

Australia should back East Timor's LNG dream and head off China

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The China card is being played against Australia everywhere in the Pacific. What does the fight over LNG processing in East Timor tell us about how to deal with it?

It was just a matter of time. East Timor's President Jose Ramos-Horta has warned that if Woodside does not cave in to the long-standing demand to process Greater Sunrise gas onshore in that country, [he will ask China to develop the project](#).

Of course, that is easier said than done. China has showed little interest in the project and Woodside holds about 33 per cent of the lease. Woodside insists the gas be piped to Darwin for processing.

Other than ownership arrangements for the project, little else has changed since I led negotiations on the Greater Sunrise unitisation agreement for the Howard government in 2001-03. At the time, the Anglo-Dutch petroleum giant Shell was the majority shareholder, and the approval of its board was required for the project to proceed. Although East Timor's National Oil Company now holds a 56 per cent share, the issue of where to process the commercially valuable downstream gas still remains.

While piping the gas to East Timor for processing involves substantial technical challenges, especially crossing the 3300-metre deep Timor Trough, commercially viable technical solutions did exist then and are likely to be more readily available now.

Shell's objection was not so much technical or commercial but political. Sovereign risk in the then newly independent country was deemed far too high for a multibillion, multi-year investment.

At the time, we were told by company officials that there was no way a board in the distant Netherlands would approve exposing the company to such a level of political risk. [Woodside's board is much closer to the region](#) and East Timor has now had 20 years of political stability. Political risk is still likely to be the main barrier to processing the gas onshore in the country, although neither Woodside nor the Australian government will say so.

East Timor's government would know this for a fact; hence the threat of inviting China to build the project. If it were not technically or commercially viable, it would be an empty threat. [Foreign Minister Penny Wong is in East Timor this week](#), attempting to resolve the standoff with Woodside.

Shock among the strategic policy community

China Inc's view of sovereign risk is far removed from corporate boards in the West. In part, China legitimately evaluates political risk in different ways than international corporations – but in part non-commercial considerations such as foreign policy objectives come into play.

Australia, having talked up the China threat in the region, finds itself on a cleft stick. Smaller states have always sought to play bigger powers off against each other, to their advantage. Not surprisingly, most Pacific Island states have been doing this for decades. East Timor has been late to the party.

In the 2000s, Taiwan and China pursued dollar diplomacy, each attempting to outbid the other for influence and recognition. When challenged over this, a Chinese foreign ministry colleague boasted that if China really wanted to play that game, it could outbid Taiwan on every occasion. Perhaps it might have, but it was less interested in the contest in those days than it is now.

China is now a much more formidable presence both economically and politically in the Pacific. Its most recent diplomatic success was attracting a switch in recognition by Solomon Islands from Taipei to Beijing.

The China card is being played against Australia at every turn. But our hand is weak and we have not been particularly adept at the game.

[The fear of China having access to port facilities in the Solomons](#) has shocked the strategic policy community, leading to heated commentary during May's election in Australia, and a flurry of visits and activity subsequently. Promises of

climate action and infrastructure funding did not stop the Solomons granting key telecommunications licences to Huawei.

From the Pacific, through Papua New Guinea and now to East Timor, Australia finds itself in a game for influence. The China card is being played against Australia at every turn. But our hand is a weak one and the history of our relations with these states demonstrates that we have not been particularly adept at it.

The key questions to ask are: does it matter much, if at all, to Australian security – and if it does, how can we avoid being played like this?

Although we are deafened by the crescendo of those asserting that some Chinese access to port facilities in the Solomons, more than 2000 kilometres from Australia, would be a clear and present danger, it does seem a rather long way away. It should allow plenty of time for the Royal Australian Navy fleet to sail from Sydney.

Of course, it has [never been established that China wants or sees advantage](#) in having a naval presence in the Solomons.

We need hard-headed analysis of how this detracts from Australia's security. Of course, we would all want to go back to a period when a Chinese presence in the Pacific was impossible to imagine, but those days are long gone and this is the reality Australia must confront, and then work out best how to respond.

Possibility of a Chinese presence in East Timor

More concerning would be a presence in East Timor, in view of its proximity. Funding a few sports stadiums and government buildings, and possibly funding the onshore processing of gas in Timor, do not necessarily beget some military presence.

East Timor has one major foreign policy sensitivity, and that is its relations with Indonesia. Jakarta would no doubt have its own serious reservations about an East Timor that allowed itself to become too close to China. For its part, China would be hugely sensitive to any Indonesian concerns over an outsized, let alone military, presence in East Timor.

Small states have agency and wish to preserve their independence, and thus keep their distance from all major players, including Australia, while seeking to maximise benefits. It is a clever optimisation strategy for them to adopt.

Australia should avoid exaggerating the security threat posed by Beijing's activities, judging each on the facts and not as some generalised Chinese takeover of the Pacific. Given China's weight and size, its appetite for imported resources and protein, [it is inevitable its activities and influence in the region will grow](#). It is also inevitable that China will seek to protect its interests in the region.

Australia's best defence will be the quality of its relations with each state and every political leader, based on respect for their sovereignty – and accepting, without arrogance, that small states wish to protect their independence and are the best judges of their national self-interest.

In the short term, panicked reactions – such as bidding against China, or trying to have certain investments or activities blocked – will only invite rejection, increasing the price for Australia, to no avail. Deep, long-term, and above all consistent engagement will be well received and more likely to secure and anchor Australia's influence.

As for Greater Sunrise, the Australian government should support in principle the processing of the gas in East Timor. It should work with both the East Timor government and Woodside to make this can happen.

This would be the most effective way to ensure Australia has a prosperous and stable neighbour, and to minimise China's influence.

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