

New Petroleum Producers Discussion Group

London, UK 12-13 May 2014

Chatham House / Royal Institute for International Affairs

Notes for Working group A on Engaging with society

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Overview of situation in Timor-Leste, as an example to stimulate discussion

I hope I'm wrong, but I'm going to assume you don't know much about the country I've lived in for the last 13 years. Timor-Leste is a small half-island in the Asia-Pacific, with a little over one million people, which has been colonized and/or occupied by Portugal, Japan and Indonesia for 500 years. After a quarter-century of brutal Indonesian military occupation and war, TL voted for independence in 1999, around the same time oil production started. Peace brought a UN transitional government, and we became a sovereign democratic nation in May 2002. As a post-colonial, post-conflict, nation, we are developing our economy, legal system and institutions from less than zero.

TL is probably the poorest country outside sub-Saharan Africa. "Traumatic loss of life" – preventable child mortality from malnutrition, sanitation, healthcare – kills five children every day.

About half the people live below the poverty line, and the educated population is very small. In spite of about 20 billion dollars received in oil revenue, poverty is getting worse, and the gap between the small affluent elite in Dili and the rural majority is growing.

After a half-century of offshore exploration during foreign colonization and occupation, significant oil and gas income started coming in 2006; peak production and revenues have already passed. Total reserves are small – R/P ratio about 14 years – and, given our small, limited, already-explored land and sea area, future large discoveries are unlikely.

We're one of the three most petroleum-export countries on earth: 95% of state revenues and ¾ of GDP are from offshore oil and gas. However, less than 0.1% of people work in the sector, and all the revenues go to the state – hence virtually all state expenditures are oil money. Resource-dependent is not resource-rich; we have less oil and gas per capita than dozens of other countries.

Symptoms of the "Resource curse" include a 50:1 trade imbalance, neglect of education and health, an economy dominated by state spending with shrinking productive sectors, a "buy-don't build" outlook, and almost no realistic medium-or long-term planning.¹

E.g. Timor-Leste spends 40% more on overseas scholarships than on the National University, which has four times as many students as get the scholarships.

¹ <http://www.laohamutuk.org/econ/briefing/RightSustainCurrentEn.pdf>

In an effort to reduce the “resource curse,” TL has been among world leaders in its Sovereign Wealth Fund and embrace of EITI² and other transparency mechanisms.³ However, expectations are high and implementation is often poor, especially in the National Petroleum Authority⁴ and the TimorGAP NOC⁵ which do not follow governance procedures. Although leaders are accessible and workshops have been held around the country, journalists and the public have very limited understanding of oil issues. Most Parliamentarians and Ministers lack the information and comprehension to reach objective conclusions.

E.g. A recent court audit of the National Petroleum Authority found many problems.⁶

Myths from poorly managed expectations:

We have a lot of oil and gas which will last for a long time. Unfortunately, the fields currently in production will be exhausted in 7 years, and the sovereign wealth fund could be all spent 7 years after that. Even if the politically-stalled Sunrise project goes ahead, its total revenues to TL will average less than \$1/person/day for 40 years, about a third of current spending levels (which nobody would say are adequate even today, let alone in 2050). But officials keep telling people that there are many undiscovered fields.⁷

Oil will lead to non-oil development. National development plans are centered on the Tasi Mane Project⁸ -- a supply base for offshore oil projects, a refinery to process imported crude and export 80% of its output, an LNG plant for the disputed Sunrise field, and a 150-km highway -- managed by the TimorGAP NOC. The economic viability, spinoff benefits and likelihood of this project are highly dubious, and private investors are not interested. However, this “national cause” eats up public money and occupies policy space which could be used for more realistic, appropriate, sustainable, people-oriented investment and development which builds on TL’s renewable and human resources.

E.g. The Petroleum Minister promised Suai area residents “10%” in return for 1000 Ha of land for the Supply Base. Nobody knows what that means or when, and profits from the project could be zero or negative. But local farmers stopped planting their fields.⁹

E.g. Because the Tasi Mane Project is so essential, environmental protection can be defied.¹⁰

Oil is the key to the future. The brightest, most ambitious, most creative people go in to petroleum administration or the NOC. Many more top students study petroleum

² <http://www.laohamutuk.org/Oil/EITI/10EITIindex.htm>

³ <http://www.laohamutuk.org/Oil/PetFund/05PFIndex.htm>

⁴ <http://www.laohamutuk.org/Oil/PetRegime/NPALaw/08RestructIndex.htm>

⁵ <http://www.laohamutuk.org/Oil/PetRegime/NOC/10Petronatil.htm>

⁶ <http://laohamutuk.blogspot.co.uk/2014/04/checking-petroleum-regulators.html>

⁷ <http://www.laohamutuk.org/econ/model/13PFSustainability.htm>

⁸ <http://www.laohamutuk.org/Oil/TasiMane/11TasiMane.htm>

⁹ <http://www.laohamutuk.org/Oil/TasiMane/13SSBen.htm>

¹⁰ <http://laohamutuk.blogspot.co.uk/2014/05/environmental-licensing-who-needs-it.html>

engineering than agriculture, which is the livelihood of 80% of Timorese people. We are squandering our most valuable human capital. Similarly, leader and public attention is diverted by symbolically important controversies like unpaid petroleum taxes and the maritime boundary dispute with Australia, rather than used for the challenging task of building a non-oil economy. Rent-seeking takes many forms.

We have lots of money, so don't need to use it carefully. From 2007 to 2012, Timor-Leste's state budget grew faster than every country except Zimbabwe.¹¹ Although budget growth has moderated, recurrent spending still increases 20%/year. More than half of state spending immediately leaves the country. But in the *rentier* economy, with few taxpaying voters, there's little political pressure to spend wisely and moderately.

Petroleum is the most important sector. Public money and political support enable petroleum advocates to develop their ideas; they leverage their million-dollar-PowerPoint proposals into billion-dollar, publicly financed projects, including those rejected by investors. Other sectors never get the first million – our obsession with oil has tilted the playing field, and education, agriculture, light industry, tourism, and rural infrastructure don't get equal consideration.

The Petroleum people know better – trust us. Too often, transparency becomes salesmanship and consultation becomes one-way socialization, as people do not have enough unbiased information to understand and decide. The standard of free, prior and informed consent should apply not only to people who will be displaced by a project, but to those whose lives and futures will be affected by policy choices and roads not taken. Public consultation means asking people what decisions should be made – not telling them how the already-selected option will be good for them. It's much harder, especially with under-educated citizens who have had little experience with the world. But they are the owners of the oil and gas wealth – and they will suffer the most severe impacts of misguided directions.

e.g. "Private Public Consultation" this week on TLEA technical regulations with refusal to circulate the documents in advance.¹²

Perhaps this conference is the wrong audience for this message. The people in this room work in the petroleum sector, and it's not your responsibility to promote sustainable, long-term, equitable development. But you are human beings and citizens, entrusted to develop and/or manage the people's natural resources, and should consider the effects of your decisions on all the people of the countries you live and work in. Meaningful community engagement is not only a pragmatic expediency, but a moral obligation.

¹¹ <http://www.laohamutuk.org/econ/OGE14/13OGE14.htm>

¹² <http://laohamutuk.blogspot.co.uk/2014/05/private-public-consultations.html>