Can East Timor Avoid the Resource Curse?

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November 17, 2004
East Timor’s place in the world
Oil and gas fields in the Timor Sea

Key to Oil and Gas Fields
- © Gas field (future)
- Producing oil field
- Oil field (future)
Australia’s maritime claim

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

Orange: 200-mile EEZ

Blue: claimed Continental Shelf Prolongation
East Timor’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 Seabed 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.
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 WWII!
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>
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Worldwide, oil is running out
Global trade in natural gas
East Timor will export LNG to Japan
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 last spring for overstating the company’s reserves to governments.

- Three highest officials of the Norwegian State Oil Company, had to resign in late 2003 because they paid $15 million in bribes to people in Iran.

- Three major oil companies systematically made false reports to the government of Alaska over many years. After more than 141 legal cases, the companies had to pay Alaska $10.6 billion.
Piper Alpha oil platform fire, North Sea
Oil tanker spill, offshore Alaska
Australia took in an additional US$638 million from Laminaria-Corallina between November 1999 and 2002. This money all belongs to East Timor under current international legal principles.
Where RDTL income will come from

(2012 is an estimate of a peak production year)

After 2012, Bayu-Undan income declines until it ends in 2022. Other fields (Sunrise) might produce for a few decades, perhaps until 2050. Then there will be no oil left.
Reasons to fear the “resource curse” in East Timor

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 appearance of nepotism.
- Untried government structure lacks adequate checks and balances, possibilities of conflicting responsibilities.
3. ET has lived through bad examples

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

- Weak mechanisms to control corruption
  - Inspector-General answers to Prime Minister
  - Provedor (ombudsman) not operational
  - Laws and court systems not well-established

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

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

• Can learn from the mistakes and successes of other oil-producing countries

• People are nationalistic and ready to fight to preserve East Timor’s independence
  - Many NGOs and civil society groups

• Use of U.S. dollar reduces inflation risk
  - But surrenders control of exchange rates
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, and can enable some to be saved without appearing as a surplus.
- Reserve fund could ensure that money is there for future generations after petroleum is used up, but this requires protection against overspending for current needs, short-term projects, or boondoggles.
- Other sectors of the economy must be developed for the present and the future.
Fund design needs close watching

• Today, no reserve fund is in place, although about $15 million in oil royalties has been collected, with more than $100 million expected by 2007

• Government plans to use as much oil revenue as needed to cover each year’s budget

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

• “Guideline” for sustainability is unclear and not binding