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

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ANU Timor-Leste Update
28 November 2013

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 ¾ of GDP is from oil.

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

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

Farmers, fishers, other informal or unemployed 71%
How long can the Petroleum Fund Carry Timor-Leste?

**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.

**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**

**Oil income will continue to decline.**

**Australia is more “oil-rich” than Timor-Leste**

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste</th>
<th>Australia</th>
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</thead>
<tbody>
<tr>
<td>Known oil and gas reserves per citizen</td>
<td>797 barrels</td>
<td>1,178 barrels</td>
</tr>
<tr>
<td>How long they will last at 2012 production rates</td>
<td>14 years</td>
<td>58 years</td>
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How long can the Petroleum Fund Carry Timor-Leste?

27 November 2013

Oil is running out quickly!

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

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.

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

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

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

<table>
<thead>
<tr>
<th>Year</th>
<th>2013</th>
<th>2014 Budget</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESI</td>
<td>$787.0</td>
<td>$612.3</td>
<td>$639.7</td>
<td>$628.4</td>
<td>$616.6</td>
<td>$632.8</td>
</tr>
<tr>
<td>Total Petroleum Wealth (PW)</td>
<td>$21,211.7</td>
<td>$21,074.3</td>
<td>$21,291.0</td>
<td>$20,947.6</td>
<td>$20,354.9</td>
<td>$20,425.9</td>
</tr>
</tbody>
</table>

Net Present Value of Future Revenues:

- 2013: $1,455.0
- 2014: $7,017.8
- 2015: $5,922.0
- 2016: $4,516.3
- 2017: $2,984.4
- 2018: $1,702.5

Source: Petroleum Fund Administration Unit
How long can the Petroleum Fund Carry Timor-Leste?

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

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

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

What’s in their future?

Thank you.

You can find more and updated information at
- La’o Hamutuk website [http://www.laohamutuk.org](http://www.laohamutuk.org)
- La’o Hamutuk blog [http://laohamutuk.blogspot.com/](http://laohamutuk.blogspot.com/)
- Reference DVD-ROM or USB available.

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