

# Background of Timor-Leste

- 450 years under Portuguese rule, Australia-Japanese occupation during Second World War, Indonesia military occupation during more two decades
  - Independence and post conflict country, from UN administration to self-governing eight years ago.
  - About 1 million people; high population growth rate, very little economic development, half the people below poverty line, most live in rural areas by subsistence agriculture.
  - Face political-economic and security intervention from international institutions and others nations
- Most petroleum-dependent country in the world

# Historically of Timor Gap oil Exploration and current explorations plan

- 1968-71: Australia-Indonesia negotiated the maritime boundary between these countries without presence of Portugal as administrative authority Timor, resulting in the Timor Gap.
- 1974: the Sunrise oil and gas field discovered.
- 1989: Timor Gap Treaty signed by Australia-Indonesia

- 1991: Australia and Indonesia award production sharing contracts to ConocoPhillips, Royal Dutch Shell, Woodside Petroleum and other companies to explore and exploit resources in the Timor Gap Zone of Cooperation. Several fields are discovered in 1994 and 1995, with production beginning in 1998 at Elang-Kakatua in the JPDA, and in 1999 at Laminaria-Corallina just outside the ZOC

- 1999: Laminaria field started production in December 1999. Many destructions before and after Referendum, most of the facilities was burning down by Indonesia Military and militias. From Laminaria, Australia stolen all of the revenues and nothing for Timor-Leste.

- 2002: Restoration of Independence. TL-Australia signing an agreement that called Timor Sea Treaty for JPDA. Most of article in this Treaty adopted from treaty that was signed by Australia- Indonesia in 1989, but revenue split was changed. Signed on first day of independence; negotiated during UN period. Sunrise left to later agreements, but basic terms described. Also in March, before restoration of Independence, Australia Withdrawing from International courts.

- 2004-5 intense negotiations and political campaigning in TL, Australia and elsewhere. Thanks to OW SEA for support in Bangkok.
- 2005: large amounts of oil and gas revenue begin from Bayu-Undan (operated by ConocoPhillips, with partners Santos, Inpex, Eni, Tokyo Electric, Tokyo gas.
- 2005: Petroleum Fund established, Petroleum Act passed.

- 2006: TL-Australia Signing CMATS treaty and IUA to regulate JPDA (zone of Cooperation) but excluding the Laminaria and Corralina fields that before agreements was in the dispute area between Australia and Timor-Leste. Sunrise upstream revenues split 50-50; downstream to be decided by companies. Gag rule on further boundary discussions.
- 2006: new bidding rounds and contracts in JPDA and TLEA.

- 2008: Commercial amounts of oil discovered at Kitan. Other explorations in the JPDA have yet to find results.
- 2010: Kitan field in JPDA will begin exploited by an Italian oil Company, Eni. Also wait approval for their plan to drill test wells Cova field. If it's approved, Cova will be the first oil field that exploited in the TL exclusive area as well as the first one after Restoration of Independence.
- Reliance, also waiting the government approval for drilling test well in the Block-K of the Timor-Leste Exclusive area.



## Dependency on Petroleum receipt to currently domestic economy and “resources course”

- Since Timor-Leste began receiving significant petroleum revenues (from Bayu-Undan) in 2005, the government spending increasing rapidly every year, with large mid-year budget increases in 2008 and 2010. Almost 97% of 2010 National expenditures will come from Petroleum Fund. 94% of Timor-Leste state revenues come from petroleum receipts. Timor-Leste GDP non-oil is one-third of oil income. The government spending increase but much money just to attend the temporary needs such rice importation. In the 2009, Timor-Leste was spent \$283 millions for imports including rice, the export income is \$8.5 millions, and nearly all was from coffee.

## Petroleum Fund and sustainable the fund for future

- According to Petroleum Fund law, government spending from the Petroleum Fund should be not exceeding the ESI 3% of PF balance added to expected revenues from fields under contract. If the Government needs to spend much higher than law stated, the government must submit the justification of their intention for Timor-Leste long-term interest to Parliament and Parliament must agree.
- The objectives of the ESI are to limit the spending of the government, and ensure that petroleum revenues will be benefits the next generations, not only current generation.

## Practice so far of PF and ESI, including 2008 court ruling

- During past 3 years, after new elected government policy, Timor-Leste government spending increase rapidly and exceeded the limitation of ESI. The budget rectification in 2008 was significant increase than the previous ones, Parliament approve \$788 millions but the Court Appeals decide that \$240 millions for Economic Stabilizations Fund were unconstitutional.

# Some of the court reasons were:

- The \$240 million dollar **Economic Support Fund violates Timor-Leste's Constitutional** prohibition against secret budgets (Article 145.2) and Parliament's power to oversee budgetary operations (Articles 95.2(q) and 115(d)).
- The Budget's withdrawal of \$290.7 million **more than the Estimated Sustainable Income (ESI, \$396.1 million) from the Petroleum Fund is illegal** because it violates the 2005 **Petroleum Fund Law's** requirements that petroleum resources must be managed for the benefit of current and future generations. The Government failed to meet the requirements of Articles 8 and 9 of that law to provide a detailed explanation of why it's in Timor-Leste's long-term interests to spend more than the ESI.

# Sunrise LNG: LH report and findings, current debate

- In the 2008, La'o Hamutuk publish a comprehensive report on Sunrise LNG. We describe that Sunrise LNG should be maximize the benefits for local peoples and minimize the risk for social-environmental for Timor-Leste.
- During 2010, public debates over the country and Australia, between Government of Timor-Leste, Woodside, political parties and civil society, after Sunrise Joint Venture announced their option that this project will be floating LNG. Timor-Leste position is the Pipeline must to come to TL.

# Total oil wealth and when it will run out

- Timor-Leste's petroleum wealth is limited. Currently, most of the petroleum income is from Bayu Undan, the biggest oil and gas that been exploited and will be run out in 2023. From this field Timor-Leste get 90% for its share and 10% Australia. Sunrise field will be produce during 30 years after exploited according the treaty between CMATS and IUA, Timor-Leste will gain 50% from the upstream royalty.
- Although, Kitan been exploited but this field is relatively small and its duration of production so shorter than Bayu Undan and Sunrise.

## **Weakness and inexperience of DNMA, ANP**

- In general, Timor-Leste experiences are very lack as a newly country in every sector. Our regulators authorities as DNMA and ANP have difficulties to regulate huge international oil companies' activity that being operate in JPDA or TLEA.
- The weakness and inexperience of the regulatory showing that our environment, and lives of people in danger from oil companies activities. And also we yet have regulations to protect our environment from these activities.

## **Need for TL to get help and learn from the experiences of other countries, especially Oilwatch**

- Most of our petroleum activities in offshore, and most of peoples have no any experience of the impact of the oil activity to their live directly. Although the government been initiate a plan to build a petroleum corridor along south coast



# Climate Change

- Timor-Leste face significant impact of climate change, inundation in everywhere that destroy many agriculture productions, infrastructure etc.

# “signs of the resource curse”

Some practices are happening in TL

- Spending without thinking
- Lack of long-term planning
- Import dependency leading to inflation
- Borrowing, to repay later
- Neglecting non-oil economic development
- Belittling other revenue sources
- Ignoring that oil will run out
- Wealth goes to urban power elite
- “Povo” doesn’t benefit now, suffers later

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