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## Timor-Leste backing oil development before Hague ruling

Timor-Leste's leaders are at odds over progressing with plans for a huge oil and gas project despite the uncertain outcome of talks in The Hague over maritime boundaries.



HAMISH MCDONALD



Xanana Gusmão, Timor-Leste's minister of planning and strategic investment.

AFP Photo / Valentino de Sousa

It's midday in Timor Plaza, an office, hotel, shopping and cinema complex in the capital of Timor-Leste. The car park is full; a professional body is holding a conference in the hotel, adjourning to a top-floor terrace for buffet lunch. Downstairs, smartly dressed office workers crowd the airconditioned food hall.

Built by Jape Kong Su, an ethnic Chinese trader who fled Dili in 1975 when civil war broke out as Portuguese colonial rule collapsed, it sends out an aspirational signal that South-East Asian middle-class prosperity is within reach.

Yet to some who put Timor-Leste's finances under hard scrutiny, this sample of the good life is a bubble, fed by government spending that is also a bubble, fed by a single offshore oil and gas field that is 90 per cent depleted, with no major new source of revenue likely to be ready to replace it when it dries up a few years from now.

One of those economic scrutineers is a private foundation called La'o Hamutuk, which operates from a bungalow in a Dili backstreet. "There's a perception that things are okay now, and stable," says Niall Almond, one of its researchers, "even with people in the countryside going hungry three months of the year and children dying of simple illnesses.

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"That will crumble pretty soon after the oil has gone, unless other employment is there. But I can't get my young Timorese friends to see it. They don't grasp the urgency of the situation at all. There's a veneer of stability and progress, but it's very fragile."

Timor-Leste's Petroleum Fund, set up a few years after the new state was launched in 2002 to sequester oil revenues in safe United States dollar bonds for future generations, has been hovering near \$US16.5 billion for the past two years, with little new oil revenue coming in thanks to falling output in the Bayu-Undan gas field in the Timor Sea and low petroleum prices.

Prospects of a replacement source of oil money have stalled. Timor-Leste's government has insisted that gas and oil from the much bigger discovery called Greater Sunrise be brought for processing to Timor's coast. The resources companies involved think a 3000-metre deep trench in the seabed makes it too risky to lay a pipeline. Since the oil price slump in late 2014, the companies have got less interested anyway.

In response, the Timor-Leste government has stepped up a legal and diplomatic drive to renegotiate the 50-year maritime boundary agreed with Australia in 2006, which created a 50-50 split of the future Greater Sunrise revenue, despite some 80 per cent of the field being located on Australia's side of the boundary.

The Timorese certainly have a lot of justice on their side, especially since Australia's secret service has been caught bugging its cabinet room during negotiations. But getting a bigger share of Greater Sunrise also depends on Indonesia coming to the party, since the

field extends into a side area Jakarta might itself eye for renegotiation.

Even so, the Timor-Leste government has geared up spending plans in anticipation of the Greater Sunrise gas coming to its shores. Its multibillion-dollar scheme known as Tasi Mane, the local Tetum name for this area of the Timor Sea, includes a liquefied natural gas export plant at Beacu, an oil refinery and petrochemical works at Betano, and a huge marine supply base at Suai, with the three linked by a new 200-kilometre motorway.

In a supplementary budget passed by parliament in July, Prime Minister Rui Maria de Araújo added \$US391 million to the government's planned spending for 2016, bringing the total to \$US1.953 billion. The drawdown on the Petroleum Fund will be \$US1.675 billion, more than three times the "estimated sustainable income" of \$US545 million based on investment returns and steadily falling oil revenue.

The budget now includes \$US193 million for work on the Tasi Mane scheme, even though there is no timetable for the Greater Sunrise oil and gas to arrive, if ever, and despite South Korea's Hyundai group having pulled out of its major contract for the Suai supply base when it was blocked by an audit authority. The government is appealing the decision.

By contrast, the government spends only about \$US200 million a year in total on health, education and agriculture for an extremely poor population likely to grow from the present 1.2 million to about 2.1 million mid-century.

At this rate of drawdown, and with very little revenue now flowing in and returns subdued (partly from a diversification out of US dollars and government bonds since 2012), La'o Hamutuk thinks the Petroleum Fund could be exhausted in less than the 10 years it was predicting only last year.

Mari Alkatiri, who as Timor-Leste's first prime minister set up the fund, offers me starker warning: "With the high level of spending, we do believe that without a clear policy to govern the country, seven years from now we will have nothing in the oil fund."

Prime Minister Araújo, who responded by email to questions, says the high spending this year is "front-loading" for strategic investment in human capital and basic infrastructure. Withdrawals from the Petroleum Fund would come back to the estimated sustainable income about 2020. "This is because, if no public investment is done now to leverage private investment, there will be no economic transformation and diversification," he says.

The World Bank and Asian Development Bank are understood to have refused funding for Tasi Mane, and to have pointed out that even if the reserves are brought to Timor, it would make more economic sense to have facilities located together rather than strung out along a new 200-kilometre road and three separate ports built. "A highway for what?" comments one influential Timorese figure, about the motorway. "Buffalo?"

Tasi Mane is the dream project of José "Xanana" Gusmão, Timor-Leste's first president and fourth prime minister, and former resistance leader during the 24-year Indonesian occupation. As minister for planning and strategic investment, Gusmão seems to have carte blanche to pursue Tasi Mane. As chief negotiator for a permanent Timor Sea boundary with Australia he's been drumming up popular support for his idea that independence is not complete until the sea border is fixed permanently.

This week, Gusmão led the Timorese delegation into a compulsory conciliation session with Australia at the international courts in The Hague, a hearing that steps up embarrassment for Canberra, but can't force it to renegotiate let alone result in adjudication without Australian consent.

In political circles, only a few and very senior people feel able to oppose Tasi Mane openly or directly. The popular Xanana Gusmão is not someone people want to take on. "He is very democratic," one political colleague says, "until you disagree with him."

“People around him have no courage to tell him that Tasi Mane has to be treated differently,” says Alkatiri. “You can’t put all our people to look into the sea. We have land...”

Alkatiri has his own pet scheme, to develop Timor-Leste’s enclave of Oecusse on the northern coast of Indonesia’s western half of the island, into a regional hub with its own airport, resorts, medical centre and enhanced hinterland agriculture. He insists it’s a different proposal, having already brought electricity and irrigation to most of the population, and with \$US280 million in guaranteed government funding over five years, not such a burden.

One critic of Tasi Mane is José Ramos-Horta, former foreign minister, prime minister and president. “I would agree, support and applaud such projects if we knew beyond any doubt that we had 10, 20 oil and gas fields in the Timor Sea, that the Timor Sea was teeming with rigs,” he tells me. “But to have a major supply base of that magnitude, for one or two fields, might be uneconomical. Particularly as our relationship with the oil companies has deteriorated over the dispute on taxes, and with the oil price so low. Who is going to want to invest now?”

But the most powerful critic emerging is Gusmão’s old comrade in arms, the current president, Taur Matan Ruak, known widely as “TMR”, who had succeeded Gusmão as the last commander of the Falantil resistance army. Last December, Taur vetoed the government’s 2016 budget but was overruled by a big majority of the parliament. In February, he lashed out at the unity government of Gusmão’s party, CNRT, and its former rival Fretilin, which Alkatiri had previously led. “They do not use unanimity to solve [the country’s] issues; they use it for power and privilege,” Taur said. “Brother Xanana takes care of Timor while Brother [Alkatiri] takes care of Oecusse.”

Timor-Leste’s presidents are elected as independents, separate from the party political fray. Now frequently touring the 13 districts, Taur is thought to be preparing to enter party electoral politics when his presidential term ends early next year. He would join the new People’s Liberation Party currently led by a former anti-corruption commissioner, Adérito Soares.

The contest for power in the parliamentary elections, due mid-2017, would then become a three-way contest between CNRT, Fretilin and Taur’s party. Alkatiri says Fretilin will go all out to win an absolute majority “to protect the oil fund”. Any coalition talk would happen after the election.

Alkatiri thinks Gusmão – who was not available for interview on my visit – will use the theme of Australia’s robbery of Timorese maritime resources strongly in his campaign. “Xanana has been telling this: If you trusted me before, trust me now because I will bring the median line for you.

“This is the kind of politician that we have here,” he says. “They know what the people like to hear, and if you go publicly against this you will be finished. You may not go public in supporting it, but don’t go against.”

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**HAMISH MCDONALD**

is *The Saturday Paper*’s world editor.