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The Sydney Morning Herald

National Times

Finding way to replenish East Timor cash

July 11, 2012

Opinion

EDITORIAL

THE design was first class. A new nation - born of poverty, oppression and an unquenchable thirst for liberty - would protect its future by banking its immediate resources windfall and living off the investment earnings. Denied nature's blessings of fertile land to feed a population likely to double by mid-century, East Timor had one big shot in its otherwise lacklustre economic weaponry.

Illustration: Rocco Fazzari

It took the proceeds of a shared petroleum development zone with Australia and invested them in a foreign-based sovereign wealth fund that has climbed past $10 billion. Its subsidy of the national budget allows annual government spending on infrastructure, services and poverty alleviation to be worth double East Timor's gross domestic product, a remarkable achievement for an international fledgling locked in Indonesia's grasp a generation ago.

So far, so good. But well-laid plans have a habit of going awry. East Timor's carefully planned and well executed "superannuation" fund was filled with gas revenues from the Bayu Undan field, but production there peaked last year and the field has only a dozen years more life.

The fund, therefore, needs alternative cash flow, and big hope was put on the giant Sunrise gas field on the joint development zone's eastern edge. But a deal with the development consortium, led by Woodside Petroleum, stalled for years, principally because East Timor and Woodside disagree on how the Sunrise gas should be processed.

The former wants it pumped to its coast and, there, turned into LNG and used to generate power and to make fertiliser and other chemicals. Supported by persuasive engineering argument, Woodside says the onshore processing plant is technically difficult and far more costly than its preference for a floating processing factory. Dili has indicated a willingness to abandon its development agreement with Australia on the Sunrise area when the existing agreement expires in February.

East Timor naturally wants job opportunities as well as cash flow from Sunrise, but there is a dawning acknowledgment among Timor-based development bodies that an onshore facility would have lesser economic benefit than its champions claim. Certainly, a good deal less than the replenishment of its sovereign wealth fund afforded by an up and running Sunrise.

The intractability - not helped by an Australian unwillingness to sweeten the deal for East Timor - is compounded by domestic East Timor politics. Political players seize and exploit as a sellout of sovereign interest any hint from rivals that a Sunrise compromise excluding offshore processing is needed to advance the project.

Now, the stars are so aligned that a breakthrough is possible. Weekend elections in East Timor have prompted consideration of a government of national unity. The former president, Jose Ramos-Horta, and the Catholic Bishop of Dili, Alberto Ricardo, are urging the party of government, CNRT, and the former opposition party, Fretilin, to join in a "big tent" coalition. Encouragingly, the Fretilin leadership has indicated enthusiasm, saying election results showed the Timorese wanted stronger national unity.

The CNRT, led by prime minister Xanana Gusmao, outpolled Fretilin but will not secure a majority of seats in its own name.

No such considerations are straightforward, of course. In 10 years of independence, East Timor has worked well in a system of checks and balances, with oppositions holding governments accountable. Outcomes often are far from perfect but East Timor deserves to be judged against the failures and achievements of peer countries, not against fanciful aspirations of political theory.

A national unity structure need not be permanent but seems to offer the best and most achievable way through a costly impasse of intergenerational impact. Australia, meanwhile, should focus on how its self-interest is enhanced by a cash-denied failed state at its northern door.