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

Charles Scheiner, La’o Hamutuk

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.
1. Economic overview: poverty, inequality and oil dependency

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

Most people live in rural areas by subsistence agriculture.

What do 660,000 working-age Timorese do for work?
The graph shows legal goods trade only. About 89% of donor spending and more than 70% of state spending leaves the country.

More than \( \frac{3}{4} \) of GDP is from oil.
**Timor-Leste’s GDP is falling and uncertain**

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

*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.**

![Graph showing non-oil, non-state GDP per capita](chart.png)
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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):
  - Imports: $1,536m non-oil goods $523m goods (2015) $578m
  - Exports: $98m non-oil goods $16m goods (coffee) $16m
  - Deficit: $1,458m non-oil goods $507m goods $562m

- 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.
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.

<table>
<thead>
<tr>
<th></th>
<th>Timor-Leste</th>
<th>TL without Sunrise</th>
<th>Australia</th>
<th>Brunei</th>
</tr>
</thead>
<tbody>
<tr>
<td>Known oil and gas reserves per person</td>
<td>605 barrels</td>
<td>168 barrels</td>
<td>1,170 barrels+ (1,150 without Sunrise)</td>
<td>6,438 barrels</td>
</tr>
<tr>
<td>How long reserves will last at 2014 production rates</td>
<td>16 years</td>
<td>4 years</td>
<td>51 years+</td>
<td>23 years</td>
</tr>
</tbody>
</table>
Our seas have long been explored

Laminaria-Corallina

Timor Sea areas under Production-Sharing Contracts for offshore oil and gas exploration

Gray areas were under contract in 2003 or 2006, but are now vacant. Blue areas were contracted before 2000. Each crossed circle shows where one or more test wells have been drilled during the last 50 years.

Green lines show where seismic exploration has been conducted.

Map by Le's Hemstedt based on Information from the BNTI National Petroleum Authority. April 2016

Oil and gas income has been falling since 2012.

Production is dropping faster than prices, and will not go back up. The price will be irrelevant when we have nothing left to sell.
The balance at the end of 2015 was the lowest since April 2014.

We’re beginning to draw down our savings.
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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The 2016 Budget still neglects farmers, students, and health care.

Allocation of the enacted 2016 State Budget (US $1.526 million)

- Physical Infrastructure: $689 million (44%)
- Governance: $252 million (16%)
- Services: $202 million (13%)
- Benefits: $216 million (14%)
- Development: $107 million (7%)
- Security: $76 million (5%)
- Other: $20 million (1%)

Graphic by Lior Hemstuk based on enacted 2016 RDTL General State Budget - January 2016

The 2016 budget increases infrastructure and cuts everything else.

Appropriated spending in RDTL annual budgets

- Physical infrastructure
- Administration
- Health & Education
- Public cash transfers
- Economic development
- Police & Military

Graph by Lior Hemstuk based on Budget Books published by RDTL Ministry of Finance, November 2015
The Tasi Mane Project includes the Suai supply base, Betano refinery, Beaçu 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 APROVISÃOAMENTO
MINISTÉRIO DO PLANEAMENTO E INVESTIMENTO ESTRATÉGICO
Intent to Award

<table>
<thead>
<tr>
<th>Tender Number</th>
<th>Description</th>
<th>Winning Contractor</th>
<th>Contract Price</th>
</tr>
</thead>
</table>

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.

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.
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.
Who benefits: residents of Oecusse or political opposition?

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

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?

Traffic forecast for Tibar Port
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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:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>2016</td>
<td>$107m</td>
</tr>
<tr>
<td>2017</td>
<td>$348m</td>
</tr>
<tr>
<td>2018</td>
<td>$366m</td>
</tr>
<tr>
<td>2019</td>
<td>$160m</td>
</tr>
<tr>
<td>2020</td>
<td>$39m</td>
</tr>
<tr>
<td>Total</td>
<td>$1.02bn</td>
</tr>
</tbody>
</table>

The old (2015) State Budget was much less:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$194m</td>
</tr>
<tr>
<td>2016</td>
<td>$135m</td>
</tr>
<tr>
<td>2017</td>
<td>$160m</td>
</tr>
<tr>
<td>2018</td>
<td>$50m</td>
</tr>
<tr>
<td>Total</td>
<td>$0.54bn</td>
</tr>
</tbody>
</table>

Loans will have to be paid back.
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’o Hamutuk’s website
  http://www.laohamutuk.org

• La’o Hamutuk’s blog
  http://laohamutuk.blogspot.com/

Timor-Leste Institute for Development Monitoring and Analysis
Rua Martires do Patria, Bebora, Dili, Timor-Leste
Mailing address: P.O. Box 340, Dili, Timor-Leste
Telephone: +670 7723 4330 (mobile) +670 3321040 (landline)
Email: info@laohamutuk.org