

The Timor Sea Dispute with Australia

An Economist's Reflections

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Context

- Deals done with Indonesia in the distant past that favoured Australia
- From the beginning, Australia has always worked to get the best outcome for Australia and Australian companies
 - Negotiate with the other party when they are weak
 - Use most favourable international treaties and geological advice
 - Refuse to participate in any independent arbitration process

Context

- **The Net Result:** Only way forward for Timor-Leste in early 2000's was negotiation, and from a position of weakness

Why weakness?

- Historical starting point for Timor-Leste was disadvantageous
- Australia could invest more resources in their side of the argument
- Lack of resolution would mean lack of investment and no royalties to Governments. This affected Timor-Leste far more than Australia, as these funds were critical in early days of building the nation

A Political Economy Interpretation

Trust and Economic Exchange: No market activity would exist without trust, which requires voluntary exercise of restraint of power

Why do market participants exercise restraint of power?

- **Fairness:** A belief that all should be treated fairly
- **Long-Term Self-Interest:** There are benefits to long term social stability that comes from a cohesive society built on co-operation not exploitation

A Political Economy Interpretation

So why would Australia not exercise restraint of power?

- **Fairness:** A very subjective thing. Australian Government argues it is demonstrating fairness and even generosity – Timor-Leste was able to improve their position through concessions made during negotiations 2002-2006
- **Long-Term Self-Interest:** Governments pay much less attention to this – more interested in short term political payoffs for decisions

But even with a long term view, Australia is dealing with a small player with little political influence – no future pay-back benefits to the exercise of restraint

A Political Economy Interpretation

So why would Australia not exercise restraint of power?

Can we frame arguments that will persuade the Australian Government of the benefits of restraint of power, just as is exercised in so many other areas of life, economy, society and international relations?

What Does it Mean For the Timor-Leste Economy Now?

Loss of Oil = Forgone Revenue / Royalties

- Estimated lost revenue of \$5 billion over time
- Annual ESI (Estimated Sustainable Income) of 3% would mean additional funds of \$150million pa – the entire 2016 budget for Education, double that for Health.
- But the Petroleum Fund (PF) has generated almost \$30bn in revenue to Government from 2002 to 2020. Current PF balance is \$16bn.
- So the value to Timor-Leste of the revenue in dispute is not trivial, but also cannot be argued as the cause of Timor's poverty / lack of development

What Does it Mean For the Timor-Leste Economy Now?

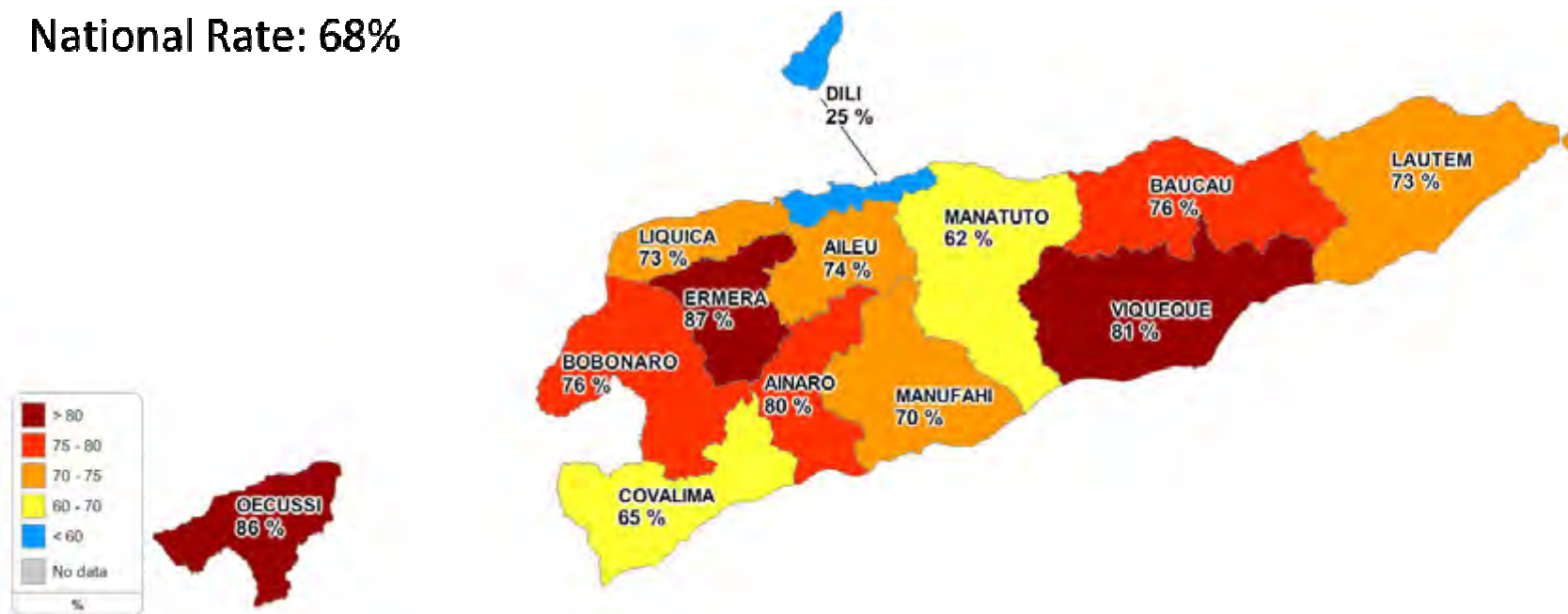
The other major economic loss:

- Viable on-shore oil and gas processing facilities (Tasi Mane project) are unlikely. It looks unlikely the base will be destination of choice for most oil processing.
- On-shore processing facilities would have generated some multiplier benefits of the oil and gas activity.

The Current Social and Economic Realities

- Income / Consumption Poverty close to 50%
- Multidimensional Poverty (Education, Health, Living Conditions):

National Rate: 68%



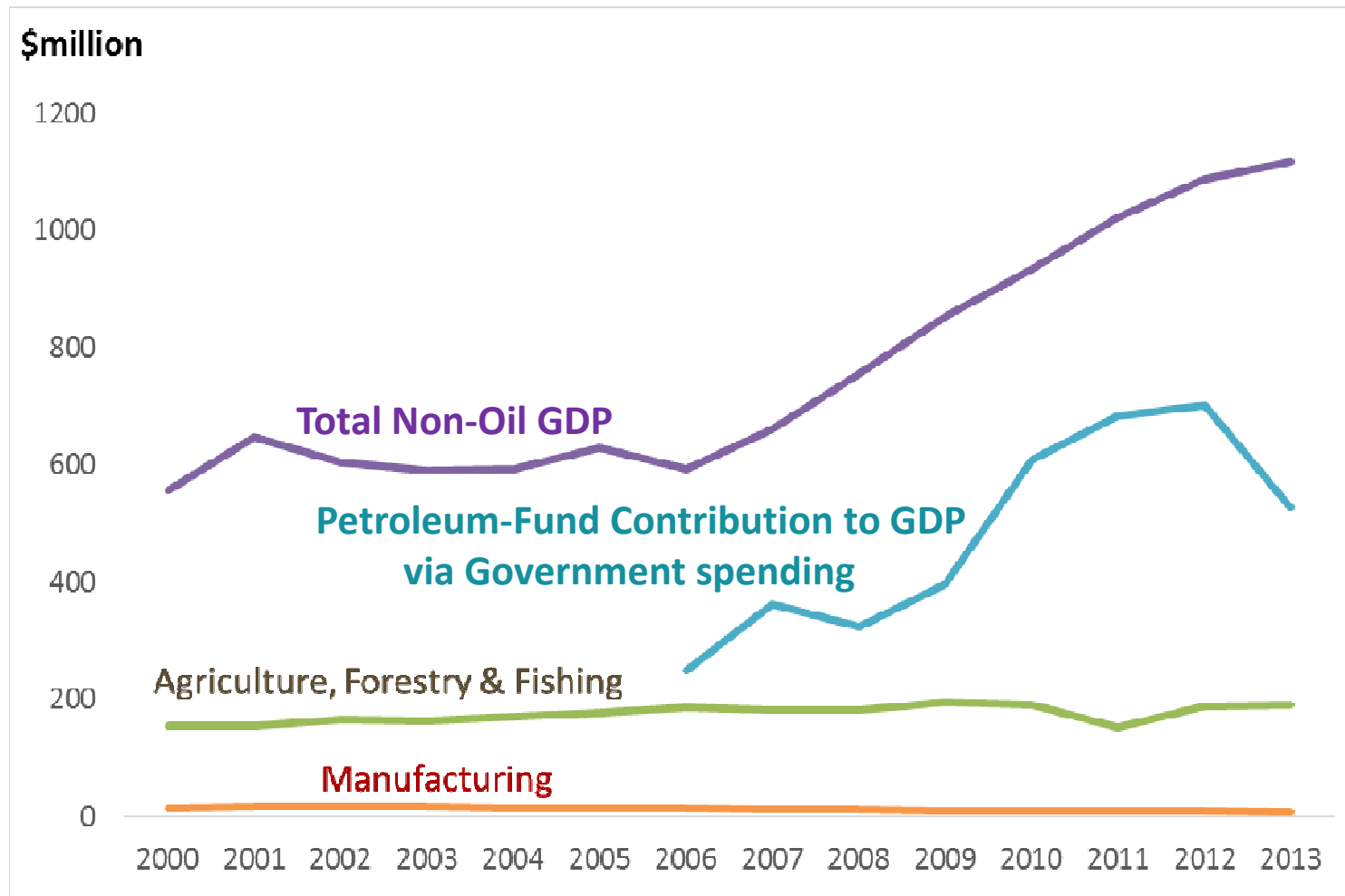
The Future for Timor-Leste:

Is the dispute a big distraction?

- Currently the economy is hugely dependent on government spending funded by petroleum revenues

Real Non-Oil GDP:

The key driver has been petroleum revenue



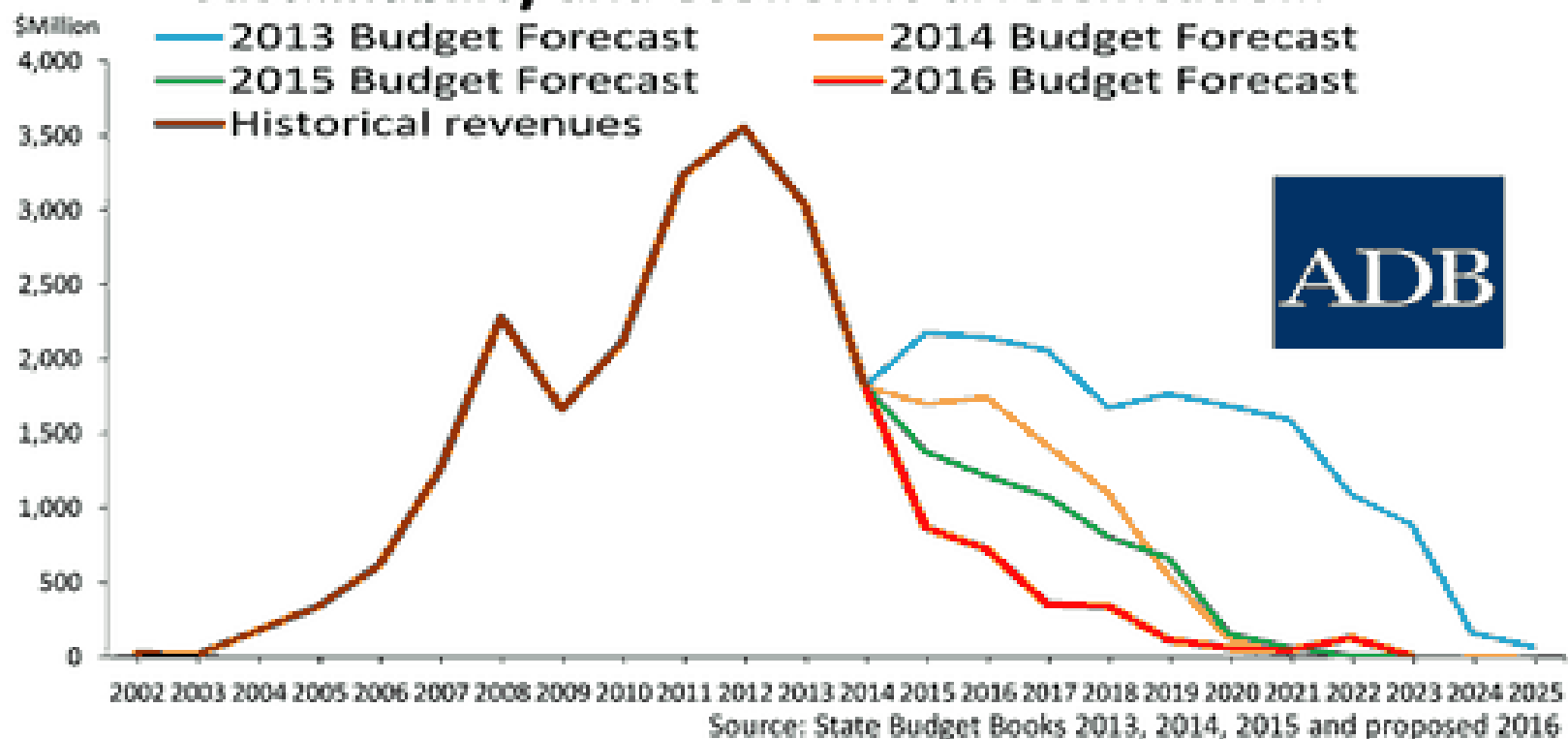
The Future for Timor-Leste: Is the dispute a big distraction?

Looking ahead:

- World price is declining
- Demand is dropping
- Resources are running out

The future: Little extra money into the PF

Declining oil revenues highlight the importance of fiscal sustainability and economic diversification.



- At current spending rates, the Petroleum Fund will be gone by 2030
- The additional \$5 billion that TL has forgone delays this until 2035

The Future for Timor-Leste:

Is the dispute a big distraction?

- Can the non-oil economy grow rapidly enough to replace this?

Not without concerted effort to build the agricultural sector, secondary processing, tourism, light industry, etc, etc.

- None of this reality would change if the dispute with Australia was resolved in Timor-Leste's favour. It just gives a little more time.
- Are the best minds in Timor-Leste investing their efforts in these important questions?

The Future for Timor-Leste: Is the dispute a big distraction?

Furthermore: Most income from the PF does not flow to the poor

Other broad-based economic growth would benefit the poor much more.

Simulations show:

The Economic Stimulus



The Reduction in Poverty

\$2billion pa increase in
Petroleum Revenues



10% (from 50% to 45%)

\$200million pa increase in
Agricultural production



40% (from 50% to 30%)

What Do the People of Timor-Leste Say?

What are the collective concerns of the people of Timor-Leste?

- Better education, health, housing, safety and justice, freedom from violence, greater food security, water shortages, etc, etc.
- Justice in the Timor Sea?

As outsiders we must listen and learn

“For Australia CMATS must surely be considered a boon, made possible only by its merciless tactics and favourable string of political circumstances”

Madeleine Smith

*Australian claims to the Timor Sea’s Petroleum Resources:
Clever, Cunning or Criminal?*

Monash University Law Review, vol 37, p.42-72