Rights and Sustainability in Timor-Leste’s Development

Briefing for media and others
La’o Hamutuk  9 March 2012

Contents
This presentation is adapted from one that La’o Hamutuk gave to journalists on 9 March 2012. It discusses several topics that La’o Hamutuk follows which are critical to the future of Timor-Leste. We have inserted more slides to provide additional information.

1. TL is the second-most petroleum-export dependent country on earth. This determines our State, economy and future.

2. TL has almost no industry and an embryonic private sector. The State Budget increases faster than all but Zimbabwe.

3. Current plans for future development will not provide a sustainable improvement in our people’s lives. These unrealistic dreams rely on Greater Sunrise gas, which is limited and might never come to our shores or treasury.

4. Impunity for past crimes threatens future rule of law.

5. Land is the base of our culture and lives; recent developments may increase injustice and conflict.

1. Petroleum Dependency

TL is the second-most petroleum-export dependent country on earth. This determines our State, economy and future.

Basic Statistics

By 2024, 360,000 babies will have been born, and the only producing oil and gas field will be used up. How will they survive?

Petroleum Dependency

- State expenditures in 2012: $1,674 million
- $1,695 million (89%) will come from the Petroleum Fund.
- Non-oil GDP in 2012: $1,252 million
- GNI in 2012: $4,073 million
- $2,821 million is from exporting nonrenewable oil and gas.

This is 69% of our entire economy and 95% of state revenues. It is declining every year and will probably end by 2024.

- State activities paid with oil money are about half of Timor-Leste’s “non-oil” economy as they are recycled through the local economy.

- Petroleum income doesn’t provide jobs or money for people – it all goes to the State.

- Although the Petroleum Fund can improve equity between generations, it does not guarantee good governance or prevent corruption, and will not last long if current policies continue.

South Sudan is the only country which is more oil-export-dependent than Timor-Leste.
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**TL’s oil wealth alone cannot meet our needs.**

This Ministry of Finance graph shows that TL has already passed its peak of revenues from Bayu-Undan and Kitan.

![Graph by La'o Hamutuk based on government and company estimates. December 2011](image)

**If current trends continue, TL will be unable to finance its budget in 9 years.**

![Diagram showing petroleum fund balance, oil revenue, state expenditures, unfilled annual deficit, and outstanding loans](image)

**Signs of the “resource curse” (1)**

- **Seeing money as the solution to every problem**
  It’s easier to buy a scholarship than to build a university.

- **Spending without thinking**
  State expenditures are growing 28% every year.

- **Lack of realistic long-term planning**
  The Strategic Development Plan is but a dream.

- **Import dependency**
  TL has a billion-dollar non-oil trade deficit.

- **Inflation (17%)** from little local productive capacity
  Our economy cannot absorb the cash in circulation.

**Signs of the “resource curse” (2)**

- **Ignoring non-oil development and revenues**

- **Acting as if oil will last forever**
  Bayu-Undan and Kitan will be dry by 2024.

- **Borrowing today, to repay tomorrow**
  TL will borrow more than $460 million in the next five years, often for projects with little likelihood of return.

- **Wealth goes mainly to the urban elite.**
  Most people won’t benefit from highways, airports and oil facilities, but will feel the burden of loan repayments.

- **Petroleum sector “captures” decision-making.**
  Few creative ideas to develop agriculture, education, tourism, small industries...
Most people live in rural areas by subsistence agriculture.

2. Unsustainable budget & economy

Timor-Leste has almost no industry and an embryonic private sector.

The State Budget increases faster than everyone except Zimbabwe.

The 2012 Budget is for infrastructure.

Income in the 2012 state budget

Total revenue: $1,674 million
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**Donor support is less important now.**

Percentage of Donor Support in Combined Sources Budget

*Countries on track to meet the MDGs spend 28% of their budgets on health and education. Timor-Leste will spend 10.4% in 2012.*

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

- Farmers, other informal or unemployed: 71.3%
- Self-employed (taxi, market, kios): 8.3%
- $3/day labor for gov’t: 6.0%
- Public employees: 6.9%
- $5/day labor for un’vt: 6.0%
- Local & int’l NGOs: 0.3%
- Private businesses: 8.9%
- Petroleum sector: 0.1%
- UN, embassies, int’l agencies: 0.7%

*Human security is health care, food, education, employment, housing, etc.*

- 50 times as many Timorese children under five die every year from avoidable conditions as people are killed by violence.
- These children will not be helped by police, soldiers or judges, but the UN and donors prioritize the “security sector” and see everything through a conflict lens.
- We must diversify our economy and strengthen our people and workers to prepare for the day our oil runs out and we can no longer pay for imports.

**Real Threats to Real Security**

- Human security is health care, food, education, employment, housing, etc.
- 50 times as many Timorese children under five die every year from avoidable conditions as people are killed by violence.
- These children will not be helped by police, soldiers or judges, but the UN and donors prioritize the “security sector” and see everything through a conflict lens.
- We must diversify our economy and strengthen our people and workers to prepare for the day our oil runs out and we can no longer pay for imports.

**Timor-Leste’s Balance of Trade**

*The graph shows legal goods trade only.*

Coffee was 96% of all non-oil exports in 2010.

89% of donor spending and 70% of state spending goes overseas.

**Timor-Leste trade in 2010**

<table>
<thead>
<tr>
<th>Category</th>
<th>Imports</th>
<th>Exports</th>
<th>Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods</td>
<td>$289</td>
<td>$17</td>
<td>-$272</td>
</tr>
<tr>
<td>(DNE reports)</td>
<td>(96% coffee)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other goods (extra-legal)</td>
<td>$200</td>
<td>$0.3</td>
<td>-$200</td>
</tr>
<tr>
<td>(LH est.)</td>
<td>(LH est.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>$505</td>
<td>$3</td>
<td>-$502</td>
</tr>
<tr>
<td>(2009, from BPA)</td>
<td></td>
<td>(LH est. remittances)</td>
<td></td>
</tr>
<tr>
<td>Total excluding oil and gas</td>
<td>$994</td>
<td>$20</td>
<td>-$974</td>
</tr>
<tr>
<td>Petroleum receipts (to state)</td>
<td>--</td>
<td>$2,016</td>
<td>$2,016</td>
</tr>
<tr>
<td>(incl. $294 Petrol. Fund interest)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$994</td>
<td>$2,036</td>
<td>$1,042</td>
</tr>
</tbody>
</table>

89% of donor spending and 70% of state spending goes overseas.
Timor-Leste changes every year.

- **Population**
  is increasing 2.4% per year, doubling in less than 29 years (the post-war “baby boom” will become parents).

- **Inflation**
  According to the National Statistics Department, consumer prices in Dili increased 17.4% from December 2010 to December 2011.

  **People’s needs and desires will increase as the country develops.**

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**Many children will become youth.**

**Timor-Leste Population by Age**

(From 2010 census)

Timor-Leste is struggling to find jobs for 15,000 people who will enter the workforce this year.

In 2024, it will be around 30,000 each year, and the oil will be used up. Today’s youth will have children of their own.

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**CONSUMER PRICE INDEX**

**DILI REGION. DECEMBER 2011**

<table>
<thead>
<tr>
<th>DECember 2011 Net Figures</th>
<th>% Change from previous month (monthly rate)</th>
<th>% Change Dec 2010 to Dec 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>All groups</td>
<td>3.6%</td>
<td>17.4%</td>
</tr>
<tr>
<td>All groups excluding housing</td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>4.7%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Alcohol and tobacco</td>
<td>4.4%</td>
<td>10.5%</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>4.1%</td>
<td>10.2%</td>
</tr>
<tr>
<td>Housing</td>
<td>2.0%</td>
<td>12.7%</td>
</tr>
<tr>
<td>Household furnishings, supplies and services</td>
<td>2.5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Health</td>
<td>1.0%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Maintenance and education</td>
<td>1.1%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Transport and communication</td>
<td>0.3%</td>
<td>13.7%</td>
</tr>
</tbody>
</table>

**December 2011 Key Points**

- On a monthly basis the CPI for Dili rose (3.0%) December 2011 from November 2011.
- On an annual basis the CPI for Dili increased (17.4%) Dec 2011 compared to Dec 2010.

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**Inflation since 2009 comes from the government spending more than the economy can absorb.**

- More than 70% of Dili’s population are among the wealthiest 20% of Timorese, while only 2.5% are below the poverty line.
- About 50% of Timorese families outside Dili live in poverty.
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IMF: TL spends much more than other resource-dependent states.

Budget projections are unreliable.

How real is perceived corruption?

3. Unrealistic dreams

Current plans for future development will not sustainably improve our people’s lives.

They rely on Greater Sunrise gas, which is limited and might never come to our shores or treasury.

The Strategic Development Plan

- Issued July 2011, promises to make TL an Upper Middle Income Country by 2030.
- A vision and dream, not a realistic plan.
- Focuses on physical infrastructure, not sustainable development.
- Will require loans and spending beyond TL’s means.

Tasi Mane petroleum infrastructure project

- In 2010, TL began working on the South Coast Petroleum Corridor.
- During 2011, TL spent $19 million, and total project costs will be more than $2 billion (much more if Timor-Leste pays to build the refinery, gas pipeline or LNG plant).
- The 2012 budget allocates $164 million (including the Supply Base and highway).
Tasi mane project will include:

- **Suai**: Supply base area, Industrial estates, Nova Suai, Suai Airport, Crocodile farm
- **Betano**: Refinery and Petrochemical complex, Petroleum city (Nova Betano)
- **Beaçu**: LNG Plant complex, Nova Beaçu, Nova Viqueque, Viqueque airport.
- **Highway** from Suai to Beaçu

**Problems with the Tasi Mane project**

- It makes TL more dependent on the oil and gas sector.
- It neglects sustainable sectors (agriculture, tourism, small industries and others).
- Nearly all the money spent will go to foreign companies, providing hardly any local jobs or contracts.
- It will create social conflict, take up valuable land, displace people, worsen health and degrade and endanger the environment.
- We wonder if it will provide a reasonable return on investment.

The Government has made many unrealistic promises to local communities about jobs and other benefits.

**Tasi Mane project costs**

<table>
<thead>
<tr>
<th>Project component</th>
<th>2011 expenditure</th>
<th>2012 expenditure</th>
<th>2013-2018 allocation</th>
<th>Anticipated losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Detailed site survey for Beaçu infrastructure</td>
<td>$5.0m</td>
<td>$6.0m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design, construction and supervision of Suai supply base</td>
<td>$9.0m</td>
<td>$10.0m</td>
<td>$12.0m</td>
<td></td>
</tr>
<tr>
<td>Construction and supervision of roads and bridges for Suai-Beaçu highway</td>
<td>$2.3m</td>
<td>$4.5m</td>
<td>$5.0m</td>
<td>$2.0m</td>
</tr>
<tr>
<td>Environmental studies</td>
<td>$0.9m</td>
<td>$1.5m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pipeline route analyses</td>
<td>$0.7m</td>
<td>$1.5m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design and supervision of Beaçu infrastructure</td>
<td>$0.0m</td>
<td>$1.0m</td>
<td>$2.0m</td>
<td></td>
</tr>
<tr>
<td>Design, construction and supervision of Suai airport</td>
<td>$5.0m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Design, construction and supervision of Viqueque airport (budgeted under transport)</td>
<td>$1.0m</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Detailed Geotechnical and Marine study for the Betano Petrochemical plant</td>
<td>$3.0m</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- No information on projected benefits or return.
- Omits most future expenditures.
- Exemplifies “petroleum capture” of decision-making.
- What if Sunrise gas doesn’t come here?
TL is about to become a borrower.

• Laws passed since 2009 have paved the way for Timor-Leste to take out foreign loans.

• The 2012 Budget starts borrowing with $160 million, including $43.1 million to be spent this year.

• During the next four years, the Government plans to borrow nearly half a billion dollars.

Lenders are

• World Bank
• JICA (Japanese government)
• Asian Development Bank
• China Export-Import Bank

Borrowing in the 2012 State Budget

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan</th>
<th>Grace Period (yrs)</th>
<th>Term (yrs)</th>
<th>Interest rate</th>
<th>Total Repaid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dili-Liquiçá-Gleno roads</td>
<td>ADB ADP</td>
<td>8</td>
<td>32</td>
<td>1.9% / 1.5%</td>
<td>$12m</td>
</tr>
<tr>
<td>Dili-Liquiçá-Gleno roads</td>
<td>ADB OCR</td>
<td>5</td>
<td>25</td>
<td>LIBOR + 0.5%</td>
<td>$46m</td>
</tr>
<tr>
<td>Dili-Atauro, Same, Ermera roads</td>
<td>WB IDA</td>
<td>10</td>
<td>25</td>
<td>2.50%</td>
<td>$28m</td>
</tr>
<tr>
<td>Dili-Atauro, Same, Ermera roads</td>
<td>WB IBRD</td>
<td>5</td>
<td>30</td>
<td>LIBOR + 0.40%</td>
<td>$32m</td>
</tr>
<tr>
<td>Dili-Baucau road</td>
<td>JICA concessional</td>
<td>10</td>
<td>20</td>
<td>0.70%</td>
<td>$77m</td>
</tr>
<tr>
<td>Dili drainage</td>
<td>China Ex-Im bank</td>
<td>10</td>
<td>25</td>
<td>3.00%</td>
<td>$60m</td>
</tr>
<tr>
<td>Manatuto-Natarbora road</td>
<td>ADB OCR</td>
<td>5</td>
<td>25</td>
<td>LIBOR + 0.35%</td>
<td>$110m</td>
</tr>
<tr>
<td>Tasi Mane highway</td>
<td>unknown commercial (?)</td>
<td>10</td>
<td>20</td>
<td>4.00%</td>
<td>$352m</td>
</tr>
</tbody>
</table>

Loans will have to be paid back.

Most loans will pay for roads.

Commerical loans will become more expensive in the future.
Important to consider

- Implementing the SDP will require billions of dollars more in loans, probably at commercial rates.
- Even at concessional rates, repaying a loan will permanently reduce money available from the Petroleum Fund.
- TL's oil and gas are small and non-renewable, and future oil prices are unpredictable.
- TL will have to make loan repayments before spending money on people's needs or developing other sectors.
- Our children and grandchildren will inherit our debt.

The Greater Sunrise stalemate

- The project is stalled because Timor-Leste and the companies do not agree on how it should be developed.
- Woodside and its partners Shell, ConocoPhillips and Osaka Gas believe a floating LNG plant in the sea is the most profitable.
- Timor-Leste wants a pipeline from Sunrise to Beaufort to get more tax revenues and anchor the Tasi Mane project.
- Under contracts and treaties, the companies can choose the path, but both governments need to approve it.
- TL can cancel CMATS next year if the parties haven't agreed yet.

Can Timor-Leste achieve the highest economic growth in the world?

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.
Impunity for past crimes threatens stability, security and rule of law.

Impunity for past crimes against humanity

- 1975-1999: Indonesian invasion and occupation killed about 180,000 people in a systematic and planned policy executed throughout Timor-Leste.
- 2000: Indonesian Commission on Human Rights Abuses in TL (KPP HAM) reported on 1999 crimes and recommended an international mechanism.
- 2001-2004: UN-supported Serious Crimes Unit indicted 391 people for 1999 crimes. All Indonesian and most Timorese indictees live free in Indonesia.
- 2001-2005: TL’s Commission for Reception, Truth and Reconciliation (CAVR) researched history and encouraged reconciliation among Timorese. Its extensive report made 200 recommendations, including that if other processes fail, the UN should create an international tribunal.
- 2005: UN Commission of Experts (COE) reviewed legal processes to date and recommended creating an international mechanism.
- 2005: TL and Indonesian governments created the Commission of Truth and Friendship (CTF) using diplomacy to avoid individual accountability.

Until today, no legitimate processes in Indonesia or Timor-Leste have held major criminals accountable.

UN Serious Crimes Unit Special Panel

The UN-supported Serious Crimes Unit indicted 391 people for 1999 crimes, tried 87 Timorese and convicted 84.

All Indonesian indictees and most Timorese are living free in Indonesia, and recent efforts to prosecute were blocked by political interference.

2004: President Xanana Gusmão and indicted ex-General Wiranto

The Serious Crimes Unit issued a warrant to arrest former Indonesian military head Wiranto for Crimes Against Humanity a few weeks before this photo was taken in Bali. Wiranto later ran for President of Indonesia twice.
Ongoing impunity creates insecurity.

- Today, all the main perpetrators of crimes against humanity during the Indonesian occupation are free in Indonesia, including everyone responsible for the 99% of occupation-related killings committed between 1975 and 1998.
- They are all protected by the Indonesian government, and many hold high Indonesian political and military positions.
- This ongoing impunity greatly threatens peace, security, democracy, rule of law and moral values in both Timor-Leste and Indonesia.

What happens next?

- Today, neither Indonesia, Timor-Leste nor the international community has the political will to bring these criminals to justice.
- The Commission of Experts report has never been discussed in the Security Council.
- UNMIT will leave Timor-Leste at the end of 2012, having failed to achieve justice, and future UN processes here will have less power and are not yet defined.
- UN policy and global consensus says that there can never be impunity for crimes against humanity. Chega!

A luta continua. We continue to demand that people who violate the law be held accountable for their crimes.

5. Access to land

Land is the base of our culture and lives.

Recent developments may increase injustice and conflict.

Traditional land system before Portuguese colonization and Indonesian occupation

Land functions
- Place of birth that determines our origin and identity
- Place occupied by our ancestors spirits
- Socio-cultural functions linked to tradition and cosmos
- Collective economic function

Access to land
- Inheritance
- Traditional system allowing right to collective use
- Property right allowed after occupying land for a long time

Land management
- Traditional collective management system at the family and village levels (Tara Bandu).

Consequences of colonization and occupation

Introduction of a new coercive system
- Forced displacement
- Transmigration
- Taxes
- Certificates
- Corruption and stealing

Changes in land functions
- Land as a strategic tool to:
  - Reinforce power and domination
  - Support Portuguese and Indonesian economy
  - Increase people’s dependency and vulnerability
- Land as a commodity without soul
- Privatisation: communities lose rights to individuals.
- Desertification: monocrop agriculture depletes soil.
Land registration in Portuguese and Indonesian times

- 200,000 parcels already registered.
- 2,843 land titles issued by Portuguese.
- 34,965 land titles issued by Indonesians including 10% through corruption.

This system transferred land ownership from Timorese families and communities to 100,000 - 150,000 non-Timorese private owners.

Land law elaboration

In 2009, the Ministry of Justice, with the support of USAID, implemented the cadastre and registration system and created the Special Regime for Determination of Ownership of Immovable Property, Expropriation Law and Real Estate Finance Fund Law.

These laws were elaborated with very limited community participation.

Land law concept

Establishment of a formal, basic land tenure system to address:

- needs of the modern urban sector
- formal land transactions
- registration.

It must also respect traditional land and customs.

Who will benefit from these land laws?

- The State. Land "owned" by Portuguese and Indonesian administrations automatically becomes Timor-Leste state property without considering how the occupiers got it.
- People who got certificates during Portuguese and Indonesian times.
- Rich and powerful people. People with a lot of land and money can pay taxes and exert disproportionate influence.

Likely consequences of the implementation of the Land Laws

Social, cultural and economic impacts:

- Land will become a commodity with no spiritual value.
- Degradation of our cultural system which is based on collective values.
- Land concentration in the hands of rich and powerful people.
- Increasing cases of eviction.
- Poor people will lose their land.
- Less land available for agriculture and production.
- Emergence of slums, landlessness and homelessness.

Thank you.

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/
- Reference DVD-ROM available from our office.