



28 January 2014

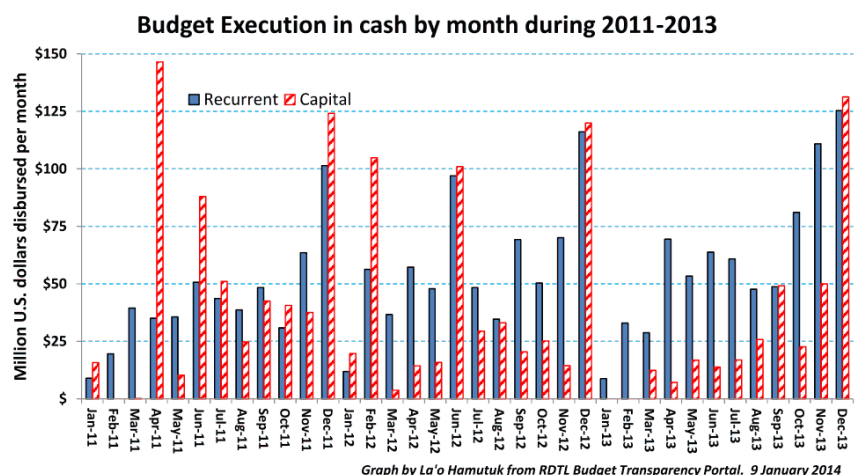
A look back at 2013 in Timor-Leste¹

2013 was a “normal” year for Timor-Leste – no elections, no major crises, no extraordinary occurrences. The departure of the UN peacekeeping mission was uneventful – and there was no significant impact on security, crime, employment or economic development.

Timor-Leste continued on the same sad trajectory it has been following. Poverty is increasing as inflation erodes purchasing power, but there has been insignificant increase in local employment. Rural services and infrastructure – health care, education, water, transportation, sanitation – continue to be neglected. As the post-war baby boom moves into primary school, there has been little effective increase in the quantity or quality of education. Gender prejudice and domestic violence remain endemic, with negligible improvement. The Government’s Directorate-General for Statistics,² as well as year-end reports by Transparency International, World Bank/IFC Doing Business, the IMF and the U.S. Millennium Challenge Corporation,³ verify the decline in political and economic indicators.

Parliament enacted only five laws in 2013 (compared with eight in election-year 2012 and 16 in 2011), and long-awaited land and anti-corruption laws are still pending. The MP’s took many overseas trips, representing an increasing tendency by office-holders to see the primary role of the state as serving their personal interests. Although no new high-profile corruption cases emerged, former Minister for Justice Lucia Lobato remains in prison.

Executed state expenditures during 2013 were less than USD \$1.1 billion (of the \$1.65b appropriated), about 7% lower than in 2012 (which had a lot of pre-election spending). Budget and program execution was erratic, and most large non-electricity infrastructure projects (except the unplanned Comoro river bridges in Dili and high-rise Ministry of Finance building) are far behind schedule.



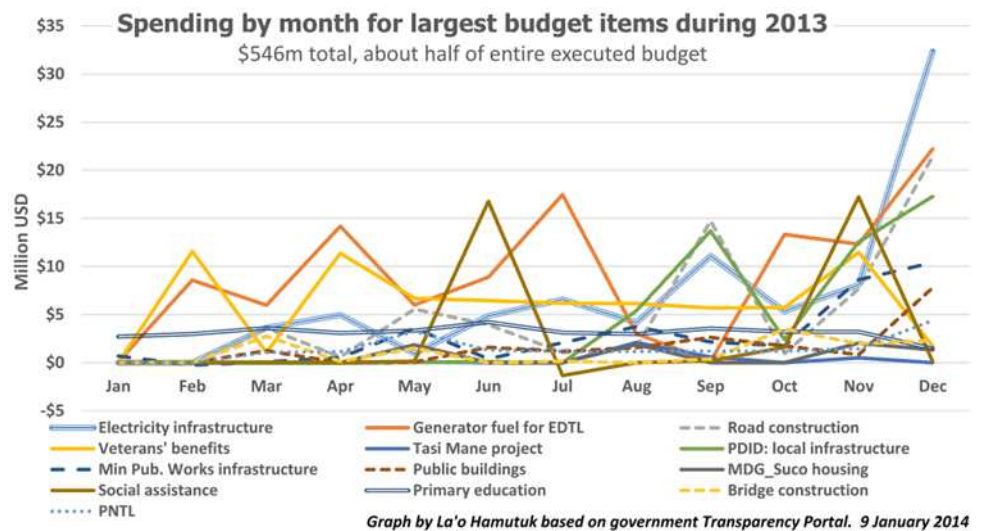
¹ La'o Hamutuk wrote this brief paper in response to an Embassy’s request, but we decided to make it public.

² <http://laohamutuk.blogspot.com/2013/06/understanding-timor-lestes-context.html>

³ <http://laohamutuk.blogspot.com/2013/12/as-others-see-timor-leste.html>

Design and tendering for the south coast Tasi Mane petroleum infrastructure project⁴ continued and preliminary work proceeded on PPPs for Dili airport and Tibar port, but little detailed engineering and no contracting or construction has started. In Suai, the Government persuaded the local community to turn over more than 1,000 hectares of living, farming and fishing land to the Suai Supply Base (part of the TMP) in return for nebulous promises of “10%.” If La’o Hamutuk’s analysis of the project’s non-viability is correct, the financial return to the community could be zero or negative.

As the graph on the previous page shows, the late adoption of the 2013 budget (it came into force at the end of February) paralyzed many Ministries who did not effectively implement the interim duodecimal system. Steps are being taken to prevent recurrence, although the 2014 budget is also late.



Execution remained low until the last quarter, especially December, and this graph shows the irregular spending on major items.

Petroleum continues to comprise more than 95% of state revenues and 80% of GDP, although employment and secondary benefits are negligible. During 2013, the Government began to acknowledge the inevitable cessation of oil and gas revenues. In the second quarter, the Ministry of Finance held public discussions and hoped to limit the 2014 State Budget to \$1.3 billion (it ended up at \$1.5b). At the same time, officials were publicly hostile to serious discussion of shifting away from petroleum dependency, especially about the lack of effective policies to achieve that goal – notwithstanding government statistics showing that the non-oil, non-state component of GDP has been stagnant or shrinking for years, even as “double-digit GDP growth” is proclaimed at every opportunity.

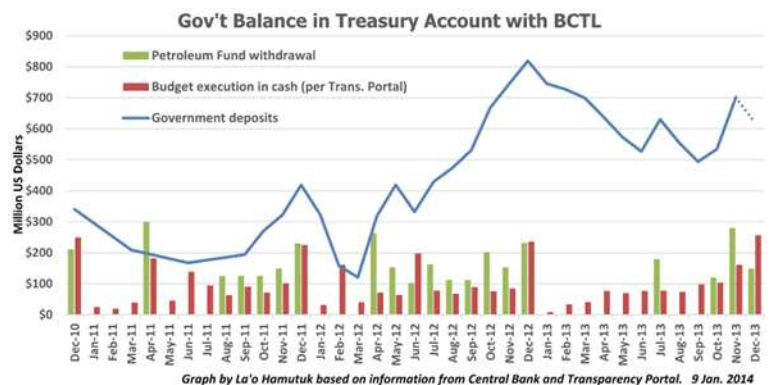
Oil revenues during 2013 were just under \$3 billion, 20% lower than in 2012, a decline which is likely to continue. Diversification of Petroleum Fund investments into the stock market has improved return (\$0.87b in 2013 from \$0.22b in 2012), but this may not be repeated.

At mid-year, Conoco-Phillips reduced their projection of future Bayu-Undan revenues, decreasing the expected total by \$6.8 billion (49%), with production to end by 2020 (four years earlier than previous estimates). Government is conducting an independent audit of the company’s projection. Oil-sector officials are in denial, continuing to tell

⁴ The government issued an environmental license for the Suai components of the Tasi Mane project without following legal processes. For details, see <http://www.laohamutuk.org/Oil/TasiMane/13SSBen.htm> and <http://www.laohamutuk.org/Oil/TasiMane/11TasiMane.htm>.

policy-makers and the public that Timor-Leste has much more oil and gas than is currently known. This manifestation of the “resource curse” is not yet widely recognized here, although industry professionals confirm La’o Hamutuk’s pragmatic pessimism.

Nevertheless, some fiscal restraint has begun. For the first time, the Government withdrew less (\$730 million) from the Petroleum Fund than Parliament’s ceiling (\$787m), although slow budget execution (or overly-optimistic budgeting) again left a high treasury balance at year-end (see graph). The 2014 budget law enacted in January addresses this for the future.



The most significant domestic political issue in 2013 was the October return and public emergence of Mauk Moruk (also known as Paulino Gama), a former FALINTIL officer who split with Xanana Gusmão in the early 1980s. In public and media statements, MM criticized the government for failing to improve people’s lives, calling for “revolution” (which he later explained meant significant nonviolent change to reduce poverty). Prime Minister Gusmão invited MM to participate in a nationally televised debate. Although MM didn’t show up, XG and other leaders addressed the audience for hours, reviewing old history (and grudges). This controversy dominated media and public discussion for about two months, but had quieted down in early 2014.

The non-debate was the first time the PM announced that he plans to resign during 2014. In subsequent statements, he said that he will restructure the Government in July and resign in September. He and other “1975 generation” leaders suggest amending the Constitution to create a council of elders to share power with the President, Parliament and Ministers. The PM’s pending departure captured Dili’s attention, and speculation about who will succeed him is diverting attention from the urgent needs of people outside the Dili political class.

The oil/boundary controversy with Australia

Timor-Leste (and its predecessor colonized and occupied territories) have a complex four-decade history with Australia regarding oil and gas deposits under the Timor Sea. Since the restoration of independence in 2002, the two states signed and ratified three treaties to manage petroleum development and share revenues, but Australia has consistently refused to negotiate a permanent seabed or maritime boundary.

The most recent treaty, known as CMATS (Certain Maritime Arrangements in the Timor Sea)⁵ was signed in 2006 and came into force in 2007. The CMATS compromise allows Timor-Leste to receive half of the upstream revenues from the Greater Sunrise field⁶ (the entire field is closer to TL than to Australia, but previous treaties gave 82% of the revenues to Australia) in return for dropping claims to maritime territory taken by

⁵ <http://www.laohamutuk.org/Oil/Boundary/CMATSindex.htm>

⁶ <http://www.laohamutuk.org/Oil/Sunrise/10Sunrise.htm>

Australia during the Indonesian occupation, suspending any action on maritime boundaries for half a century, ratifying the Sunrise International Unitization Agreement (IUA) and extending the 2002 Timor Sea Treaty by 20 years. CMATS provided enough security for the Woodside-led Sunrise Joint Venture, which has four PSC's in the unitized area, to proceed with engineering design, and in 2010 the companies announced that they want to develop the field with a floating LNG plant as the most profitable option, and one preferred by Shell (a 27% partner in the Joint Venture).

Timor-Leste's Government has adamantly refused to approve any development plan which does not involve a pipeline to an LNG plant on Timor-Leste's south coast,⁷ and the project remains stalled.

CMATS contains a clause allowing either country to suspend most of the treaty after February 2013, but neither has done so.

In late 2012, Timor-Leste received evidence from an Australian whistle-blower that Australia had placed microphones in Timor-Leste's government palace and eavesdropped on internal meetings during the 2004-5 process of negotiating the CMATS Treaty. TL wrote to Australia asking for a meeting to discuss this, but was unsatisfied with their response. In April 2013, TL initiated an arbitration process, asking that CMATS be nullified because it was negotiated in bad faith. The panel has been appointed and will begin taking testimony in February; a decision is expected in 2014.

In early December 2013, Australian intelligence agents raided the Canberra office of Bernard Collaery, an attorney working on the CMATS arbitration for Timor-Leste. They seized papers, a laptop and other items. They also cancelled the passport of a former intelligence agent who was prepared to testify about the earlier eavesdropping, justifying the actions as protecting secret Australian intelligence procedures.

Timor-Leste strongly protested this violation of attorney-client privilege, and doubts Australian promises that the seized materials will not be read by people working on the CMATS case. They filed an urgent case with the International Court of Justice demanding the return of all materials taken. The ICJ heard arguments from both sides last week and is expected to make a preliminary ruling in February.

Whatever the outcome of these two cases, Australia's recently-elected government may be even less inclined to a fair maritime boundary resolution than its Labor predecessor. The re-energized Australia-based Timor-Sea Justice Campaign is working to change their government's policy, but it could be difficult. On this side of the Timor Sea, people protested peacefully across the street from Australia's embassy for about eight days in December, and the issue continues to attract attention. Although many don't understand the details of the controversy, it's seen as a matter of national pride and sovereignty. La'o Hamutuk tried to explain this to an Australian Parliamentary inquiry last year,⁸ and it is becoming better understood by Australian journalists and citizens.

⁷ La'o Hamutuk's 2008 book analyzed this potential project, and concluded that it may or may not be good for Timor-Leste. See <http://www.laohamutuk.org/Oil/LNG/Report.htm>

⁸ The inquiry lapsed due to the Australian election. Our and other submissions are at <http://www.laohamutuk.org/misc/ParlInq/13AustParlInquiry.htm>