

## **DEMOCRATIC REPUBLIC OF TIMOR-LESTE**

### **SPEECH BY HIS EXCELLENCY THE PRIME MINISTER KAY RALA XANANA GUSMÃO ON THE OCCASION OF THE PETROLEUM FUND MANAGEMENT SEMINAR**

*The Prime Minister did not attend the seminar. His speech was read by Deputy PM Jose Luis Guterres.*

Díli Convention Centre, Mercado Lama, Díli

10 May 2010

Members of the National Parliament

Members of Government

Martin Skancke, Head of Asset Management, Department of Finance, Norway

Peter Ryan-Kane, Head of Portfolio Advisory, Towers Watson, Hong Kong

Tim Mitchell, General Manager Corporate Strategy, New Zealand Superannuation Fund

Kevin Bailey, Honorary Consul General for Timor-Leste in Melbourne

Alex Joia, Senior Asset Management Specialist, Bank for International Settlements

Members of Non-Government Organisations,

Ladies and Gentlemen

First, I would like to thank the Lahame Group for that excellent cultural performance.

The performance was a great reminder for us all that the wealth of our nation lies not only in the investments of our Petroleum Fund, but in our People and in our culture.

Ladies and gentlemen, it is with great pleasure that I am here today, in our new convention centre, to open this Seminar on an issue central to the future of our nation - the management of our Petroleum Fund.

Revenue from the Petroleum Fund has underpinned Timor-Leste's social and economic progress. It is the primary revenue source for our State budget, providing funds to invest in our county's development.

If managed properly and transparently, the Fund will continue to play a central role in the future of our nation.

It will allow us, as a sovereign nation, to use our own resources to improve our infrastructure, invest in health and education and grow our economy so that we can build our country and provide a brighter future for our children.

Ladies and gentlemen,

As you know, I have been travelling throughout our country, speaking directly to many thousands of People, to discuss our Strategic Development Plan.

When National Consultations finish, I will have spoken to Timorese from every sub-district in our country; from the enclave of Oecusse through to Lospalos in the east, from our north coast across our beautiful mountains to the coast on our south.

During this journey, I am speaking with the People about their dreams and their aspirations for their country.

This includes, of course, discussing the management and expenditure of our petroleum funds.

But, as I have just mentioned, we must not forget that the true wealth of our nation is not the money we have in an investment fund.

The true wealth of our country is the dignity, the determination and the strength of our People.

And it is our People, working together, that will secure the future of our nation.

Ladies and gentlemen,

In this mission to develop our nation we are, however, fortunate.

We are fortunate because of our oil and gas resources.

But, we must make sure our revenue from these resources is invested and managed well.

Up until now we have adopted a prudent and simple investment strategy for the Petroleum Fund.

This has served us well;

We now have Petroleum Fund balance of US\$5.9 billion.

To give a sense of how important the Petroleum Fund is to Timor-Leste, the Fund's balance is ten times our non-oil Gross Domestic Product.

Ladies and gentlemen,

When the Fund was established in 2005, we decided to take this conservative approach to avoid exposure to risk and volatility.

The decision was also based on limited institutional capacity and prioritization. This in hind sight was a very wise fiscal approach.

This allowed us to gradually develop our management and investment strategy, while increasing our institutional capacity.

For most of this period, therefore, the Fund has been invested only in US Government bonds.

While the petroleum fund has served our immediate needs, the returns can and should be maximized with a diversification strategy in line with global best practice that is applicable to our conditions in 2010.

Our law currently mandates 90% in US Treasury bonds and allows for 10% in other investment areas.

I am happy to say the Government has already commenced a prudent diversification strategy which is in line with the current laws.

Approximately, five percent is now managed with the Bank of International settlement and the completion of the remaining 5% is being finalized; which means that we have pursued all avenues within the scope of the law to maximize returns.

We view this as a positive step in the successful management of the nation's wealth and a mark that we are coming to a new stage in our development.

So now is the time!

Now is the time to review, analyze, seek the best advice available and reassess as a nation how to move forward.

We have demonstrated our ability to manage the economy, increase expenditure through more robust budgets and navigate global financial conditions.

In 2008 and 2009, we successfully managed the Timorese economy during the Global Financial Crisis (GFC) - achieving some of the highest growth rates in the world.

While other developing countries struggled under global conditions, Timor-Leste managed to expand the economy.

And so now it is important to recognize we must put equal attention into expanding the investment strategy of our Petroleum Fund for the best possible long term outcomes and to meet the growing demands of our emerging economy.

Ladies and gentlemen,

The purpose of this Seminar is to start a national dialogue on the best way to manage our nation's shared wealth.

This wealth belongs to the People and the People must determine our approach to managing it.

This will require a process of discussion and education, so that we can move towards making important decisions on how to invest our wealth.

Everyone needs to be a part of this process – the National Parliament, members of Government, the heads of our organs of sovereignty, civil society, academia, media and the all Timorese People.

This seminar is part of this process. It will increase understanding of international financial markets and investment strategies.

We have gathered very experienced and professional international experts to present to us on a range of issues concerning management of our Fund.

We will ensure that Timor-Leste has the necessary expertise and advice to invest in the world's financial markets successfully for maximum benefits,

Today is an important part of that journey.

It is our responsibility to make decisions about our future.

We must decide what our investment objectives are, and then we must agree on an investment strategy to achieve these objectives.

We must ensure that our investment strategy is sustainable; not only during periods when it gives us a good return, but also in periods of difficulty for international financial markets.

Ladies and gentlemen,

So far, while we all agree our investment strategy has served the needs of our young nation.

But we should also agree that a successful investment strategy in the past is not necessarily a good strategy for the future.

As we have seen recently, the international financial market changes, and there is a need for us to review our strategy taking account of these changes.

A review of our investment strategy has also been provided in the Petroleum Fund Law from the beginning.

The Law, approved in 2005, provides for a review of the investment strategy after 5 years, reassessment was important to take into account the size of the Petroleum Fund and the level of institutional capacity.

This review process has already begun. Last year, the Ministry of Finance engaged a highly skilled global investment consultant company, Towers Watson, to provide advice, research and analysis.

Some of you would have attended the seminar on 6 March for Members of Parliament and civil

society where this work was discussed. And Peter Ryan-Kane from Towers Watson will also present to this seminar.

Ladies and gentlemen,

The investment decisions for the Petroleum Fund are important and will have an impact on how much we can spend to develop our nation.

That is why we are looking very carefully into these issues and that we are seeking a comprehensive dialogue.

And through this process, we hope to be able to increase our total returns over the long investment horizon that we enjoy.

Ladies and gentlemen;

I have spoken about the need to invest our Petroleum Fund for the needs of our People. To provide decent houses with electricity and water, schools for our children and health clinics for our sick and provide productive and core infrastructure for the economic development of our nation.

We can not rely on our petroleum resources. We must build our economy and our nation to provide a sustainable future for our People.

But, this seminar is not one to discuss the expenditure of the Petroleum Fund. It is to discuss the management, investment objectives and investment strategies of the Fund.

I urge you to approach this seminar with an open mind and to contribute to our national dialogue on how we invest the wealth from our petroleum resources.

Ladies and gentlemen,

I would like to thank Norway for providing advice and assistance on the development of our petroleum sector for many years, and for co-organising and sponsoring this important seminar.

And I would also like to thank our distinguished guests and international experts who will be speaking at this important event.

This seminar is an important step in our national dialogue on how we decide to manage our Petroleum Fund.

Let us all work together for the long term benefit of our Country.

Thank you very much.

10 May 2010