

What is La'o Hamutuk?

- **The Timor-Leste Institute for Development Monitoring and Analysis, founded in 2000.**
- **Timorese and international people “walking together” on the journey to create a new nation.**
- **An independent, non-partisan, Timorese, non-governmental organization which does research, policy analysis, public education and advocacy.**
- **A force for participatory, equitable, sustainable and evidence-based policies and practices.**

Topics to discuss

- 1. History and current situation**
- 2. Petroleum dependency – Timor-Leste is cursed by its (lack of diverse) resources.**
- 3. The state budget and national economy are not sustainable.**
- 4. If wishes were horses ... dreams should (mostly) be based on reality.**
- 5. What can the next Government do?**

1. TL History and Current Situation

History in one slide

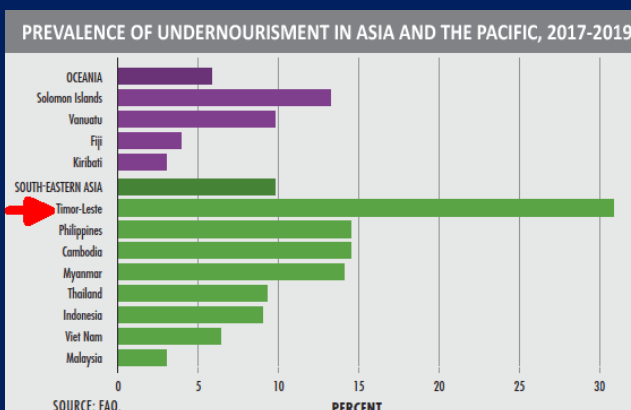
- People have lived in Timor-Leste for at least 5,000 years.
- Portuguese colonized nearly 500 years ago.
 - They brought Catholicism but little development or education.
 - Onshore oil exploration started in 1890s.
- Australia, then Japan, invaded in 1941-45.
 - 40,000-60,000 Timorese killed in WWII, which didn't involve them.
- Portugal's military dictatorship resumed control in 1945.
 - Offshore oil exploration began in the 1960s.
- Portugal began decolonizing in 1974.
 - After Carnation Revolution brought down Portuguese dictatorship
 - TL declared independence 28 November 1975 ... but 10 days later
- Indonesia invaded on 7 December 1975.
 - Indonesia killed 100,000-200,000 Timorese in 24-years of brutal occupation.
 - Timor-Gap Treaty 1989; oil production started 1998.
- Referendum in 1999, then 2½ years of UN rule.
- Finally restored independence on 20 May 2002.
 - Oil income surged in 2005-2007, declined since 2012 and will end in 2023.
- Peaceful elections in 2001, 2002, 2007, 2012, 2017, 2018 and 2022.

Basic Statistics

- One-third of Timor-Leste's people live in poverty, 46% in multi-dimensional poverty.
- Two-thirds of people live in rural areas, largely by subsistence farming.
- Poor sanitation and malnutrition are endemic. We have the second-worst Global Hunger Index on the planet.
- About 1,200 Timorese children under 5 years old die from preventable conditions every year ... 30 times as many people as die from homicide.

Our children are the most poorly nourished in the region.

- The majority of rural children are stunted.
- A malnourished child could be permanently damaged.
- Half of Timor-Leste's people are less than 20 years old.
- Many under-nourished or under-educated children will not become productive workers or optimal parents.



2. Petroleum Dependency

Timor-Leste has been one of the world's most petroleum-export-dependent countries.

This determines our State, our economy and our future.

Petroleum Dependency (nominal USD)

	2013	2014	2015	2016	2017	2018	2019	2020	2021
Petroleum GDP	\$4,234 (74%)	\$2,591 (63%)	\$1,496 (48%)	\$820 (33%)	\$895 (36%)	n.a.	n.a.	n.a.	n.a.
Non-oil GDP	\$1,485 (26%)	\$1,552 (37%)	\$1,594 (52%)	\$1,648 (67%)	\$1,598 (63%)	\$1,587	\$1,620	\$1,486	\$1,528
Productive (agric. & manuf.)	\$311	\$308	\$299	\$298	\$296	\$305	\$322	\$319	\$329

- **State revenues in 2022:..... negative \$632 million**
 \$-1,891 million loss from investing the Petroleum Fund
 \$ 1,087 million from oil and gas revenues
 \$ 172 million from non-petroleum sources
- **Executed 2022 State Budget:..... \$1,741 million** (\$2,101m appropriated)
 \$1,404 million transferred from the Petroleum Fund
 \$ 172 million from non-petroleum (domestic) revenues
 \$ 30 million from loans which will have to be repaid
 \$ 4 million from donors in direct budget support
 \$ 303 million from money allocated but not spent in prior years
- State activities, paid for with oil money, are nearly half of the 'non-oil' economy because some of this money circulates in the local economy.
- Petroleum and investment 'income' goes to the state, not to the people.

Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste was before 2014.

Our seas have been explored for half a century, and our land for longer.

Bayu-Undan and Kitan are the only proven fields, and they are almost depleted.

Sunrise awaits investors.

Buffalo came up dry.

There may be no others which are commercially viable.

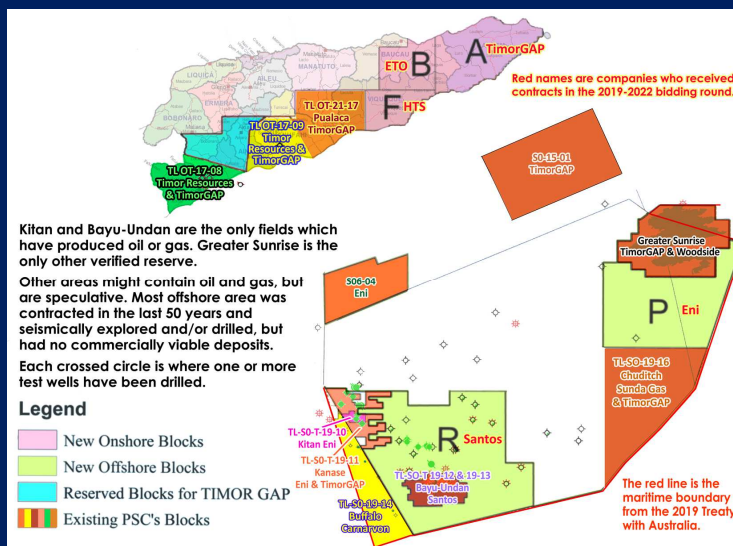


In the 2019-2022 Bidding Round, ANPM hopes companies will explore more.

Nearly all these areas have already been explored.

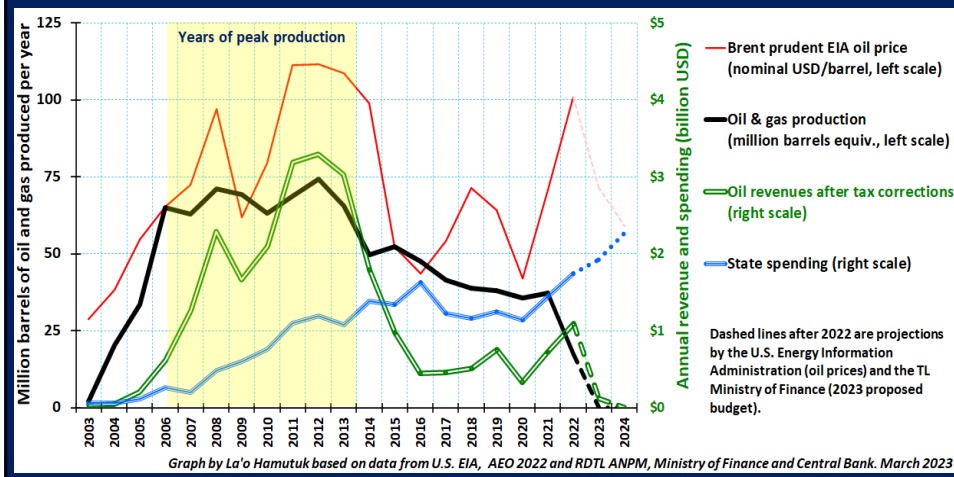
Due to Covid-19, little interest, and the low price of oil, Timor-Leste extended the bid deadline twice.

Five new contracts have been offered.



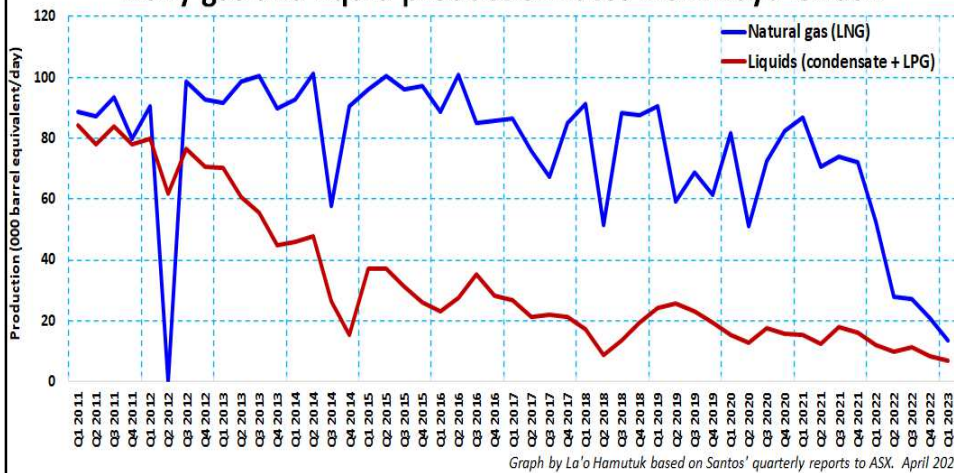
Oil and gas income has been falling since 2012.

Production is dropping, and will not go back up when prices do.
The price will be irrelevant when we have nothing left to sell.



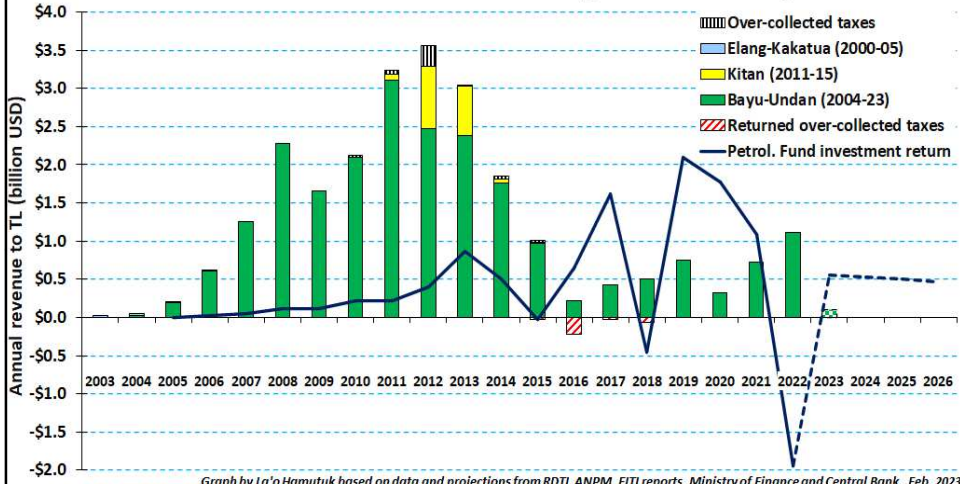
Bayu-Undan is nearly depleted.

Daily gas and liquid production rates from Bayu-Undan



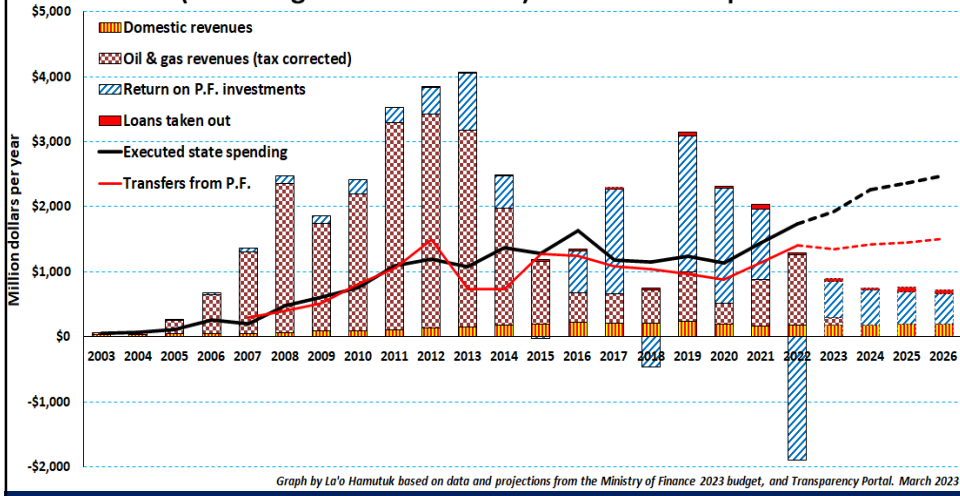
Where TL's oil income comes from

Where the Petroleum Fund gets its money



Spending exceeds income.

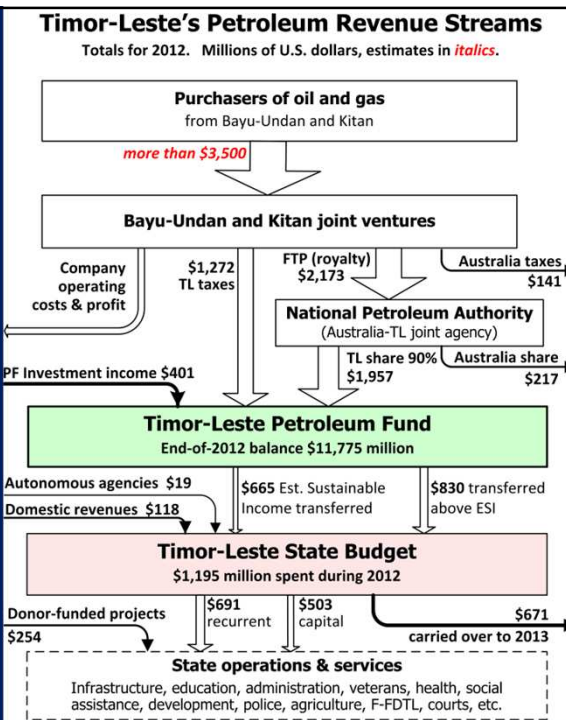
State (including Petroleum Fund) income and expenditures



Petroleum revenue peaked in 2012, and this is how it flowed in and out of the Petroleum Fund that year.

The basic structure is the same, but the numbers changed, and Australia no longer gets a cut.

From 2005 thru Mar 2023:
 \$24.9 bn oil revenue
 +\$ 8.2 bn invest. return
-\$15.3 bn withdrawn
\$17.8 bn balance

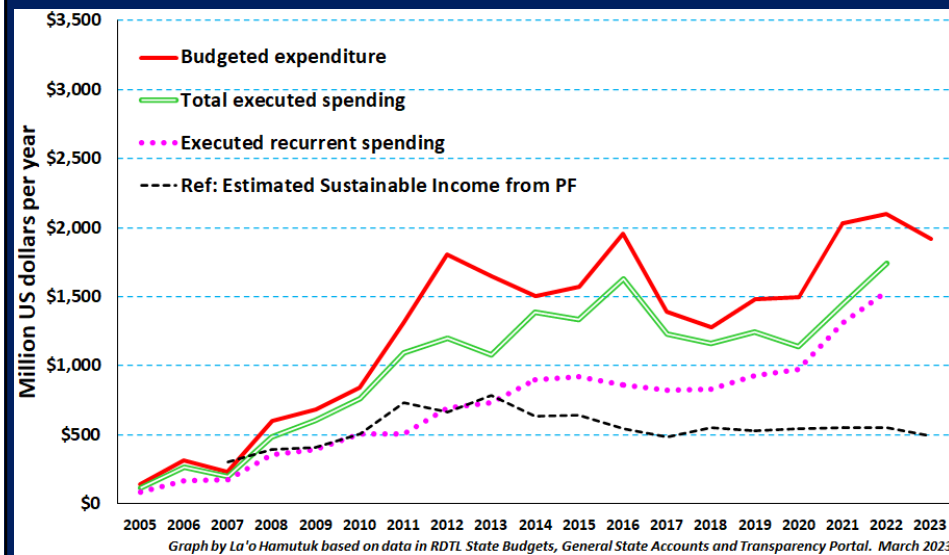


3. Unsustainable budget and economy

Timor-Leste has almost no industry and a tiny private sector.

From 2008 through 2016, state spending grew faster than nearly every country in the world.

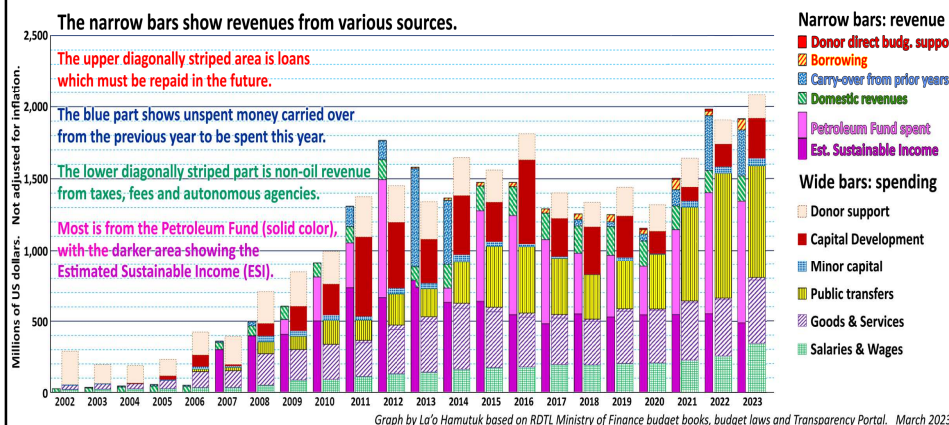
Budgeted & executed spending



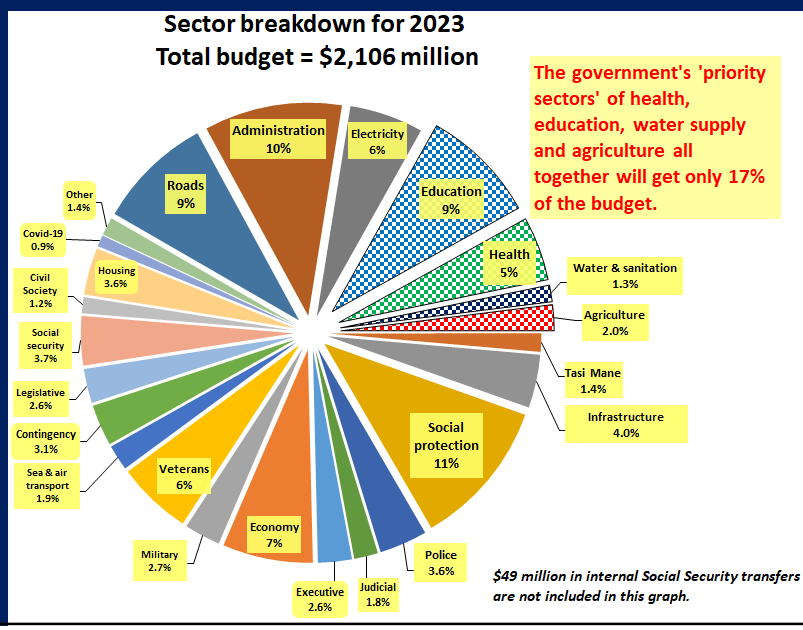
State Budgets 2002-2023

State Revenues and Expenditures (including autonomous agencies)

2002-2022 executed 2023 approved

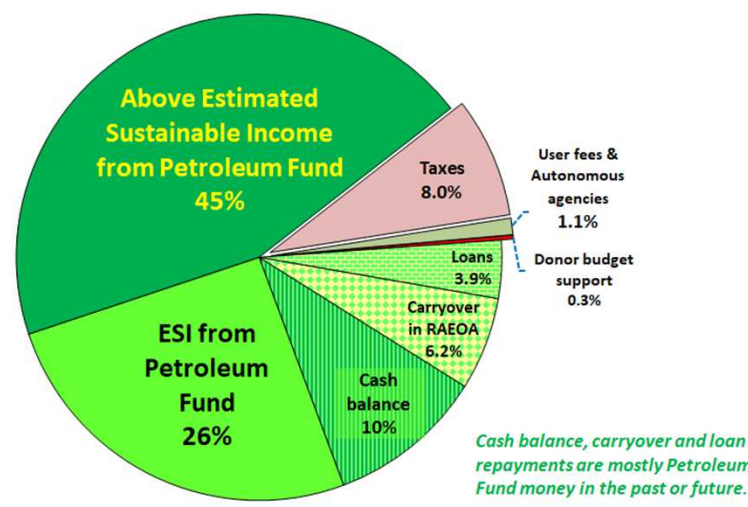


The money doesn't match the promises.



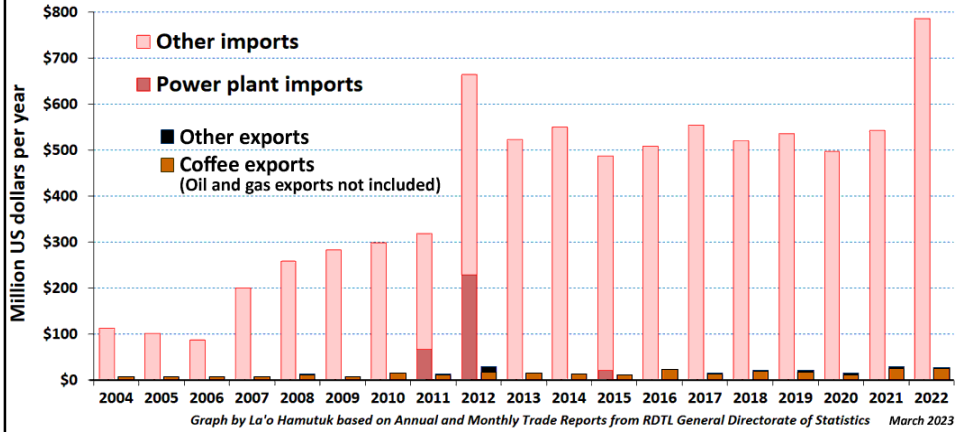
Income for the 2023 state budget

\$1,920 million total (excluding Vet's Fund & Soc.Sec. internal transfers)
86% is from the Petroleum Fund in the past, present or future.



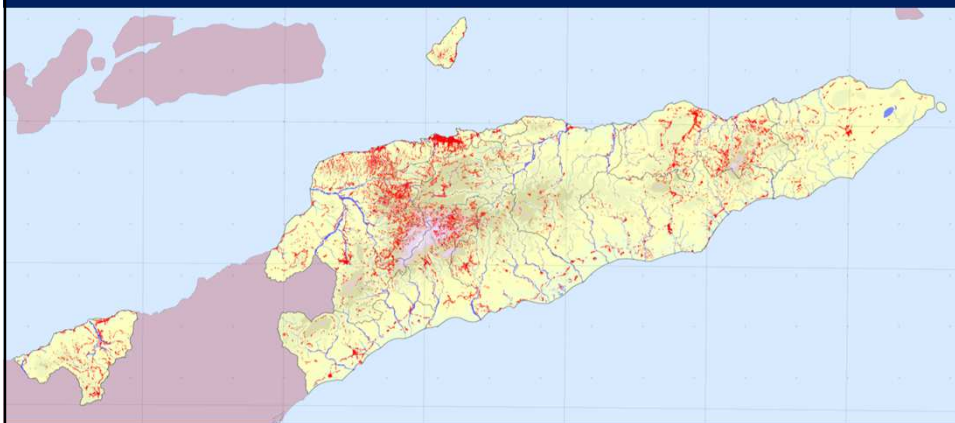
Import Dependency

Timor-Leste Balance of Non-Oil Goods Trade



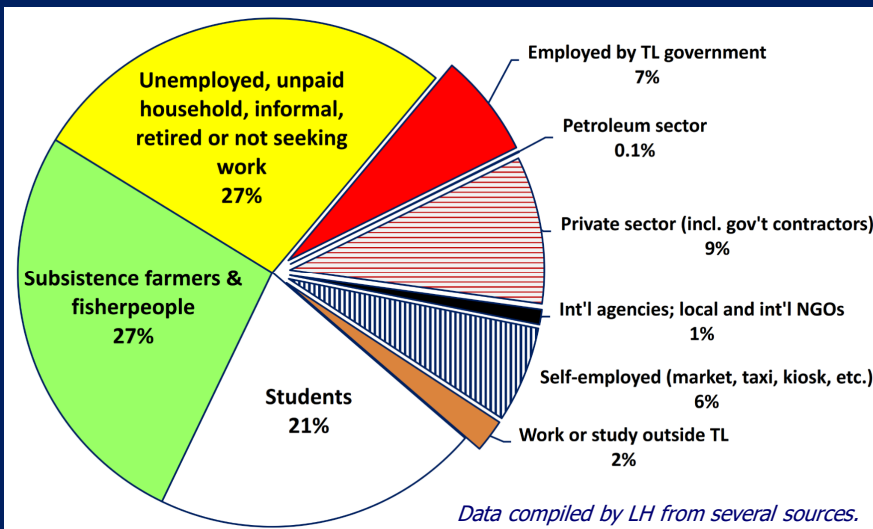
The graph shows legal goods trade only. Three-fourths of donor spending and two-thirds of state spending leaves the country.

Most people live in rural areas by subsistence agriculture.



Agriculture will get less than 1% of state expenditures in 2021, although it is the livelihood of 65% of the population.

What do 820,000 Timorese people aged 15-64 do for work?



What are the future prospects?

Business Activities Survey 2018 from RDTL National Statistics Directorate

Table 2.1 Key structural data by geography, non-petroleum producing businesses, 2014-2018

		Total Timor-Leste					
		2014	2015	2016	2017	2018	2021
Employment							
Male *	n	47,200	46,200	44,000	43,500	38,700	36,400
Female *	n	15,000	15,100	14,200	14,500	14,200	15,900
Total employment *	n	62,200	61,300	58,200	57,900	53,000	52,200
Income							
Income from sales of goods and services	\$m	2,000.4	1,999.3	2,049.4	1,918.1	1,840.4	1,850.9
Other income	\$m	42.9	31.7	33.7	33.2	35.3	50.7
Total income	\$m	2,043.3	2,031.1	2,083.1	1,951.4	1,875.7	1,901.6

**Timor-Leste lost 10,000 private sector jobs during the last seven years.
 The potential labor force increased by about 150,000 people.
 The Government promised to create 60,000 new jobs each year.
 An LNG plant in Beacu will employ about 350 workers.**

The potential workforce grows by more than 20,000 people every year, but private sector employment dropped 16% from 2014 to 2021. Half the population is under 21 years old.

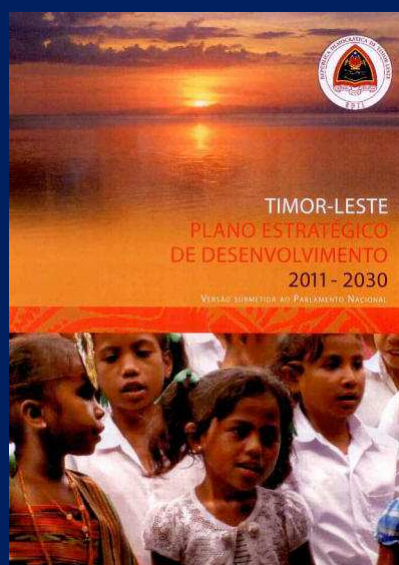
4. Unrealistic dreams

Current plans for development will not sustainably improve people's lives.

They rely on Greater Sunrise gas, which is limited and may never come to TL's land or treasury.

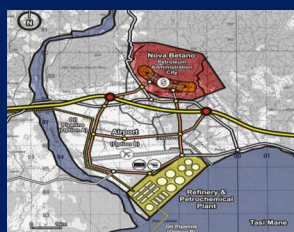
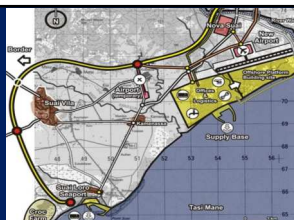
The Strategic Development Plan

- Issued in 2011, hopes to make Timor-Leste an Upper Middle Income Country by 2030.
- A vision and dream, not a realistic plan.
- Focuses on physical infrastructure, not sustainable or human development.
- Will require spending far beyond TL's means.
- Promised reviews are finally underway.



Tasi Mane petroleum infrastructure project

- In 2010, TL began to plan the South Coast Petroleum Corridor.
- During 2011-2019, Timor-Leste spent more than \$500 million on it.
- In 2019, Timor-Leste bought 57% ownership of Greater Sunrise for \$650 million ... and will now have to pay 57% of offshore development costs.
- Total capital costs could exceed \$20 billion (more if Timor-Leste pays for the refinery, pipeline or LNG plant).
- No investors have shown interest, before or after Covid-19.
- In 2020, both Woodside and TimorGAP said that the Sunrise project was worth nothing.



Tasi Mane project might include:

- **Suai:** Supply base area, Industrial estates, Nova Suai, Suai Airport, Crocodile farm
- **Betano:** Refinery and petrochemical complex, Petroleum city (Nova Betano), pipelines from and to Suai
- **Beacu:** LNG Plant complex, Nova Beacu, Nova Viqueque, Viqueque airport
- **Highway** from Suai to Beacu

What will Tasi Mane really cost?

This estimates capital expenditures only, not operational costs. Most have never appeared in state budget forecasts.

Money spent, budgeted and required to build the Tasi Mane project (millions of USD)

Component	Location	Status	Spent through 2022	Budgeted 2023	Budgeted 2024-2027	Estimated total capital cost	Percent budgeted
Airport	Suai	Constructed	79	-	9	100	88%
Supply base	Suai	Tender pending	52	1	756	1,000	81%
Highway	Suai-Fatukai	Mostly built	303	-	49	340	103%
Highway	Fatukai-Beagu	Not started	3	2	20	1,320	2%
Airport	Viqueque	Not started	-	-	-	75	0%
Oil refinery & pipelines	Betano	Pending design	5	-	6	1,700	1%
Gas pipeline, LNG plant & port	Sunrise-Beagu	Pending design, seeking financing	76	0	26	6,500	2%
57% share of Greater Sunrise Joint Venture	Offshore	Borrowed directly from the Petroleum Fund	650			650	100%
57% of Sunrise upstream capital expenditure	Offshore	Pending design, seeking financing	-	-	-	6,840	0%
Administrative and other costs	Dili	Ongoing	78	20	?	500	20%
TOTAL			1,246	23	865	19,025	11%

Note: This table does not include \$561 million to be paid to the Petroleum Fund as interest on the loan to buy participation in the Sunrise Joint Venture.

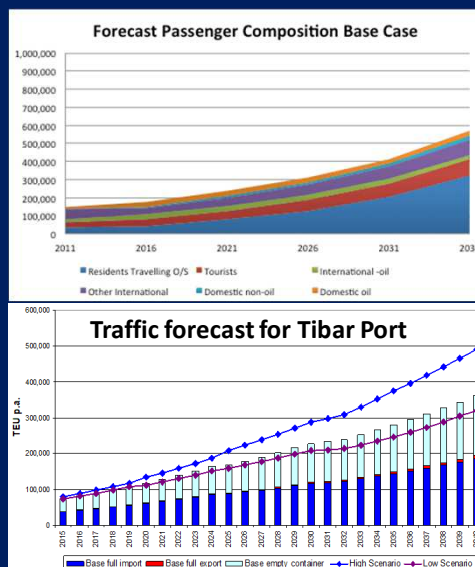
Problems with the Tasi Mane project

- It prolongs TL's dependency on oil and gas.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the billions spent will go to foreign companies, providing hardly any local livelihoods or subcontracts. The petroleum industry creates fewer jobs than any other option.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- Cost projections leave out 90% of investment obligations.
- In today's economy and oil prices, it is not financially viable.
- We can be brave, but we should also be smart.

The Government has made many unrealistic promises about revenues, profit-sharing, jobs and other benefits.

Overbuilding ports and airports

- Timor-Leste is building a port and airport far beyond realistic traffic expectations.
- Airfares have escalated and airlines are cancelling routes.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?



Timor-Leste is in debt.

- Laws in 2009 opened the door to foreign loans.
- Since 2012, TL has signed* contracts to borrow \$853 million:
 - \$489m from the Asian Devel. Bank (ADB) for roads and Dili airport
 - \$174m from the World Bank for roads, water and education
 - \$113m from Japan (JICA) for roads & Dili airport
- From these contracts, \$286 million has been disbursed so far.
- Future borrowing is unclear, although Sunrise and the Tasi Mane Project may be financed by borrowing billions of dollars.
- The 2023 Budget authorizes \$200 million in new loan contracts.
- In 2023, Timor-Leste will pay \$22 million in debt service, which could increase to more than \$50 million/year after new contracts are signed and money is disbursed.

*Not including a \$50 million loan from China that was invalidated by the Audit Court.

5. Challenges for the next Government

Timor-Leste's Petroleum Fund will run out in a few years.

How can we use that time and money to create a basis for sustainable prosperity?

We need to change direction.

- Timor-Leste's trade deficit is about a million dollars every year, including many imported things that could have been made locally.
- Private sector employment has been falling since 2014. The productive economy is smaller than it was at the time of independence in 2002.
- Public spending on education and health remain far below international standards. Children under five still have one of the highest malnutrition rates in the world.
- It's easier to pay for something from abroad - an overseas scholarship or a foreign contractor - than it is to develop universities or businesses.
- Timor-Leste's Human Development Index ranking fell from 128th in 2010 to 141st in 2020.
- Most local companies and workers seek out rents from petroleum money (through public contracting), rather than develop the local productive economy.
- We cannot control volatile world oil and stock market prices, which go down as well as up.

What are the alternatives?

- **Invest in human resources: education, health, and nutrition. These are prerequisites for everything else.**
- **Build infrastructure that people need: rural roads and water supply, local schools and clinics, decentralized renewable electricity.**
- **Don't forget people outside the formal economy.**
- **Strengthen sectors which build on Timor-Leste's strengths: agriculture, community-based tourism, small industries making products for domestic use.**
- **Adopt policies based on evidence and objective analysis, not on fantasies, politics or dreams.**

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Instituto ba Analiza no Monitor Dezenvolvimento iha Timor-Leste
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Pagina indise

- [Oranmentu Estadu 2024](#) (3/23)
- [Oranmentu Estadu 2023](#) (3/23)
- [Oranmentu Estadu 2022](#) (1/23)
- [Fundu Petroliu](#) (7/23)
- [Usenamentu Ambiental](#) (3/23)
- [Radio Igualdade podcast sira](#) (6/22)
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- [Estadu Emerjénsia](#) (5/21)
- [Ronsau Sona-ba-Sa](#) (10/17)
- [Kodiku Minatu](#) (7/21)
- [Frotaeria maritima](#) (5/14)
- [Konferensia duador nan](#) (6/22)
- [Portu Titar](#) (10/18)
- [Kasu Korupsaun Robby Bova](#) (1/16)
- [Diploku mina re Tai Mans](#) (9/12)
- [Basa Konvonsionu Ita Sira](#) (10/13)
- [Sunrise LNG](#) (7/11)
- [Lei Imprensa](#) (6/17)
- [PPP no Aeroportu Dili](#) (6/14)
- [Fabrika antraxa oilco-estada](#) (1/12)
- [Dokumentu husi UNMIT no LH](#) (12/12)
- [TL hana iha deusa](#) (3/12)
- [Lei Ambientál](#) (8/18)
- [Planu Estratéjku Dezenvolvimentu](#) (7/11)
- [Projétu mina Kitan](#) (8/16)
- [Servisu iha La'o Hamutuk](#)

Index pages

- [2024 General State Budget](#) (3/23)
- [2023 General State Budget](#) (3/23)
- [2022 General State Budget](#) (1/23)
- [Petroleum Fund](#) (7/23)
- [Environmental licensing documents](#) (3/23)
- [Petroleum projects](#) (3/23)
- [Sale of Freixevale](#) (5/21)
- [Mantina Indonezia](#) (6/20)
- [Bernard Collaery / Witness K case](#) (12/22)
- [Mining Code](#) (7/21)
- [Land leases](#) (7/16)
- [Donor conferences](#) (6/22)
- [Taii Mans oil/gas project](#) (4/19)
- [Borco LNG plant](#) (7/15)
- [Sunk Sunrise](#) (4/16)
- [Sunrise LNG](#) (11/21)
- [Betrus Indonezia](#) (5/16)
- [TimorSAP national consensus](#) (3/22)
- [Titar Port](#) (10/18)
- [Kitan oil project](#) (8/16)
- [TL going into debt](#) (4/19)
- [Overdue petroleum taxes](#) (7/20)
- [Robby Bova fraud](#) (1/11)
- [Media Law](#) (6/17)
- [Dili airport and PPPs](#) (6/14)
- [National electricity project](#) (8/14)
- [UNMIT and UN documents](#) (12/12)
- [Strategic Development Plan](#) (7/11)
- [Work at La'o Hamutuk](#)

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