

# Australia-East Timor conflict intensifies over Greater Sunrise gas project

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9 June 2010

A protracted dispute between Australia and East Timor over the Greater Sunrise gas and oil project in the Timor Sea has intensified in recent weeks. The Australian Labor government of Prime Minister Kevin Rudd has backed the April 29 announcement of a plan by the project's owners to build a floating gas processing platform. The Timorese government, however, is continuing to demand the construction of a liquefied natural gas (LNG) plant on Timor's nearby south coast.

Last week, East Timor's Prime Minister Xanana Gusmao threatened to block the mining of the undersea reserves by the international consortium led by the Australian-based Woodside Petroleum. Enormous profits are at stake. Greater Sunrise, just 180 kilometres from Timor, contains an estimated 300 million barrels of light oil and 2.53 trillion cubic metres of natural gas, worth an estimated total of \$US100 billion at current prices.

Locating the processing plant in East Timor could generate an estimated additional \$3.6 billion in tax revenue over the life of the project for the tiny country. Gusmao told the *Melbourne Age* that unless a deal were struck "then we will wait until many generations have learnt the lesson that humanity comes before commercial realities". He declared that East Timor would set an example that would force oil giants to stop "exploiting and plundering" the "sovereign resources of developing countries".

Last month, the Australian government rejected earlier suggestions by Gusmao that another group, possibly led by Malaysia's state-owned energy company Petronas, could be invited to take over the project. Australian Resources and Energy Minister Martin Ferguson warned that East Timor would breach its treaty "obligations" if such plans proceeded. Ferguson claimed that East Timor had freely entered into treaty agreements signed between 2002 and 2007 which split the project's tax and royalty revenues about 50-50 between the two countries. In reality, the Timorese government conceded to bullying by the previous Howard government in Canberra, which threatened to cut off aid and obstruct all oil and gas production.

Only 20 percent of the Greater Sunrise field is in Australian territory—if the maritime border between Australia and East Timor was drawn according to international law. But Canberra withdrew from the International Tribunal for the Law of the Sea in 2002—a decision that the Rudd government has not reversed. In the face of intense pressure from the Howard government, including threats to cut off aid and obstruct all oil and gas production, the Timorese government agreed

to split Greater Sunrise tax and royalty revenues about 50-50 between the two countries and drop its border claim for at least 50 years.

The Rudd government is determined to maintain Australian hegemony over the energy-rich Timor Sea, as well as the strategically located half island at the eastern end of the Indonesian archipelago. Above all, it wants to block access to rivals, including China, Brazil and South Korea, whose companies have expressed interest in processing or buying the underwater gas and oil.

At the same time, Canberra is acting on behalf of some of the world's most powerful oil giants. Woodside, although Australian-based, is 40 percent owned by Royal Dutch Shell, which also holds a 27 percent stake in the Greater Sunrise consortium. Woodside has a 33 percent share in the consortium, while the US-based ConocoPhillips has 30 percent and Japan's Osaka Gas, 10 percent. Greater Sunrise is the largest known reserve in the Timor Sea, almost twice the size of the Bayu-Undan field, which a US-Australian-Japanese consortium has been exploiting for nearly five years.

Woodside enjoys the closest of relations with the Australian political establishment. The company recently appointed former senior Australian diplomat Brendan Augustin as its in-country manager for East Timor. Augustin previously headed Woodside's failed \$1 billion operation in Mauritania, while on unpaid leave from the Australian foreign affairs department. An incestuous connection also exists between Woodside and the Rudd government through a junior minister, Gary Gray. After serving as Labor's national secretary from 1993 to 2000, Gray became a Woodside senior executive and strategic adviser from 2001 to 2007, before running for parliament. He is currently Rudd's parliamentary secretary for Western and Northern Australia.

The Labor Party has a long record of pursuing the interests of Australian business at the expense of East Timor's impoverished population. In 1975, the Whitlam government supported and encouraged the Indonesian invasion and occupation of the former Portuguese colony, that led to the loss of an estimated 200,000 lives over the ensuing quarter century. The Hawke government signed the 1989 Timor Gap Treaty with the Indonesian regime of General Suharto, which gave Australia control over most of the Timor Sea reserves. As the Suharto regime crumbled in 1998-99, and Portugal moved to reassert its claims, Labor backed the Howard government in sending troops to East Timor to help establish a nominally independent state. The intervention was driven by Canberra's

determination to secure its key regional economic and strategic interests.

In 2006, the first post-independence administration of Fretilin's Mari Alkatiri was destabilised and ousted after it resisted some of Canberra's demands over the underwater reserves, and began to court support in Portugal and China. The Howard government deployed 1,000 Australian troops—400 of whom the Rudd government has retained to this day—alongside 150 from New Zealand as part of the regime change operation.

Through presidential and parliamentary elections held in 2007 under the watch of the Australian military, Jose Ramos-Horta was installed as president and Gusmao was selected to assemble an unstable and disparate Parliamentary Majority Alliance (AMP) coalition government. Gusmao was closely aligned with Canberra, having acted in tandem with the Australian government and military during the 2006 crisis to oust Alkatiri. He was no doubt also regarded as a safe pair of hands with regard to Greater Sunrise; in 1999, while imprisoned in Indonesia, the independence leader met with a BHP executive and assured him that an East Timorese government would protect Australian and international investments in the Timor Sea.

Now, however, Gusmao appears to be appealing to anti-Australian sentiment in an effort to have the Greater Sunrise refining plant based in East Timor. At an international aid donors' conference held in Dili in April, Gusmao denounced Canberra's record in Timor, including its support for Indonesia's 1975 invasion. Referring to a "certain disconnection between us and our partners," Gusmao obliquely pointed to Australia's neo-colonial role, saying there were aid consultants who wanted East Timor to continue to be ranked as an unstable country, "as they surely prefer working [there] than in Afghanistan or Iraq". Over recent weeks, the Timor media has reported Gusmao making speeches in rural provinces urging people to unite to stop Australia stealing their wealth, as it did in the 1989 Timor Gap Treaty with Indonesia.

Gusmao's posturing as an opponent of Australian imperialism is bound up with several factors. In the first instance it points to the importance of the Greater Sunrise project for the very viability of so-called independent East Timor. With no industry to speak of, and no other comparably lucrative commodity exports, oil and gas revenue is the critical lifeline for the Timorese ruling elite.

Gusmao's rhetoric is also pitched at his domestic constituency. The prime minister has recently enacted a series of populist measures aimed at shoring up his coalition government. When he assumed office in 2007, Gusmao maintained the pro-investor "free market" policies of his Fretilin predecessors, but he has since changed orientation, increasing public spending on measures including rice and petrol subsidies, and limited welfare handouts to selected groups.

The government is now attempting to revise the Petroleum Fund laws which restrict access to the pool of accumulated oil and gas revenues collected from the Bayu-Undan project. Because of the legislation, which was drafted in close collaboration with the International Monetary Fund, more than \$5 billion of Timor's money is now locked away in US treasury bonds. At last April's donor conference, Gusmao demagogically denounced the policy: "The

people do not need cash in American banks to help pay American deficits. President Obama doesn't need our \$5 billion... If the needs of the country require fast and sustainable growth, we have to invest in basic infrastructure, and for this to be possible, we need to unblock the mistaken policy of savings in order to invest those revenues in the best way."

Mounting tensions between Dili and Canberra also reflect mounting great power rivalries in the region. Gusmao and his colleagues appear to be looking to Asian countries, including China, to counterbalance Australian hegemony. The Chinese and Timorese governments have deepened their ties and Chinese investment in the country is increasing. For example, in a controversial no-bid tender decision, the Gusmao government awarded a \$400 million contract for two heavy oil power plants and a national electricity grid to the Chinese Nuclear Industry 22nd Construction Company (CNI22).

Military relations between the two countries have also become closer. This week, two 43-metre Chinese-made navy patrol boats mounted with 30-millimetre cannon, initially to be crewed by Chinese sailors, will be launched in East Timor. Canberra opposed the purchase; the Fairfax press noted on Monday that "observers say [this] is a slap in the face for Australian diplomacy". An article in the *Australian* last November reported that the boats' purchase included an arrangement for the construction of a new naval base. The article stated: "While no offer has been made to give China military access, the base underscores growing military links between Beijing and Dili."

It remains to be seen whether Gusmao's recent rhetoric against the Australian government is merely bound up with the manoeuvring over the Greater Sunrise refining plant, or whether the Parliamentary Majority Alliance government is seeking a substantive shift away from Canberra in favour of the Asian powers. In any case, the conflict over Greater Sunrise is set to worsen, with the Rudd government making abundantly clear that it will not tolerate a rejection of Woodside's proposal.



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