Can Timor Leste Avoid the Resource Curse?

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TAG Workshop, Dili
25 March 2004
Main points

• Many countries rich in oil and gas which did not have strong economies and democratic traditions before extracting their petroleum, now believe they lost more than they gained by developing their oil.

• Timor-Leste has many characteristics which caused problems in other countries.

• Timor-Leste has unique problems due to its colonial history and small size.

• Timor Leste also has features which might help avoid repeating the patterns of other countries.

• Timor Leste can still make choices about oil and gas, although many things were already decided before independence.
Annual Revenues of Governments and Oil Companies

- Oceanic Exploration (Petrotimor): $0.003
- Eni (Agip): $62
- Inpex: $1.3
- Osaka Gas: $7.8
- Santos: $1.5
- Woodside Australian Energy: $2.1
- Royal Dutch Shell: $202
- ConocoPhillips: $105
- United Nations ops and PKF worldwide: $4.4
- Government of East Timor: $0.079
- Government of Indonesia: $36
- Government of Portugal: $75
- Government of Australia: $125

Billions of U.S. Dollars
Dangers of petroleum development

• Corruption
• Local and global environmental destruction
• War, militarization and repression
• Economic and social mistakes
  ➢ Neglect of other economic sectors
  ➢ Overspending leading to debt
• Little employment or useful infrastructure
• Problems when oil is used up
Oil company corruption in rich countries

- Two Shell top officials were forced to resign this month for overstating the company’s reserves to governments.

- Three highest officials of the Norwegian State Oil Company, had to resign last September because they paid $15 million in bribes to people in Iran.

- Three major oil companies systematically made false reports to the government of Alaska state, USA, over many years. After more than 141 legal cases, the companies had to pay Alaska $10.6 billion.
Oil pipeline fire in Nigeria
Piper Alpha oil platform fire
North Sea, Europe
Oil tanker spill offshore Alaska, USA
Reasons to fear the “resource curse” in Timor-Leste

1. No history of democracy or self-government
   - Tradition of resistance, not constructive criticism, alternatives and compromise
   - Little trust between government and civil society
   - Socialization substitutes for genuine consultation
2. Inexperienced civil service with few traditions or regulations for honesty and accountability

- Limited number of qualified people requires some in dual roles, reducing oversight and increasing appearances of nepotism.
- Untried government structure lacks adequate checks and balances, possibilities of conflicting responsibilities
Potential Conflicts of Responsibility

- TSDA regulates industry, recruits companies, and must bring in revenue
- TSDA Executive Director is also a Commissioner
- Secretariat for Investment, Tourism and Environment must promote industry while protecting nature; he is also a TSDA Commissioner
- Prime Minister directly involved in many oil-related responsibilities
- Timor Sea Office funded by World Bank and U.S. Government
Timor Sea Designated Authority

Ministerial Council
Mari Alkatiri (TL)
Ian MacFarlane (Australia)

TSDA Joint Commission
Einar Risa (TL)
Jose Teixeira (TL)
John Hartwell (Australia)

TSDA Executive Director
Einar Risa

Technical, legal, HSE and other directors
3. TL has lived through bad examples

- Inefficient Portuguese bureaucracy
- Corrupt and violent Indonesian occupation
- History of confusing government services with personal favors (KKN)
- UNTAET focused on short-term fixes, with inexperienced and unqualified “experts”
  - “Financial Gap” is one result
- Today, donors and consultants promote a private-industry, “free trade” economic model
- UN, World Bank, etc. not transparent
4. Few effective checks and balances

- How can Timor-Leste prove that PetroTimor’s charges are false?
  - Inspector-General answers to Prime Minister
  - Provedor not yet operational
  - Laws and court systems not well-established

- Minority political parties weak and inexperienced, few alternatives or compromises offered

- Media rarely do independent research or investigate official claims
Helpful features in Timor-Leste

- We can learn from the mistakes and successes of other oil-producing countries.
- Gas prices and market are more stable than for oil.
- People are nationalistic and ready to fight to preserve Timor-Leste’s independence.
  - Many NGOs and civil society groups.
- Use of U.S. dollar reduces inflation risk.
  - But surrenders control of exchange rates.
Decisions already made, often by others

- Explore and extract off-shore oil and gas as soon as possible
- Share off-shore revenues before defining maritime boundary
- Use Australian and transnational private oil companies
- Process liquids at sea, gas in Darwin
  - Sunrise processing still not decided
- Export off-shore oil and gas for cash, rather than use some of it in East Timor
Companies in East Timor’s Sea

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<tr>
<th>Company</th>
<th>Bayu-Undan</th>
<th>Elang-Kakatua</th>
<th>Kuda Tasi/Jahal</th>
<th>Sunrise</th>
<th>Laminaria-Corallina</th>
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Timor Sea Areas

- Indonesia (West Timor)
- East Timor
- Greater Sunrise gas field
- 1972 Australia-Indonesia seabed boundary
- Median line
- Laminaria/Corallina oil field
- ZOC Area A Joint Petroleum Development Area (JPDA)
- Bayu-Undan oil and gas field
- Elang-Kakatua oil field
- East Timor’s Exclusive Economic Zone (UNCLOS)
- 1972 Australia-Indonesia seabed boundary
Revenues: spend, save or invest?

• 75% of government revenues after 2007 will be from petroleum, increasing for the following 30 years

• Reserve fund can “sterilize” oil revenues against global price and demand variations

• Reserve fund could ensure that money is there for future generations after petroleum is used up

  ➢ Must be protected so government doesn’t spend it for current or short-term needs
Fund design needs close watching

• Today, no reserve fund is yet in place, although more than $10 million in oil royalties has been collected, with $90 million expected by 2007

• Government and WB have proposed to use oil money to cover short-term budget deficits

• Government has made contradictory statements about their plans for the reserve fund

• Parliamentary approval is no protection when one party controls Government and Parliament

• “Guideline” for sustainability is non-binding
Conclusions

• Timor Leste has many preconditions for the “resource curse”.

• Some decisions have already been made.

• Opportunities remain to take safeguards to avoid other countries’ bad experiences.

• This will be a difficult struggle, requiring hard work, consistent vigilance, and cooperation between officials and civil society.

• If it is lost, only the oil companies and Australia will be happy there was oil in the Timor Sea.
We thought it was oil.

But it was blood.
1. Regime change in Dili?
2. Australia’s maritime territory claim
3. Timor Leste’s maritime territory claim
4. Oil and gas fields in the Timor Sea
5. Timor-Leste’s Financing Gap and Laminaria revenues stolen by Australia
EAST TIMOR'S DIRE STRAITS....

LOOK... ABOUT THE PROPOSED TIMOR SEA TREATY...

AUSTRALIA IS PROUD TO STAND IN PARTNERSHIP WITH THE WORLD'S NEWEST NATION!

...WE'D LIKE TO NEGOTIATE A PERMANENT MARITIME BOUNDARY BETWEEN US...

...ALTHOUGH, WE DO HAVE SOME CONCERNS ABOUT YOUR GOVERNMENT'S DIRECTION...

...ARBITRATED BY THE U.N. AND THE INTERNATIONAL COURT OF JUSTICE...

...IT MAY EVEN BE NECESSARY TO SEND WEAPONS INSPECTORS TO DILI!

...THAT WOULD ENTITLE US TO A GREATER SHARE OF REVENUES FROM TIMOR SEA OIL...

REGIME-CHANGE IS UNAVOIDABLE IF YOU CONTINUE TO HIDE YOUR WEAPONS OF MASS DESTRUCTION!!

ON THE OTHER HAND, WE COULD JUST RATIFY THE TREATY AS IS...

WHO WILL EVER FORGET EAST TIMOR'S SACRIFICE IN HELPING OUR DIGGERS DURING WW2!
Australia’s maritime claim

Australia claims maritime territory throughout the southern hemisphere, greater than its land area.

- **Green**: 24-mile Contiguous Zone
- **Orange**: 200-mile EEZ
- **Blue**: claimed Continental Shelf Prolongation
Timor Leste’s maritime claim

EAST TIMOR MARITIME ZONES ACT
Limits of the Territorial Sea, EEZ & Continental Shelf before applying Article 33 of the Charter of the United Nations.

LEGEND
- Territorial Sea Baseline
- Territorial Sea limits under the Act before applying Article 33 of the Charter of the United Nations
- EEZ & continental shelf limits under the Act before applying Article 33 of the Charter of the United Nations
- Australia - EEZ
- Agreed Sealed Boundary: Australia
- Joint Petroleum Development Area

NOTE
Maritime boundaries and limits depicted in this diagram are indicative only and not authoritative. They do not necessarily represent or imply the views of the government of East Timor.
Oil and gas fields in the Timor Sea

Many fields in the Browse Basin are currently Australian but some would be Indonesian if the Australia-Indonesia seabed boundaries defined in 1972 were redrawn using UNCLOS principles.

Key to Oil and Gas Fields:
- Gas field (future)
- Producing oil field
- Oil field (future)
Timor Leste’s “Financing Gap” and Laminaria revenues stolen by Australia

Australia took in an additional US$638 million from Laminaria-Corallina between November 1999 and 2002. This money all belongs to Timor Leste under current international legal principles.
How can we ever thank you?

You already have.