

La'o Hamutuk

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10 November 2009

To: Dr. Manuel Tilman
President and members of Committee C, RDTL National Parliament

CC: (1) Minister of Finance
(2) Banking and Payments Authority
(3) President of Parliament (and Head of Parties in Parliament)
(4) Deloitte
(5) Media
(6) Consultative Committee for Petroleum Fund (CCPF)

Dear Mr. President and Members of Committee C, with our respect,

On 4 November, La'o Hamutuk made a submission to your Committee stating that:

“La'o Hamutuk agrees with the Government not to withdraw more than the Estimated Sustainable Income of \$502 million from the Petroleum Fund during 2010, and we appreciate that spending will stay below the ESI during 2009, as it did during 2008, notwithstanding budgetary dreams to spend unsustainably.”

One week later, we learned that the Ministry of Finance had instructed the Banking and Payments Authority (BPA) to transfer a total of \$512 million from the Petroleum Fund during 2009, including \$152 million in December. This contradicts promises made when the Government presented the draft General State Budget for 2010 to Parliament on 15 October. Pages 16 and 28 of Book 1 (English version), say that the Government will not transfer more money than the Estimated Sustainable Income (ESI), \$408 million, from the Petroleum Fund during 2009.

La'o Hamutuk regrets that the information we relied on in our submission to your Committee is no longer correct, and we too are surprised that the Government will withdraw \$104 million more than the ESI during 2009. This will reduce the ESI in every future year by \$3.1 million, including in 2010.

Therefore, the plan in the 2010 draft budget to transfer \$502 million from the Petroleum Fund in 2010 is higher than the ESI will be (\$499 million). Consequently, the draft budget violates Article 9 of the Petroleum Fund Law, which requires the Government to provide a detailed explanation when it proposes to transfer more than the ESI.

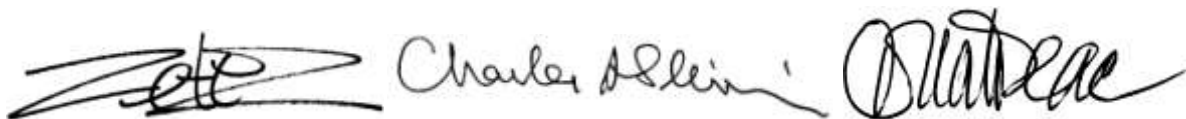
We believe that Parliament has a critical responsibility to examine and improve State Finances, and it is therefore important for you to know that there is an inconsistency between what the Government presented in the Budget Documents and what they are actually doing. You might want to ask the Ministry of Finance to provide further information.

On a related topic, you have seen the 4 November letter from the Prime Minister to the President of Parliament (Ref. No 1981/GPM/XI/09) spelling out changes in the design and enlargement of the heavy oil electricity generation and distribution project. These alterations will increase the project cost far beyond the original \$375 million allocated in the 2009 State Budget (as discussed on pages 11 and 12 of our Submission on the 2010 State Budget). **The Prime Minister's letter** increases our concern that the appropriation for this project in the draft 2010 State Budget (\$48 million in 2010, \$73 million total) could be half a billion dollars less than the actual project cost. It seems likely that the Government plans to borrow this money (perhaps from China). Before approving the 2010 State Budget (which increasingly looks like an interim budget, with many major decisions being put off until a rectification a few months from now), we encourage Committee C to seek a full explanation of how much this revised project will cost, how it will be financed, and how any loan will be paid back.

We remain aware that the Petroleum Fund not only has to provide for **today's generation**, but also must support the lives of our children and grandchildren, and should be used for sustainable development of non-oil sectors, as we all know that our oil and gas resources will run out in less than a generation. We believe that you and other members of Committee C share our perspective and concerns.

Thank you for your attention. We hope that this information is helpful and welcome any comments or questions you may have for us.

Sincerely,



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Charles Scheiner

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La'ó Hamutuk Natural Resources Team