

JSCOT HEARING 14/03/2017 CMATS

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Response to questions on notice

1. Where did the estimated \$40 billion emerge?

This is a really interesting question. Not being an expert in oil and gas valuations, the ‘estimation’ of \$40 billion figure comes from the vast media reports and commentary, experts¹, advisors² and academic publications.³ The genesis appears to be a 2002 parliamentary submission by Shell, citing an export revenue figure of \$30 billion plus \$8 billion tax.⁴ Problematically, resources estimates may not mature into reserves (eg how much they can actually earn from the resource).

2. When has the Estimated Sustainable Income been exceeded?

According to figures compiled by the Asian Development Bank (ADB) based on Ministry of Finance figures from 2010-2014 Timor-Leste exceeded the ESI in all years except 2013.⁵ According to figures from independent economic monitor *La’o Hamutuk*, the ESI was exceeded again in 2015 and 2016.⁶

The ADB report states: ‘Unfortunately, the large non-oil deficits funded by withdrawals from the Petroleum Fund (the Fund) are well in excess of the estimated sustainable income (ESI). Over 2010–2014, they averaged \$300 million per year... Continuing this trend is unsustainable under current assumptions, and will lead to the Fund’s steady depletion. If this issue is not addressed, the country will eventually require significant cutbacks in future public spending that could destabilize the economy.’⁷

¹ Eg Damien Kingsbury, “Indonesian lessons for choppy East Timor waters”. *Deakin Speaking*, 6 December 2013.

² Eg Kim McGrath, billed as research director of the Steve Bracks AC Timor-Leste Governance Project and an adviser to the Timor-Leste government, uses this figure. See Kim McGrath, “Oil, gas and spy games in the Timor Sea”. *The Monthly*, April 2014.

³ Eg Andrea Katalin Molnar. *Timor-Leste: Politics, History, and Culture*. Oxon: Routledge, 2010.

⁴ Shell Development Australia, Submission to the Joint Standing Committee on Treaties, Submission #51, August 2002. Available at [file:///C:/Users/BStrating/Downloads/http---www.aphref.aph.gov.au-house-committee-jsct-timor-subs-sub51%20\(2\).pdf](file:///C:/Users/BStrating/Downloads/http---www.aphref.aph.gov.au-house-committee-jsct-timor-subs-sub51%20(2).pdf).

⁵ Asian Development Bank. *Growing the non-oil economy: A private sector assessment for Timor-Leste*, Manila: Asian Development Bank, 2015, p. 10. See also IMF, Republic of Timor-Leste, *IMF Country Report No. 16/183*, p. 5 and Charles Scheiner, ““Can the petroleum fund exorcise the resource curse from Timor-Leste?” In *A New Era? Timor-Leste after the UN Intervention*, edited by Sue Ingram, Lia Kent and Andrew McWilliam, 73-102. Canberra: ANU Press, 2015, p. 79. See also Kammen, “Timor-Leste”. *The Contemporary Pacific*, Volume 27, Number 2, 2015, p. 539.

⁶ La’o Hamutuk. *2015 General State Budget*. Available at <https://www.laohamutuk.org/econ/OGE15/14OGE15.htm>; La’o Hamutuk. *Comments from La’o Hamutuk to 2016 Timor-Leste and Development Partners Meeting*. Available at <https://www.laohamutuk.org/econ/16TLDPM/LHCCommentTLDPM4Jul2016en.pdf>. See also La’o Hamutuk. *Submission to the President of RDTL*. Available at <https://www.laohamutuk.org/econ/OGE16/Ret/LHSubmissionPresRep28Jul2016En.pdf/>

⁷ *Ibid.*

3. Extent of corruption in Timor-Leste

I refer the commission to the peer-reviewed literature by political-economy experts below:

Resource Curse

Economic experts have expressed concerns about Timor-Leste falling into the trap of the 'resource curse'.⁸ The term 'resource curse' attempts to encapsulate the 'paradox' of resource rich developing states performing economically worse than comparable states with few natural resources. Avoiding the resource curse requires Timor-Leste's government avoiding 'the trap of overspending'.⁹ An ongoing challenge is to ensure that the Petroleum Fund will enable the economy to move beyond subsistence and creates a broader tax base for state revenues.¹⁰

Rentier state

Former Timor-Leste government advisor Guteriano Neves argues that Timor-Leste's oil dependency has transformed it into a rentier state as the economy is dominated by government spending on infrastructure and social security schemes.¹¹ He writes: '[p]eople compete for rent through political connections and political favouritism, thus undermining the spirit of hard work and creativity. The gap between rich and poor is also growing. Economic growth obviously has benefited some people, especially in Dili over others. Agriculture, the main source of livelihood for people in rural areas, is stagnant.' According to political economy experts, some have benefited from capturing major rent distribution streams, which has been enabled by the fact that poor governance and weak institutions that are easily subverted.¹²

Patronage/clientelism/neo-patrimonialism

According to Blunt, structures of patronage and clientelism are legacies of Indonesian rule.¹³ He argues that Timor-Leste's context 'is found to be conducive to various forms of state capture and systemic grand and petty corruption, and to be resistant to conventional short-term technocratic anticorruption remedies.'¹⁴ Scambary's research points to the neo-patrimonial political-economy structures in Timor-Leste. His article 'In search of White Elephants' demonstrates that 'despite a complex regulatory regime to safeguard the quality

⁸ See for example Jennifer Drysdale. *Sustainable Development or Resource Cursed? An exploration of Timor-Leste's Institutional Choices?* Mannheim: VDM Verlag, 2009; Andrew Rosser. "Timor-Leste and the resource curse: an assessment". In *Security, Development and Nation-Building in Timor-Leste*, edited by Vandra Harris and Andrew Goldsmith, 185-194. Oxon: Routledge, 2011; Mats Lundahl and Fredrik Sjöholm. "The oil resources of Timor-Leste: curse or blessing?" *The Pacific Review* 21, no. 1 (2008): 67-86; Naazneen Barma. "The Rentier State at Work: Comparative Experiences of the Resource Curse in East Asia and the Pacific". *Asia and the Pacific Policy Studies* 1, no. 2 (2014): 257-272.

⁹ Lundahl and Sjöholm, "The oil resources of Timor-Leste: curse or blessing?", 77.

¹⁰ Rod Nixon. *Justice and Governance in East Timor: Indigenous Approaches and the 'New Subsistence State'*. Oxon: Routledge, 2013, 151.

¹¹ Guteriano Neves, "The Political Economy of Petroleum Dependency". *State, Society and Governance in Melanesia*. In brief 2016/6. 2. Barma, "The Rentier State at Work", 258; Drysdale, *Timor-Leste – Sustainable Development or Resource Cursed?*, 13; Blunt, "The political economy of accountability in Timor-Leste", 93. See also Scheiner, *op. cit.*, p. 83.

¹² Barma, "The Rentier State at Work", 265, 269; Peter Blunt. "The personal economy of accountability in Timor-Leste: Implication for Public Policy". *Public Administration and Development* 29 (2009), 90.

¹³ Blunt, "The political economy of accountability in Timor-Leste", 90-91.

¹⁴ Blunt, "The political economy of accountability in Timor-Leste", see abstract for argument overview.

and transparency of spending, these systems have been routinely bypassed by executive-style decision making and a variety of informal and sub-legal devices. Public funds have been channeled to clientelist networks via often controversial infrastructure projects or state employment.¹⁵

Corruption

Transparency International indicates public financial management as a significant concern as Timor-Leste's over-dependence on oil export has 'created new opportunities for corruption and administrative malpractice'.¹⁶ In 2016, Timor-Leste ranked 101 out of 176 states on Transparency International's global corruption perceptions index.¹⁷

Timor-Leste scored low on the World's Bank's 2015 CPIA ranking, which includes the following indicators: property rights and rules based government, budget and financial management, quality of public administration and transparency, accountability and corruption in public sector.¹⁸ Its ranking placed it in the second lowest group of states globally, on a par with its pacific neighbours Papua New Guinea and Solomon Islands, but ranking lower than Myanmar, Vietnam and Vanuatu.¹⁹

According to Scheiner in his chapter in the ANU publication 'A New Era', '[s]ince there are few taxpayers demanding that their money be used wisely, corruption, conflict and opacity often occur, although Timor-Leste has taken some steps to avert them. At the end of the day, when all the mineral wealth has been converted to cash and spent, the opportunity to develop a sustainable, self-sufficient economy may also have been squandered'.²⁰

He goes on to state: 'The elite and some constituencies believe that they are entitled to a disproportionate share of public resources—a pattern set by rewarding heroes of the liberation struggle and 'buying peace' to neutralise potentially troublesome groups or political opponents. Instead of the give and take that constrains state spending in 'normal' countries, the whims of politicians and promises of salesmen are using up Timor-Leste's finite oil wealth.'²¹

¹⁵ James Scambray. "In Search of White Elephants: The Political Economy of Resource Income Expenditure in East Timor". *Critical Asian Studies* 47, no. 2 (2015): 283-308.

See abstract for argument overview.

¹⁶ Transparency International. *Timor-Leste: overview of corruption and anti-corruption*. Available at http://www.transparency.org/files/content/corruptionqas/Country_profile_Timor_Leste_2015.pdf, accessed 26/02/2017.

¹⁷ Transparency International. *Timor-Leste*. Available at <http://www.transparency.org/country/TLS>, accessed on 26/02/2017.

¹⁸ World Bank. *2015 Country Policy and Institutional Assessments*. Available at <http://pubdocs.worldbank.org/en/449561467141303352/Cpia15finalIDAxlsx.pdf>, accessed by 26/02/2017.

¹⁹ *Ibid.*

²⁰ Scheiner, *op cit.*, p. 83.

²¹ *Ibid.*, p. 85. See also Kammen, *Op. Cit.*, p. 540.

