Public Meeting
The Social and Economic Effects of the Tasi Mane Project

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Tasi Mane Petroleum Infrastructure Project

• TL began working on the Tasi Mane petroleum corridor in 2010.
• The project is in the 2011-2030 Strategic Development Plan.
• According to MPRM, the project will cost up to $14-$15 billion.

“...To bring petroleum development to our shores and provide economic profit from petroleum industry activities...” (SDP)

Social and Environmental Impacts

• Takes over farming land
• Threatens agricultural productivity
• Many people lose their land, must find new sources of income
• About 230 hectares for refinery
• 1300 hectares for SSB and Nova Suai

• Potential for resistance and social conflict in the community
• Pollution of water, land, sea and air
• Threatens biodiversity (TL is part of Wallacea Region of SE Asia)
• Threatens cultural values of the community

Components of the TMP
Suai Supply Base

- RDTL just signed a contract for $719,212,000 with Hyundai Engineering and Construction to build the SSB.
- This is more than the state has spent on education from 2002 until today.
- There are more than $50 million in other contracts.

The Korean Government has Blacklisted this Company

- The Public Procurement Service (PPS) yesterday banned Korea's largest builder, Hyundai Engineering and Construction, and 20 other builders from receiving government contracts as punishment for collusion.
- **Collusion penalties**
  - **Two-year bans**

Contracts already signed: $837 million

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<tr>
<th>Vendor Name</th>
<th>Project</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Tapa E&amp;C</td>
<td>Solar project</td>
<td>$59,000,000</td>
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<td>Mira E&amp;C</td>
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<td>Hanyang Corp.</td>
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<td>Dosaen E&amp;C</td>
<td>Wind project</td>
<td>$8,000,000</td>
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Total: $837,000,000
**Economic Predictions**

- MPRM assumes that Bayu-Undan (BU) spends $500 million each year on goods and services; half of this will be for goods.
- SSB can mark-up goods that it handles by perhaps 10%.
- Therefore, if MPRM’s assumptions are correct, the SSB could take in $25m per year from a large project like Bayu-Undan.
- If 2/3 of this goes for taxes, operational and personnel costs, that leaves $8m/year for profit and to repay capital investment.

**Continued...**

- If BU uses SSB for five more years (it will run dry in 2020), this is $40m net revenue (leaving $679 to recover from other fields).
- Another field about the size of BU, operating for 20 years, will produce $160m in net revenue.
- Therefore, SSB needs at least five new fields the size of Bayu-Undan just to break even.

**Refinery in Betano**

- TimorGAP wants to build a ‘small’ refinery which can process 30,000 barrels of crude oil (condensate) per day.
- The design was originally based on the production of Bayu-Undan, but now expects crude to come from Greater Sunrise.
- Investment cost: TimorGAP estimates $1 billion, but La'o Hamutuk’s research shows $2 billion or more.

**How much will be sold to the local market?**

- TL plans to sell 30% of refinery products in the country and export 70% to international markets.
- In 2015, Government allocated $92m for EDTL fuel and $12m to fuel state vehicles.
- The country imported $160m worth of fuel in 2014.
Petroleum in Timor-Leste

- Bayu-Undan will be empty by 2020.
- Future of Sunrise is uncertain.
- We could import from abroad, but cannot control prices.
- In the past two decades, Kitan is the only new commercially valuable discovery.
- TL has not held a bidding round since 2006 because oil companies are not interested.

Challenges to get input crude

- Refinery market highly competitive. Refineries with good management, strategic location, and accessible logistics can be profitable.
- There may be no source of crude oil after Bayu-Undan is empty. Greater Sunrise’s “situation” excludes it from planning.
- TL could try to buy crude oil from projects in Australia or elsewhere.
- Other countries have their own refineries – can TL compete?
Where can TL sell its products? What are they worth?

Joint venture with PTT - Thailand

- PTT will sell TL refinery products to its markets.
- How will profits be divided between TimorGAP and PTT?
- How much will TimorGAP pay to Timor-Leste?
- This will reduce “profit oil” taxes from Sunrise.
- If TimorGAP receives profit oil in kind, this will reduce state revenues which would have gone into the Petroleum Fund and state budget.

Without PTT

- TL’s products must compete with those from refineries in Australia, Indonesia, and Singapore.
- TL must clearly understand and explain the relationships between the refinery, LNG plant and supply base.

Continued...

- But TL will not be able to add value to its own condensate if the refining margin is too small.
  - In that case, the State Budget will have to subsidize capital or operating costs.
  - If the project depends on Sunrise, the contract must ensure that TL can get our production share “in-kind.”
  - Will Sunrise’s gas and oil go somewhere else?

Projections

- A typical refinery works on a refining margin of $5-6 per barrel.
- High operational and capital costs will reduce profitability
- If:
  - Capital investment in the refinery is $1 billion
  - It processes 30,000 barrels per day for 30 years
  - The refining margin (mark-up) is $5/barrel

- Therefore $3/barrel will pay for recovering capital investment, even with no interest or profit.
- If operating costs are more than $2/barrel, the refinery will lose money.
- If the refinery need a larger margin, it will sell its products at higher than market prices. Should Timor-Leste subsidize them?
**LNG Plant in Beacu**

- Totally depends on pipeline from Sunrise.
- Woodside has shelved the Sunrise project.
- TL recently awarded a $3.8m contract to Foster Wheeler Energy from U.K. to prepare a preliminary design.
- TL does not have the capacity to finance this project – which could cost $9 billion or more – by ourselves.
- Companies may be interested after Sunrise’s future is certain and when T-LNG is approved.

**Problems with the Tasi Mane project**

- It makes TL more dependent on oil and gas, crowding out sustainable development sectors.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- Nearly all the money spent will go to foreign companies, providing hardly any local jobs or subcontracts.
- It will create social conflict, take up land, displace people, worsen health and degrade and endanger the environment.
- It will be a burden on our local economy.
- What if Sunrise gas doesn’t come to Timor-Leste?

**La’o Hamutuk’s Recommendations**

- Postpone the Tasi Mane Project until it is certain that the Sunrise pipeline will come to TL.
- Do not keep working on TMP until new commercially viable oil/gas fields are discovered.
- TL must review the costs and benefits of TMP.
- If TMP is commercially viable, the private sector should invest its own money and share the risk.
- We should give more attention to other sectors to achieve sustainable and equitable development.

**Obrigado**

For more information, please go to:

- La’o Hamutuk’s website
  [http://www.laohamutuk.org](http://www.laohamutuk.org)
- La’o Hamutuk’s blog
  [http://laohamutuk.blogspot.com/](http://laohamutuk.blogspot.com/)

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