOR'S OCCUPATION BY INDONESIA. THE TIMOR SEA TREATY IS A PRODUCT OF THE ILLEGAL INVASION OF TIMOR LESTE BY INDONESIA. THIS CLAIM IS BEING PURSUED BY LEGAL PROCESS. UNDER THE ORIGINAL AGREEMENT, 20 % OF PETROTIMOR IS OWNED BY THE GOVERNMENT OF EAST TIMOR.

The study was conducted by another company called INTEC. The study found that because the distance between the Bayu-Undan oil field and Timor-Leste is much shorter than between Bayu-Undan and Australia, the cost of building a pipeline to Timor-Leste is lower. However, this study examined the cost of the piping alone, and did not consider the existence of the Timor Trough and the difficulties posed by it.

INTEC IS A GLOBAL COMPANY WITH MUCH MORE EXPERIENCE IN DEEP WATER PIPELINES THAN CONOCO-PHILLIPS ND WOODSIDE. THE INTEC REPORT FULLY AND CLEARLY ADDRESSED THE DEEP WATER CHALLENGES. INTEC HAS DESIGNED A NUMBER OF DEEP WATER PIPELINES.

A COPY OF THE INTEC REPORT IS PUBLICLY AVAILABLE FROM WWW.PETROTIMOR.COM . IN IT, INTEC CONCLUDES THAT "LAYING A PIPELINE IN A WATER DEPTH OF 2,500M TO 3,000M IS NOT A SIGNIFICANT PROBLEM WITH CURRENT TECHNOLOGY. PIPELINES ARE BEING DESIGNED FOR INSTALLATION IN A WATER DEPTH GREATER THAN 3,000M. SIMILAR PIPELINES [TO A TIMOR TROUGH PIPELINE] HAVE BEEN LAID IN THE WORLD IN SIMILAR COASTAL ENVIRONMENTS AND DEEPWATER."

A SIMILAR DEEP WATER PIPELINE IN THE BLACK SEA WAS RECENTLY COMPLETED. THAT PIPELINE TRAVERSES MUCH MORE CHALLANGING SEABED CONDITIONS THAN THE TIMOR TROUGH AND REACHED WATER DEPTHS OF 2100 METERS ALONG ITS 360 KM UNDERWATER ROUTE.

These include for example, higher insurance and maintenance costs and higher risk that the pipeline could be damaged or broken. The report also did not take into account the fact that there are not enough buyers in East Timor for the gas.

THIS IS INCORRECT. THE INTEC STUDY AND PETROTIMOR'S RECOMMENDATIONS DID NOT VISUALIZE A PRIMARY MARKET FOR NATURAL GAS IN TIMOR-LESTE. THE PETROTIMOR CONCEPT IS TO TRANSPORT THE GAS TO TIMOR-LESTE AND BUILD A LNG FACILITY IN TIMOR-LESTE AND THEN EXPORT THE LNG FROM TIMOR-LESTE TO FOREIGN BUYERS. THIS WOULD BRING THE DIRECT FOREIGN INVESTMENT, THE THOUSANDS OF JOBS AND THE INFRASTRUCTURE BENEFITS TO TIMOR-LESTE INSTEAD OF TO DARWIN. THE ECONOMIC MULTIPLIERS THAT RESULT FROM THIS MAY EXCEED TAXATION INCOME. A CHEAP AND CLEAN ENERGY SOURCE FOR TIMOR-LESTE IS AN IMPORTANT SIDE BENEFIT.

INSURANCE QUOTATIONS FOR THE DEEP WATER ROUTE WERE NOT OBTAINED BUT PETROTIMOR IS WILLING TO OBTAIN THEM IF REQUESTED. THESE FACTORS ARE RELEVANT BUT NO MORE SIGNIFICANT THAN FOR OTHER DEEPWATER PIPELINES ALREADY OPERATING.

DEEPWATER PIPELINE TECHNOLOGY IS REALLY RATHER SIMPLE. ALL THAT IS NEEDED IS PIPELINE STEEL WITH THE REQUIRED STRENGTH AND AN INSTALLATION BARGE WITH ADEQUATE TENSIONER CAPACITY. BOTH ARE COMMERCIALY AVAILABLE FROM SEVERAL SOURCES.

Why doesn't Timor-Leste have an independent study done?

It is possible that Timor-Leste may commission its own study into the feasibility of pipelines to Timor-Leste. However, pipeline feasibility reports are expensive.

A FEASIBILITY STUDY FOR A DEEP WATER PIPELINE CAN BE COMMISSIONED FOR LESS THAN US\$20,000. THIS IS BECAUSE THE TECHNOLOGY IS SIMPLE AND 'OFF THE SHELF'. THE OPONENTS OF A PIPELINE TO TIMOR-LESTE ARE GROSSLY OVERSTATING THE COMPLEXITY AND COSTS OF THE PIPELINE AND THE STUDIES TO DETERMINE FEASIBILITY.

With regard to Bayu-Undan, in any event, independent petroleum fiscal experts and technical experts have already confirmed that a pipeline to Darwin is the most sensible way in which the first Timor Sea gas deposits can be exploited.

WHO ARE THESE INDEPENDENT EXPERTS AND WHY ARE THEIR REPORTS NOT AVAILABLE TO THE PUBLIC?

THIS CONCLUSION IS INCORRECT BASED ON THE INTEC REPORT. PETROTIMOR HAS ALSO SEEN LEAKED COPIES OF THE J P KENNY REPORT OF 1996 WHICH STATES THAT PIPELINES TO TIMOR-LESTE ARE TECHNICALLY FEASIBLE. THAT REPORT ALSO GIVES THE COST OF SUCH PIPELINES, WHICH ARE LESS COSTLY THAN THE PUBLICLY QUOTED COST OF A LARGER PIPELINE TO DARWIN FROM BAYU UNDAN.

PETROTIMOR CANNOT UNDERSTAND WHY THERE IS SUCH RESISTANCE TO THE TIMOR-LESTE OPTION FOR GAS PROCESSING AND EXPORT FACILITIES. ONE POSSIBILITY IS THAT THE

OPERATING COMPANIES WERE UNDERSTANDABLY FEARFUL OF THE POLITICAL RISKS IN THE PAST. NOW THAT THOSE CONDITIONS HAVE IMPROVED, PETROTIMOR RECOMMENDS A FULL AND OPEN STUDY OF THE "TIMOR-LESTE" OPTION.

THE FINANCIAL AND EMPLOYMENT BENEFITS TO TIMOR-LESTE WOULD REPRESENT A ONE-TIME OPPORTUNITY TO ADVANCE THE NATION BUILDING PROCESS AND PROPEL TIMOR-LESTE OUT OF POVERTY AND INTO THE "DEVELOPING NATION" CATEGORY RAPIDLY.

THIS OPPORTUNITY IS SIMPLY TOO IMPORTANT TO BE SWEEP AWAY IN THE INTEREST OF EXPEDIENCY AND THE FINANCIAL BENEFIT TO AUSTRALIA.

END.