

# The La'o Hamutuk Bulletin

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## Heavy Oil Power Plants: Project without Process

Nearly one year ago, *La'o Hamutuk* learned that the Government of Timor-Leste had secretly agreed to purchase the largest capital project in the country's history from Chinese Nuclear Industry 22nd Construction Company (CNI22). This project, which involves three electrical generating stations, ten substations, and more than 600 km of high-voltage transmission lines, will cost Timor-Leste nearly \$400 million dollars over the next three years. A contract was signed in October 2008, and the Government has promised to provide continuous electricity to all 13 districts by the end of 2009, and to every subdistrict by the end of 2010.

The power plants will burn heavy oil, using engines and generators which have operated in China for more than 20 years. This is highly-polluting, difficult-to-manage technology which most countries have stopped using. It creates acid rain, water pollution, toxic solid and liquid wastes, particulate air pollution and greenhouse gas emissions.

Timor-Leste's Government refuses to provide concrete information about this project, although officials have leaked documents, journalists have obtained data, and the opposition party has made some allegations. *La'o Hamutuk* has been

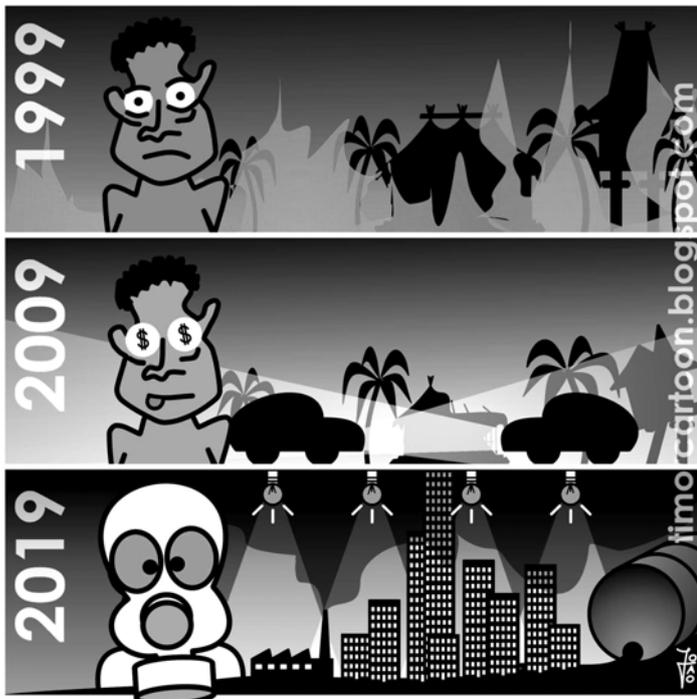
able to learn a lot from unofficial sources, which this article is based on. Because we have not been allowed to see the contract, maps or engineering specifications, some of our information might be incorrect or outdated. Therefore, we have only included what we can confirm, to avoid propagating rumors. We continue to ask the relevant agencies for information, which they are required to provide under articles 40, 41 and 53 of Timor-Leste's Constitution.

*La'o Hamutuk* agrees that Timor-Leste needs a national electrical grid and enough generating capacity to supply the country's needs, as an essential step toward economic and social development. However, we do not believe that this unrealistic and unreliable project can achieve those goals, no matter how much money is thrown at it. In addition to depleting the country's resources and violating open contracting processes, it will damage our environment and health, endanger farmland, fisheries and water supplies, and block development of more feasible and beneficial alternatives.

### The power plants

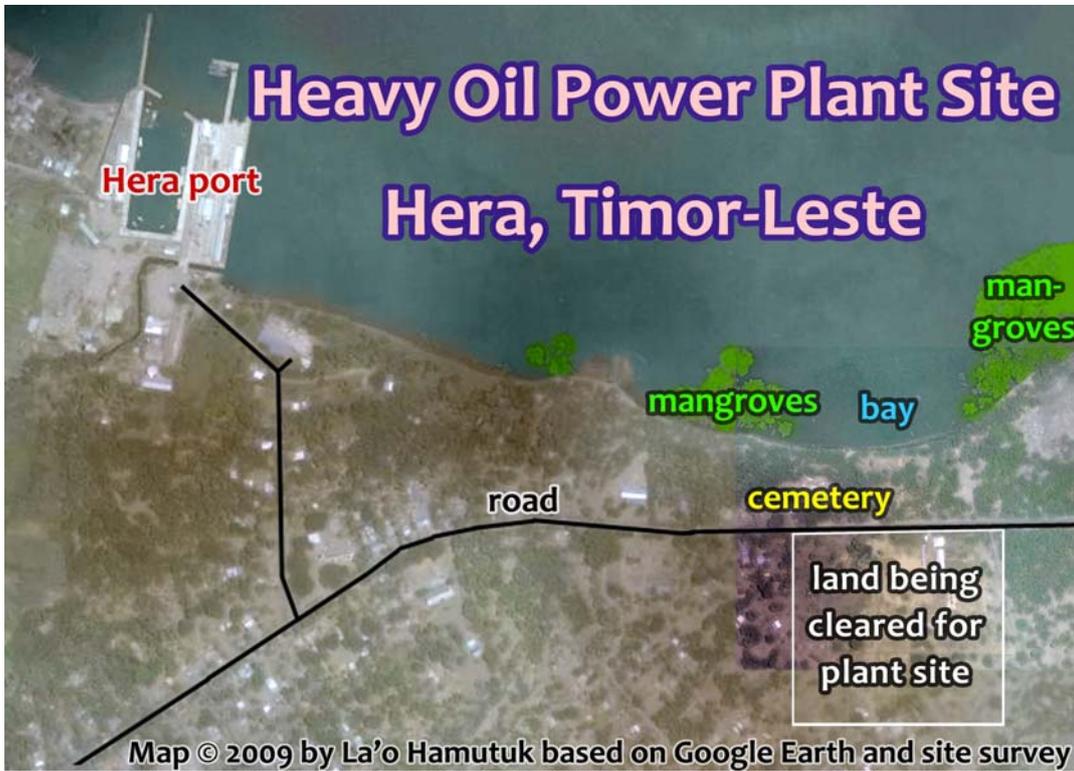
The original proposal was for a 120 megawatt (MW) power plant on the north coast in Manatuto, and a 60 MW one on the south coast in Manufahi. Although the 2009 State Budget still reflects this plan, a decision was made in 2008 to reduce the capacity of the Manatuto plant, while adding a 30 MW generating station in Hera (Dili district). Land clearing began in Hera in February 2009, but site locations in Manatuto and Manufahi have not been announced.

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usage is less than 30 MW, with installed capacity of 44 MW.) The 2005 RDTL Power Sector Investment Program (SIP) sets a goal of electricity to 80% of Timor-Leste's households by 2025, a peak load of 110 MW. Although RDTL officials now say that is too low, they are unwilling to provide the Government's current projections. The Power SIP says "It is clear that Timor-Leste should look to indigenous energy resources for potentially economical power generation. Of these, hydropower, wind and onshore oil and gas are the most promising. . . . Coal/oil-fired steam power generation, off-shore gas and nuclear power are large-scale options, and are not considered feasible

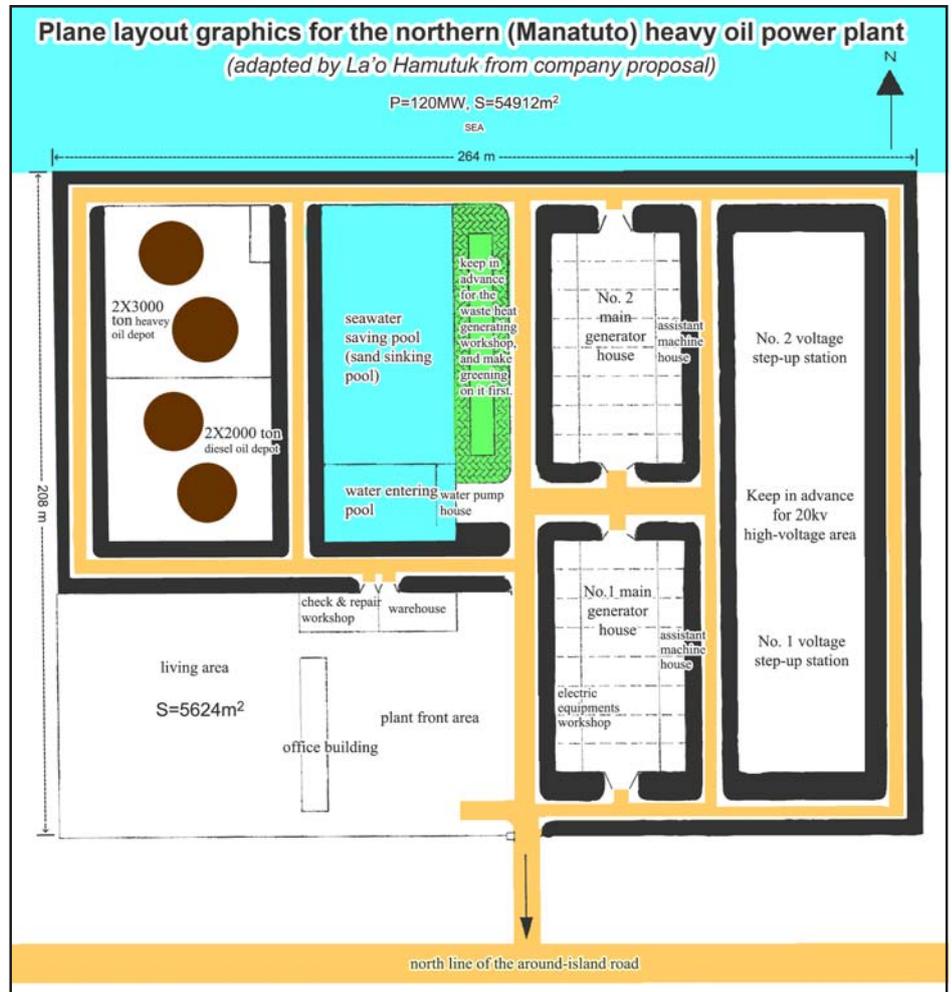
These power plants will burn imported "heavy oil," also known as "heavy fuel oil," "residual fuel oil" or "No. 6." This is the polluting, cancer-causing residue from refining crude oil after more useful fractions have been removed. Most of the world has moved away from this fuel because of its disastrous impacts on human health and the environment. For example, Indonesia, Western Europe and North America used a lot of heavy oil to generate electricity fifty years ago. However, they have not built any heavy oil plants for decades, and they have shut down nearly all the existing ones.

Heavy oil does not exist under Timor-Leste's land or sea, and would have to be imported from outside.

The drawing at right, adapted from the company's proposal, shows that a heavy oil power plant generating site may be about 200m by 260m, along a major road and near the sea. It will require emission reduction mechanisms and cooling water. In addition, each generating station will need backup power, a port for shipping in the fuel, roads and ports during construction, facilities for safe storage and long-term disposal of toxic solid and liquid wastes, emergency response capabilities, and decommissioning. None of these are described in the company's proposal, and Timor-Leste will probably have to spend millions of additional dollars to implement them.

The total generating capacity of the three power stations will be 180 MW, which is more than Timor-Leste is likely to use for many decades. (Current peak

for Timor-Leste, given the small size of the power system." The SIP acknowledges that "This situation could change if the LNG facility for Greater Sunrise gas field were to be built in Timor-Leste, which would allow the utilization of gas in a more feasible way. However, this is contrary to the current plans of the developer."



## Learning from Timor-Leste's neighbors

In mid-April 2009, a delegation from the RDTL National Parliament visited Macao and Malaysia to learn about heavy oil. We hope they read the Macao Electric Company's 15-year plan to shut down its heavy oil plants: "A number of the existing generation units use diesel/fuel oil. In alignment with the strategy of migrating toward cleaner fuel, **Macao will benefit from gradually replacing the existing heavy fuel generation facilities with a gas-fired combined cycle unit.**"

The heavy oil engines and generators are second-hand, using technology long discarded by developed countries. Keeping them running will demand operating and maintenance skills far beyond what is available here. This centralized power system, based on unreliable and hard-to-manage technology, may not generate electricity after all.

If they work, Timor-Leste's heavy oil plants would make the proposed Iralalero and recently completed Gariwai hydroelectric plants unnecessary, as well as other agrofuel, biogas, hydroelectric, gas seep, wind and other renewable energy sources. But if the heavy oil plants fall to work reliably, Timor-Leste will have lost several years which could have been spent developing these cleaner, more sustainable ways to provide electricity.

As criticism of this project grows, some officials have described it as a transitional generation scheme, to provide electricity for 10-15 years while other generating sources are developed. They say that it doesn't matter that the old heavy oil engines will only work for a few years, because they will not have to operate for long. This foolhardy plan has yet to be stated publicly, but it would be wasteful and dangerous, as well as contradicting other energy plans being implemented or studied by Government and donors.

When the heavy oil generators stop running, Timor-Leste will be stuck with large quantities of highly toxic waste, as well as polluted soil, air and water. We will have wasted

scarce human capital and time to learn obsolete technology. The revenues from our non-renewable petroleum resources, which should be used to benefit future generations, will have been squandered for short term benefits, rather than investing in long-term infrastructure. By 2025, when Timor-Leste will have to buy a new power generation system, all the oil and gas from Bayu-Undan will have been sold, and we will have 1.7 million citizens who need health care, education and other services. Where will the money come from?

## The power grid

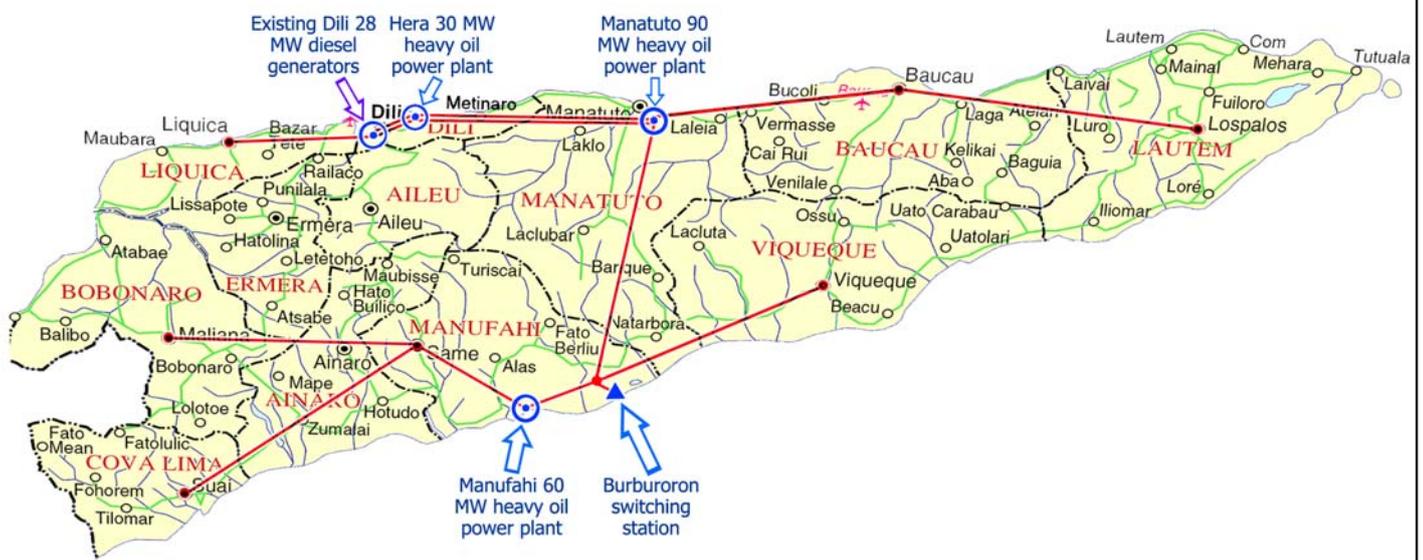
Although the tender specification calls for a "Transmission line network covering the whole country," the 110 kilovolt (kV) network being built will only connect the power stations with nine district capitals. Oecussi and Atauro are totally excluded, and the interior capitals of Ermera, Aileu and Ainaro will not be connected by the high-voltage power lines, as shown on the map below.

These three capitals, subdistricts and other areas will have to be reached by a lower voltage (perhaps 20 kV) network. Although the Government promises that all subdistricts will have power by late 2010, it is not clear who will build or pay for this, or if it will be provided at all. The budgetary appropriation and Chinese company's proposal include only 630 km of high-voltage lines (which will connect the nine capitals on the map), but they do not include lines to other districts or subdistricts.

In order to be reliable, a power grid design should be "redundant" – that is, it should include at least two pathways for electricity to reach every location, so that a single broken wire does not cause a power outage. However, the grid for this project does not provide such protection, which could be done at additional cost. The western region could be protected by connecting Suai, Maliana and Liquiçá, and the east with a line between Viqueque and Los Palos. If these are not added, Timor-Leste will get a failure-prone system where one broken wire or tower could cut off electricity for a large part of the country.

## Timor-Leste national high voltage power transmission network geographic connection map

(Map created by La'o Hamutuk from leaked, unofficial information. May not be entirely accurate.)



President José Ramos-Horta and others have said that the electric grid will be useful even if the heavy oil power plants are not, as it can transmit power generated from wind, natural gas, hydropower or other sources. Although this is technically true, it is not optimal. These alternative sources of energy will require a grid to carry power created at many decentralized, small-scale generating sites. Such a grid would have a different design, facilitating local use of power near its source, with long-distance transmission primarily for backup. A decentralized, localized grid would be more reliable and energy-efficient, as some energy is lost in every kilometer of transmission.

### The contracting process

Chinese media report that Timor-Leste officials discussed this project with Chinese company representatives in February 2008 or earlier, but the RDTL Government was silent until four months later. On 17 June, the Ministry of Finance (MF) circulated an “Invitation to Submit Expression of Interest and Proposal” for “Heavy oil power plants to be constructed in two strategic places of the Country, a Transmission line network covering the whole country, and a Transformer control system supporting the network of the power plants.” This invitation, which was intended to look like an open bidding process, asked for bids in less than three weeks, with a contract to be signed by 25 July. The contractor was told that they must “complete the whole project, from design to commissioning, of power plants and transmission lines within one year after the signing of the Contract Agreement.”

Given the short time frame, vague project description and requirement to use heavy oil, some expected that the only bid would come from Chinese Nuclear Industry 22nd Construction Company. However, fifteen companies submitted bids. One was too late, and nine were disqualified because they failed to comply with the proposal – some suggesting cleaner ways to generate electricity. The remaining five were evaluated by a committee, and a contract was signed with CNI22 on 24 October. Timor-Leste will pay them \$375 million between 2008 and 2011.

On 19 September, the Government requested proposals for “Legal Advice: Power Plants and Electricity Grid” to advise the government and help negotiate the contract with CNI22. Bids were due on 29 September, and the consultant was expected to start work two days later. No such consultant was hired, and the contract with CNI22 was negotiated by officials in Dili with help from overseas experts.

The CNI22 company is required to prove that it has the capacity to implement the project by setting some money aside and providing evidence. However, according to research by Rui Pinto, some of the documentation they supplied is not legitimate, and the Provedor is now looking into possible maladministration. *La’o Hamutuk* has not investigated these allegations, although we think increased transparency regarding the contract and the project would help show whether they are true.

After the contract was signed and the funding allocated, questions were raised about the oversight of this project. In the 2009 State Budget, the Government allocated \$2 million each year from 2009 to 2011 for the Ministry of Infrastructure to hire a Supervising Consultant to oversee the construction of the generating facilities and the national power grid. The Ministry of Finance invited proposals for this consultant on 27 February 2009, requesting bids by 31 March with work to begin on 11 May.

*La’o Hamutuk* believes that this project needs to be well-supervised, but we are concerned that the Terms of Reference for the Supervising Consultant lack accurate and sufficient information. For example, they refer to two power generation sites, even though a third was added months earlier, and do not specify what laws the Consultant is expected to enforce. On 25 March, consulting engineer Charles Scheiner sent 22 questions to the Director of Procurement and the Minister of Finance, asking for information to “help Timor-Leste find the most qualified and effective company to supervise this project.” There was no response through the middle of May, and there has been no announcement about awarding a contract for a Supervising Consultant, although we have heard that several bids were received.

<b>Capital Plan from 2009 State Budget (excerpt, thousands of U.S. dollars)</b>						
	<b>Project</b>	<b>2008</b> (executed)	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>Total</b> <b>2008-2011</b>
Ministry of Infrastructure	Development of a Power Generation and Transmission Network	10,000	85,000	160,000	120,000	375,000
Ministry of Infrastructure	Supervision of the Power Generation and Distribution Project	0	2,000	2,000	2,000	6,000
<b>Total Min. Infrastructure</b>	<b>All capital &amp; development</b>	<b>51,309</b>	<b>117,224</b>	<b>179,100</b>	<b>136,300</b>	<b>483,933</b>
% of Min. Infra. capital budget for this project		19%	74%	90%	90%	79%
<b>Total 2009 State Budget</b>	<b>All capital &amp; development, including autonomous agencies</b>	<b>87,552</b>	<b>205,334</b>	<b>233,871</b>	<b>154,066</b>	<b>680,823</b>
% of all RDTL capital outlays for this project		11%	42%	69%	79%	56%

The lack of transparency and apparent irregularities in the several tender processes for this project raise several questions. In addition to likely violations of law, they create a climate of secrecy and doubt which reputable companies will shy away from. If Timor-Leste's contracting processes lack integrity, only companies with similar shortcomings will do business with this country.

On 17 March, President of the Republic José Ramos-Horta told the National Parliament that he shares concerns "expressed by civil society regarding the technology to be used, its environmental impact, the costs involved and the reciprocal arrangements that were negotiated with the company to whom the contract was awarded."

### Spending the people's money

This project will cost \$381 million, about nine months worth of Timor-Leste's non-oil GDP (the IMF calculates total economic activity during 2008 as \$499 million). The money will come out of Timor-Leste's General State Budget, not from foreign donors.

As the table below shows, Timor-Leste will spend more on the electricity project than on all other capital and development, in all sectors, between 2008 and 2011. During the next three years, the electricity system will consume \$371 million of the capital budget for infrastructure, leaving less than \$62 million for all other infrastructure investment: roads, water, bridges, flood control, water, other energy projects, communications and airports. This \$21 million annual average is about half as much as Timor-Leste spent on capital infrastructure (other than heavy oil) during 2008.

This project was not in the State Budget for 2008 adopted in December 2007, but was added in the mid-year rectification. Although Parliament and the public have not had other chances to debate this huge commitment, the budget discussions were lively. Unfortunately, little information was provided, and Parliament's approval had more to do with political loyalties than the merits of the project.

In June 2008, the Prime Minister proposed a Budget Rectification which included \$105 million for electricity production and \$285 million for distribution. For 2008, the budget allocated \$5 million for generation and another \$5 million for distribution, with larger amounts in 2009-2011. On 23 July, Parliament amended the mid-year budget to delete \$5 million for generation, although the amendment did not affect future years or the distribution grid. The amendment lists nine hydroelectric projects totaling 160 megawatts, explaining that they would be less polluting than heavy oil plants. Although the intention of the amendment was clear, it contained a small technical error and the Government decided to misinterpret it, proceeding with the project.

In December and January, Timor-Leste enacted a \$681 million General State Budget for 2009, of which \$590 million will come from the Petroleum Fund. This includes \$85 million in Capital and Development expenditures for the power project in 2009, as well as \$160 million more in 2010 and \$120 million in 2011. It also includes \$2 million each year in 2009, 2010 and 2011 for the consultant who will supervise the project. The budget combines the power plants and electric grid in the same line, making it difficult for Parliamentarians to op-

pose the former and support the latter. It shifted expenditures from 2009 to later years, when Timor-Leste's oil revenues will have dropped and other costs will have increased.

*La'o Hamutuk's* December submission to Parliament urged them to take this project out of the budget. In addition to the huge financial cost and environmental risks, we were concerned that the budgets and action plans for the Timor-Leste Electricity Authority (EDTL) and the Department of Environmental Services did not provide for managing or supervising this project.

On 21 January, several NGOs petitioned Parliament to reject this project, explaining that the project violates the state's constitutional obligation "To protect the environment and to preserve natural resources." After a heated debate, Parliament voted 38-23 along party lines not to shift the \$87 million budgeted for this project for 2009 to the State Secretariat on Energy Policy. At the end, Parliament approved this year's \$87 million without debating or voting on the \$280 million more which the company has been promised in the future.

### Safety Data Sheet from Shell Australia Heavy fuel oil is a "hazardous substance."

**Human Health Hazards:** Fuel oil may cause cancer. Product classified as a Category 2 carcinogen. Hydrogen sulphide may accumulate in the head space of containers. The vapour phase in tanks and vessels should be regarded as a hazardous space. Hydrogen sulphide is very toxic by inhalation and may cause respiratory paralysis and death. This product is normally used as a hot liquid and contact may cause burns. Repeated exposure may cause skin dryness or cracking.

Harmful to aquatic organisms. May cause long term adverse effects in the aquatic environment.

**Storage:** This product must never be stored in buildings occupied by people. Tanks should be provided with a heating facility. Ensure heating coils are always covered with product (minimum 15 cm). Fuels coming into contact with hot, exposed heating coils, could result in the rapid generation of a flammable atmosphere. Keep in a bunded area with a sealed (low permeability) floor, to provide containment against spillage. Seek specialist advice for the design, construction and operation of bulk storage facilities.

**Storage Temperatures:** 40°C Minimum.

**Waste Disposal:** Waste arising from a spillage or tank cleaning should be disposed of in accordance with prevailing regulations, preferably to a recognised collector or contractor. The competence of the collector or contractor to deal satisfactorily with this type of product should be established beforehand. Do not dispose into the environment, in drains or in water courses. Do not dispose of tank water bottoms by allowing them to drain into the ground. This will result in soil and groundwater contamination.

## Environmental impacts

The heavy oil power plants, larger than any project ever imagined in Timor-Leste, will emit large amounts of particulate and acid pollution, fly ash, sulfur and other dangerous chemicals into the air. They will cause acid rain both in Timor-Leste and downwind, damaging agriculture, forests, fisheries, ecosystems and water supplies. It can also be devastating to the health of people and animals.

“Heavy oil” can be considered as a waste product from oil refining, after the gasoline, kerosene, diesel and other useful materials have been removed. It is very viscous and does not flow well at normal temperatures. Although composition is not consistent, most heavy oil includes high levels of organic and inorganic poisons, including polyaromatic hydrocarbons, sulfur and heavy metals. The exhaust from burning this fuel contains many poisonous chemicals, and even if these are removed before it is released into the atmosphere, they have to be disposed of as liquid or solid waste, which Timor-Leste does not yet have the capacity to manage.

Even before it is burned, heavy oil is more dangerous and more difficult to manage than the diesel fuel which Timor-Leste currently uses to generate electricity.

Burning heavy oil releases the greenhouse gas carbon dioxide into the atmosphere, undercutting Timor-Leste’s efforts to prevent climate change and our commitment to the Kyoto Protocol. It could endanger international funding sources for carbon offsets or climate change adaptation, and may also undermine Timor-Leste’s international obligations under the UN Framework Convention on Climate Change, Convention on Biological Diversity and Convention to Combat Desertification.

In addition to chemical pollution, the heavy oil generators will produce waste heat which must be dissipated with cooling water. In the dry area of northern Manatuto, CNI22 has suggested using sea water, whose salt content makes it corrosive when heated. In other parts of Timor-Leste, the company may use wells into the local aquifer, with unknown effects on other water users. Discharging hot water (which may contain chemical pollution) into the sea will affect mangroves and marine life, but no cooling towers or other heat dissipation systems are mentioned in the company’s proposal. This thermal and chemical waste will injure the environment and hinder economic development in fisheries and tourism.

The National Toxics Network of Australia has produced a report “*The Heavy Oil Power Deal: A Dark Cloud over East Timor’s Bright Future*” with more information about the toxic results of burning heavy oil. It is available on *La’o Hamutuk’s* website or from our office.

We have not seen the contract with the Chinese Nuclear Industry 22nd Construction Company, nor any engineering studies or environment and safety standards the Government has directed the company to obey. The company’s proposal to the Government says very little about how environmental consequences will be managed, or how the gaseous, liquid and solid wastes will be controlled, stored and disposed of. It promises to follow some Chinese government emission standards, which do not apply here (and haven’t been very effective in keeping China’s air clean).

Government officials have said that the project will comply with World Bank emissions guidelines, although the World Bank is not an environmental organization. The World Bank “Environmental, Health, and Safety Guidelines for Thermal



Power Plants” (2008) do not have the force of law and contain no enforcement mechanisms. Furthermore, this project has already violated several of these guidelines, such as:

- √ “Use of the cleanest fuel economically available”
- √ “Use of fuels with a lower content of sulfur where economically feasible”
- √ “An Environmental Assessment for new facilities should be carried out early in the project cycle in order to establish site-specific emissions requirements and other measures for a new thermal power plant.” It should include:
  - ◆ “Analysis of alternatives: Fuel selection including non-fossil fuel options (coal, oil, gas, biomass, other renewable options – wind, solar, geothermal, hydro), fuel supply sources”
  - ◆ Collection of baseline data on air and water quality

According to the law now in effect in Timor-Leste (Indonesian law No. 23/1997 on Environmental Management, article 18.1), “Every business and/or activity which gives rise to a large and important impact on the environment must possess an environmental impact analysis to obtain the license to conduct a business and/or activity.” The license must consider public opinion (19.1(c)), and must be made public (19.2). Waste disposal without such a license is prohibited (20.1).

By law, logic and good practice, the government and the company must undertake a thorough Environmental Impact Assessment (EIA) before construction starts, based on the engineering design plans and subject to public consultation and independent review. In truth, an environmental evaluation should have been done before deciding to use heavy oil, so that other options, including renewable energy, could have been considered.

On 17 March 2009, President José Ramos-Horta told Parliament that “with the Government’s support, I decided to request the assistance of an independent body that will carry out an environmental impact assessment and a technological evaluation to determine the risks that the project poses to the environment. The Prime Minister has given me assurances that he will accept whichever recommendations are produced by this independent body.”

No EIA has been initiated, no ‘independent body’ established, no license has been issued, no public consultations have taken place and no concrete information has been made available. Nevertheless, land clearing began at the Hera site in early February 2009. Although the Minister of Infrastructure announced that the cornerstone would be laid in May, it has been delayed until June. However, starting construction without an EIA is probably illegal under the environmental laws referred to above, as well as the Administrative Procedure Decree-Law (No. 32/2008).

### **Will they work?**

As we have seen, keeping heavy oil generators running safely and cleanly is a difficult task with the most skilled workforce and best-developed infrastructure. Timor-Leste has little experience, no effective supervision and few skilled workers, which could cause this project to fail to provide dependable electricity while endangering our environment and

livelihoods. Although CNI22 is will operate the plants for five years while training Timorese workers, current experience gives reason for concern.

For the last ten years, Timor-Leste has tried to operate small diesel-powered generation stations in Dili, Baucau and elsewhere. Frequent power outages, fuel supply problems, evasion of responsibility, inadequate maintenance and slow repairs have earned the current Government the nickname “Ahi Mate Permanente,” although in fairness no previous Government did better.

Heavy oil is more poisonous and more difficult to manage than diesel fuel. It must be kept above 40°C to be moved or stored, and heated up to 125°C before combustion. In addition to containing many toxic pollutants, heavy oil can cause cancer if exposed to the skin. Timor-Leste’s record of handling (and mishandling) diesel fuel warns of bigger problems when larger amounts of heavy oil are brought here.

The trouble-plagued Comoro and Baucau stations have relatively new equipment and use manageable diesel technology. The larger, older, more complex and more remote heavy oil stations are likely to be even less reliable, and the dangers from possible accidents will be even harder to contain.

### **Job creation dubious**

The Prime Minister believes that this project, during its construction phase, will help reduce unemployment in Timor-Leste. “In addition to enabling the development of many other employment-generating sectors,” he told Parliament last January, “this project will in itself create over 20 thousand jobs already in 2009.”

However, disassembling used power plants in China, shipping them here and putting them back together is not labor-intensive, and the record of Chinese projects in Timor-Leste gives little reason for optimism. During the last two years, Chinese construction companies have built a new Foreign Ministry and Presidential Palace in Dili, gifts from the People’s Republic of China, with almost no local workers or subcontractors.

Like other Chinese-managed construction, the design and coordination for this project will be in Mandarin. Timorese workers will be hired only for low-skill jobs, primarily clearing land. If 3/4 of the promised 20,000 jobs are to clear paths for transmission lines, each worker will have to clear about 40 meters of brush, less than a week’s work. The distribution system will require approximately 6,000 high-voltage transmission towers; assembling and erecting these could employ these 15,000 workers for two weeks more, for a total income of about \$60 each.

The Government says that Chinese Nuclear Industry 22nd Construction Company will run the plant for five years, while training 150 Timorese to operate and maintain it after that. However, the State Budget shows that EDTL’s staffing level will stay at 410 people from early 2008 (before this project was imagined) through 2012. This project will multiply the distribution network and number of EDTL customers by more than five times. Who will build and maintain the local power lines, install the meters, collect the bills and fix fallen wires when people expect the promised 24-hour-a-day power in every subdistrict?

The Prime Minister is proud that this project sets the direction of the “year of infrastructure,” but the departments responsible to oversee and operate it are not getting ready. For example, the 2009 Action Plan of the Department of Environmental Services does not mention this project, and the Ministry of Infrastructure Action Plan says simply “Meet consumer needs through the provision of an uninterrupted supply of electricity 24 hours a day; Improve the generators in Comoro, in the districts and in the sub-districts; Create a new Power Plant.”

### Pouring good money after bad

Each year from 2009 to 2012, EDTL is budgeted to receive an annual fuel subsidy of around \$35 million, more than ten times EDTL’s outlays for other Goods and Services. During 2008, EDTL spent (including the fuel subsidy) \$43.6 million, but the agency’s income was only \$5.3 million. Over the next few years, EDTL’s budget is not projected to change significantly (construction of the power plant is budgeted under the Ministry of Infrastructure), although the 2009 State Budget shows no EDTL capital expenditures from 2009 through 2012. (During 2008, EDTL spent \$8.3 million on capital to maintain or replace existing equipment.)

The same lack of planning appears to underlie the economics of the heavy oil project. According to the company, the maintenance and fuel costs of electricity generation from heavy oil will be 9¢ per kilowatt hour (without repaying the capital investment). This is not credible – EDTL’s current cost of generation at the Comoro diesel power station is more than 45¢/kWh. Although heavy oil is cheaper than diesel fuel, the cost of maintenance, pollution control and operation will be significantly higher, and transmission losses will increase as the grid becomes national. In addition, no money has been allocated for local lines which will bring electricity to the sub-districts, or for installing meters or connecting local users.

Currently, EDTL charges consumers about 12¢ per kilowatt-hour, a price which encourages many Dili residents to illegally bypass the meters. The Chinese company suggests charging 21¢/kWh, more than most people can afford, for heavy-oil generated power. They estimate that the heavy oil generators will produce 600 million kWh per year, an average production of 68 megawatts.

If half of the households in Timor-Leste (the others could be too far from power lines or unable to pay for electricity) used half of this power (the rest could be sold to commercial customers and foreigners), they would each use an average of 350 watts — enough for a refrigerator, TV, some lights and a few appliances, perhaps even an air conditioner. At

today’s 12¢/kWh price, the average household would have to pay \$30/month.

Obviously, most people cannot afford this, even if they wanted to use this much electricity. A more reasonable estimate is 100 watts per household, which would cost them \$9 every month. If three-fourths of Timor-Leste’s 200,000 households each used this much electricity, total residential usage will be 15 megawatts. (The Government will not share their projections with us, so we have made educated estimates.) Government and commercial customers might use another 30 MW, for an average load of 45 MW. Even after considering load variations for different times of day, this is far less than the 180 MW the heavy oil plants are designed to provide.

Let’s assume that all these people pay 12¢/kWh for their electricity. If the cost of generation is the same as today (and ignoring losses during transmission), EDTL will require a fuel subsidy of about \$116 million every year. This is equal to the combined budgets of the Ministries of Health and Education, together with PNTL.

### Energy policy in Timor-Leste

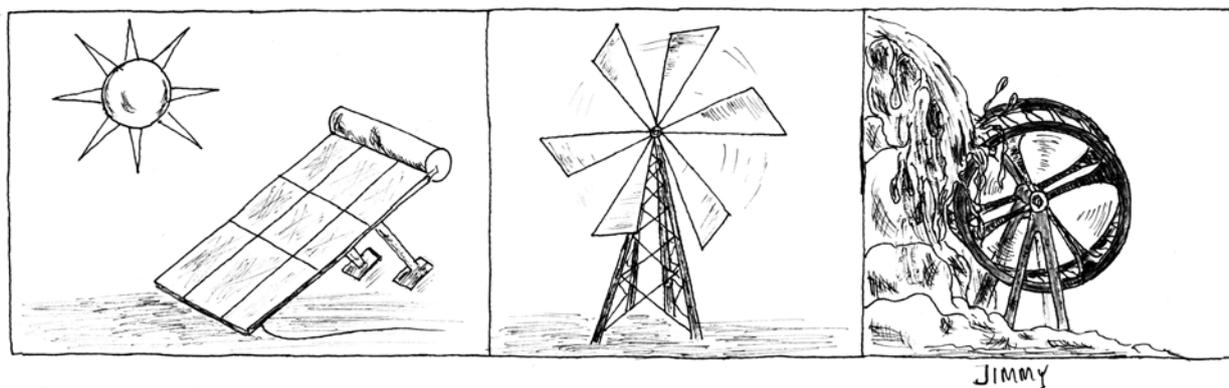
*La’o Hamutuk* does not have the time or expertise to undertake a thorough study of the many possibilities for electricity generation in Timor-Leste. We do not know what citizens are prepared to pay for electricity, or what alternatives are less expensive (such kerosene lighting), more reliable or more familiar. We don’t have enough information to calculate the costs, risks and impacts on health and agriculture from normal operation of the heavy oil generating stations, or from accidents and leaks. We don’t know how many people will be needed to build, operate and support this project, how long it will last, what will replace it, or how Timor-Leste’s people can afford it.

Nobody in Government will provide clear answers to these questions.

We do know that other technologies – hydroelectric, biogas, wind, solar, ocean, renewable fuels, locally extracted natural gas – are cleaner, less risky, respectful of the global climate, more sustainable, dependable and more appropriate to Timor-Leste.

The Government of Timor-Leste has made a major commitment to an obsolete, dirty, unsustainable, unreliable and dangerous power generation system. With proper public information, transparency and advance consultation, with a decision based on the merits of the project, it would never have been started.

It’s not too late to stop it, and to focus on more practical alternatives like sun, wind and water power. ❖



# Petroleum Fund: Estimated Sustainable Income

Many Third World countries rich in petroleum resources face challenges achieving prosperity, economic and social justice, and democratic governance under the rule of law. Although their citizens hope that petroleum revenues will improve their lives, they often bring misery. This is sometimes called the “Resource Curse.”

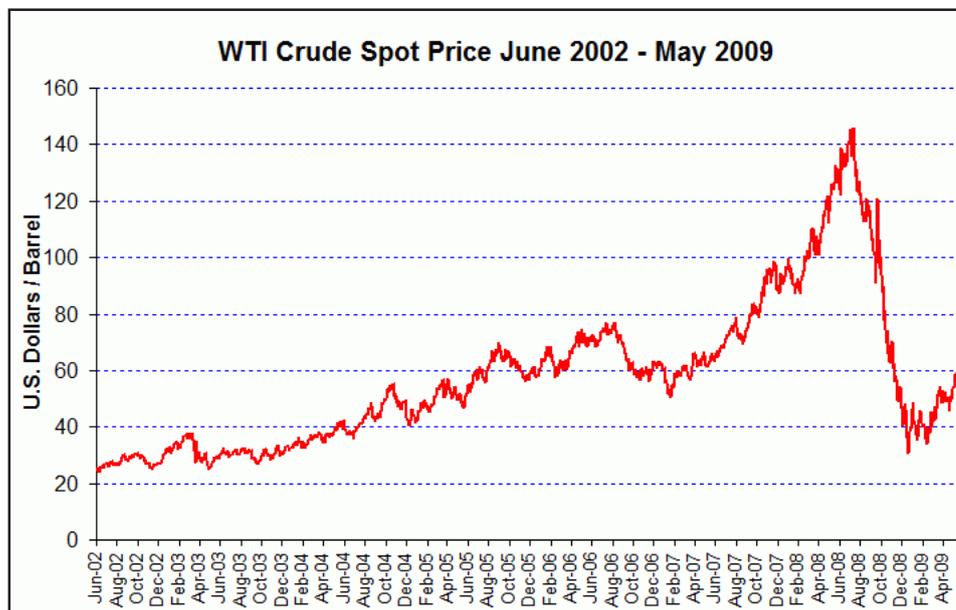
In 2005, Timor-Leste established a Petroleum Fund to try to avoid following this path toward disaster. This Act creates a mechanism to enable managing Timor-Leste’s non-renewable petroleum wealth to benefit both current and future generations, a perspective essential to avoiding the resource curse.

Because petroleum revenues are generated by selling undersea oil and gas that cannot be replaced, they are not income as such, but the transform of the nation’s wealth from one form to another. When Parliament unanimously passed this Act, everyone agreed that it would be selfish and dangerous to quickly sell off Timor-Leste’s oil and gas reserves without saving and investing most of the money for the future. Otherwise, when our petroleum resources are used up in 15-50 years, Timor-Leste’s people will have less services and a poorer economy than we have today.

However, the Petroleum Fund alone cannot solve the whole problem of resource curse which results from many factors:

- ◆ Prioritizing immediate over long-term needs
- ◆ Dependence on oil revenues
- ◆ Lack of development of other sectors of the economy
- ◆ Greed and corruption in governments and international oil companies
- ◆ Rich countries’ need to guarantee their supply of imported oil
- ◆ Weak state institutions
- ◆ Limited transparency and accountability.

To compound the problem, world market prices for oil and gas fluctuate wildly, which means that oil revenues are impossible to predict. Therefore, it will take more than a Petroleum Fund Act to put our impoverished, oil-rich nation on the road to prosperity.



“Timor-Leste’s 2009 budget is based on an unrealistic oil price projection of \$60/barrel, as well as spending above the Estimated Sustainable Income during 2009 and future years. We hope that development partners will work with government to revise the budget to be more prudent, and to help Timor-Leste plan and move toward an economy and funding sources which can provide for the future.”

*NGO Forum Director Dinorah Granadeiro,  
TL and Development Partners Meeting, 3 April 2009*

The Estimated Sustainable Income (ESI) is a guideline for the maximum amount of money Timor-Leste can sustainably spend from its Petroleum Fund each year. The Petroleum Fund Act defines this as “the maximum amount that can be appropriated from the Petroleum Fund in that Fiscal Year and leave sufficient resources in the Petroleum Fund for an amount of the equal real value (that is, after adjusting for inflation) to be appropriated in all later Fiscal Years.”

According to the Petroleum Fund Act, the Estimated Sustainable Income (ESI) which can be spent in each year is calculated as three percent (3%) of the total Petroleum Wealth. The Petroleum Wealth is the sum of the money already in the Petroleum Fund and the future revenues the Government expects to receive from oil and gas still in the ground, after adjusting for inflation by calculating the “Net Present Value.” In theory, this enables the same number of dollars to be withdrawn from the Fund every year for the indefinite future, even after Timor-Leste’s oil and gas has all been extracted and sold.

## State Budget and ESI Calculation

In October 2008, the Ministry of Finance estimated the ESI for the 2009 State Budget based on Petroleum Fund (PF) opening balance of \$4,215 million and expected future petroleum revenues of \$9,379 million. Added together, this gives \$13,595 million as the Petroleum Wealth, 3% of which is \$407.8 million.

ESI estimates depend on several assumptions (educated guesses), because nobody knows what oil prices on the world market will be in the future, how much oil and gas will be extracted from underground and undersea reserves, or what future rates of inflation will be. Wise governance, common sense, and the Petroleum Fund Act itself require that these assumptions be “prudent” – realistic and cautious, so that if they turn out not to be exactly correct, we will be in a safer, not a more dangerous situation. They should reflect conservative analysis, not wishes or prayers.

The two graphs on page 11 are our assumptions which are based on the 2009 State Budget, ConocoPhillips’ production projections, and estimates of 3%

**Assumptions made by the Ministry of Finance to calculate the ESI for 2009, with some revisions *La'o Hamutuk* believes are more realistic and prudent.**

Item	Assumption by Ministry of Finance (MF) in Oct. 2008	Actual value or estimate by <i>La'o Hamutuk</i> in May 2009	Impact on ESI
Balance in Petroleum Fund at end of 2008	\$4,215 million	\$4,197 million (actual value reported by BPA)	Reduces ESI by \$0.54 million every year.
Future petroleum production from Bayu-Undan (the only field with a development plan)	Declining gradually since 2008, running out in 2023, based on information from ConocoPhillips.	Same as MF, as we have no access to other data.	
Future petroleum prices	\$60/barrel until 2013, then declining to \$49 in 2017 before rising slowly after that.	The same trend as the MF, but starting with \$40/barrel for the next 5 years. From January through April 2009, prices averaged \$44.77; the average for all of 2008 was \$99.57.	Reduces 2009 ESI by \$168.7 million, with similar reductions every year forever.
Near-term spending above the ESI	Petroleum Fund withdrawal of \$589 million in 2009, and then staying at the ESI of about \$400 million after that.	Based on the Prime Minister's explanation that "2009 and future spending levels [will] exceed the Estimate of Sustainable Income," we use MF's \$589 million for 2009 and assume \$500 million/year for 2010-2012, and the ESI after that. Actual spending will probably be more, as it's unlikely that the 2010 budget will be smaller than 2009, which increased 96% from the original 2008 budget.	Reduces ESI by \$10.3 million every year after 2012.
Formula for ESI calculation	3% of the total Petroleum Wealth, as specified in the Petroleum Fund Act.	We agree that it should remain at 3%. However some politicians have suggested 5%, spending faster than the return on investment.	If 5%, ESI will drop every year. By 2075, it will be reduced by half.
Rate of return (interest) on invested Petroleum Fund	3% real annual return — that is, above the rate of inflation.	Same as MF. However, the global financial crisis has sharply reduced interest rates, and could last for years. During 2008, the real rate of return on the Petroleum Fund was 3.0%.	
Discount rate (estimate of future inflation)	3%	Same as MF.	

as the real interest rate on Petroleum Fund investments and as the inflation rate for calculating the Net Present Value of future revenues. They both use the actual Petroleum Fund balance at the end of 2008, as well as *La'o Hamutuk's* interpretation of the Prime Minister's promise to spend more than the ESI for the next few years.

Each diagram shows how much money the government of Timor-Leste can spend from the Petroleum Fund in each of the next 100 years. The Petroleum Fund is intended to provide revenues for longer than that, but looking four generations ahead gives a picture of the long-term consequences of different policies.

In each graph, the wide gray line represents oil revenues received from taxes and royalties paid by the companies to Timor-Leste each year, in millions of dollars. For now, *La'o Hamutuk* and the Government both include only revenues from Bayu-Undan, as it is the only field currently in production or under contract. When all other known fields (Kitan, Sunrise, and some others) are developed and included in the ESI calculation, the total future petroleum revenues (and ESI) will approximately double.

The thinner solid line is the ESI for each year, based on the assumptions and withdrawals discussed above. The thicker black line (which sometimes covers up the thin line) represents the actual amount of money withdrawn from the PF each year and transferred to the State Budget.

The dotted line is the withdrawal, divided by the number of people who will be living in Timor-Leste, based on Department of Statistics projections from the 2004 census. It shows how many petroleum-generated dollars (not millions, according to the scale on the graph) the Government will be able to spend for each Timorese citizen. Since the cost of government services (education, health, etc.) grows approximately

"If expenditure continued to expand at 25 percent per annum, and if medium-term oil prices were to stabilize at about \$60 per barrel, which is not impossible, then the Petroleum Fund would be completely exhausted within 8-10 years."

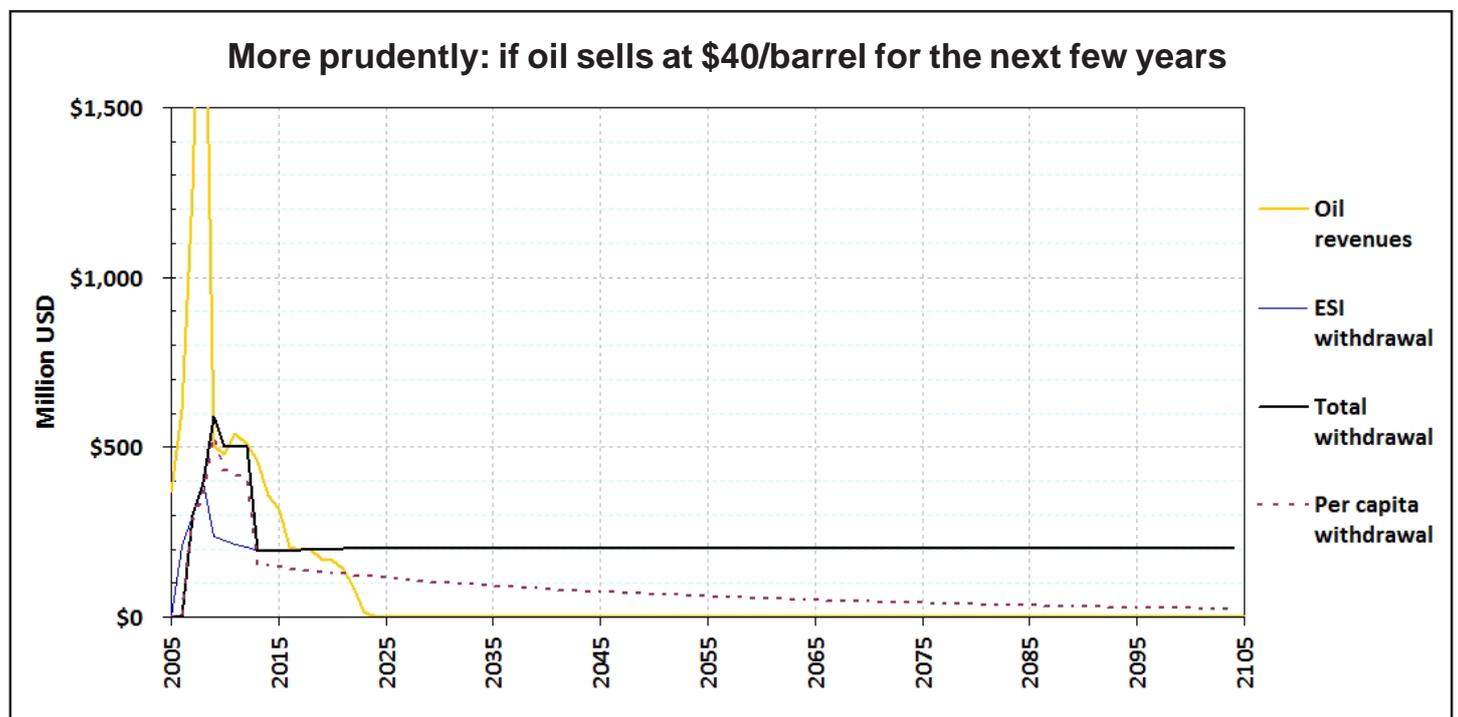
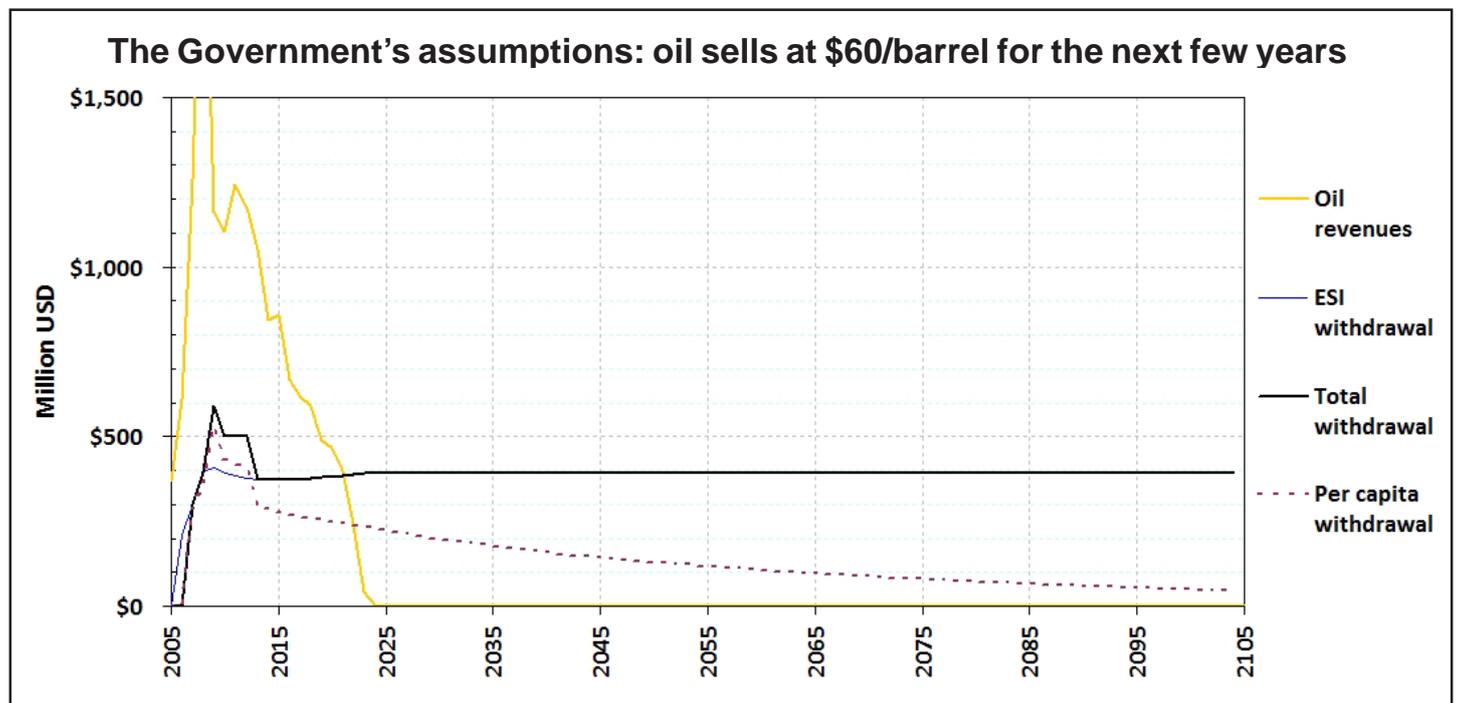
*World Bank Country Director Nigel Roberts  
TLDPM, 3 April 2009*

proportionately with population, this provides a more meaningful indication of the results of spending petroleum money than the solid lines do. Over time, the dotted line decreases, and revenues will have to be found from other sectors, such as by taxing agriculture or tourism, to continue to provide schools and hospitals for Timor-Leste's people. Extrapolated census projections indicate that Timor-Leste will have about

eight million residents in year 2100.

The first graph is based on the government assumptions in the 2009 budget, with the slight changes discussed above.

The second graph assumes a starting oil price of \$40/barrel (instead of \$60), which is more realistic and prudent given the current world market. The long-term ESI has dropped from \$392 million to \$202 million. ❖



## Who is La'o Hamutuk?

**La'o Hamutuk staff:** Juvinal Dias, Shona Hawkes, Inês Martins, Odete Monis, Adino Nunes, Charles Scheiner, Viriato Seac, Maximus Tahu

**Drawings** by Joao Baptista (page 1) and Arte Moris (pages 6 and 8).

**Advisory board:** Joseph Nevins, Pamela Sexton, Adérito de Jesus Soares, Justino da Silva, Oscar da Silva

# Diversify Petroleum Fund Investment? Not Now.

## Petroleum Fund Management and Investment Strategies Conference in Maubesse

On 25-28 March 2008, around 100 representatives from Parliament, the National Petroleum Authority (ANP), the Banking and Payments Authority (BPA), other state institutions, the Petroleum Fund Consultative Council (PFCC), international experts, civil society groups including NGOs and media, and community leaders met in Maubesse for a conference on Petroleum Fund management and investment strategies. The conference was jointly organized by National Parliament Commission C and the PFCC.

Conferees discussed many topics, including management of the petroleum fund, diversifying petroleum fund investment, petroleum reserves in the JPDA and in Timor-Leste exclusive territory, Extractive Industry Transparency Initiative (EITI), and revising the Petroleum Fund Act and its investment and management policy. Many other issues were raised in group discussion, including the volatility of oil prices. Also the current global economic financial crisis must be considered if the Government is going to revise the Petroleum Fund and its investment strategy. As these factors cannot be controlled by Timor-Leste, our Fund should protect itself by not making any changes or revision for another two years.

The Petroleum Fund Act requires that at least 90% of the Fund be invested in cash deposits and high-rated bonds denominated in U.S. dollars (now in the Federal Reserve Bank of the USA), although up to 10% can be invested in other financial instruments such as equities (stock markets).

However, since 2005, the entire Fund has been invested in U.S. government bonds, with annual return about 3% above inflation. During 2008, the nominal rate of return was 6.9%, with a real return of 3.0% after subtracting U.S. inflation of

“When amending the Petroleum Fund Law to accommodate a new investment strategy, however, we urge the authorities to maintain its basic principles. There will always be pressure to spend more and the current law provides flexibility, but ignoring or weakening the existing framework is not in the long-term interest of the country.”

*IMF Representative Tobias Rasmussen  
TLDPM 3 April 2009*

3.9%. (Inflation in Timor-Leste during 2008 was 6.9%.) This return was higher than expected due to temporary global financial conditions, and will probably be lower in the long term.

The Petroleum Fund Act requires a review of the investment strategy five years after the fund was established (that is, after September, 2010). The Ministry of Finance is reviewing the investment policy, particularly to diversify the investment strategy, such as by reducing government bonds and including other investments like equities or real estate.

Diversifying the investment might give a bigger return but it comes with higher risks and larger short-term variations. The oil revenues deposited into the fund -- the principal -- could be lost, as described below.

Therefore, most of conferees agreed that the Timor-Leste Government, through the Ministry of Finance, should prepare a study analyzing possible changes in the investment strategy. After two years, rather than revising the Petroleum Fund Act, the Government of Timor-Leste could start investing the 10% of Fund allowed by the Act in stock markets. ❖

## Invest in equities?

Timor-Leste's Petroleum Fund would have lost approximately half of its value, more than one billion dollars, if it had all been invested in the stock market a year ago. The graph below shows how U.S. stock prices have dropped during the past two years.

In fact, Timor-Leste's cautious investment strategy means that our Petroleum Fund may be the only one in the world which didn't lose money last year. For example, during 2008, the Norwegian petroleum fund lost more than 40% of the money it had invested in equities.



“Norway, whose Petroleum Fund provided the model for Timor-Leste, reported in March that its fund lost 23.3% during 2008, largely due to a 40.7% decline in the value of its equities holdings. So far, Timor-Leste has wisely restricted its investments to safer government bonds, and we encourage the government to continue to avoid investments which put the Fund's principal at risk.”

*NGO Forum Director  
Dinorah Granadeiro  
TLDPM 3 April 2009*

## Enhancing EITI implementation in Timor-Leste

The Extractive Industries Transparency Initiative (EITI) is a global initiative supported by the governments of major industrialized nations and some developing nations to improve transparency and accountability in managing revenues from oil, gas and mining by the Governments of oil producing countries. EITI is a voluntary coalition of governments, companies and civil society groups, as well as investors and international organizations. Its mission is to help strengthen governance in resource rich-countries by improving transparency and accountability in the extractives sector. This is done through the verification and publication of company payments and government revenues from oil, gas, and mining.

Since Timor-Leste Government stated its commitment to implement EITI rules and principles in 2003, Timor-Leste EITI has been moving slowly toward producing its first EITI report according to its national work plan (see *La'o Hamutuk Bulletin* Vol. 9, No. 1: Jan. 2008). As one of the EITI Implementing Countries, Timor-Leste was invited to attend a seminar **Implementing EITI: Best Practice and Tools** in Berlin, Germany in November 2008. Participants also came from Azerbaijan, Iraq, Kazakhstan, Kyrgyzstan, Mongolia, Norway, Sierra Leone, Yemen and Zambia. Timor-Leste's representatives were Viriato Seac (*La'o Hamutuk*), Florenço Fernandes (ENI Company) and Trifonio Sarmiento (government EITI Secretariat). The seminar discussed the scope of EITI, going beyond EITI, designing an EITI communication strategy, and key challenges of putting EITI into practice.

All the participants were very enthusiastic, actively discussing these issues and how to strengthen national, regional and international coordination among government, industry and civil society groups. As a basic standard for revenue disclosure, EITI uniquely combines transparency (in the form of the EITI report) with accountability (the multi-stakeholder group). The EITI secretariat calls this initiative robust yet

flexible, allowing each implementing country to shape its own process according to its needs.

The issue of aggregation and disaggregation is one of the most controversial issues in EITI implementing countries. Aggregated reporting provides only the total amount of each revenue stream. Disaggregated reports detail the revenues being paid by each individual company.

EITI principles and rules do not say whether published EITI reports should be aggregated or disaggregated. The Timor-Leste EITI working group recently agreed that the EITI public report should be in a disaggregated format, although civil society representatives continue to push for a greater level of disaggregation. The disaggregated information can be accessed by the public and used to raise people's awareness. It enables civil society to independently check the consistency of information from the companies and government. Disaggregated reporting can assure the companies and government agencies that their diligent participation in EITI is recognized, providing a way for them to demonstrate their commitment to transparency.

The international EITI secretariat is encouraging many coalitions to go beyond EITI's minimum criteria. Timor-Leste, as an EITI implementing country, has already agreed on a disaggregated report template. As civil society representatives, we believe that this momentum should continue, expanding the scope of EITI to include processes of awarding contracts and licenses, as well as the implementation of sustainable development policies. Civil society members of the Timor-Leste National EITI Working Group believe that EITI here is not yet sufficient to consider Timor-Leste transparent in extractive industry development. Another necessary step, not yet decided by the Working Group, would be to fully disaggregate the information, reporting the details of every payment and receipt of extractive industry revenues. ❖



# Consolidate La Via Campesina in East & Southeast Asia

## Fight for Peasants' Rights!

From 25 to 29 March 2009, La Via Campesina held its Second Youth Peasant Conference in the Southeast and East Asia region, in Behau (Manatuto) and Dili. La Via Campesina is an international movement fighting to protect the rights of small-hold farmers and family farms, known as 'peasants.' The conference aimed to strengthen ties between young peasants and activists in the region, and to support each other's struggles for their rights. The Timor-Leste Sustainable Agriculture Network (HASATIL), which represents 38 local NGOs and community groups, organized the conference. In Behau participants shared their experiences, discussed issues and planted trees. On the 27<sup>th</sup> they returned to Dili to develop a one year action plan for the regional youth group of La Via Campesina.

Overseas participants came from the Philippines, Indonesia, Thailand, Japan, South Korea and Australia. Farmers' representatives came from all 13 districts in Timor-Leste. There were also many HASATIL members and Young Farmers Scouts groups.

In Behau members of the Indonesia Peasant Union explained how their communities in Sumatra have lost access to the swamps where they have lived for many generations. The government has given private companies the right to manage the land, evicting people who depend on the swamps for their agriculture, water and culture. In Thailand and the Philippines, most land is owned by large landowners, transnational companies and multinational companies. In the past people with more influence in the governments could get access to more land. Banks also seize land from farmers who can't afford to pay back money they borrowed, taking land as payment instead. People can't repay their loans because they depend on expensive inputs like chemical fertiliz-

ers. Many farmers are now landless farm workers.

In Australia, agriculture depends on machines, chemical inputs, technologies controlled by corporations and, in some areas, pumped irrigation. The focus of agriculture is for export. Australian agriculture uses a lot of land and resources, but creates few jobs. A particular challenge to farming in Australia is the climate, with prolonged droughts. Australia also loses water by sending products that use a lot of water to produce, like sugar and milk, overseas.

In Japan, young people have to migrate from their farms to cities to find work because they cannot earn a livelihood from farming. This is because the government promotes large scale agriculture run by companies and neglects family farmers, the majority of Japanese farming population.

In the last three years, more than 3,000 farmers have committed suicide in South Korea. Farmers are heavily in debt and can no longer live from farming because of a flood of cheap imports. This food is cheaper because of unfair trade rules through the World Trade Organization and Free Trade Agreements that compel governments to limit their support for small-scale agriculture and local food production. These rules benefit big transnational companies based in rich countries, but hurt peasants.

During the conference people discussed issues that threaten sustainable agriculture in Timor-Leste such as the heavy oil power plants and agrofuel. Members of La Via Campesina raised concerns about these projects and expressed their solidarity and support for young peasants in Timor-Leste. They support Timor-Leste's struggle for a just land reform process and are against the policies of neo-liberalism like unfair trade, no protection for local products and the use of environmentally destructive technology controlled by big companies. ❖



## Editorial: More than a commission to end corruption (continued from back page)

In addition to these five general points, *La' o Hamutuk's* submission to Parliament included more than thirty suggestions for specific changes in the draft law. Some of the most important are:

- √ The definition of “corruption” should include conduct by public officials which encourages or enables others to circumvent the law. For example, public officials should not be allowed to sign MOUs with private companies promising a contract, land or other public resources without going through normal tender processes; project implementers should not be told that they can proceed without following environmental or labor laws.
- √ The mandates of corruption prevention and investigation mechanisms should include not only the Government, but also other public agencies such as EDTL, the Banking and Payments Authority and the National Petroleum Authority.
- √ Timor-Leste needs comprehensive Anti-Corruption laws and policies to clarify what conduct is considered corrupt and to establish procedures to make corruption more difficult, which would include the following topics:
  - ◆ A government-wide conflict of interest law, applied to all officials with decision-making authority. This should ensure an open and fair tender process, prohibiting Government from doing business with companies owned or managed by public officials or their families, and prohibiting public officials from being employed by companies with government contracts while in office or soon after leaving office.
  - ◆ Public officials with decision-making responsibility should publicly declare their assets before, during and after their service. Public officials declare all gifts or favors they receive from anyone soliciting or doing business with the Government. If someone deserves the public trust and powers which come with high public office, they must share information about their personal finances.
  - ◆ Outlawing all bribery and kickbacks, with penalties for bribe-askers, bribe-givers and bribe-takers. Companies which engage in such behavior should be banned from future government contracts, with criminal penalties for those who commit such crimes, as well as for the companies involved.
- ◆ A comprehensive, government-wide, legally-binding policy of public information based on the principle that everything should be public unless there is a compelling reason for it to be kept secret.
- ◆ Transparency and accountability of tender, contracting and other such processes. No significant contract should be signed without an open, multi-source bidding process. When the contract is awarded, the decision making process and text of the contract should be published.
- ◆ Protection of journalists and sources (whistleblowers) who bring cases or give evidence to the ACC, the media, the Public Prosecutor or the Provedor regarding corruption or malfeasance by public officials. This includes protecting their jobs, as well as protecting them from physical harm.
- √ The Anti-Corruption Commission needs powers to allow it to overcome lack of cooperation by the Public Prosecutor or the courts, perhaps through a separate judicial mechanism.
- √ The Anti-Corruption Commission can require public agencies to provide information, and should also be able to request information from international agencies in Timor-Leste – the United Nations, World Bank, IMF, ADB, etc.
- √ Even after the Anti-Corruption Commission is established, the Provedor, Inspector-General, courts and other agencies should keep their authority to monitor and investigate corruption. Under the proposed ACC law, the only avenue to punish corruption would pass through just two individuals (the Anti-Corruption Commissioner and the Prosecutor-General), either of whom can subvert the process. Although it is important to avoid redundant or overlapping investigations, Timor-Leste will be stronger if more people and agencies are working to ensure that public officials and agencies are working in the public interest. ❖

### Listen to La' o Hamutuk's "Radio Igualidade" Program

Interviews and commentary on the issues we investigate -- and more!

In Tetum and Bahasa Indonesia

Every Sunday at 1:00 pm on Radio Timor-Leste.

Every Wednesday at 8:00 pm on Radio Povo Viqueque

Every Thursday at 9:00 pm on Atoni Oecussi Community Radio.

Or download podcasts from [www.laohamutuk.org/media/radio.htm](http://www.laohamutuk.org/media/radio.htm)

# Editorial: It takes more than a commission to end corruption

On 11 February 2009, La' o Hamutuk provided a submission to RDTL National Parliament Commissions A and C regarding the proposed Anti-Corruption Commission law. Three months later, the law has still not been enacted. This article summarizes some of the key issues discussed in our submission, the complete text of which is available from our office or on our website.

As a civil society organization which has worked in Timor-Leste for more than eight years, La' o Hamutuk monitors the activities of Timor-Leste's government and international organizations. We do not investigate individual allegations of corruption, but participate in many public consultations, especially in the petroleum sector, and our submissions often discuss ways to reduce the danger of corruption.

Around the world, countries which depend on revenues from non-renewable resources often experience high levels of corruption. In Timor-Leste, petroleum revenues currently pay for more than 90% of the State's expenditures. For the next decade or so, these revenues will continue to come in from converting our natural resource wealth (oil and gas reserves) into dollars, without much effort by the State or its citizens. The imbalance between the tremendous needs of our impoverished people and the ease with which the State obtains money leads, in many countries, to a "resource curse" which actually increases poverty and conflict. One of the principal components of this curse is corruption in both government and the corporate sector, and we hope that the Anti-Corruption Commission will be effective in controlling and deterring the misuse of public wealth for private gain.

Sadly, we believe that in its present form, this law would make Timor-Leste even more vulnerable to corruption than it is today. The proposed Anti-Corruption Commission (ACC) is so weak that we fear that it will be ineffective. At the same time, the draft ACC law prohibits existing agencies from continuing to work against corruption. Furthermore, creating this Commission before enacting a comprehensive law to prevent corrupt actions before they are committed creates a mechanism without a mandate. How can corruptors be investigated and punished when we do not yet have clear laws defining what is corrupt?

We would like to highlight a few important general points:

- 1. A Commission requires more than one person.** We believe that having only one Commissioner, with deputies who serve at his direction and pleasure, undercuts the strength, effectiveness and accountability of the ACC. It would be better to have, for example, five Commissioners, appointed by diverse authorities, and then have them elect a President.
- 2. Prevention is a prerequisite to accountability.** Before this Commission is created, there must be legally-established, government-wide rules and policies to prevent corruption. These should establish transparency, accountability and checks and balances; define and prohibit conflicts of interest, soliciting, receiving or accepting bribes; require

open and public tender processes; and protect journalists, sources and whistleblowers.

- 3. The Prosecutor must continue what ACC starts.** Since the ACC's only outlet for its findings is through the Public Prosecutor, the Prosecutor should be required to act within a specified time on cases presented by the ACC and to report back to the ACC on the results of its actions.
- 4. Citizens should be encouraged to bring information to the ACC,** which should initiate cases if people provide compelling evidence. These voluntary sources, especially public servants, should be protected against retaliation, and the ACC should report back to them about the results of its investigations. In addition, since the ACC fulfills an important public trust, it should periodically publish reports on its activities.
- 5. The Provedor should be allowed to continue its work against corruption,** although this work will have to be coordinated with the ACC. Furthermore, there should be a transition period to allow the ACC to become established before curtailing other anti-corruption activities.

(Continued on page 15)

## What is La' o Hamutuk?

La' o Hamutuk (*Walking Together* in English) is a Timor-Leste non-governmental organization that monitors, analyzes, and reports on the principal international institutions present in Timor-Leste as they relate to the physical, economic, and social reconstruction and development of the country. La' o Hamutuk believes that the people of Timor-Leste must be the ultimate decision-makers in this process and that this process should be democratic and transparent. La' o Hamutuk is an independent organization and works to facilitate effective Timorese participation. In addition, La' o Hamutuk works to improve communication between the international community and Timor-Leste society. La' o Hamutuk's Timorese and international staff have equal responsibilities, and receive equal pay. Finally, La' o Hamutuk is a resource center, providing literature on development models, experiences, and practices, as well as facilitating solidarity links between Timorese groups and groups abroad with the aim of creating alternative development models.

La' o Hamutuk welcomes reprinting articles or graphics from our *Bulletin* without charge, but we would like to be notified and given credit for our work.

In the spirit of encouraging greater transparency, La' o Hamutuk would like you to contact us if you have documents and/or information that should be brought to the attention of the Timorese people and the international community.