

Can the Petroleum Fund exorcise the Resource Curse from Timor-Leste?

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Topics to be discussed

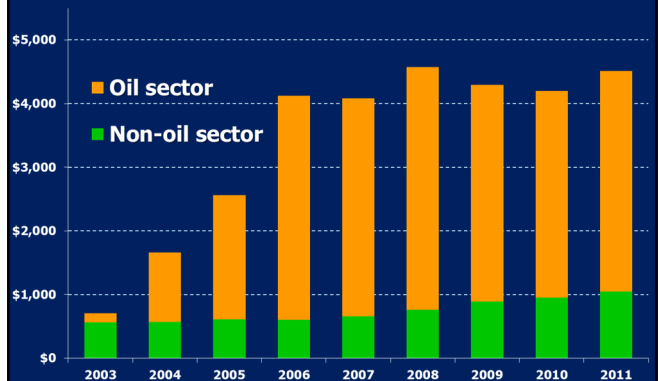
- Petroleum dependency in Timor-Leste
- Signs of the "resource curse"
- Where the Petroleum Fund fits in
- How long will the oil last?
- How long will the Petroleum Fund last?
- What is to be done?

Petroleum Dependency

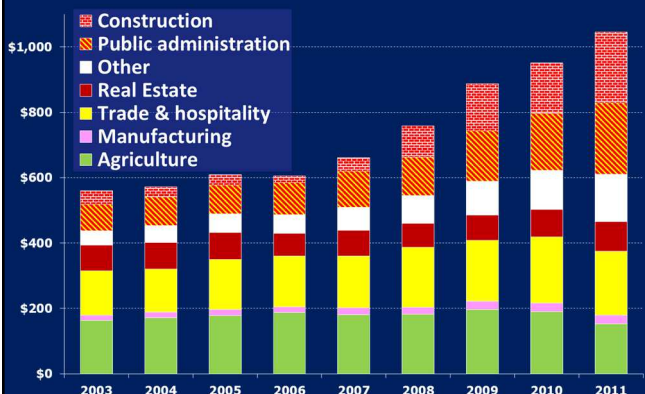
- Projected state revenues in 2014:..... \$2,380 million
\$2,213 million (93%) will be from oil (incl. \$770m investment return)
\$ 166 million (7%) will be from non-petroleum sources
- 2014 State Budget:..... \$1,500 million
\$903 million (60%) will be taken from the Petroleum Fund in 2014.
\$430 million (29%) more is from the Petrol. Fund in the past and future.
- Non-oil GDP in 2011:..... \$1,046 million
Petroleum GDP in 2011:..... \$3,463 million (81%)
- State activities, paid for with oil money, are about half of our "non-oil" economy, because part of this spending circulates in the local economy.
- Balance of goods trade (2012): \$664m imports, \$31m exports.
- Petroleum "income" goes to the State, not to the people.

South Sudan (and Equatorial Guinea?) are the only countries which depend more on oil and gas exports than Timor-Leste.

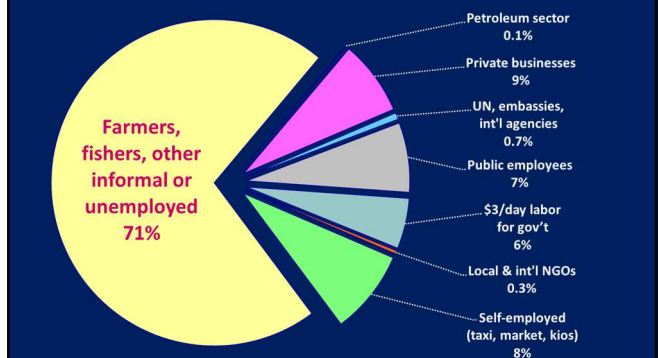
More than 3/4 of GDP is from oil.



The non-oil, non-state GDP is stagnant.



What do 600,000 working-age Timorese do for work?

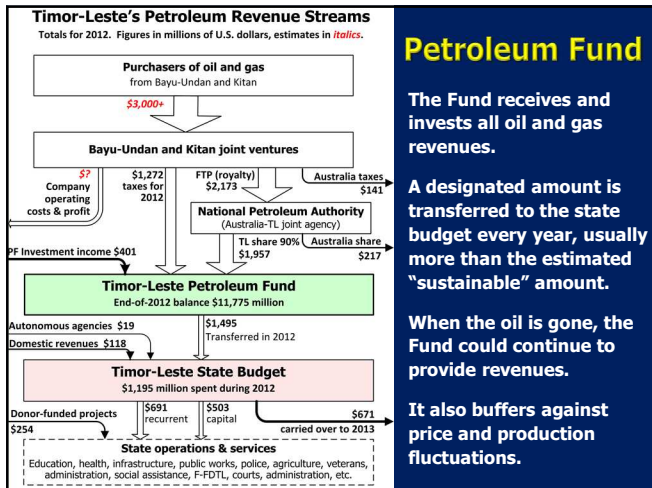


Signs of the "resource curse" (1)

- **Acting as if the oil money will last forever**
Bayu-Undan and Kitan will be dry by 2020.
- **Borrowing today, to repay tomorrow**
TL will borrow \$502 million in the next six years, often for projects with little chance of return.
- **Lack of realistic long-term planning**
The Strategic Development Plan 2011-2030 is but a dream.
- **Seeing money as the solution to every problem**
It's easier to buy a scholarship than to build a university.
- **Spending without thinking**
Recurrent expenditures go up 20%/year; projects often produce little result or return.

Signs of the "resource curse" (2)

- **Import dependency**
In 2011, TL's non-oil balance of payments deficit was \$1.5 billion.
- **Inflation from little local productive capacity**
Our productive economy cannot absorb the cash in circulation
- **Wealth goes mainly to the urban elite.**
Most people won't benefit from highways, airports and oil facilities, but will share the burden of loan repayments.
- **Ignoring non-oil development and revenues**
- **Petroleum "captures" decision-making processes.**
Agriculture, tourism, small industries, etc. don't get a "fair go."



Petroleum Fund

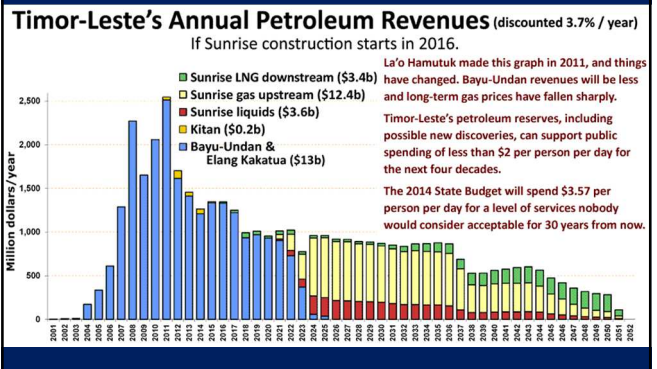
The Fund receives and invests all oil and gas revenues.

A designated amount is transferred to the state budget every year, usually more than the estimated "sustainable" amount.

When the oil is gone, the Fund could continue to provide revenues.

It also buffers against price and production fluctuations.

But we don't have that much oil

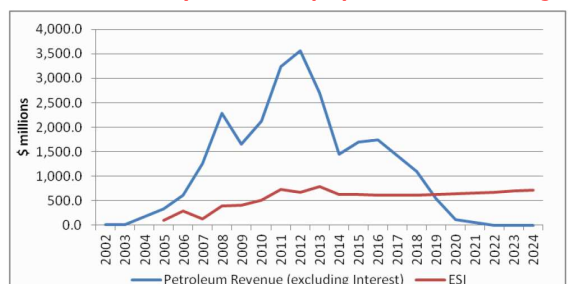


Australia is more "oil-rich" than Timor-Leste

| | Timor-Leste | Australia |
|--|-------------|---------------|
| Known oil and gas reserves per citizen | 797 barrels | 1,178 barrels |
| How long they will last at 2012 production rates | 14 years | 58 years |

Oil income will continue to decline.

Figure 2.5.3.2.1: Timor-Leste's Petroleum Revenues and Estimated Sustainable Income 2002-2025 From Ministry of Finance's proposed 2014 State Budget



Timor-Leste has already received 60% of the revenues from Bayu-Undan and Kitan, and they could end in seven years.

Oil is running out quickly!

Table 2.5.3.2.2: Petroleum Wealth and the Estimated Sustainable Income (ESI), \$ millions

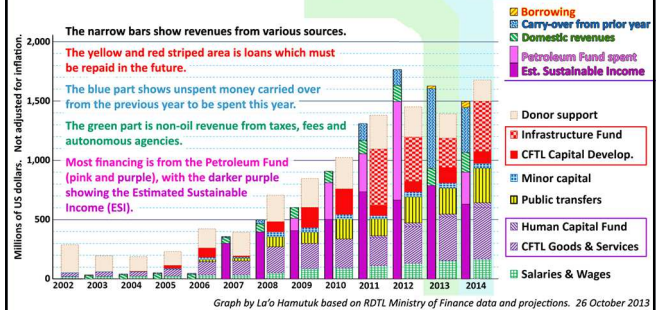
| | 2013 BB1 | 2014 Budget | 2015 | 2016 | 2017 | 2018 |
|--------------------------------------|----------|-------------|----------|----------|----------|----------|
| Estimated Sustainable Income (PWx3%) | 787.0 | 632.3 | 638.7 | 628.4 | 616.0 | 612.8 |
| Total Petroleum Wealth (PW) | 26,231.7 | 21,076.3 | 21,291.0 | 20,947.4 | 20,534.9 | 20,425.9 |
| Opening PF Balance | 10,776.7 | 14,058.5 | 15,369.0 | 16,431.1 | 17,548.5 | 18,723.9 |
| Net Present Value of Future Revenues | 15,455.0 | 7,017.8 | 5,922.0 | 4,516.3 | 2,986.4 | 1,702.0 |

Source: Petroleum Fund Administration Unit

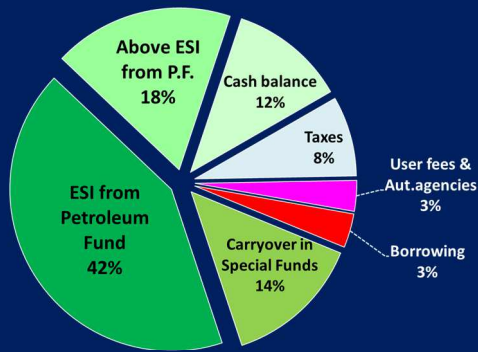
This table, from the 2014 budget proposal, shows how quickly our future revenues will decline, as the ESI falls every year.

State Budgets 2002-2014

State Revenues and Expenditures (including auton. agencies)
2002-2012: Executed 2013: Est.Exec. 2014: Proposed



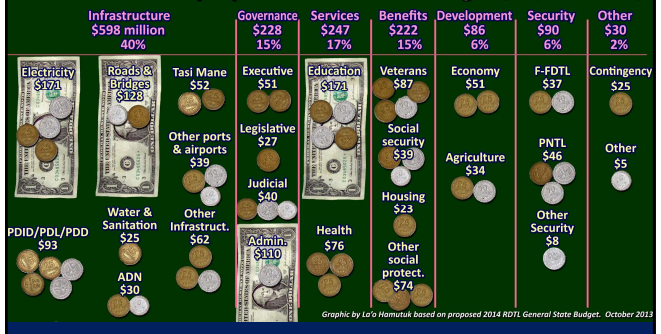
Income in the 2014 state budget



Total revenue: \$1,500 million, of which 88% is past, present and future oil and gas income.

The 2014 Budget will neglect farmers, students, and health care.

Allocation of the proposed 2014 State Budget (US \$1,500 million)



LH modelled how long the Petroleum Fund will last

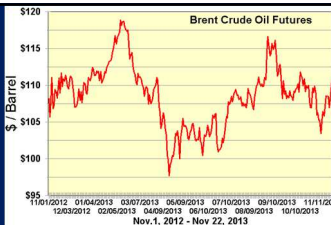
- To support prudent, evidence-based planning decision-making.
- TL's finite oil wealth won't last very long, but we depend on it for everything.
- To explore the effects of policy and other changes.
- Use an engineering approach: history, assumptions and causality, not correlations

Outputs

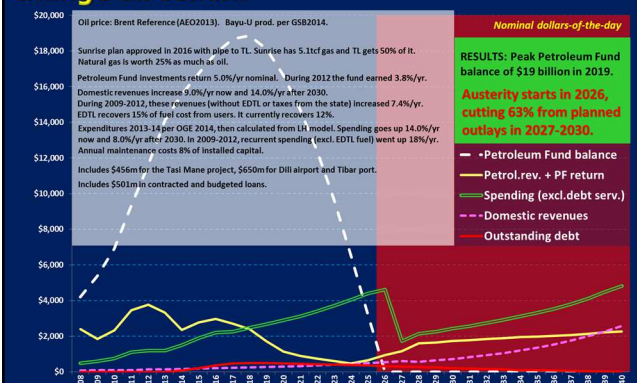
- Revenues and spending year-by-year
- Balance remaining in Petroleum Fund
- Balance owed from loans
- Not on graphs:
 - Estimated Sustainable Income
 - Breakdown of spending: recurrent (salaries, transfers, goods & services), debt service, O&M, minor and development capital
 - Breakdown of income: EDTL, loans, domestic taxes, oil revenues, Petroleum Fund return

Testable inputs

- Global inflation, population, budgetary relationships
- Oil prices: Brent or WTI; EIA price cases; gas/oil ratio
- Production: recoverable from Bayu-Undan and Sunrise
- Greater Sunrise development: if, when, where and revenue split
- Return on Petroleum Fund investments
- Domestic revenues, including recovery of EDTL fuel costs
- Recurrent expenditure, including maintenance of capital
- Capital expenditure: PPP and Tasi Mane components: if and amounts
- Loans: existing, planned and possible for projects and deficit, including amounts, interest and repayment periods
- "Yellow Road" and other sustainable scenarios



Optimistically, we have 13 years unless we change direction.



Oil price: Brent Reference (AEO2013). Bayu-U prod. per GSR2014.

Sunrise plan approved in 2016 with pipe to TL. Sunrise has 5.1tcf gas and TL gets 50% of it. Natural gas is worth 25% as much as oil.

Petroleum Fund investments return 5.0%/yr nominal. During 2012 the fund earned 3.8%/yr. Domestic revenues increase 9.0%/yr now and 14.0%/yr after 2030. During 2009-2012, these revenues (without EDTL or taxes from the state) increased 7.4%/yr. EDTL recovers 15% of fuel cost from users. It currently recovers 12%.

Expenditures 2013-14 per OGE 2014, then calculated from LH model. Spending goes up 14.0%/yr now and 8.0%/yr after 2030. In 2009-2012, recurrent spending (excl. EDTL fuel) went up 18%/yr. Annual maintenance costs 8% of installed capital.

Includes \$456m for the Tasi Mane project, \$650m for Dili airport and Tibar port. Includes \$501m in contracted and budgeted loans.

RESULTS: Peak Petroleum Fund balance of \$19 billion in 2019.

Austerity starts in 2026, cutting 63% from planned outlays in 2027-2030.

- Petroleum Fund balance
- Petrol. rev. + PF return
- Spending (excl. debt serv.)
- Domestic revenues
- Outstanding debt

Alternatives

- Strengthen Timor-Leste's people
Basic education, nutrition, health care, sanitation
- Work toward food sovereignty
Improve agriculture and food processing
- Manufacture for local consumption
Produce locally to replace imports
- Develop appropriate sectors
Ecotourism, small industries
- Involve all classes, genders, generations
Equity, economic justice, sustainable development

Choices for Timor-Leste

| We could improve ... | Or we can continue |
|---|---|
| Educate every child well | Scholarships and private schools for the richest, smartest or best-connected. |
| Create a just society | A small upper class with trickle-down "inclusiveness" to pacify the impoverished majority |
| Invest in the future | Profit-taking, hemorrhaging money, import dependency while the dollars last |
| Develop sustainably | Inequitable, temporary growth based on nonrenewable resources and ignoring ecological & social consequences |
| Plan realistically for the long term | Impulsive projects, wishful thinking, dashed hopes |
| Build on our strengths, especially the people | Squandered oil wealth and megaprojects |
| Achieve economic sovereignty | Political "independence" without control over Timorese lives or the future |

What's in their future?



Thank you.

You can find more and updated information at

- La'o Hamutuk website <http://www.laohamutuk.org>
- La'o Hamutuk blog <http://laohamutuk.blogspot.com/>
- Reference DVD-ROM or USB available.

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