

# Can East Timor Avoid the Resource Curse?

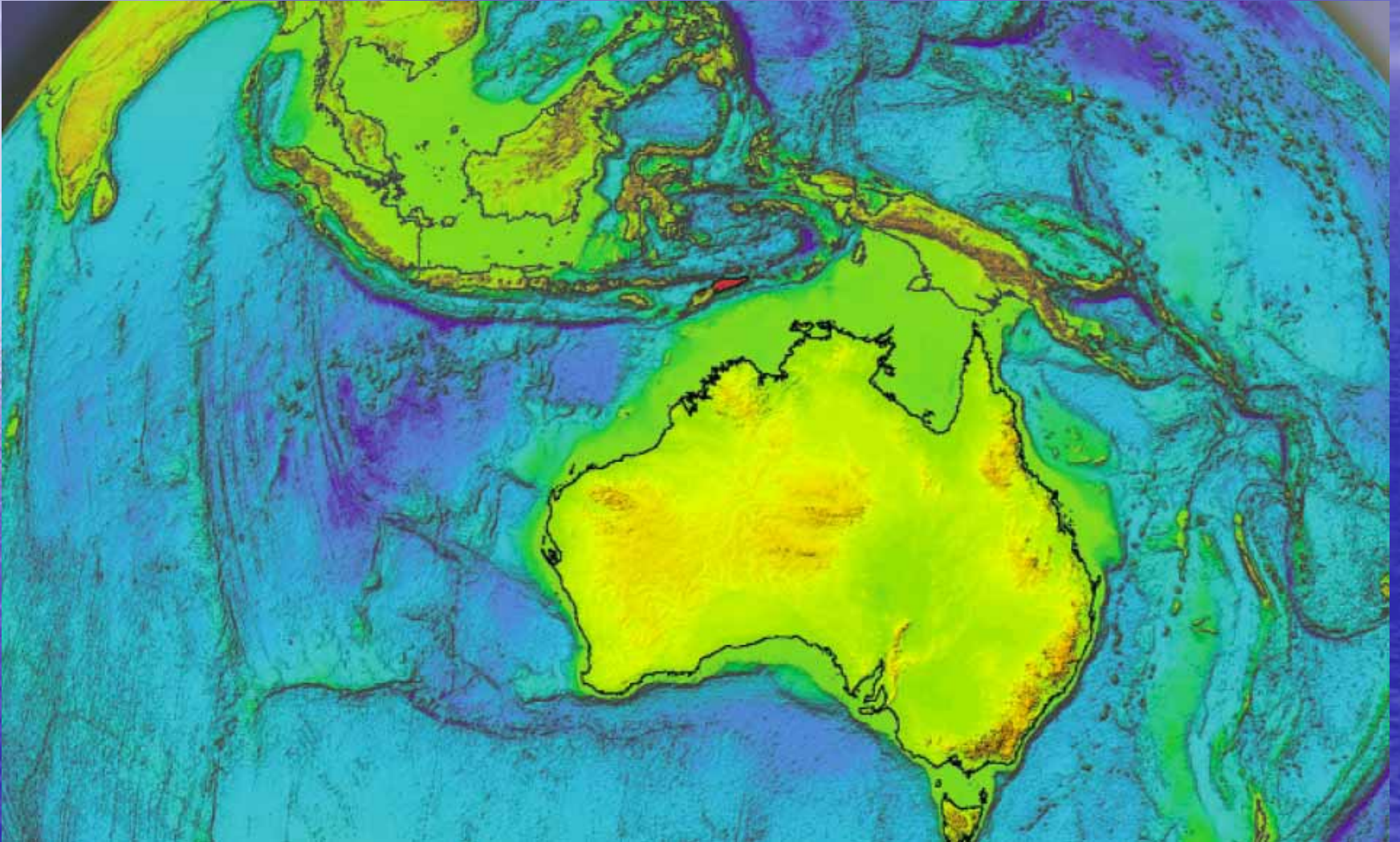
By Charles Scheiner, La'o Hamutuk

Yale University

November 17, 2004

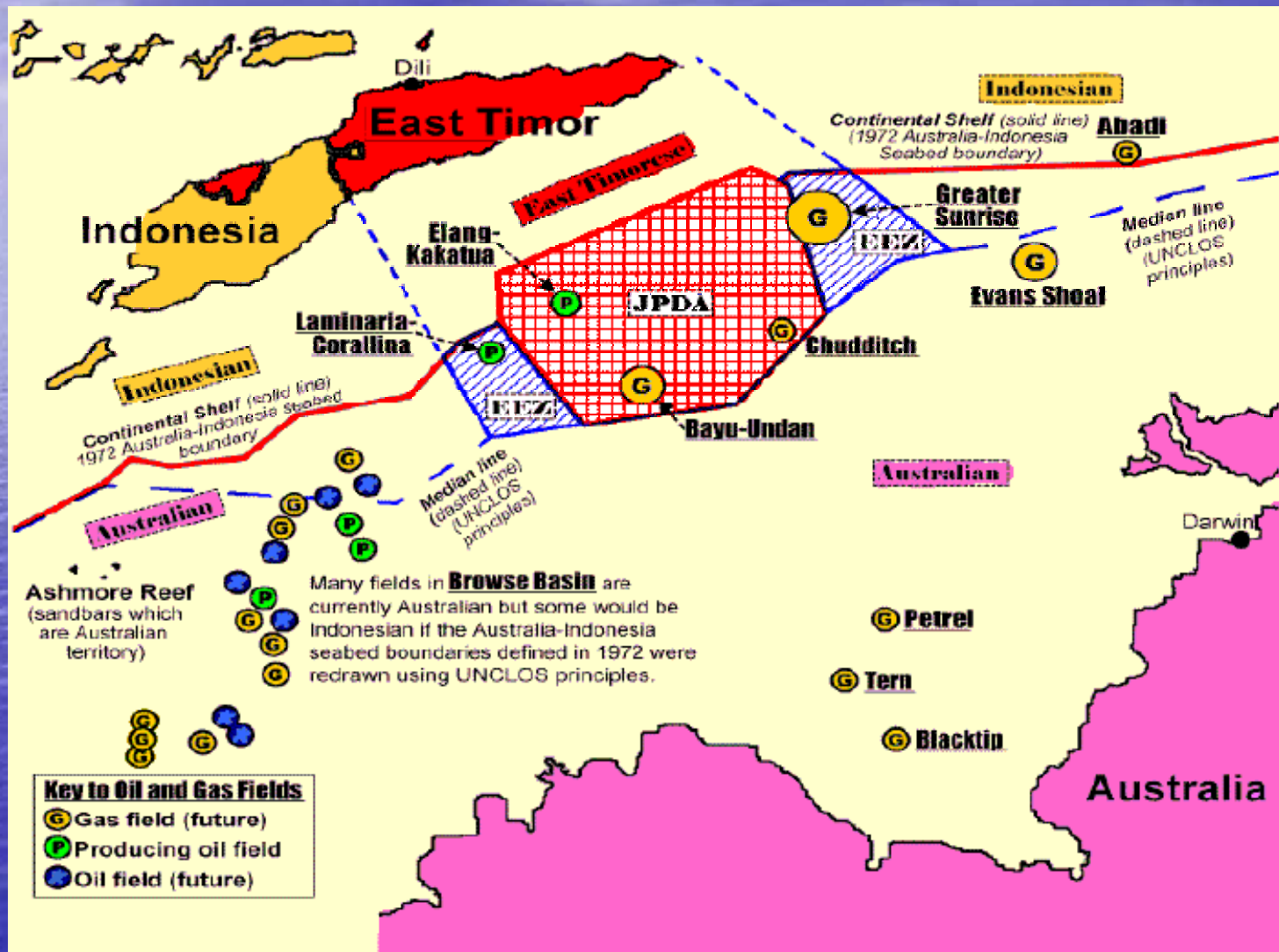


# East Timor's place in the world

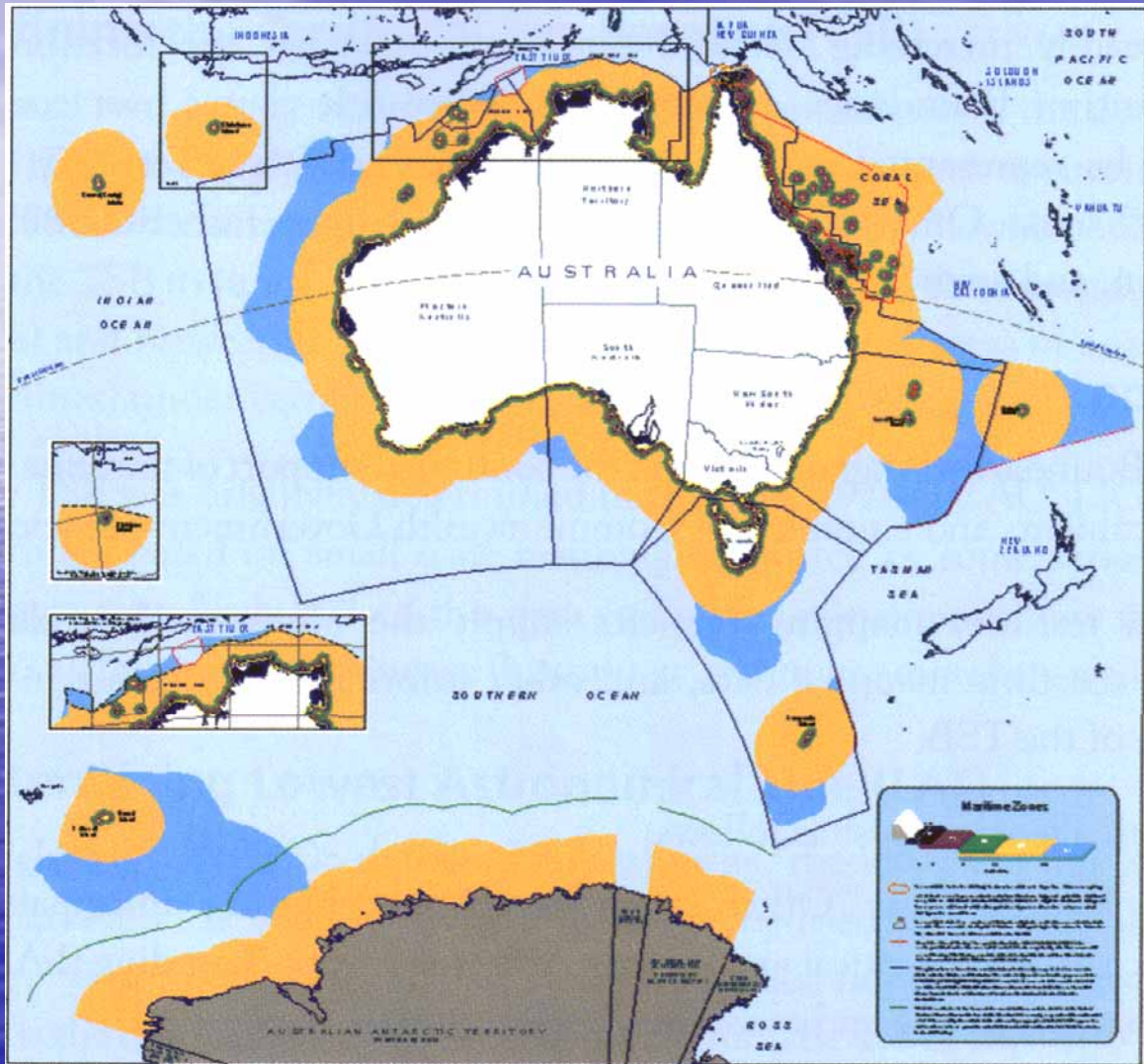




# Oil and gas fields in the Timor Sea



# Australia's maritime claim



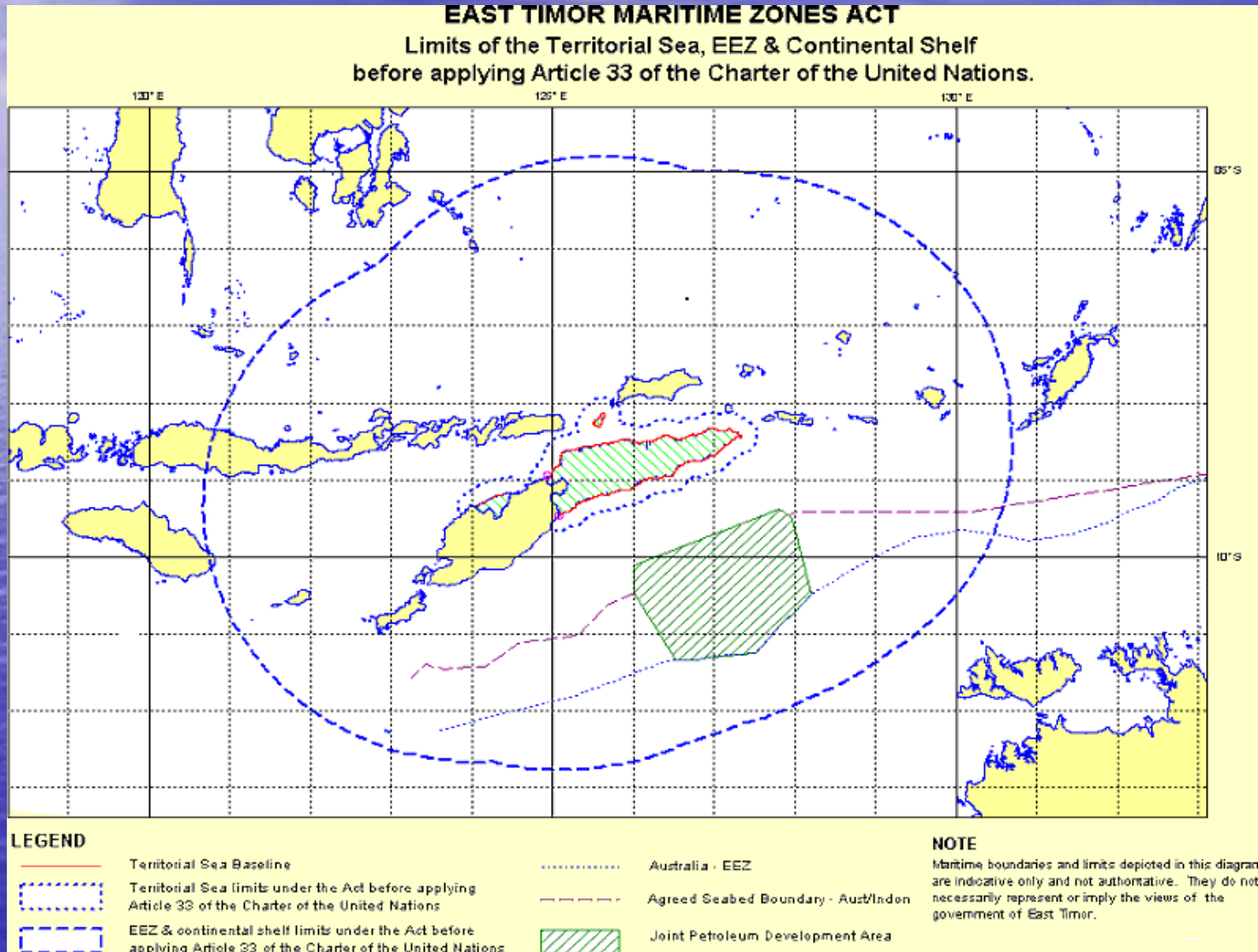
Australia claims maritime territory throughout the southern hemisphere, greater than its land area.

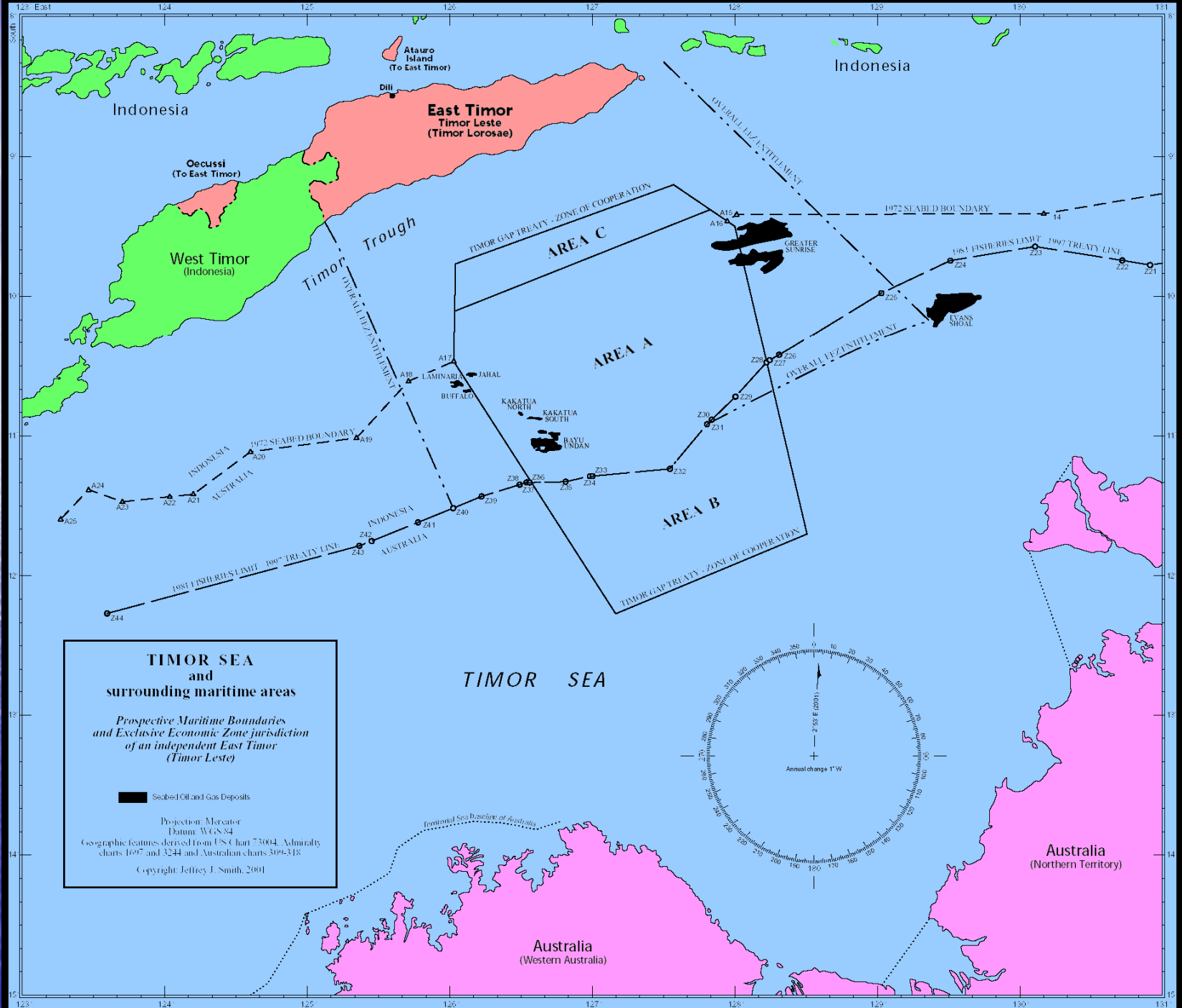
Orange: 200-mile EEZ

Blue: claimed  
Continental  
Shelf Prolongation



# East Timor's maritime claim





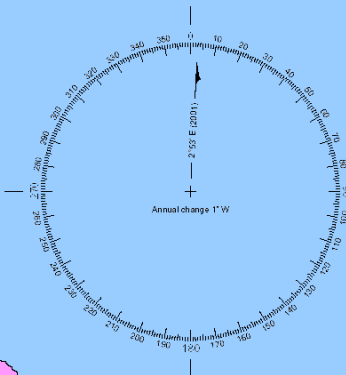
**TIMOR SEA  
and  
surrounding maritime areas**

*Prospective Maritime Boundaries  
and Exclusive Economic Zone jurisdiction  
of an independent East Timor  
(Timor Leste)*

Seabed Oil and Gas Deposits

Projection: Mercator  
 Datum: WGS 84  
 Geographic features derived from US Chart 73004, Admiralty charts 1697 and 3244 and Australian charts 309-318  
 Copyright: Jeffrey J. Smith, 2001

TIMOR SEA



Indonesia

**East Timor  
Timor Leste  
(Timor Lorosae)**

Indonesia

**West Timor  
(Indonesia)**

Timor Trough

TIMOR GAP TREATY - ZONE OF COOPERATION  
AREA C

AREA A

AREA B

TIMOR GAP TREATY - ZONE OF COOPERATION

TIMOR GAP TREATY - ZONE OF COOPERATION

Oecussi  
(To East Timor)

Atauro Island  
(To East Timor)

DILI

GREATER  
SUNRISE

EVANS  
SHOAL

JAHAL

LAMINARI

BUFFALO

KAKATUA  
NORTH

KAKATUA  
SOUTH

BAYU  
UNDAN

INDONESIA

AUSTRALIA

INDONESIA

AUSTRALIA

Australia  
(Western Australia)

Australia  
(Northern Territory)

A24

A23

A22

A21

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1972 SEABED BOUNDARY

1981 FISHERIES LIMIT

1997 TREATY LINE

OVERALL SETTLEMENT

OVERALL SETTLEMENT

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OVERALL SETTLEMENT

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OVERALL SETTLEMENT

123 East

124

125

126

127

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129

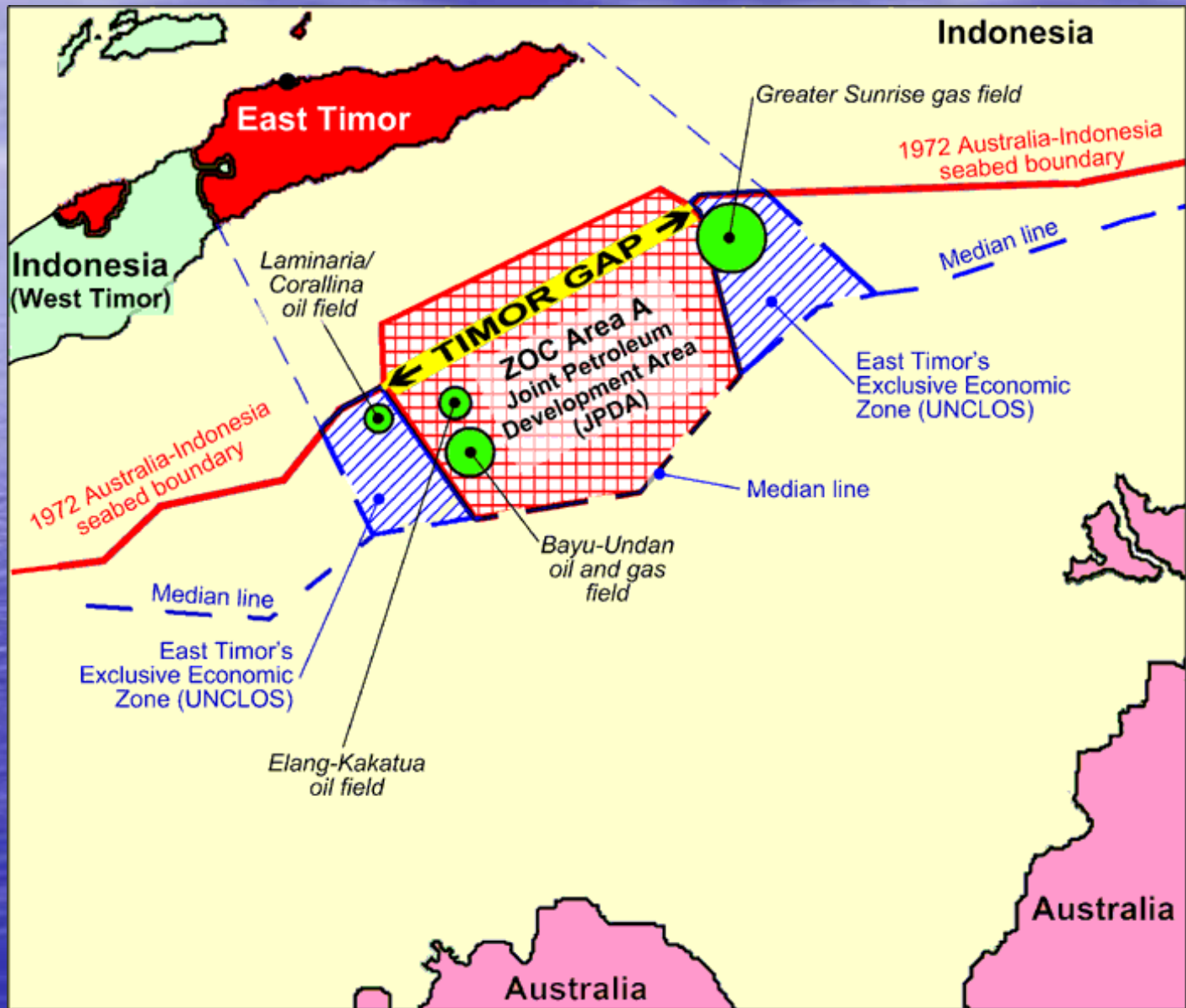
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131


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15  
SOUTH

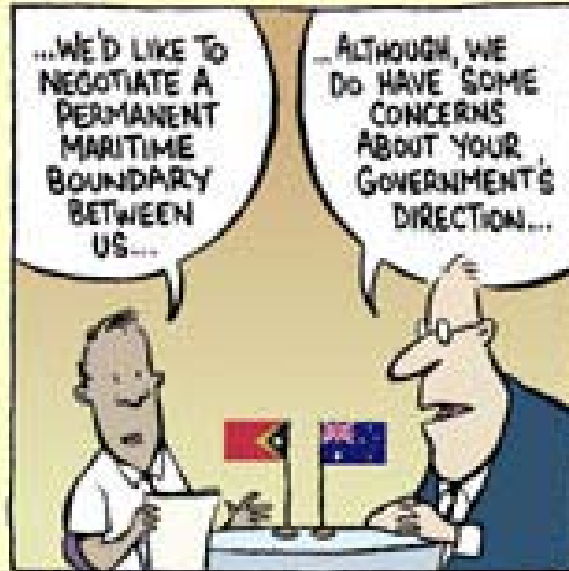
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# Timor Sea Areas



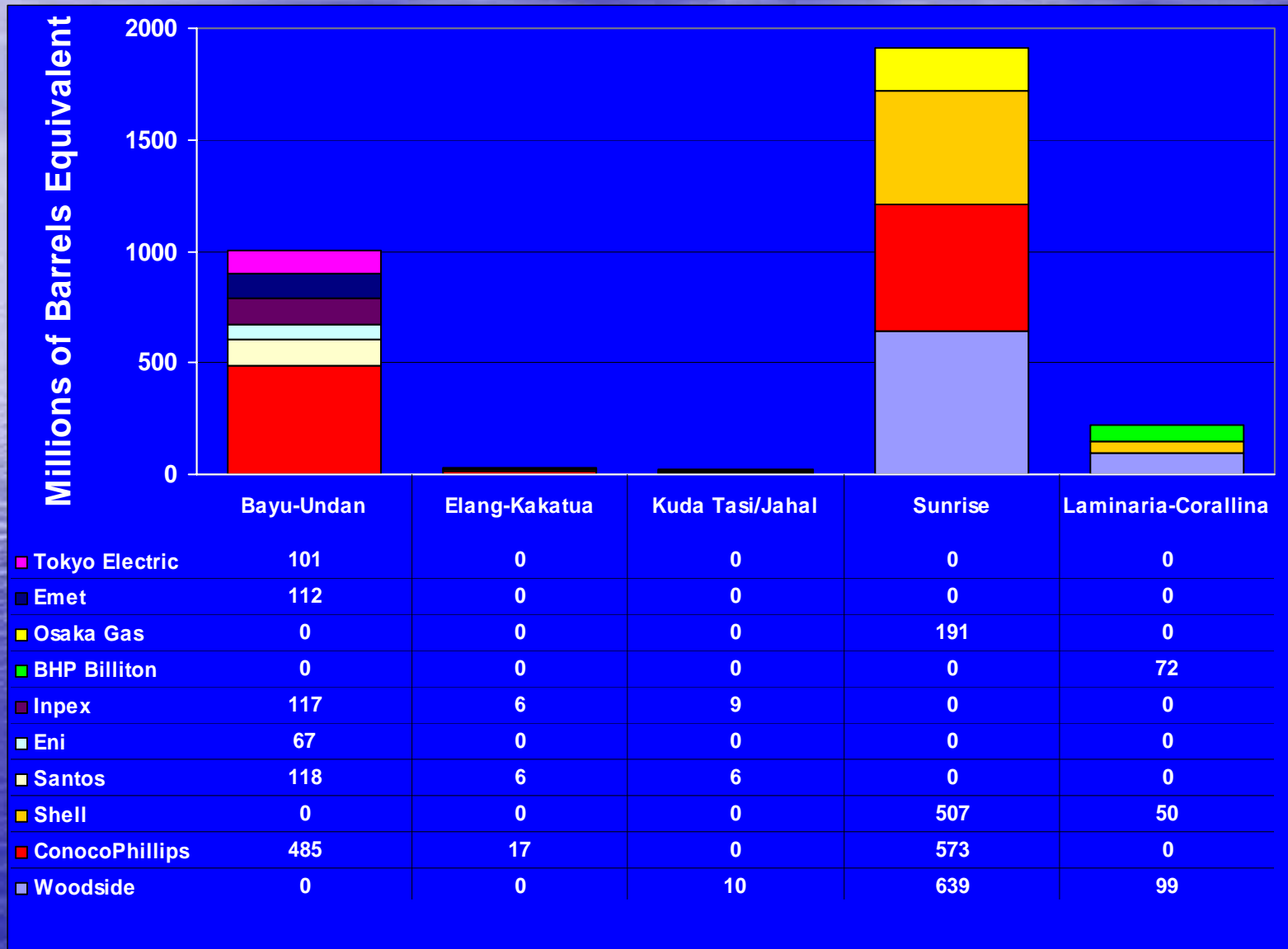
# EAST TIMOR'S DIRE STRAITS....

BY  [www.scratch.com.au](http://www.scratch.com.au)

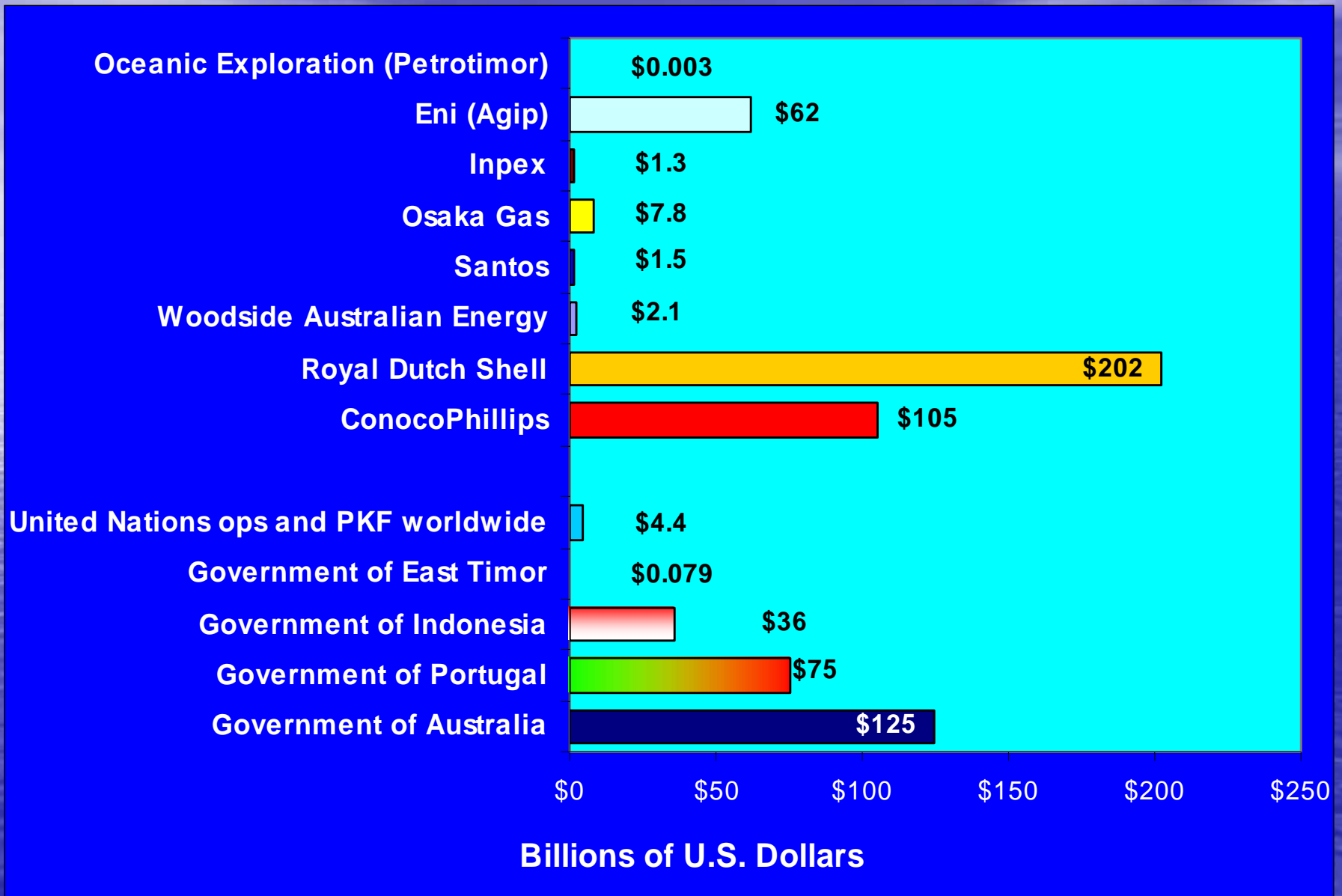




# Companies in East Timor's Sea



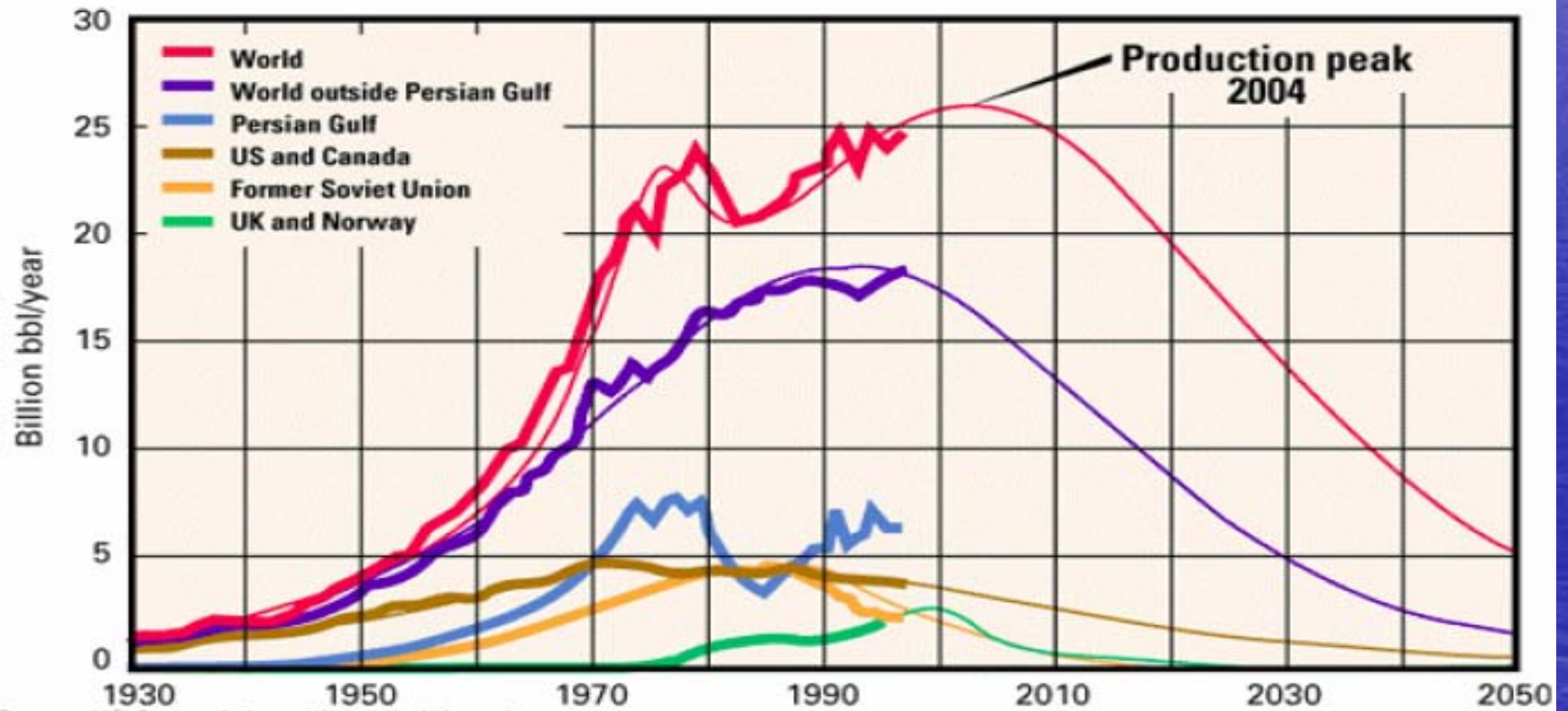
# Annual Revenues of Governments and Oil Companies



# Worldwide, oil is running out

CAMPBELL-LAHERRÈRE WORLD OIL PRODUCTION ESTIMATES

Fig. 3



Source: US Energy Information Administration

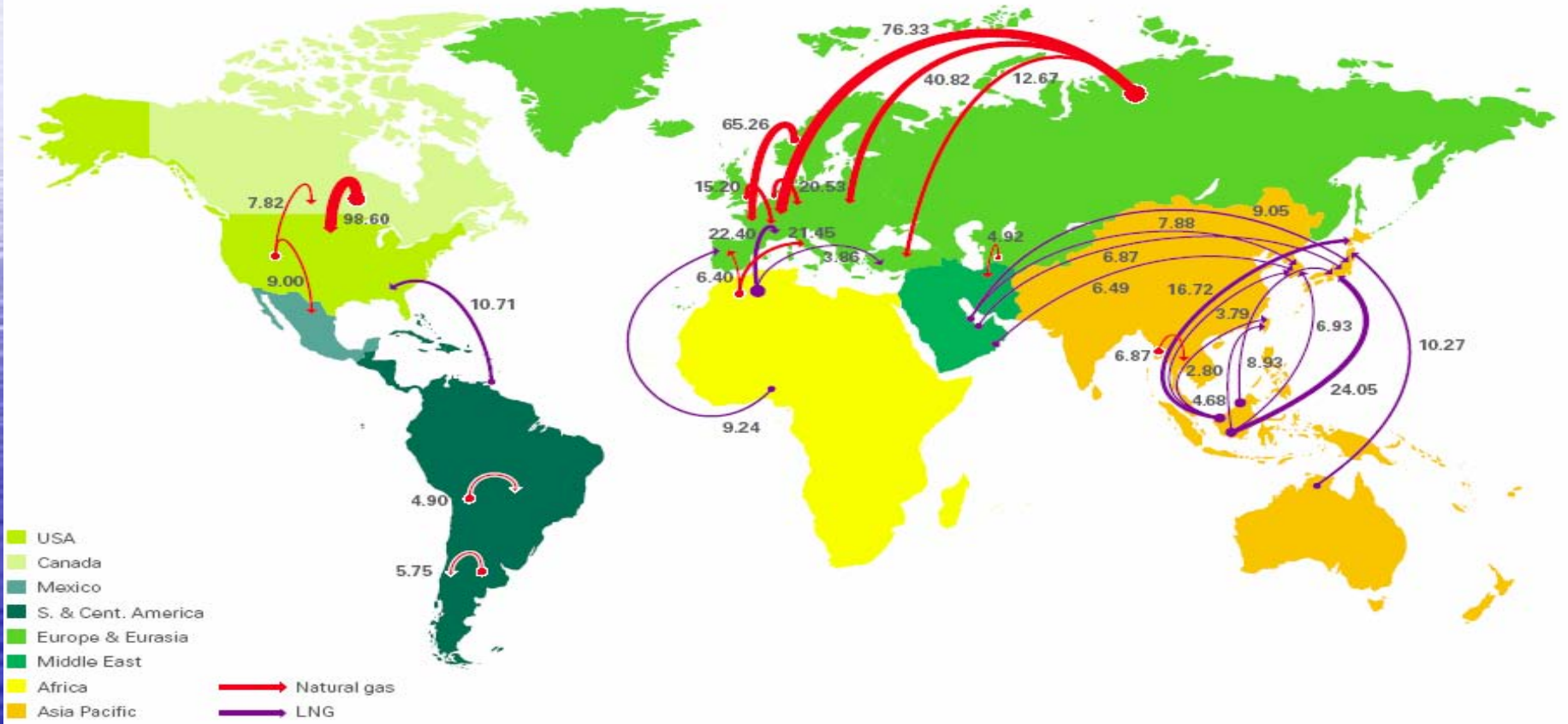


# Global trade in natural gas

## East Timor will export LNG to Japan

### Major trade movements

Trade flows worldwide (billion cubic metres)



# Dangers of petroleum development

- Corruption
- Local and global environmental destruction
- War, militarization and repression
- Economic and social mistakes
  - Neglect of other economic sectors
  - Overspending leading to debt
- Little employment or useful infrastructure
- Problems when oil is used up

# Oil company corruption in rich countries



- Two Shell top officials were forced to resign last spring for overstating the company's reserves to governments.



- Three highest officials of the Norwegian State Oil Company, had to resign in late 2003 because they paid \$15 million in bribes to people in Iran.



- Three major oil companies systematically made false reports to the government of Alaska over many years. After more than 141 legal cases, the companies had to pay Alaska \$10.6 billion.





# Oil pipeline fire, Niger Delta



# Piper Alpha oil platform fire, North Sea

**Daily Record**  
22p FORWARD WITH SCOTLAND.

## 167 DEAD

DISASTER ON PIPER ALPHA



**A** SURVIVOR of the Piper Alpha hell last night told how he almost tried to die.

DIAN LAMBERT, 46, was badly injured when the oil rig off Aberdeen was destroyed by a blast that took 167 lives.

He said he was trapped in a room that was burning.

“I was in a room that was burning and I was trying to get out,” he said.

“I was in a room that was burning and I was trying to get out,” he said.

# I FRIED IN THIS HELL

THE STORY IN FULL - PAGES 2,3,4,5,7 AND CENTRE PAGES



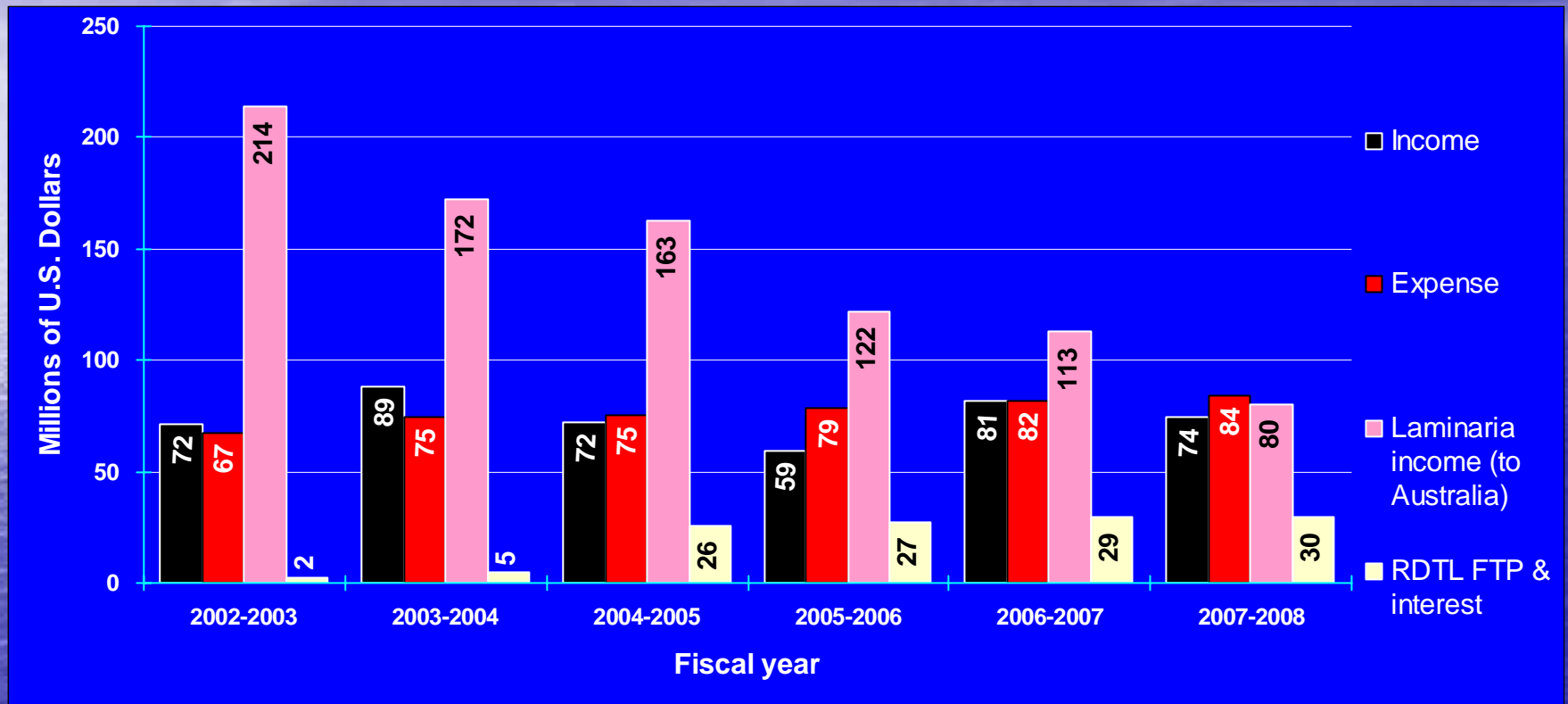


# Oil tanker spill, offshore Alaska





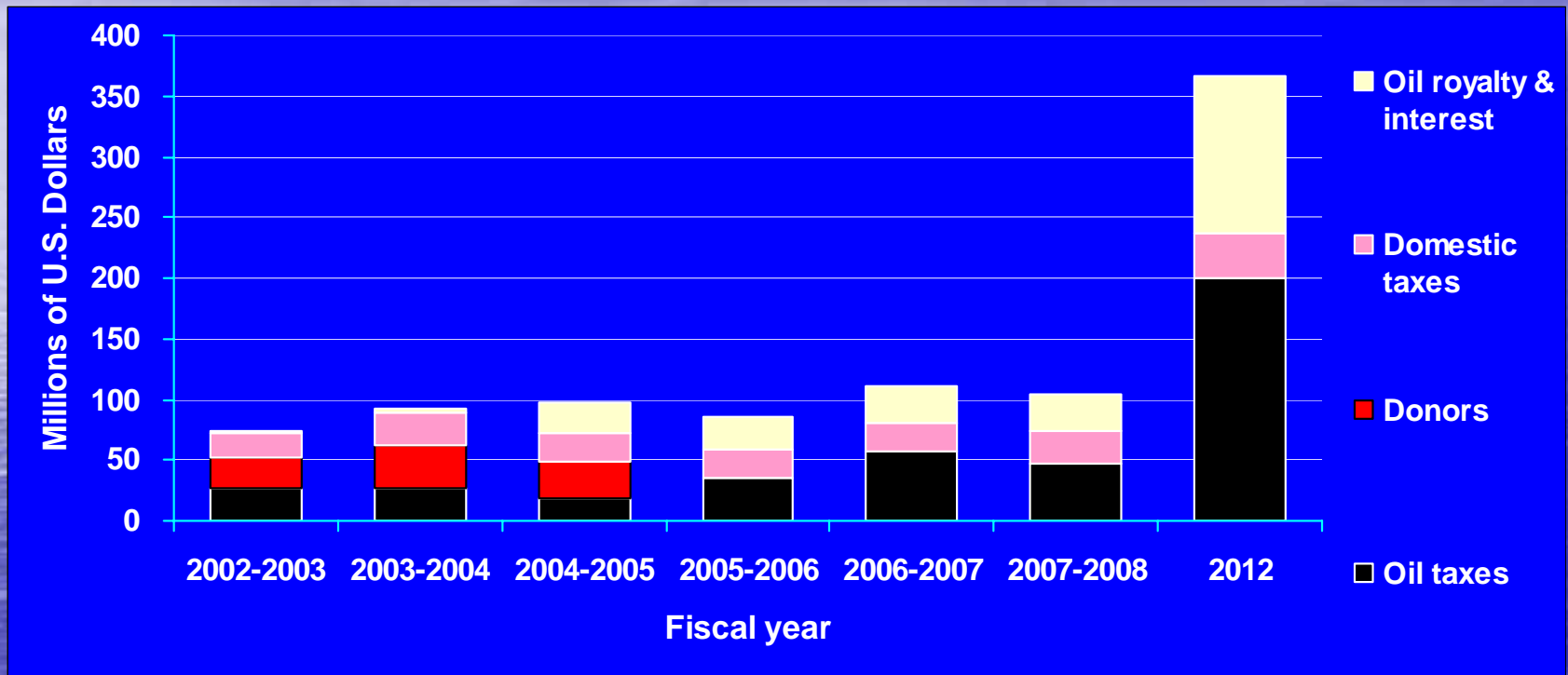
# East Timor's government budget and oil money stolen and saved



Australia took in an additional US\$638 million from Laminaria-Corallina between November 1999 and 2002. This money all belongs to East Timor under current international legal principles.

# Where RDTL income will come from

(2012 is an estimate of a peak production year)



After 2012, Bayu-Undan income declines until it ends in 2022. Other fields (Sunrise) might produce for a few decades, perhaps until 2050. Then there will be no oil left.

# Reasons to fear the “resource curse” in East Timor

## 1. No history of democracy or self-government

- Tradition of resistance, not constructive criticism, alternatives and compromise
- Little trust between government and civil society
- Socialization substitutes for genuine consultation



## 2. Inexperienced civil service with few traditions or regulations for honesty and accountability

- Limited number of qualified people requires some in dual roles, reducing oversight and increasing appearance of nepotism.
- Untried government structure lacks adequate checks and balances, possibilities of conflicting responsibilities.

### 3. ET has lived through bad examples

- Inefficient Portuguese bureaucracy
- Corrupt and violent Indonesian occupation
- History of confusing government services with personal favors (KKN, patronage)
- UNTAET focused on short-term fixes, with inexperienced and unqualified "experts"
- Today, donors and consultants promote a private-industry, "free trade" economic model
- The UN, World Bank and IMF are not transparent or accountable

## 4. Few effective checks and balances

- Weak mechanisms to control corruption
  - Inspector-General answers to Prime Minister
  - Provedor (ombudsman) not operational
  - Laws and court systems not well-established
- Minority political parties are weak and inexperienced, few alternatives or compromises offered
- Media rarely do independent research or investigate official claims



# Helpful features in East Timor

- Can learn from the mistakes and successes of other oil-producing countries
- People are nationalistic and ready to fight to preserve East Timor's independence
  - Many NGOs and civil society groups
- Use of U.S. dollar reduces inflation risk
  - But surrenders control of exchange rates

# Revenues: spend, save or invest?

- 75% of government revenues after 2007 will be from petroleum, increasing for the following 30 years
- Reserve fund can “sterilize” oil revenues against global price and demand variations, and can enable some to be saved without appearing as a surplus.
- Reserve fund could ensure that money is there for future generations after petroleum is used up, but this requires protection against overspending for current needs, short-term projects, or boondoggles.
- Other sectors of the economy must be developed for the present and the future.

# Fund design needs close watching

- Today, no reserve fund is in place, although about \$15 million in oil royalties has been collected, with more than \$100 million expected by 2007
- Government plans to use as much oil revenue as needed to cover each year's budget
- Parliamentary approval is no protection when one party controls Government and Parliament
- "Guideline" for sustainability is unclear and not binding