

# Consequences of Timor-Leste's Dependency on Oil and Gas

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**TIMOR-LESTE:**  
Development issues and international relations

Adelaide, 19-20 April 2016



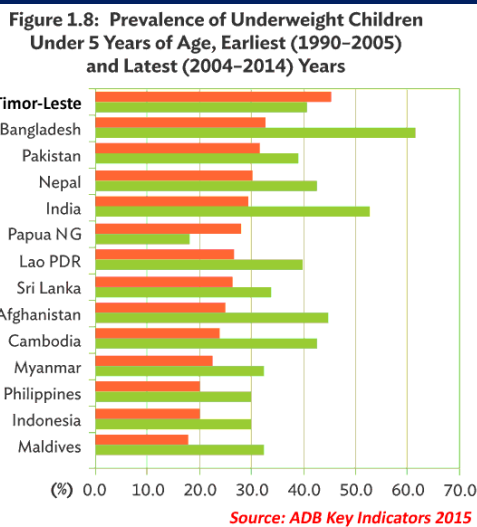
## Topics to discuss

- 1. Economic overview: poverty, inequality and oil dependency**
- 2. Where the state gets its money**
- 3. What the 2016 budget will pay for, and who benefits?**
- 4. Implications for the future of the half of Timor-Leste's people who are less than 17 years old.**



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## We're worst in the region ... and getting worse.



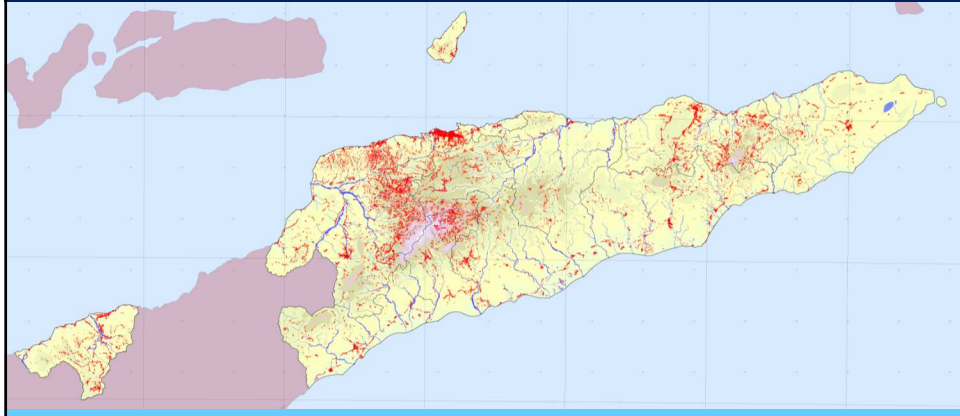
**A malnourished child may be permanently damaged.**

**An undereducated child will not be a productive worker.**

**Half of Timor-Leste's population is less than 17 years old, and the largest group is still in primary school.**

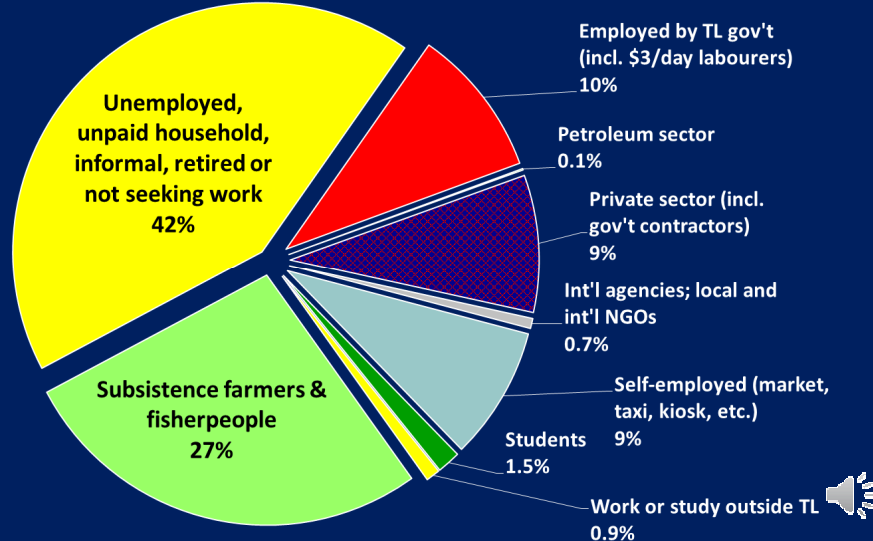


# Most people live in rural areas by subsistence agriculture.



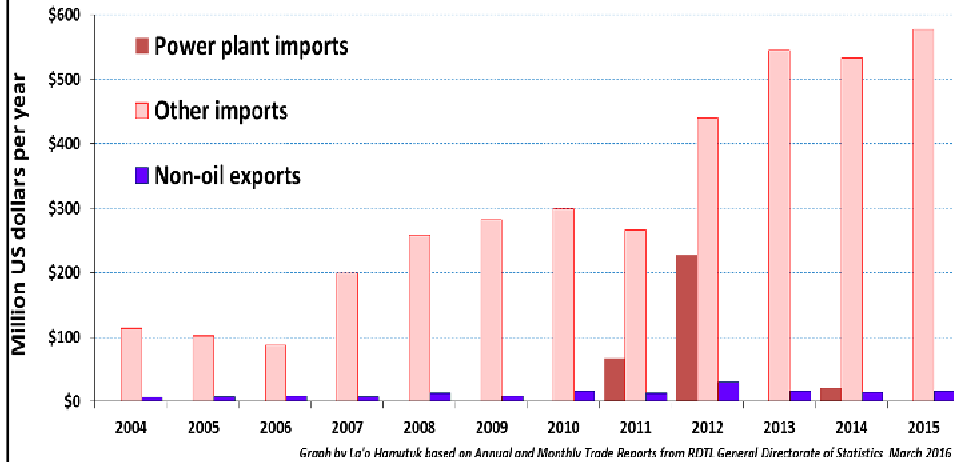
**Agriculture will get 1.9% of state expenditures in 2016, although it is the livelihood of 65% of the population.**

# What do 660,000 working-age Timorese do for work?



# Import Dependency

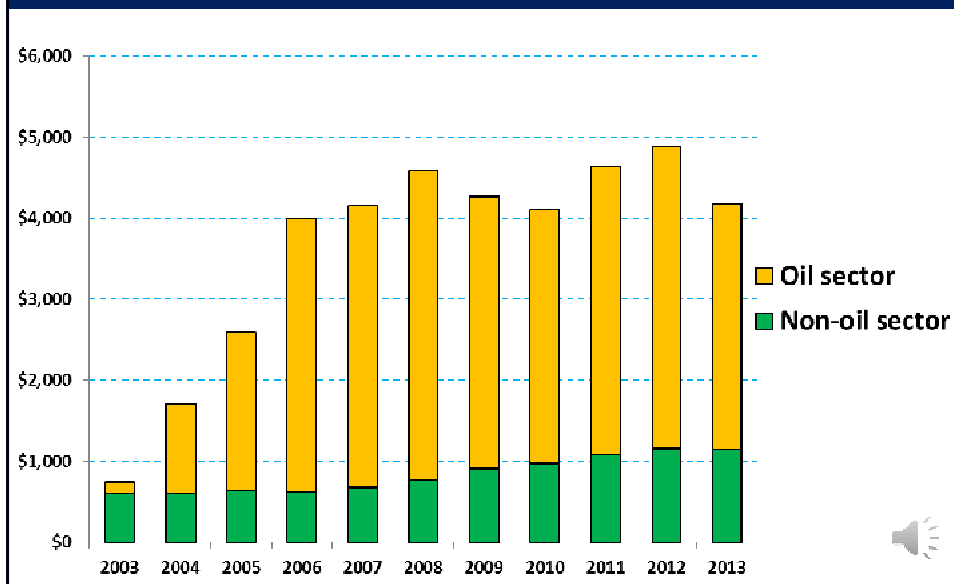
## Timor-Leste Balance of Non-Oil Goods Trade



The graph shows legal goods trade only. About 89% of donor spending and more than 70% of state spending leaves the country.



# More than 3/4 of GDP is from oil.

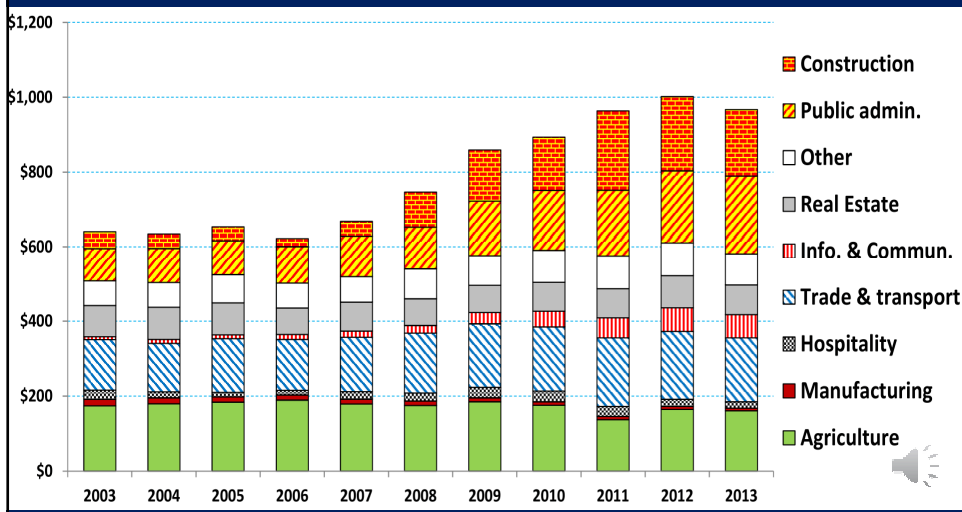


## Timor-Leste's GDP is falling and uncertain


Real growth in total GDP	Date used	2011	2012	2013	2014 (proj)
RDTL National Accounts (2013)	Jun-15	12.6%	5.2%	-13.9%	
IMF Article IV Consultation (2014)	Oct-14	7.9%	-10.4%	-10.7%	-10.2%
RDTL 2015 State Budget	Oct-14	9.8%	5.6%		
World Bank EAP Economic Update	Oct-14		5.7%	-3.2%	-6.9%
IMF Article IV Report (2013)	Dec-13	7.3%	5.7%	-3.2%	-6.9%

**Non-oil GDP per capita also fell in 2013, as the population grew faster than the economy.**

## The non-oil, non-state GDP per capita is stagnant.



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## Petroleum Dependency

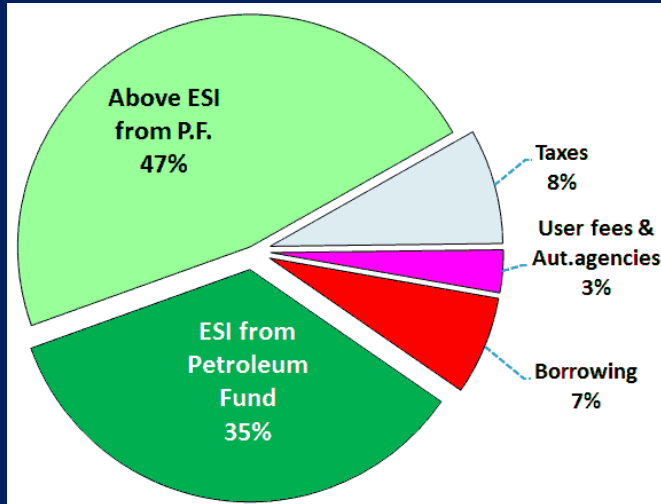
- Petroleum GDP in 2013:..... **\$4,276 million (76%)**
- Non-oil GDP in 2013:..... **\$1,319 million (24%)**
  - Productive sectors (agric. & manufacturing) **\$ 265 million (5%)**
- Projected state revenues in 2016:..... **\$1,765 million**
  - **\$1,594 million (90%)** will be from oil (incl. \$875m investment return)
  - **\$ 171 million ( 10%)** will be from non-petroleum sources
- 2016 State Budget:..... **\$1,562 million**
  - **\$1,184 million (82%)** will come from the Petroleum Fund in 2016.
  - **\$ 107 million (7%) more** is loans which will have to be repaid with interest
- State activities, paid for with oil money, are about half of the "non-oil" economy, because some of this money circulates in the local economy.
- Balance of trade (2013):
 

	services	non-oil goods	goods (2015)
Imports	\$1,536m	\$523m	\$578m
Exports	<u>\$78m</u>	<u>\$16m</u>	<u>\$16m</u> (coffee)
Deficit	<b>\$1,458m</b>	<b>\$507m</b>	<b>\$562m</b>
- Petroleum "income" goes to the government, not the people.

**Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste is.**



# Income in the 2016 state budget



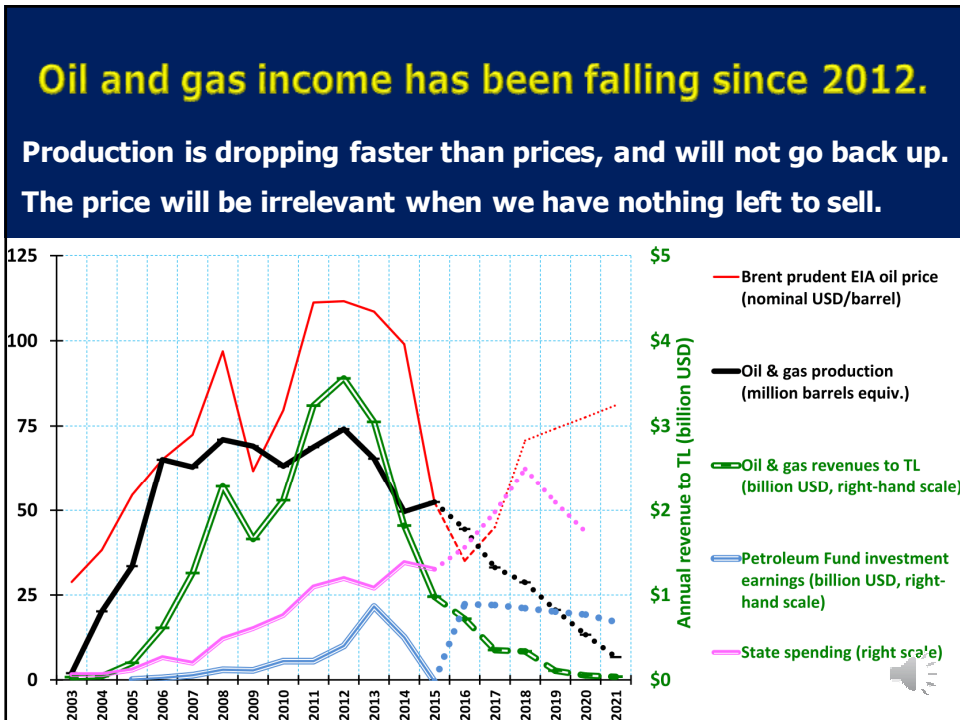
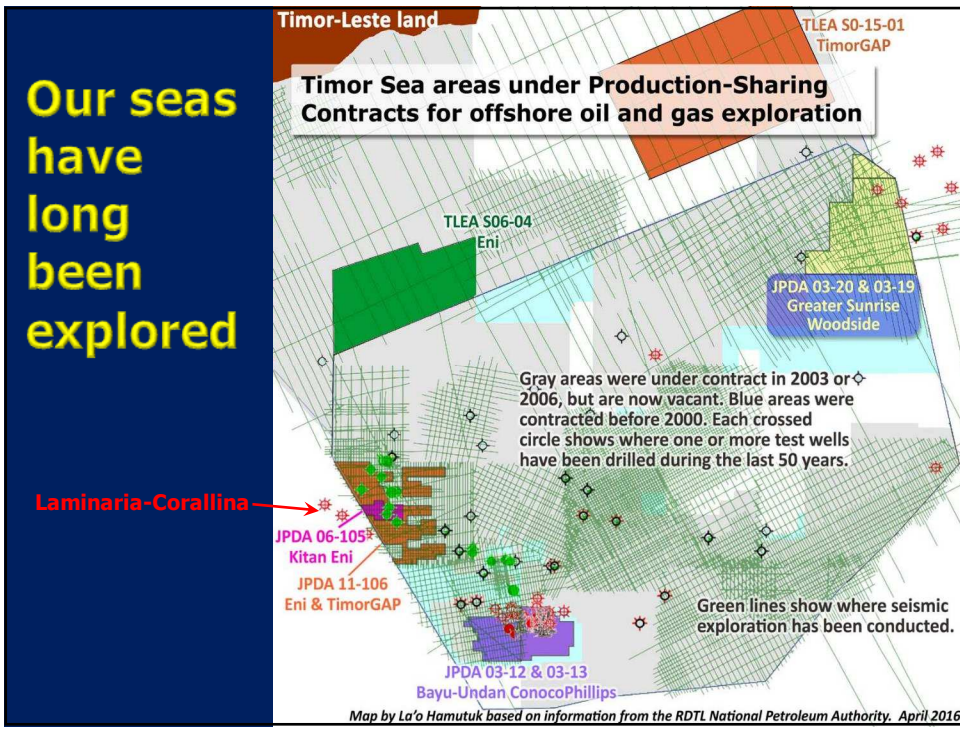
**Total revenue: \$1,562 million, of which 88% is from past, present and future oil and gas income.**



# But we don't have very much oil.

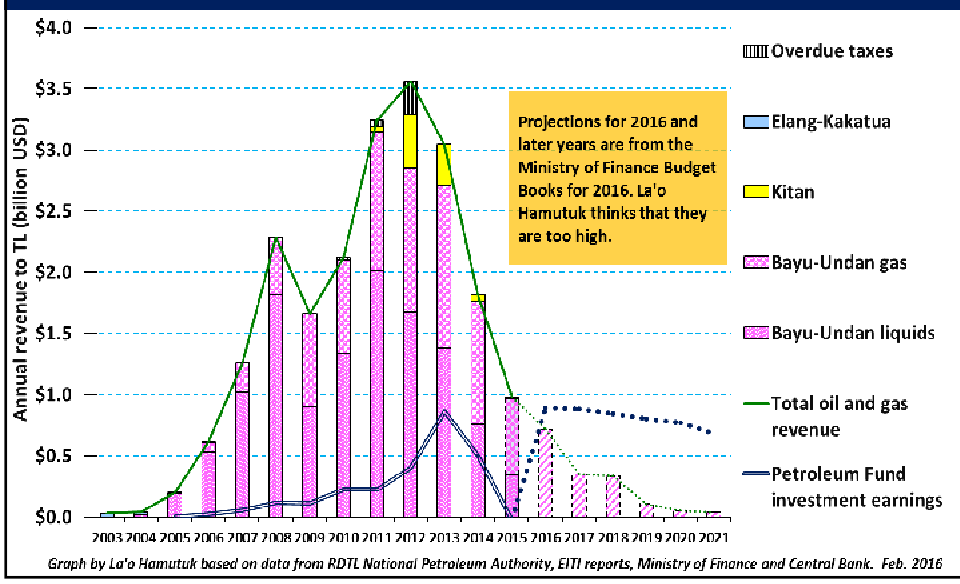
	Timor-Leste	TL without Sunrise	Australia	Brunei
Known oil and gas reserves per person	605 barrels	168 barrels	1,170 barrels+ (1,150 without Sunrise)	6,438 barrels
How long reserves will last at 2014 production rates	16 years	4 years	51 years+	23 years





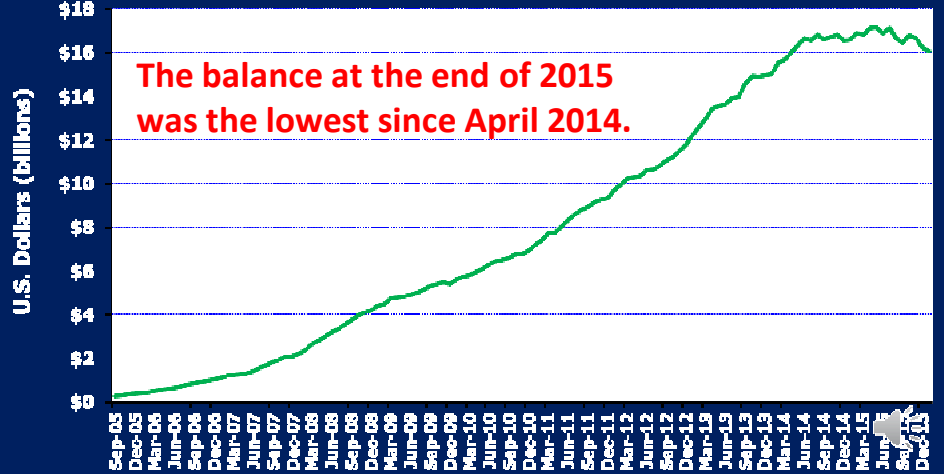


## Where TL's oil income comes from



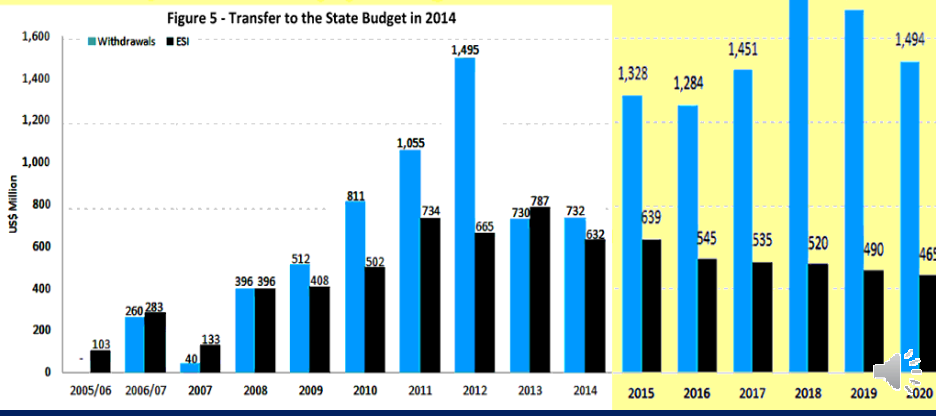
## We're beginning to draw down our savings.

### Balance in Timor-Leste's Petroleum Fund



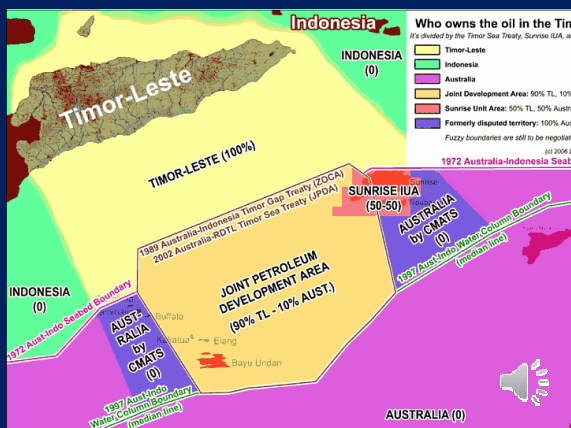
# ESI and past and future transfers from the Petroleum Fund

The white graph is from the Ministry of Finance 2014 Petroleum Fund Annual Report. La'o Hamutuk added the yellow part to show planned withdrawals and ESI for 2015-2020, as described in the proposed budget for 2016.



# Sunrise and maritime boundary dispute

- Australian companies began exploring Sunrise in the early 1970s, after Australia and Indonesia divided our maritime resources without involving Portugal. In 1989, they closed the "Timor Gap" to share illegally occupied resources in the Joint Development Area.
- The 2006 CMATS treaty bans maritime boundaries discussion for 50 years. It divides Sunrise upstream revenues 50-50.
- Australia put its greed for oil before respect for its sovereign neighbors or international law.
- Based on UNCLOS, TL owns everything north of the median line.



## Signs of the "resource curse" (1)

- **Acting as if the oil money will last forever**  
Bayu-Undan and Kitan will be dry by 2021.
- **Borrowing today, to repay tomorrow**  
TL will borrow over \$1.1 billion in the next five 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; Tasi Mane and ZEESM Oecusse may not be beneficial.
- **Using money to 'solve' every problem**  
It's easier to buy a scholarship than to build a university.
- **Spending without thinking**  
Recurrent spending goes up every year.



## Signs of the "resource curse" (2)

- **Import dependency**  
TL's non-oil trade deficit is almost \$2 billion every year.
- **Inflation from little local productive capacity**  
Local production cannot absorb the cash in circulation, but the rising US Dollar recently has masked this problem.
- **Ignoring non-oil development and revenues**
- **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.
- **Petroleum "captures" decision-making.**  
Agriculture, tourism, small industries, etc. don't get a "fair go"



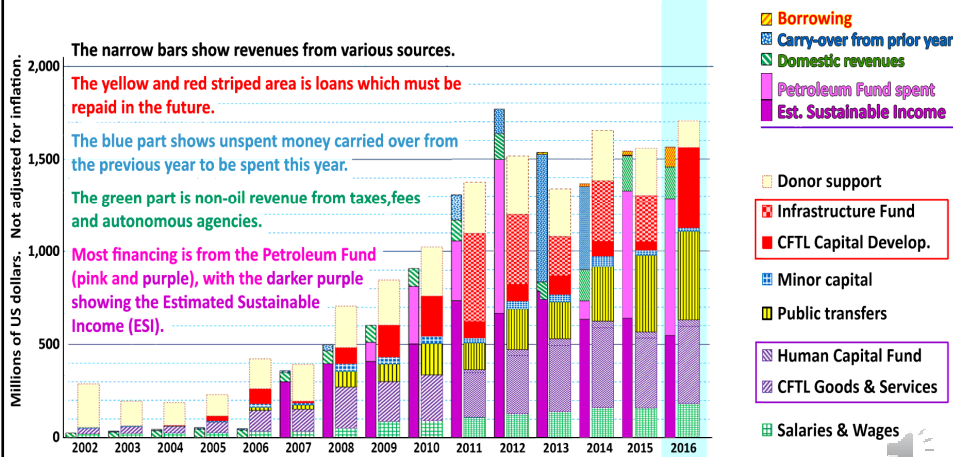
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## State Budgets 2002-2016

### State Revenues and Expenditures (including auton. agencies)

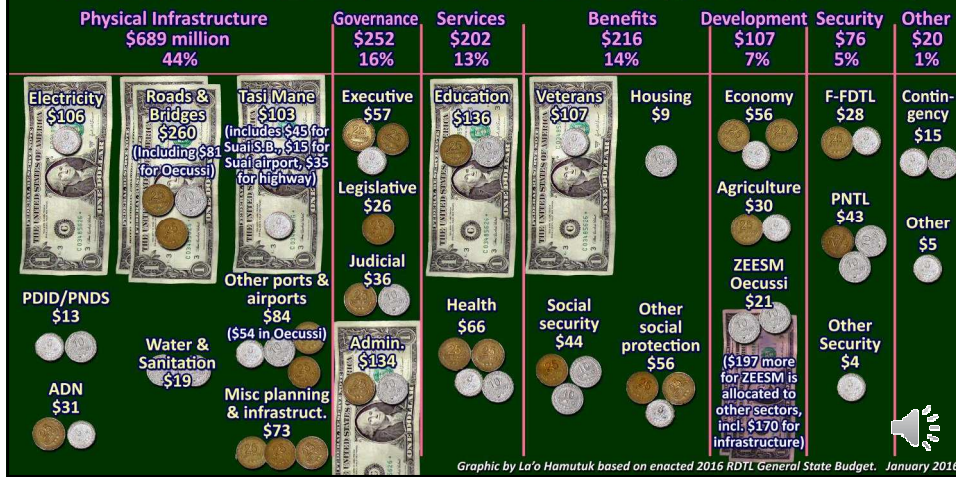
2002-2015: Executed      2016: enacted



Graph by La'o Hamutuk based on RDTL Ministry of Finance data and projections. February 2016

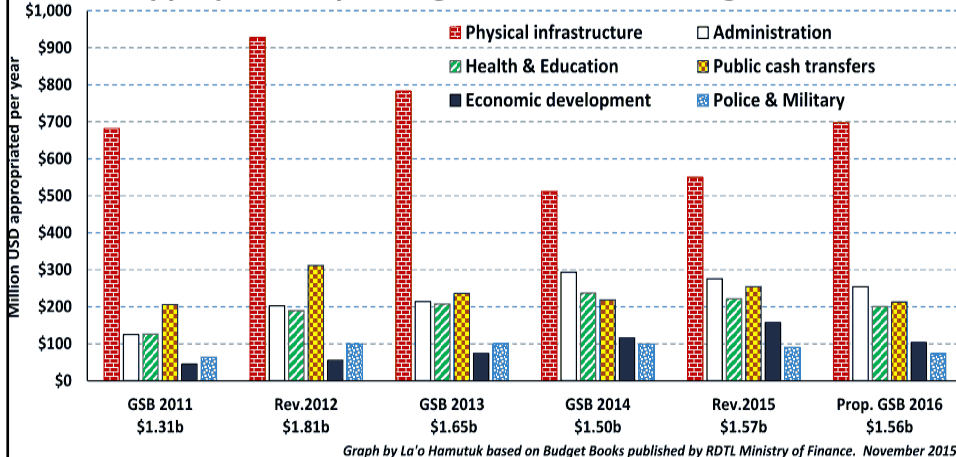
# The 2016 Budget still neglects farmers, students, and health care.

Allocation of the enacted 2016 State Budget (US \$1,562 million)

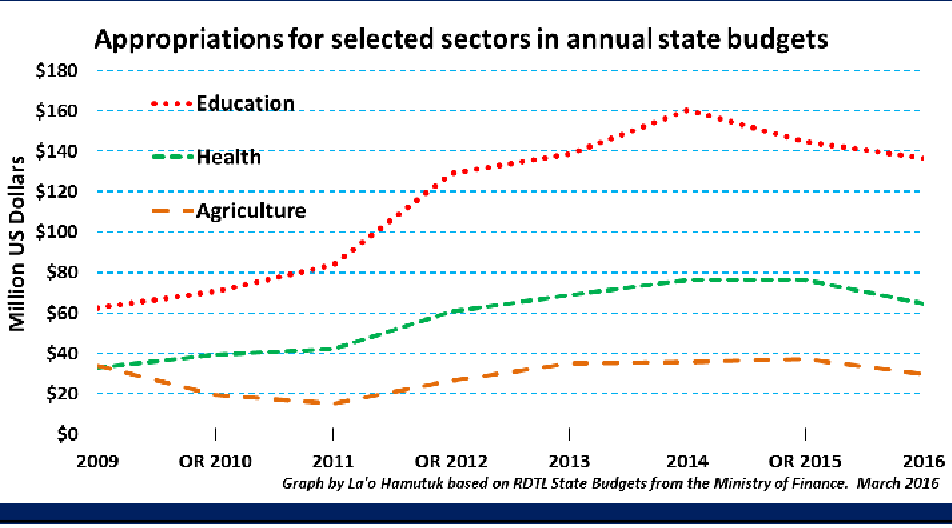


# The 2016 budget increases infrastructure and cuts everything else.

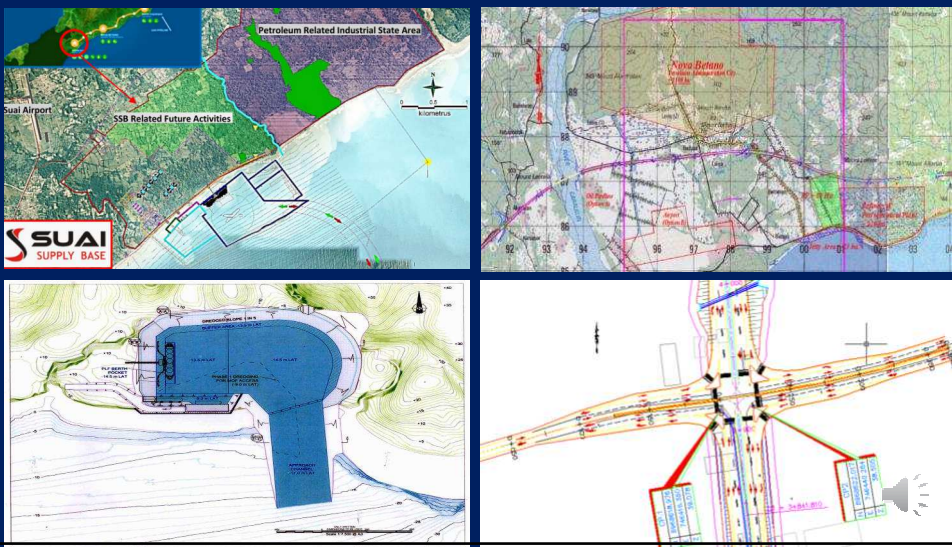
Appropriated spending in RDTL annual budgets



# Appropriations for "prioritized" sectors in annual State Budgets.



# The Tasi Mane Project includes the Suai supply base, Betano refinery, Beacu LNG plant, 150-km highway, onshore and offshore pipelines, 2 airports and 2 seaports.



# Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2015, TL already spent \$94 million on it.
- Total project costs could be \$15 billion (more if Timor-Leste pays for the refinery, pipeline or LNG plant).
- The 2016 budget allocates \$97m in 2016 and \$1.6 billion in 2017-2020, but leaves out the biggest items.

• **The largest contract in TL history was signed last August: \$719 million to build the Suai Supply Base. It was ruled illegal in court.**



# Suai Supply Base



COMISSÃO NACIONAL DE APROVISIONAMENTO  
 MINISTÉRIO DO PLANEAMENTO E INVESTIMENTO ESTRATÉGICO  
**Intent to Award**

Tender Number	Description	Winning Contractor	Contract Price
ICB/012/MPMR-2013	Design and Construction of Suai Supply Base	Hyundai Engineering & Construction Co., Ltd / Hyundai Engineering Co., Ltd (HDEC-HEC) consortium	USD: 719,212,000

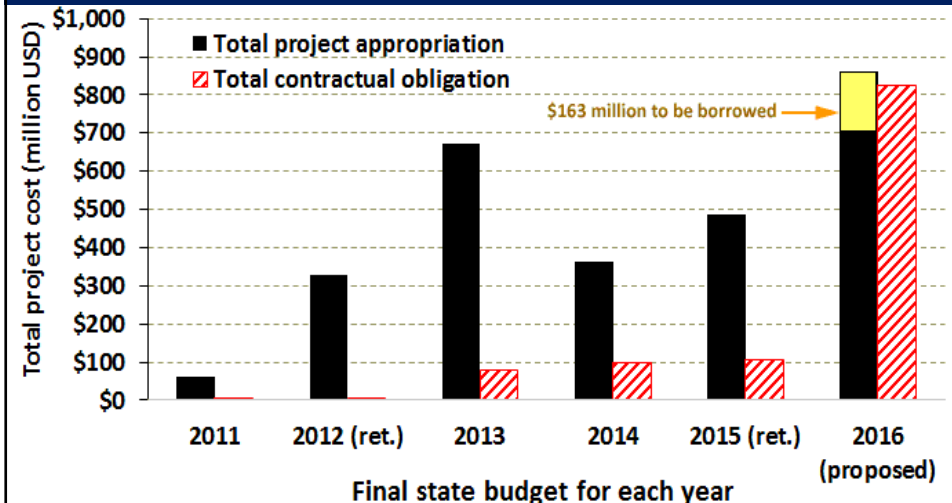
The National Procurement Commission will respond to any protest in writing received at the Office of the National Procurement Commission, Rua dos Direitos Humanos, Dili, Timor-Leste no later than five (5) working days from the posting of this tender result.

*Aniceto do Rosario*  
 National Procurement Commission  
 Dated: 12 June 2015

**Timor-Leste and Hyundai Engineering signed this \$719 million contract on 27 August 2015. It is the largest contract in the nation's history, more than the total spent on education since independence was restored in 2002.**

**Hyundai is currently blacklisted by the Korean government for collusion.**

## Allocations for Suai Supply Base and Airport for the whole project cycle.



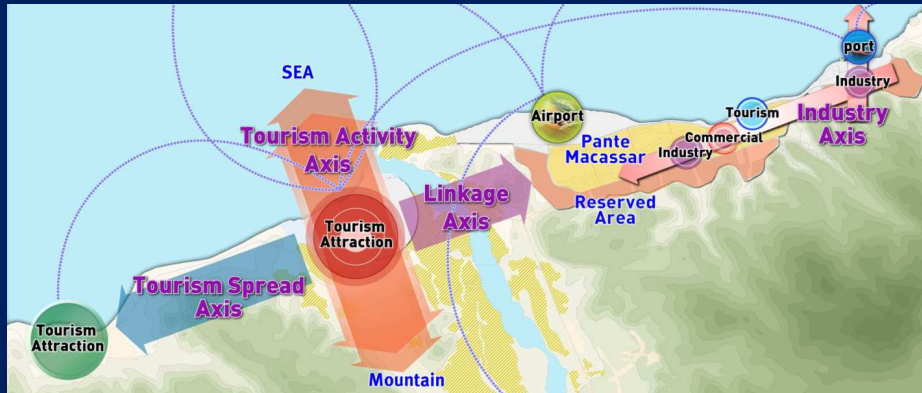
## Problems with the Tasi Mane project

- It makes TL more dependent on the oil and gas sector.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on the multi-billion-dollar investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the money will go to foreign companies, providing hardly any local jobs or subcontracts.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- Cost projections leave out most expenditures, including nearly all of the highway, LNG plant and refinery.
- What if Sunrise gas doesn't come to Timor-Leste?

**The Government has made many unrealistic promises to local communities about profit-sharing, jobs and other benefits.**



## Special Market Zone in Oecusse

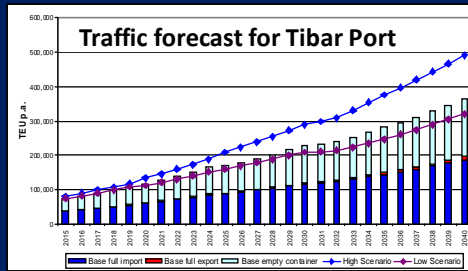
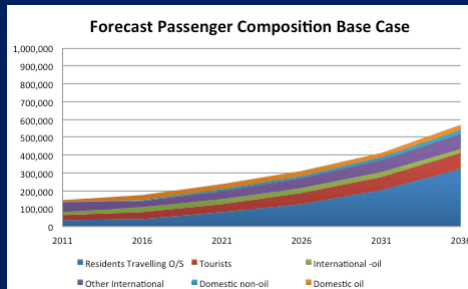


- For 2016, ZEESM has \$218 million with no accountability.
- What are Oecusse's competitive advantages?
- Can ZEESM recover a \$4 billion investment?

**Who benefits: residents of Oecusse or political ex-opposition?**

## Overbuilding ports and airports

- IFC is encouraging Timor-Leste to build Tibar port and Dili airport far beyond realistic traffic expectations.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?



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## Timor-Leste changes every year.

- **Population**

Increases 1.8% every year, slower than 5.3% in 2004 and 2.4% in 2010. The post-war "baby boom" will start having children in the next few years.

- **Inflation**

Consumer prices went up 11% during 2012, but rose only slightly in 2013-15 due to slower state spending and the rising US dollar.

**People's needs and desires will increase as the nation develops.**

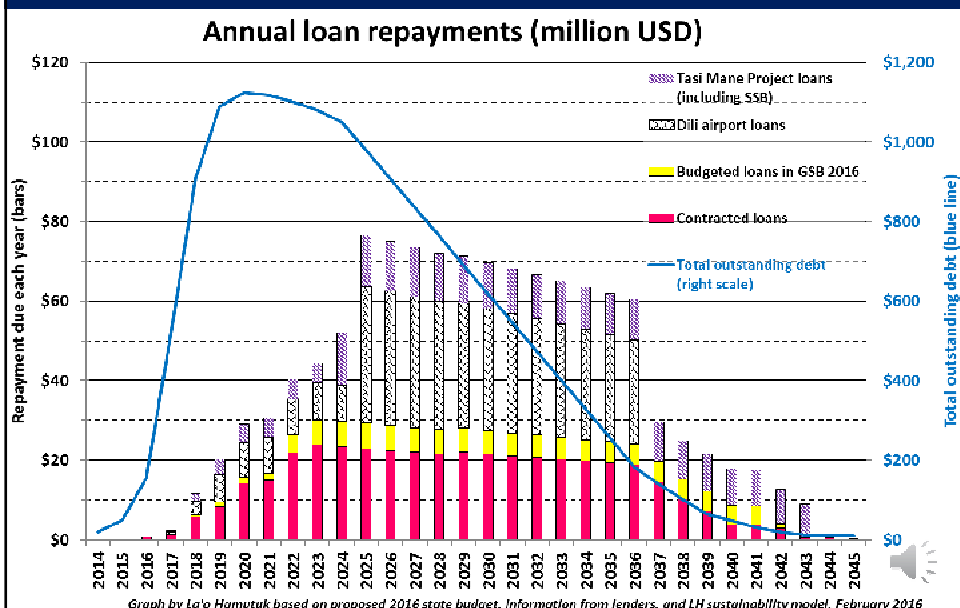


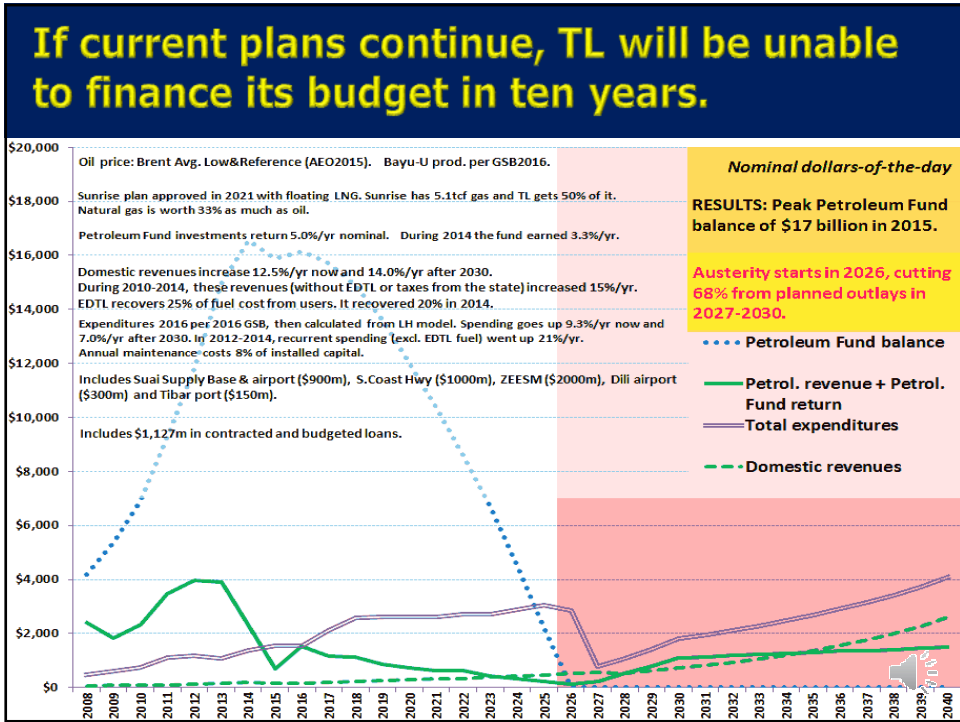
# Timor-Leste is going deeper into debt.

- Laws in 2009 opened the door to foreign loans.
- In 2012, Timor-Leste signed contracts to borrow \$107 million from Japan and from the ADB.
- In 2013, TL signed for \$90m more from ADB and World Bank. In 2015, TL signed for \$12m more from ADB. In December 2015, TL borrowed \$50m from China's Ex-Im bank. In March 2016, TL signed for another \$76m from the ADB.
- During 2016-2020, TL hopes to borrow more than \$1 billion:

<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>Total</b>
<b>\$107m</b>	<b>\$348m</b>	<b>\$366m</b>	<b>\$160m</b>	<b>\$39m</b>	<b>\$1.02bn</b>
<b>The old (2015) State Budget was much less:</b>					
<b>\$194m</b>	<b>\$135m</b>	<b>\$160m</b>	<b>\$50m</b>		<b>\$0.54bn</b>

# Loans will have to be paid back.





## What is to be done?

- **Primary education, rural water and sanitation, and preventive health care are essential for the next generation.**
- **Agriculture, including value-added processing, can sustain livelihoods, reduce imports, and support nutrition.**
- **Production for local consumption, with interim protection against cheap or damaging imports, should be the priority market.**
- **Ecotourism, light industry and niche export products can begin to substitute for oil.**

**However, none of these will replace the \$3.5 billion/year that oil brought in five years ago. No more manna from heaven.**

**Don't forget the next generation.**



**Thank you.**

You will find more and updated information at

- La'ó Hamutuk's website  
<http://www.laohamutuk.org>
- La'ó Hamutuk's blog  
<http://laohamutuk.blogspot.com/>

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