Can a Sovereign Wealth Fund Prevent the Resource Curse?
The Experience of Timor-Leste

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Contents

Timor-Leste created its ‘Petroleum Fund’ SWF in 2005 to avoid the ‘resource curse’ that afflicts many petroleum-export-dependent nations.

Has it been effective?
1. Introduction to Timor-Leste
2. Timor-Leste’s Petroleum Fund: goals and mechanisms
3. How has it worked so far?
4. Prospects for the future
1. Introduction to Timor-Leste

<table>
<thead>
<tr>
<th>Mozambique</th>
<th>Timor-Leste</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>31 million 1.3 million</td>
</tr>
<tr>
<td>Land area</td>
<td>800,000 km² 15,000 km²</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>$493 $2,422</td>
</tr>
<tr>
<td>Remaining gas reserve p.c.</td>
<td>6,400 ft³ 2,700 ft³</td>
</tr>
</tbody>
</table>

2004: Why the “resource curse” could have been even worse in Timor-Leste

No history of democracy or self-government
- Only a few people (returned exiles) had ever lived under a government that even pretended to serve the public interest.
- Tradition of resistance -- not constructive criticism, coalition-building, alternatives or compromise -- with top-down decision-making.

New laws and public service with little experience of honesty, good governance or accountability
- Limited number of skilled people requires dual roles, reducing oversight and increasing appearance of nepotism.
- Just-invented government structures lack adequate oversight and separation of powers, with unclear and conflicting responsibilities.
- Learned inefficiency from Portugal, corruption from Indonesia and overpaid, unqualified personnel from the UN.

Extreme (80%) dependency on oil and gas revenue
And why it could be reduced

We could learn from the good and bad experiences of other oil and gas producers.
• Oil industry in TL was not yet large or entrenched

People fought for and still value national sovereignty and democracy.
• Many active NGOs and civil society groups

Most reserves are offshore, processed abroad.
• Lower social and environmental risks and impacts

<table>
<thead>
<tr>
<th>Year</th>
<th>Petroleum GDP</th>
<th>Non-oil GDP</th>
<th>Productive (agric. &amp; manuf.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$4,234 (75%)</td>
<td>$1,396 (25%)</td>
<td>$308</td>
</tr>
<tr>
<td>2014</td>
<td>$2,591 (64%)</td>
<td>$1,447 (36%)</td>
<td>$309</td>
</tr>
<tr>
<td>2015</td>
<td>$1,496 (48%)</td>
<td>$1,597 (52%)</td>
<td>$292</td>
</tr>
<tr>
<td>2016</td>
<td>$820 (33%)</td>
<td>$1,656 (67%)</td>
<td>$292</td>
</tr>
<tr>
<td>2017</td>
<td>$895 (36%)</td>
<td>$1,610 (64%)</td>
<td>$290</td>
</tr>
<tr>
<td>2018</td>
<td>n.a.</td>
<td>$1,569</td>
<td>$300</td>
</tr>
</tbody>
</table>

• State revenues in 2019: $3,043 million
  $2,101 million from investing the Petroleum Fund
  $ 756 million from oil and gas revenues
  $ 186 million from non-petroleum sources

• Executed 2019 State Budget: $1,241 million
  $969 million transferred from the Petroleum Fund
  $186 million from non-petroleum (domestic) revenues
  $ 50 million from loans which will have to be repaid
  $ 36 million carried over from 2018

• 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 doesn’t provide jobs, subcontracts, or money for people – revenue goes to the State.
  Only 0.1% of the workforce is in oil and gas: 339 Timorese and 287 foreigners.
2. TL’s Petroleum Fund: goals and implementation

- **Decouple** oil revenues from state spending
- **Stabilize** against production and price fluctuations
- **Earn** investment return for **sustainability** when oil and gas are used up “for the benefit of current and future generations”
- **Improve** transparency and management of oil revenues, prevent corruption
- **Ensure** that decisions are open and **democratic**
- **Investment** is to earn revenues; withdrawals (through the state budget) can develop the country

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**Theory behind the Petroleum Fund**

- Petroleum revenue is not income in the usual sense – it is a conversion of wealth from one form to another.
- Government petroleum revenue is different from other tax revenues.
- Revenue from the oil and gas sector varies over time.

![](chart.png)

Sustainable expenditure benefiting both current and future generations
‘Estimated Sustainable Income’

- Will provide steady revenue flow to the state budget.
- 3% of (Balance + NPV of future oil and gas revenues)
- Could provide constant revenues forever.

**But**

- Investment real return has often been less than 3%.
- Population, prices and people’s expectations grow.
- Overspending happens almost every year.
- The rules were weakened in 2011, 2018 and 2019.

**Petroleum Fund Law no. 9/2005**

- All oil and gas-related income goes directly into the Fund.
- Invested in overseas liquid instruments: initially all U.S. gov’t bonds; gradually included other bonds and stocks.
- Withdrawal requires Parliamentary approval (usually through the State Budget).
- Mandates regular reports, consultation and transparency.
- Petroleum Fund cannot be used as collateral for loans.
- Estimated Sustainable Income (ESI) guideline.
- Revised three times:
  - 2011: investment profile, ESI and collateral rules
  - 2018: extraordinary withdrawals
  - 2019: 5% invested domestically in a petroleum project
Petroleum revenue peaked in 2012, and this is how it flowed in and out of the Petroleum Fund that year.

The basic structure hasn’t changed, but details have.

From 2005 thru 6/2020:
$23.0 bn oil & gas revenues
+ $ 6.9 bn investment returns
- $11.8 bn withdrawn*
$18.1 bn balance

* $7.4 bn ESI, $4.4 bn above ESI

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### Timor-Leste’s Petroleum Revenue Streams

- **Purchasers of oil and gas**
  - more than $3.3bn
  - from Bayu-Undan and Kitian

- **Bayu-Undan and Kitian joint ventures**
  - $1,272 TL taxes

- **Company operating costs & profit**
  - FTP (royalty) $2,373

- **PF Investment income** $401

- **National Petroleum Authority** (Australia-TL joint agency)
  - Australia share $1,957
  - TL share 90%

- **Australia taxes** $134

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### Timor-Leste Petroleum Fund
End-of-2012 balance $11,775 million

- **Autonomous agencies** $19
- **Domestic revenues** $118
- **$665 Est. Sustainable Income transferred**
- **$830 transferred above ESI**

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### Timor-Leste State Budget
$1.195 million spent during 2012

- **Donor-funded projects**
  - $254 recurrent
  - $503 capital

- **$691 carried over to 2013**

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### Agencies involved with Timor-Leste’s Petroleum Fund

- **ANPM and Petroleum Ministry**
- **ANPM and Ministry of Finance Tax Dept.**
- **Central Bank of Timor-Leste & external investment advisors**
- **Ministry of Finance**
  - **Council of Ministers**
- **Timor-Leste National Parliament**
  - **Petroleum Fund Consultative Council**
  - **Investment Advisory Board**
  - **Independent Auditor**

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### Money withdrawn (transferred) to fill gap between expenditures and other revenues, according to approved budget.
3. How has it worked so far?

Timor-Leste has avoided

- Spending the money as fast as it comes in
- State budgets fluctuating with oil prices and production
- Significant oil money being diverted or stolen
- Having nothing left when the oil and gas runs out
- Invasion, occupation and war

But

- The fund is being depleted by overspending.
- Investment returns are unpredictable.
- Rules were weakened to enable insecure investments.
- The TimorGAP Nat’l Oil Company escapes accountability.

Figures from 2020 on are Ministry of Finance projections.
2019: withdrawal called ‘investment’

- In 2018, Timor-Leste agreed to pay $650 million to buy into the Sunrise offshore petroleum Joint Venture.
- In early 2019, the Central Bank and Government revised the Petroleum Fund investment policy.
- In April 2019, the Petroleum Fund ‘loaned’ $650 million to the TimorGAP NOC for 18 years at 4.5% interest, repayable starting in 2027.
- TimorGAP bought 57% of Sunrise, and has to come up with more than $15 billion for capital expenditures.
- No outside investors are interested in the project.
- It’s possible, but uncertain, that Sunrise will be financially viable and able to repay the investments.
4. Prospects for the future

Since 1910, oil companies drilled 95 exploration wells and found eight commercially viable reserves. Only one was discovered in the last 25 years, and it's now empty. The government wants companies to look in the same places again, but they might not find any more.

Current context and developments

- Very little future oil income; 97% of money from producing fields already received. Future fields are likely to provide less annual income than past ones.
- Population, expectations, maintenance costs and salaries keep going up.
- U.S. and global financial markets are volatile and uncertain.
- About 5% of the Petroleum Fund is no longer liquid or tradeable.
- Renewable energy is getting cheaper, and growing awareness of the climate emergency will make fossil fuels less valuable in the future.
Many challenges lie ahead.

- Accessing and analyzing public information
- Resisting the temptation to overspend or make unwise investments
- Ensuring that children, rural poor, women and other vulnerable people’s rights are respected
- Preventing lenders and companies from robbing the people
- Making the national oil company transparent and accountable to public needs
- Developing a diversified, sustainable economy

The “resource curse” remains.

- Unsustainable spending levels
- Denial that the oil and gas will run out soon
- Neglect of human resources and non-oil sectors
- Poor planning
- Different rules for ‘petroleum operations’
- Preference for showy mega-projects
- Increasing gap between rich and poor
- Greed, corruption, mismanagement
Lessons from Timor-Leste’s petroleum revenue experience

• Sovereign Wealth Fund and transparency help, but cannot prevent the resource curse alone.
• It’s easy to make rules before oil money pours in, but hard to follow them after it arrives.
• People expected too much from the Fund.
• Politicians can change laws easily.
• The temptation to overspend is very powerful.
• Non-government actors need to be stronger.

Muiço obrigado.

You will find more and updated information at

• La’o Hamutuk’s website
  http://www.laohamutuk.org

• La’o Hamutuk’s blog
  http://laohamutuk.blogspot.com/

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Email: laohamutuk@gmail.com
The following slides include additional information for questions and discussion.
In 2018:

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste</th>
<th>Mozambique</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>1.3 million, 31% urban</td>
<td>27 mill., 36% urban</td>
</tr>
<tr>
<td>Land area</td>
<td>15,000 km²</td>
<td>800,000 km²</td>
</tr>
<tr>
<td>Land borders</td>
<td>10% arable, 2% irrigated</td>
<td>6% arable, 0.1% irrig.</td>
</tr>
<tr>
<td>Coastline</td>
<td>250 km</td>
<td>4,800 km</td>
</tr>
<tr>
<td>2017 total GDP/capita (PPP)</td>
<td>$9.2 bn</td>
<td>$37.1 bn</td>
</tr>
<tr>
<td></td>
<td>$7,400 pc</td>
<td>$1,300 pc</td>
</tr>
<tr>
<td>State revenues</td>
<td>$0.2b</td>
<td>$3.4b</td>
</tr>
<tr>
<td>State expenditures</td>
<td>$1.1b</td>
<td>$4.1b</td>
</tr>
<tr>
<td>Foreign debt</td>
<td>$0.4b</td>
<td>$11b</td>
</tr>
<tr>
<td>All exports</td>
<td>$3.0b</td>
<td>$5.4b</td>
</tr>
<tr>
<td>Non-petrol. exports</td>
<td>$0.2b</td>
<td>$3.0b</td>
</tr>
<tr>
<td>Imports</td>
<td>$1.1b</td>
<td>$6.2b</td>
</tr>
</tbody>
</table>

2018 UNDP Human Development Report

<table>
<thead>
<tr>
<th>Data (most from 2016)</th>
<th>Mozambique</th>
<th>Timor-Leste</th>
</tr>
</thead>
<tbody>
<tr>
<td>HDI rank out of 189 (and index)</td>
<td>180 (.437)</td>
<td>132 (.625)</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>59</td>
<td>69</td>
</tr>
<tr>
<td>Mean years of schooling</td>
<td>3.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Gross National Income (GNI) p.c. PPP</td>
<td>$1,093</td>
<td>$6,846</td>
</tr>
<tr>
<td>Median age</td>
<td>17</td>
<td>19</td>
</tr>
<tr>
<td>Gini coefficient (inequality)</td>
<td>54</td>
<td>29</td>
</tr>
<tr>
<td>Gender Development Index</td>
<td>.904</td>
<td>.855</td>
</tr>
<tr>
<td>Child mortality (per 1,000)</td>
<td>71</td>
<td>50</td>
</tr>
<tr>
<td>Malnutrition (under 5 stunting)</td>
<td>43%</td>
<td>50%</td>
</tr>
<tr>
<td>People in multidimensional poverty</td>
<td>72%</td>
<td>46%</td>
</tr>
<tr>
<td>People in severe multidim. poverty</td>
<td>49%</td>
<td>16%</td>
</tr>
</tbody>
</table>
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, 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.

History in one slide

• People have lived in Timor-Leste for at least 5,000 years.

  • **Portugal colonized 500 years ago.**
    - They brought Catholicism but little development or education.
    - Offshore oil exploration started in 1890s.

  • **Australia, then Japan, invaded in 1941-45.**
    - About 50,000 Timorese people died in WWII, which didn’t involve them.

  • **Portugal’s military dictatorship resumed control in 1945.**
    - Offshore oil exploration began in the 1960s.

  • **Indonesia invaded on 7 December 1975.**
    - Mozambique provided crucial sanctuary and diplomatic support for the resistance.
    - Indonesia killed more than 100,000 Timorese during 24-year occupation.

  • **Referendum 30 August 1999, then 2½ years of UN rule.**

  • **Finally restored independence on 20 May 2002.**
    - Oil income surged after 2005, but peaked in 2012 and is 95% finished.
    - National Oil Company TimorGAP founded in 2011.

Nearly half 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.

About 1,200 Timorese children under 5 years old die from preventable conditions every year ... 30 times as many people as die from homicide.

In 2019, TL exported $24 million in non-oil goods (coffee).

In 2019, TL imported $536 million in goods (everything).
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27 August 2020

But we don’t have very much oil.

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste (70% Sunrise)</th>
<th>TL without Sunrise</th>
<th>Australia</th>
<th>Brunei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proved oil and gas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>reserves per person</td>
<td>653 barrels</td>
<td>42 barrels</td>
<td>744 barrels+ (730 without Sunrise)</td>
<td>6,360 barrels</td>
</tr>
<tr>
<td>at end of 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>How long reserves</td>
<td>22 years</td>
<td>1.4 years</td>
<td>20 years+</td>
<td>23 years</td>
</tr>
<tr>
<td>will last at 2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>production rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Since 2015, more money goes out than comes in.

<table>
<thead>
<tr>
<th></th>
<th>2019 trade:</th>
<th>services</th>
<th>non-oil goods</th>
<th>total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports</td>
<td>$448m</td>
<td>$592m</td>
<td>$1,040m</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>$91m</td>
<td>$26m (79% coffee)</td>
<td>$117m</td>
<td></td>
</tr>
<tr>
<td>Deficit</td>
<td>-$357m</td>
<td>-$566m</td>
<td>-$923m</td>
<td></td>
</tr>
</tbody>
</table>

Timor-Leste’s External Balance of Payments

- Goods exports (non-oil)
- Goods imports
- Services exports
- Services imports
- Trade Balance (incl. oil & investments)
- Oil revenues
- PF investment earnings
- Trade balance (excl. oil & investments)
Three fields have provided revenue.

There may not be any others.

In the 2019-2021 Bidding Round, ANPM hopes companies want to keep looking.

Nearly all these areas have already been explored.

Due to Covid-19 and the falling price of oil, most countries have cancelled or delayed bidding rounds.

Timor-Leste extended theirs by one year.
**TL has lived through bad examples**

- Inefficient Portuguese bureaucracy; corrupt and violent Indonesian occupation
- History of confusing government services with personal favors (corruption, patronage, nurturing local contractors)
- UN missions focused on short-term fixes, with inexperienced and unqualified “experts”
- Donors and advisors promote private-industry, “free trade” economic model
- The UN, WB, ADB and IMF are not transparent or accountable

**Limited checks and balances**

- Weak mechanisms to control corruption
- Political parties are weak and inexperienced, few alternatives or compromises offered
- Media don’t do independent research or question officials
- Civil society has limited education and experience

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**Challenges from the past (1)**

- **Post-colonial**
  - Language controversy
  - Land ownership in chaos
  - Illiteracy
  - Underdevelopment
  - People never lived under rule of law
  - Never had power to make decisions for ourselves
  - “To Resist is to Win” – lobbying and persuasion impossible
  - Internalized Portuguese and Indonesian traditions
  - Bureaucracy, corruption, “entitlement,” military companies
  - Incorporating returned exiles, collaborators
  - Public officials all just learning their jobs
  - Skilled people gone: education, health, governance
  - Getting neighboring countries to respect sovereignty
Challenges from the past (2)
• Post-conflict
  – Pandemic Post-Traumatic Stress Disorder
  – Infrastructure and property destroyed
  – No experience of predictability or long-term planning
  – Poverty
  – High birth rate
  – Domestic violence
  – Respecting veterans; dealing with collaborators
  – Police and soldiers come from different sides of the struggle.
  – Leading in peacetime requires a different skill set.
  – Differences of opinion are personalized. Loyalty and betrayal paramount; long memories

State services shouldn’t rise and fall with world oil market prices
Signs of the ‘resource curse’ (1)

• Believing that the oil money will last forever
  Kiton is empty; 97% of Bayu-Undan revenues have been received.

• Dreaming of more wealth from underground
  ‘Rentier income’ will come in without doing hard work.

• Borrowing today, to repay some day
  TL may borrow billions for projects with little chance of return.

• Lack of realistic long-term planning
  The Strategic Development Plan 2011-2030 is but a dream;
  Tasi Mane’s costs may be less than its benefits.
  As in all democracies, politicians’ planning horizon is the next election.

• Spending without thinking
  Waste, inefficiency and corruption are common.

Signs of the ‘resource curse’ (2)

• Using money to ‘solve’ every problem
  It’s easier to buy a scholarship than to manage a university.

• Import dependency
  TL’s non-oil trade deficit is about a billion dollars every year.

• Benefits flow to the urban and political elite
  Most people won’t use highways, airports and oil facilities …
  but will share the costs of paying for them.

• Ignoring non-oil development and revenues
  Farming is too hard to envision, even if oil may not last very long.

• Petroleum captures decision-making
  Agriculture, tourism, small industries, etc. aren’t competing on a level playing field.’
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The Petroleum Fund shall contribute to a wise management of the petroleum resources for the benefit of both current and future generations.

The Petroleum Fund shall be a tool that contributes to sound fiscal policy, where appropriate consideration and weight is given to the long-term interests of Timor-Leste’s citizens.
2005: TL Petroleum Activities Law no. 11/2005

- Petroleum exploration and production contracts must be published.
- Standard Production-Sharing Contract template: no bonuses or other special payments.
- Open, transparent bidding rounds.

But

- It does not apply to the two largest fields, which had contracts before 2005.
- All contracts since 2012 were awarded to TimorGAP with no open bidding.

Timor-Leste and the EITI process

- 2007: EITI qualification process starts; after elections new government continues it.
- July 2010: EITI certifies T-L as the third compliant country in the world (after Azerbaijan and Liberia).
- TL has published EITI reports through 2017. Recent ones have been late and less detailed.
We led the world, but not any more

In 2010, Timor-Leste scored 70.5 on the Revenue Watch Index, 12th in the world and the best in the Asia-Pacific region.

In 2013, Timor-Leste scored 68 on NRGI’s Resource Governance Index, ranking 13th of the 58 countries included, and third in the Asia-Pacific region.

In 2017, Timor-Leste scored 49, ranking 43rd of 89 countries and 8th in Asia-Pacific.

2018-2019 changes to Petroleum Activities Law

- Prohibits prior Audit Court review of petroleum-related contracts and agreements.
- Allows TimorGAP to own more than 20% of a project (which it already did for several projects).
- Overrides the Petroleum Fund Law to enable up to 5% of the Fund to be invested in petroleum operations within TL.
- It took many efforts, including Presidential vetoes, before legal changes came into force. They are internally inconsistent, but they are being applied.
- In June 2020, TL appointed new Ministers of Finance and Petroleum, and new heads of TimorGAP and ANPM. Things could change again.
In 2010, Timor-Leste scored 70.5 on the Revenue Watch Index, 12th in the world and the best in the Asia-Pacific region.

In 2013, Timor-Leste scored 68 on NRGI's Resource Governance Index, ranking 13th of the 58 countries included, and third in the Asia-Pacific region.

In 2017, Timor-Leste scored 49, ranking 43rd of 89 countries and 8th in Asia-Pacific.

Production is dropping faster than prices, and will not go back up. The price will be irrelevant when we have nothing left to sell.
We’ve moved from oil dependence to relying on our declining savings.

Balance in Timor-Leste’s Petroleum Fund

Diversification of P.F. investments

The 2011 revision allowed up to 50% in equities (stocks) and the 2019 change allowed 5% in domestic “Petroleum Operations”.

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Nearly all the growth in ‘non-oil’ GDP has been from oil and gas revenues recycled through state spending.

Women face even more challenges

- Domination by patriarchal and political systems
- Responsible for household: water, fuel, food.
- Barlaki (Bride-price)
- Colonial and Church traditions
- Domestic violence
- Many children in each family
- 2012 election law: $\frac{1}{3}$ of new MPs are women
Donor support fell as oil revenues grew.

Since 2008, donors spent between $170 and $300 million each year, but most of this money doesn’t come into the local economy. The percentage dropped after 2007 because Timor-Leste is spending more of its own money.

The 2020 Budget was rejected and we under an interim system until it passes.
The Petroleum Fund reached $17.1 billion in mid-2015 and fell to $15.8 bn by the end of 2018, the lowest balance in 5 years. It recovered in 2019 and fell in 2020, but the future is uncertain.

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

- This offshore gas and oil field was discovered in 1974.
- Development was stalled because Timor-Leste and the companies do not agree on where to liquefy the natural gas.
- Woodside and its partners believed that floating LNG or a pipeline to the Australian LNG plant (used for Bayu-Undan) is more profitable.
- Timor-Leste wants a pipeline from Sunrise to its shore, to get more tax revenues and anchor the Tasi Mane project.
- Under contracts and treaties, the companies propose the path, but both governments need to approve it.
- Because of Australian spying, TL persuaded Australia to invalidate CMATS in 2017.
- The negotiations for the 2018 Boundary Treaty could not agree on where the pipeline will go.
- In 2019, Timor-Leste bought Conoco-Phillips’ and Shell’s shares of Sunrise to control the decision. They need more than $15 billion to finance the project.

PF Law Article 15: Investment Rules

1. Under the criteria in this article, to qualify as eligible investment, the investment instrument must be issued or the investment be located abroad, in an internationally recognized jurisdiction.

4. No more than 5% of the Petroleum Fund should be invested in other eligible investments, provided that:
   a) The Minister has included such other asset class, which is part of the investment, in the proposed distribution of portfolios submitted to the National Parliament under Article 14.5, and
   b) The rules and criteria for selection, management and evaluation of each individual financial instrument within a certain asset class, have been approved by the Minister and published.

5. The exposure of the Petroleum Fund to:
   a) Any company or the issuing entity for the eligible instruments, with the exception of sovereign states, can never exceed 3% of the total value of the Petroleum Fund;

*The pink words were revoked by the proposed amendments.*
Petroleum Activities Law, new clauses added in 2018. Article 22: State Participation

6. The Petroleum Fund may be applied directly in Petroleum Operations, in the national territory or abroad, through the execution of commercial transactions, through Timor Gap, E.P., pursuant to Article 15.4 of Law no. 9/2005 ... republished by Law no. 12/2011.

7. Contracts for purchase and sale, acquisition, assignment, transfer, transfer, novation, merger, encumbrance or any other legal transaction entered into or payments made by Timor-Leste or any other Timorese public corporation, including entities wholly owned or controlled by controlled by them, designed to allow the participation of Timor-Leste or any other Timorese public legal person, including through entities fully owned or controlled by them, or of the Petroleum Fund, in Petroleum Operations and, as well as for the conduct of these, are not subject to prior inspection by the Audit Chamber of the High Administrative, Tax and Audit Court.

The green words are the key changes.

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. Projections have not been updated for Covid-19 realities.
• It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
• It requires $10-$20 billion in capital investment, which traditional financers (WB, ADB, JICA) are unwilling to lend.
• Nearly all the money spent will go to foreign companies, providing hardly any local livelihoods or subcontracts. The petroleum industry creates fewer jobs than any alternative.
• 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.

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

<table>
<thead>
<tr>
<th>Legislation</th>
<th>When</th>
<th>Days</th>
<th>Consultation</th>
<th>Parliament &amp; President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petroleum Fund Law no. 11/2005</td>
<td>2004-5</td>
<td>304</td>
<td>Three rounds of hearings nationwide, 25 submissions</td>
<td>Unanimous passage after two months of hearings and debate</td>
</tr>
<tr>
<td>Petroleum Activities Law no. 9/2005</td>
<td>2004-5</td>
<td>335</td>
<td>Many workshops, one round of hearings, nine submissions</td>
<td>Pending in PN for seven months, no hearings before enactment</td>
</tr>
<tr>
<td>Revisions to Petroleum Fund Law</td>
<td>2010-11</td>
<td>457</td>
<td>Many workshops, two hearings, four submissions</td>
<td>Discussed for two weeks, passed with few changes</td>
</tr>
<tr>
<td>$70m extraordinary transfer from PF</td>
<td>May 2018</td>
<td>0</td>
<td>No legislative process, probably illegal</td>
<td>Not submitted for approval</td>
</tr>
<tr>
<td>$140m extraordinary transfer from PF</td>
<td>July 2018</td>
<td>10</td>
<td>None. LH commented on rumoured draft, which was replaced by a one-time transfer</td>
<td>One-off transfer approved</td>
</tr>
<tr>
<td>$250m extraordinary transfer from PF</td>
<td>Mar-Apr 2020</td>
<td>4</td>
<td>None.</td>
<td>Approved. Transferred in April and May.</td>
</tr>
<tr>
<td>$286m extraordinary transfer from PF</td>
<td>June 2020</td>
<td>20</td>
<td>None.</td>
<td>Approved. Not yet transferred.</td>
</tr>
</tbody>
</table>

2011: TL’s Transparency Pillars

1. Best practice Petroleum Fund and revenue management
2. EITI + PWYP, global standards
3. Transparency portal
   - Budget Execution
   - Procurement
   - Foreign Assistance
   - Government results
4. Broadcast Parliamentary budget debates
5. Publish Council of Ministers decisions

These are Government promises. Practice is not consistent.
We find information in many places.

- Transparency portal
- Central Bank Petroleum Fund Reports
- ANPM, IAB and MoF reports on Petroleum production and revenue management
- Budget documents & execution reports
- EITI reports
- IMF, World Bank, ADB and oil company reports
- Budget hearings and debates
- Unofficial sources and leaks

But the National Oil Company TimorGAP is less transparent and accountable.

More stocks bring more volatility

Nominal Annual Return on Petroleum Fund investments

Unrealized gains/losses
Interest & dividends
Management costs
Benchmark
Total return

Oil income was higher than predicted until 2014, but much lower since then.

TL has already received 95% of the revenues it will get from Bayu-Undan and Kitan, and they will end entirely by 2023.

What will Tasi Mane really cost?
This estimates capital expenditures only, not operational costs. Most have never appeared in state budget forecasts.

<table>
<thead>
<tr>
<th>Component</th>
<th>Location</th>
<th>Status</th>
<th>Spent through 2019</th>
<th>Budgeted 2020</th>
<th>Budgeted 2021-2024</th>
<th>Estimated total capital cost</th>
<th>Percent budgeted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Airport</td>
<td>Suai</td>
<td>Constructed</td>
<td>75</td>
<td>9</td>
<td>4</td>
<td>100</td>
<td>88%</td>
</tr>
<tr>
<td>Supply base</td>
<td>Suai</td>
<td>Tender pending</td>
<td>51</td>
<td>5</td>
<td>705</td>
<td>850</td>
<td>89%</td>
</tr>
<tr>
<td>Highway</td>
<td>Suai-Fatxai</td>
<td>Mostly built</td>
<td>305</td>
<td>4</td>
<td>4</td>
<td>340</td>
<td>92%</td>
</tr>
<tr>
<td>Highway</td>
<td>Fatukai-Beaga</td>
<td>Not started</td>
<td>3</td>
<td>4</td>
<td>18</td>
<td>1,320</td>
<td>2%</td>
</tr>
<tr>
<td>Airport</td>
<td>Viqueque</td>
<td>Not started</td>
<td></td>
<td>-</td>
<td>-</td>
<td>75</td>
<td>0%</td>
</tr>
<tr>
<td>Oil refinery &amp; pipelines</td>
<td>Betano</td>
<td>Pending design</td>
<td>3</td>
<td>5</td>
<td>6</td>
<td>1,500</td>
<td>1%</td>
</tr>
<tr>
<td>Gas pipeline, LNG plant &amp; port</td>
<td>Sunrise-Beaga</td>
<td>Pending design, seeking financing</td>
<td>12</td>
<td>35</td>
<td>19</td>
<td>6,000</td>
<td>1%</td>
</tr>
<tr>
<td>57% share of Greater Sunrise Joint Venture</td>
<td>Offshore</td>
<td>Borrowed directly from the Petroleum Fund</td>
<td>650</td>
<td></td>
<td></td>
<td>650</td>
<td>100%</td>
</tr>
<tr>
<td>Interest on loan to buy into Sunrise JV</td>
<td>Offshore</td>
<td>Debt accrued in Petroleum Fund</td>
<td>21</td>
<td></td>
<td></td>
<td>512</td>
<td>36%</td>
</tr>
<tr>
<td>57% of Sunrise upstream capital expenditure</td>
<td>Offshore</td>
<td>Pending design, seeking financing</td>
<td>-</td>
<td>25</td>
<td>-</td>
<td>6,640</td>
<td>0%</td>
</tr>
<tr>
<td>Administrative and other costs</td>
<td>Dili</td>
<td>Ongoing</td>
<td>64</td>
<td>10</td>
<td>-</td>
<td>500</td>
<td>15%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>1,184</strong></td>
<td><strong>126</strong></td>
<td><strong>889</strong></td>
<td><strong>18,687</strong></td>
<td><strong>12%</strong></td>
</tr>
</tbody>
</table>
In four years, the loan to TimorGAP could exceed the 5% legal limit.

TimorGAP pays 4.5% annual interest on the $650 million loan, with an 8-year grace period and an 18-year repayment term.