

# Can Timor Leste Avoid the Resource Curse?

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TAG Workshop, Dili

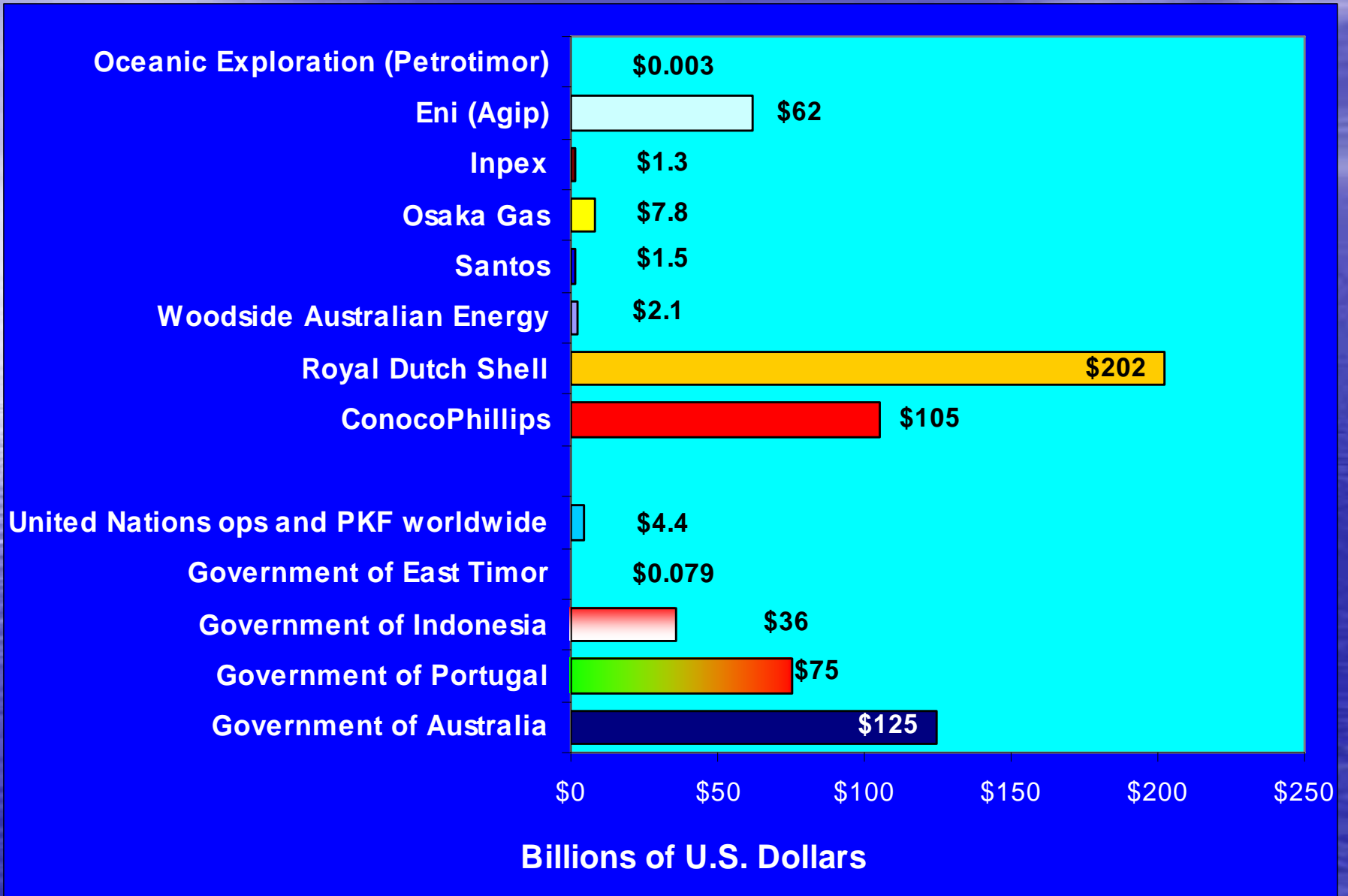
25 March 2004



# Main points

- Many countries rich in oil and gas which did not have strong economies and democratic traditions before extracting their petroleum, now believe they lost more than they gained by developing their oil.
- Timor-Leste has many characteristics which caused problems in other countries.
- Timor-Leste has unique problems due to its colonial history and small size.
- Timor Leste also has features which might help avoid repeating the patterns of other countries.
- Timor Leste can still make choices about oil and gas, although many things were already decided before independence.

# Annual Revenues of Governments and Oil Companies



# Dangers of petroleum development

- Corruption
- Local and global environmental destruction
- War, militarization and repression
- Economic and social mistakes
  - Neglect of other economic sectors
  - Overspending leading to debt
- Little employment or useful infrastructure
- Problems when oil is used up



# Oil company corruption in rich countries



- Two Shell top officials were forced to resign this month for overstating the company's reserves to governments.



- Three highest officials of the Norwegian State Oil Company, had to resign last September because they paid \$15 million in bribes to people in Iran.



- Three major oil companies systematically made false reports to the government of Alaska state, USA, over many years. After more than 141 legal cases, the companies had to pay Alaska \$10.6 billion.



# Oil pipeline fire in Nigeria





# Piper Alpha oil platform fire North Sea, Europe

**Daily Record**  
22p FORWARD WITH SCOTLAND.

## 167 DEAD

DISASTER ON PIPER ALPHA



**I FRIED IN THIS HELL**

THE STORY IN FULL - PAGES 2,3,4,5,7 AND CENTRE PAGES

**A** SURVIVOR of the Piper Alpha well last night told how he almost tried to die.

DAVE LAMBERT, 36, was badly injured when the oil rig off Aberdeen was swallowed by a blast that took 167 lives.

He said he saw people die and was told they were dead.

There were no survivors of the Piper Alpha disaster, which killed 167 people and injured 288.

The disaster, which took place on 6 July 1988, was the worst offshore oil platform disaster in the world.

The Piper Alpha was a semi-submersible platform in the North Sea, off the coast of Aberdeen, Scotland.

The platform was owned and operated by British Petroleum (BP).

The disaster was caused by a series of failures, including a faulty pressure relief valve, a failed gas detector, and a failed fire alarm system.

The platform was destroyed by a massive fire that raged for several hours.

The disaster led to a major review of offshore oil platform safety, which resulted in the implementation of several safety measures, including the requirement for all offshore platforms to have a dedicated fire-fighting team and the installation of fire-fighting equipment on all platforms.

The Piper Alpha disaster is remembered as one of the most catastrophic industrial disasters in the world.





# Oil tanker spill offshore Alaska, USA





# Reasons to fear the “resource curse” in Timor-Leste

## 1. No history of democracy or self-government

- Tradition of resistance, not constructive criticism, alternatives and compromise
- Little trust between government and civil society
- Socialization substitutes for genuine consultation

## 2. Inexperienced civil service with few traditions or regulations for honesty and accountability

- Limited number of qualified people requires some in dual roles, reducing oversight and increasing appearances of nepotism.
- Untried government structure lacks adequate checks and balances, possibilities of conflicting responsibilities



# Potential Conflicts of Responsibility

- TSDA regulates industry, recruits companies, and must bring in revenue
- TSDA Executive Director is also a Commissioner
- Secretariat for Investment, Tourism and Environment must promote industry while protecting nature; he is also a TSDA Commissioner
- Prime Minister directly involved in many oil-related responsibilities
- Timor Sea Office funded by World Bank and U.S. Government

# Timor Sea Designated Authority





### 3. TL has lived through bad examples

- Inefficient Portuguese bureaucracy
- Corrupt and violent Indonesian occupation
- History of confusing government services with personal favors (KKN)
- UNTAET focused on short-term fixes, with inexperienced and unqualified “experts”
  - “Financial Gap” is one result
- Today, donors and consultants promote a private-industry, “free trade” economic model
- UN, World Bank, etc. not transparent

## 4. Few effective checks and balances

- How can Timor-Leste prove that PetroTimor's charges are false?
  - Inspector-General answers to Prime Minister
  - Provedor not yet operational
  - Laws and court systems not well-established
- Minority political parties weak and inexperienced, few alternatives or compromises offered
- Media rarely do independent research or investigate official claims



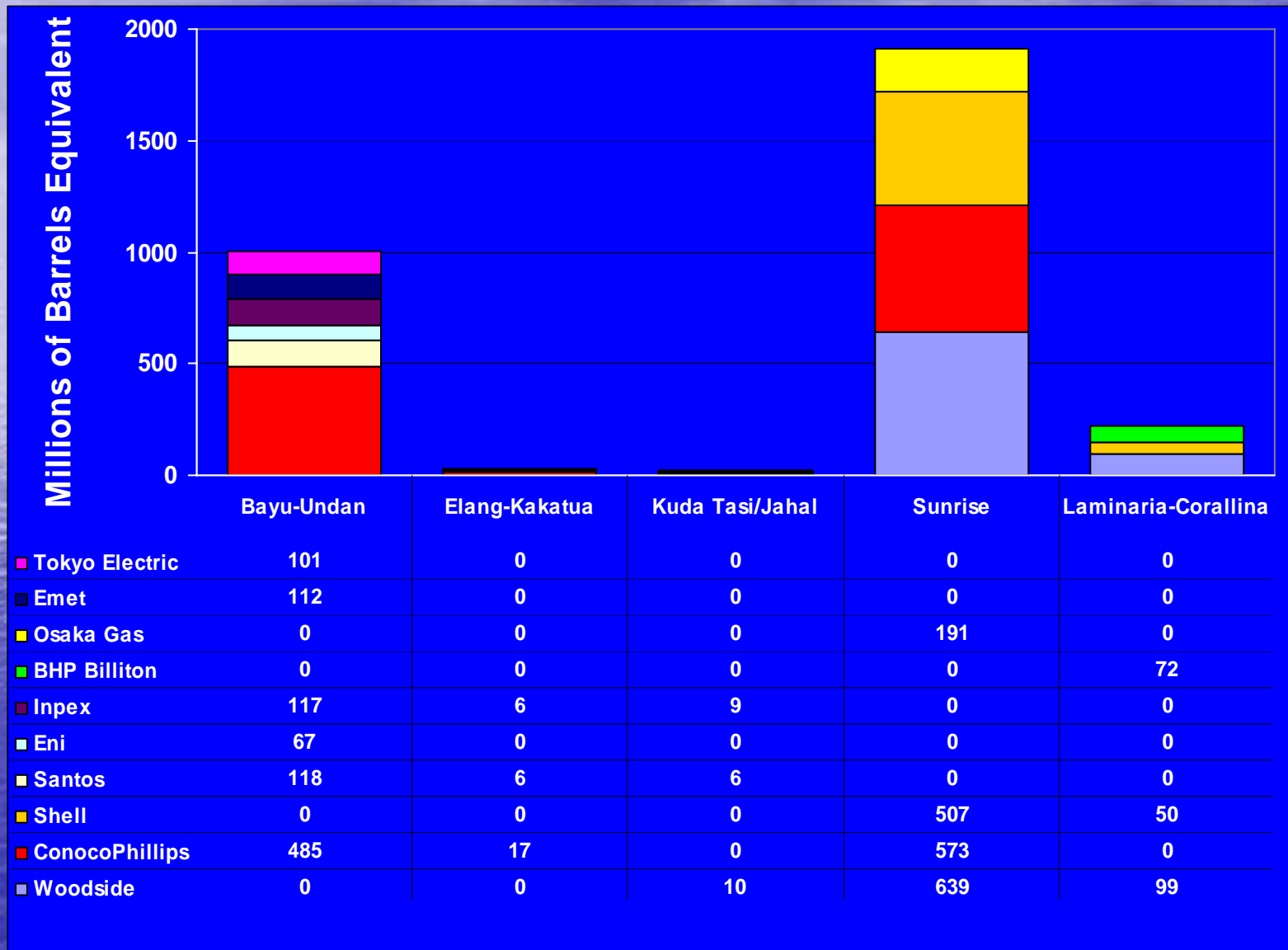
# Helpful features in Timor-Leste

- We can learn from the mistakes and successes of other oil-producing countries
- Gas prices and market are more stable than for oil
- People are nationalistic and ready to fight to preserve Timor-Leste's independence
  - Many NGOs and civil society groups
- Use of U.S. dollar reduces inflation risk
  - But surrenders control of exchange rates

# Decisions already made, often by others

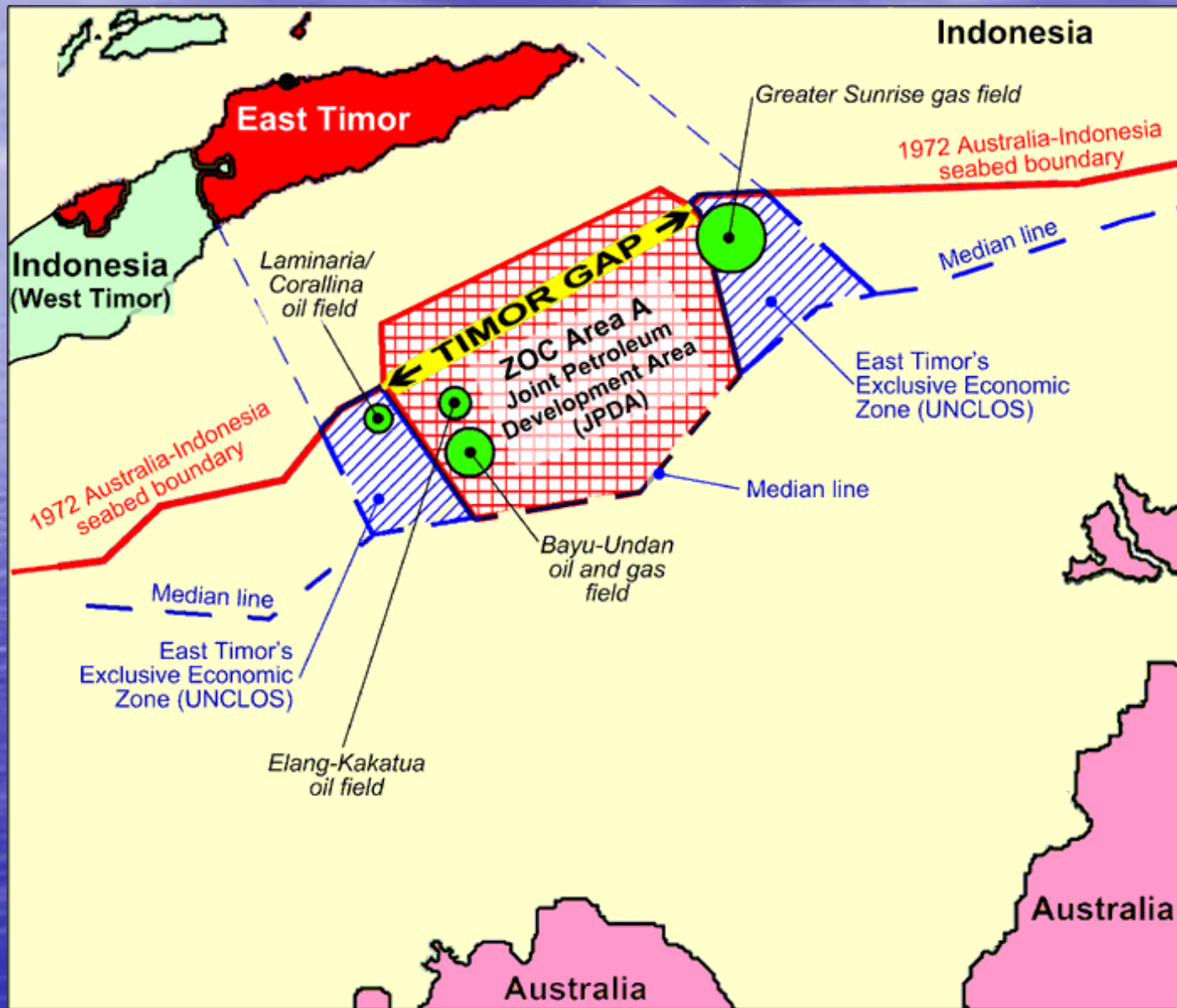
- Explore and extract off-shore oil and gas as soon as possible
- Share off-shore revenues before defining maritime boundary
- Use Australian and transnational private oil companies
- Process liquids at sea, gas in Darwin
  - Sunrise processing still not decided
- Export off-shore oil and gas for cash, rather than use some of it in East Timor

# Companies in East Timor's Sea





# Timor Sea Areas



# Revenues: spend, save or invest?

- 75% of government revenues after 2007 will be from petroleum, increasing for the following 30 years
- Reserve fund can “sterilize” oil revenues against global price and demand variations
- Reserve fund could ensure that money is there for future generations after petroleum is used up
  - Must be protected so government doesn't spend it for current or short-term needs

# Fund design needs close watching

- Today, no reserve fund is yet in place, although more than \$10 million in oil royalties has been collected, with \$90 million expected by 2007
- Government and WB have proposed to use oil money to cover short-term budget deficits
- Government has made contradictory statements about their plans for the reserve fund
- Parliamentary approval is no protection when one party controls Government and Parliament
- "Guideline" for sustainability is non-binding



# Conclusions

- Timor Leste has many preconditions for the “resource curse”.
- Some decisions have already been made.
- Opportunities remain to take safeguards to avoid other countries’ bad experiences.
- This will be a difficult struggle, requiring hard work, consistent vigilance, and cooperation between officials and civil society.
- If it is lost, only the oil companies and Australia will be happy there was oil in the Timor Sea.

**We thought it was oil.**


**But it was blood.**

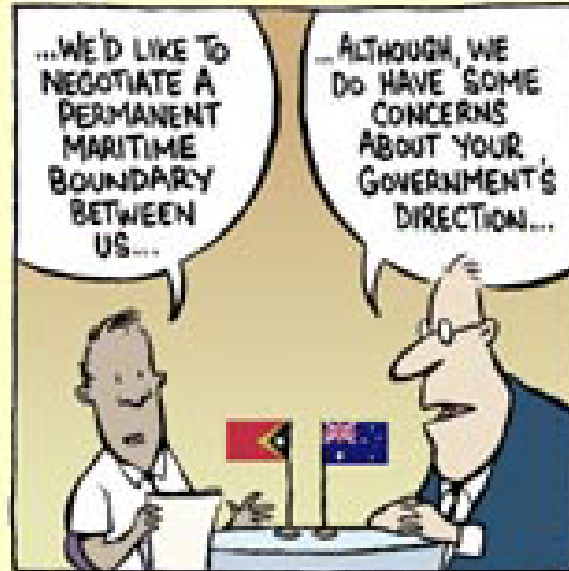
# Supplementary slides

1. Regime change in Dili?
2. Australia's maritime territory claim
3. Timor Leste's maritime territory claim
4. Oil and gas fields in the Timor Sea
5. Timor-Leste's Financing Gap and Laminaria revenues stolen by Australia

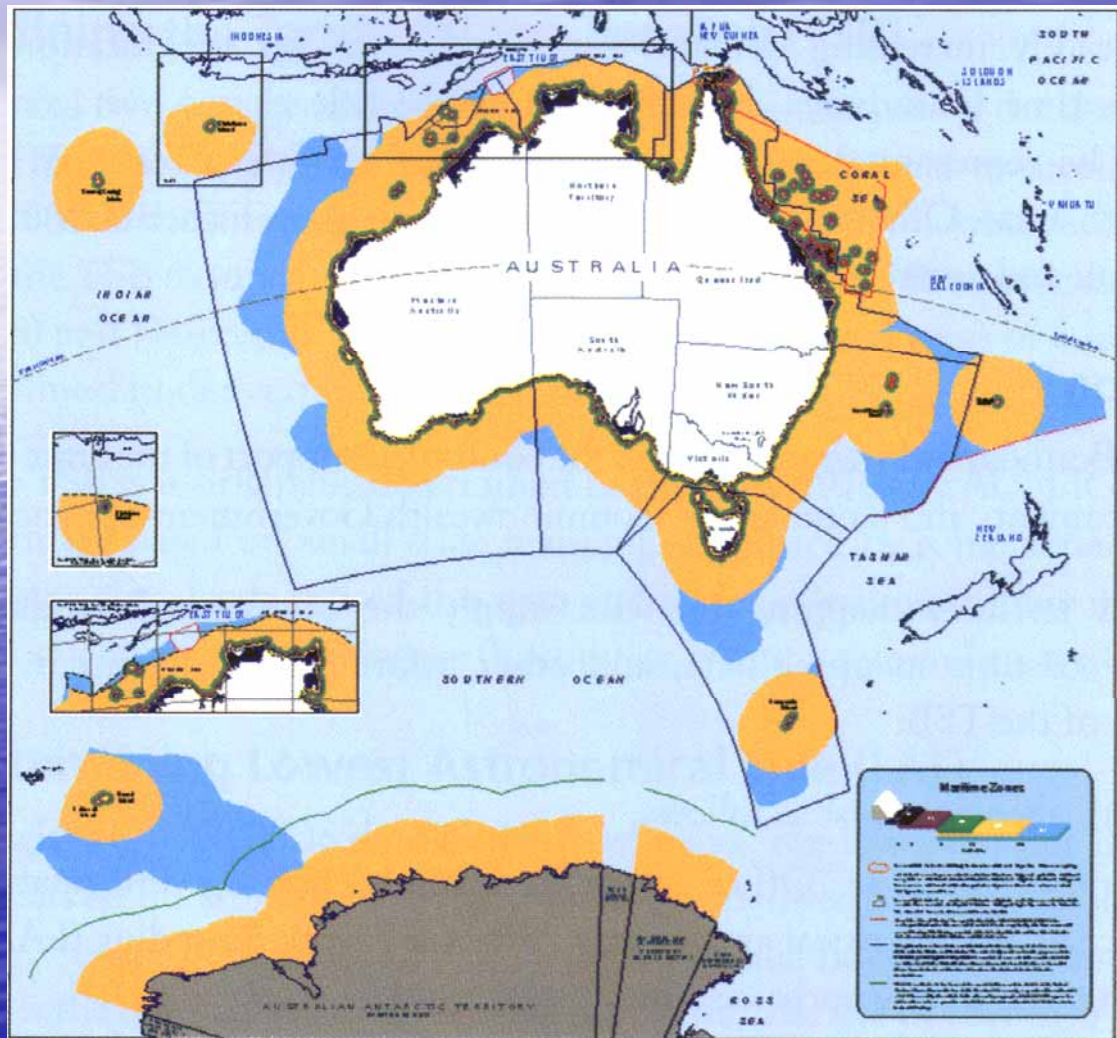


# EAST TIMOR'S DIRE STRAITS....

BY  [www.scratch.com.au](http://www.scratch.com.au)



# Australia's maritime claim



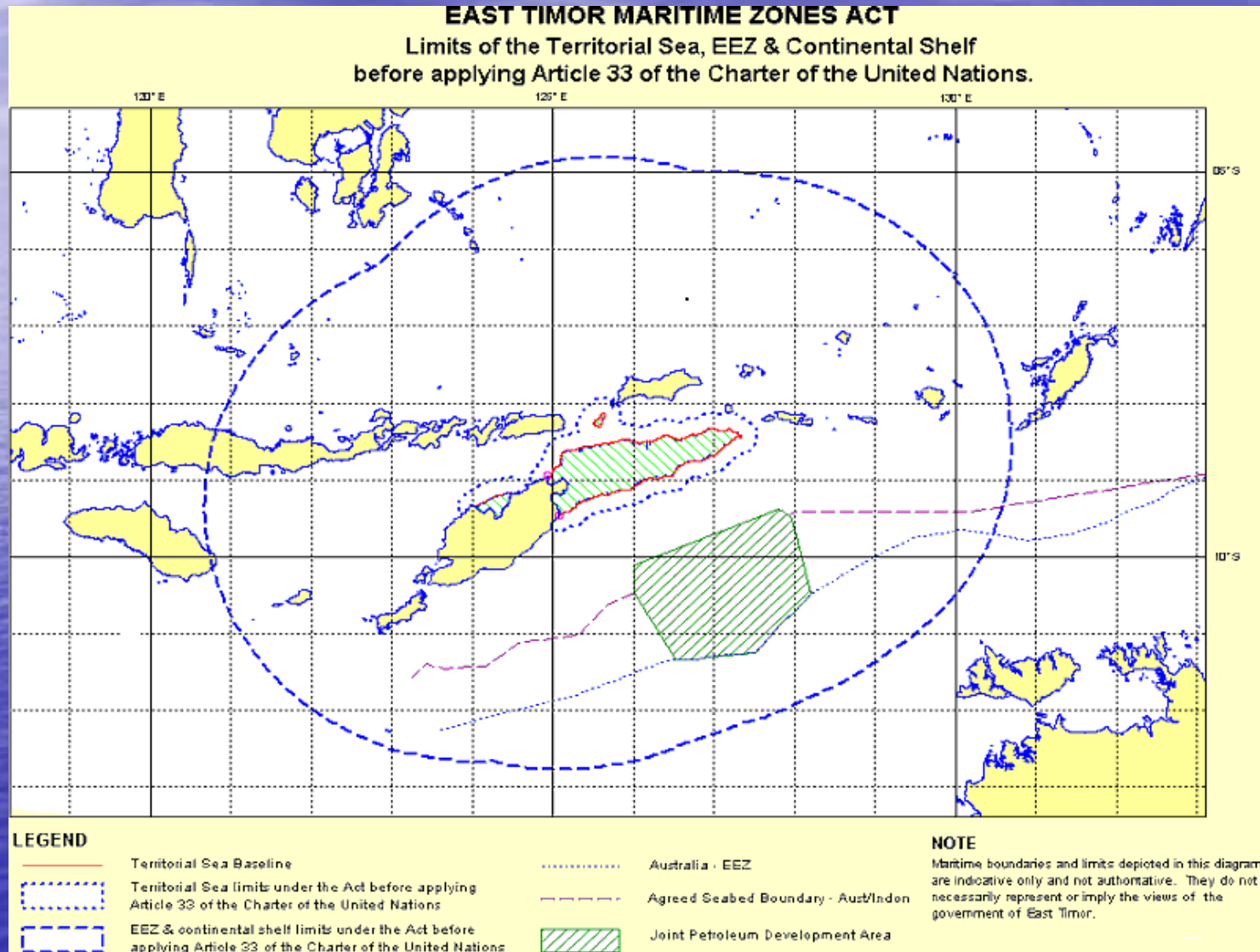
Australia claims maritime territory throughout the southern hemisphere, greater than its land area.

Green: 24-mile Contiguous Zone

Orange: 200-mile EEZ

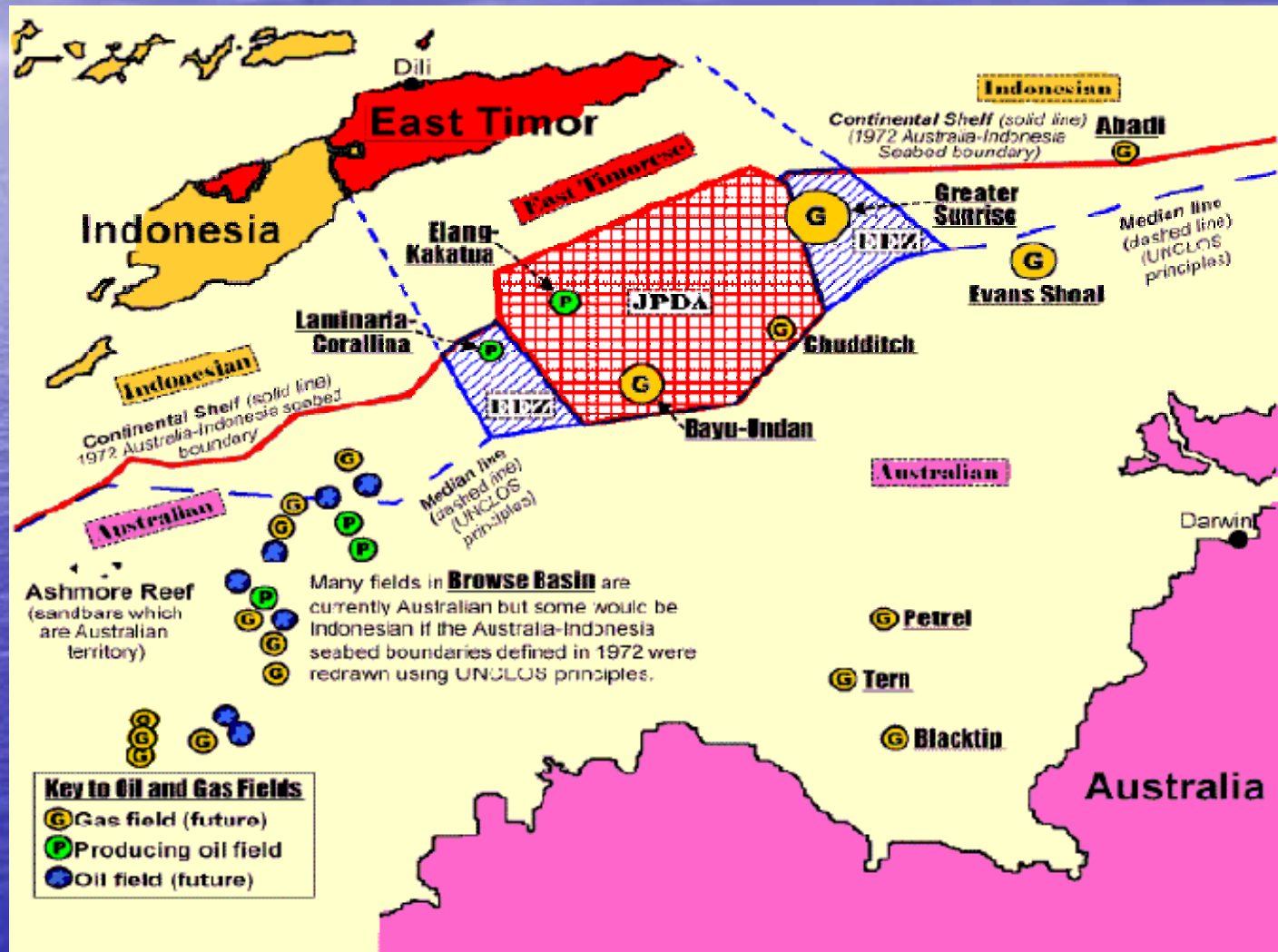
Blue: claimed Continental Shelf Prolongation

# Timor Leste's maritime claim

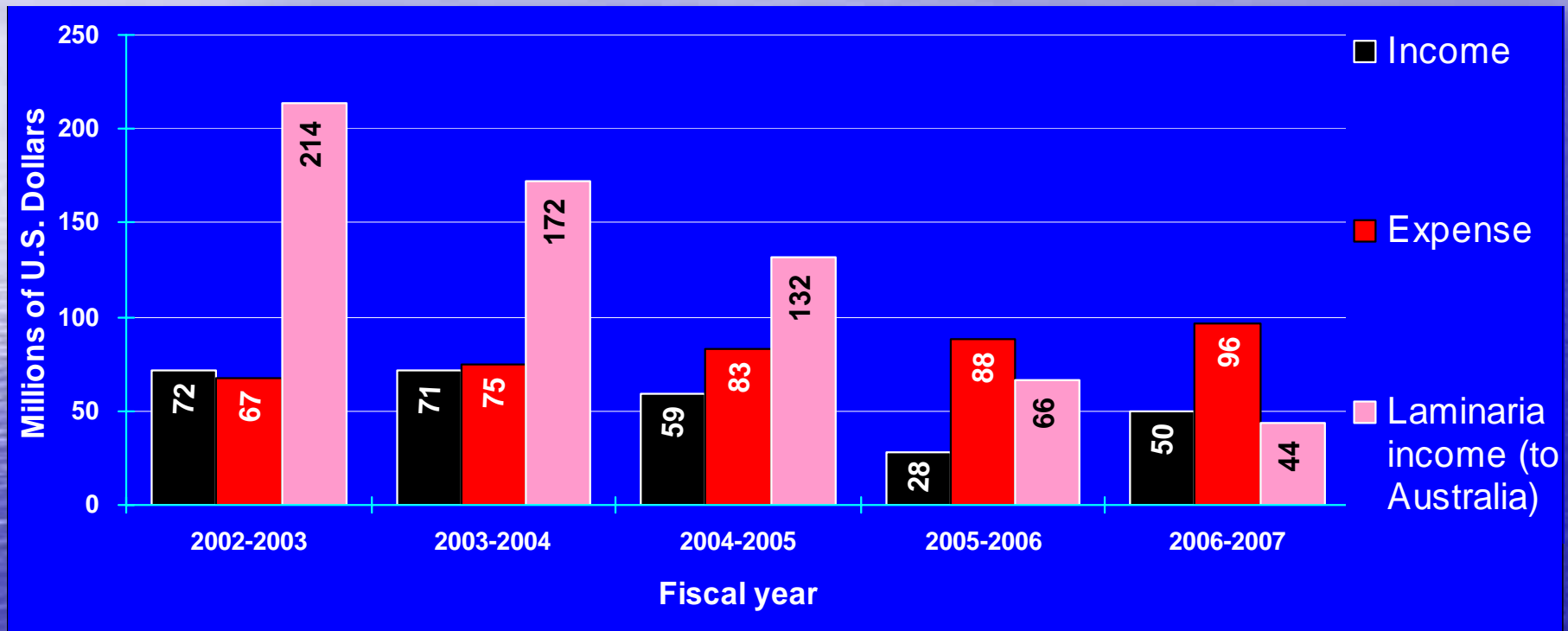




# Oil and gas fields in the Timor Sea



# Timor Leste's "Financing Gap" and Laminaria revenues stolen by Australia



Australia took in an additional US\$638 million from Laminaria-Corallina between November 1999 and 2002. This money all belongs to Timor Leste under current international legal principles.



How can we ever thank you?  
!

You already have.  
~

Nicholson

11.03.04