

**Two years on...
What future for an independent East
Timor?**

Executive Summary



**Oxfam Community Aid Abroad
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The 20th of May 2004 marks the celebration of the second anniversary of independent East Timor. However, after decades of struggle for independence, the battle now facing Australia's nearest neighbour is just beginning: The battle to overcome the extreme poverty of the vast majority of East Timorese people.

When East Timor celebrated independence in May 2002, the challenge of economic and social development lay ahead. Two years later, East Timor continues to face enormous development challenges. Only 60 per cent of East Timorese people can read and write, life expectancy is just 57 years and more than one in ten East Timorese children born today are likely to die before the age of five. East Timor remains the poorest country in East Asia.

Two years after independence, the Australian Government's approach to maritime boundary negotiations with East Timor is limiting East Timor's capacity to plan for and finance its future development. This could push newly independent East Timor to the brink of becoming a failed state through no fault of its own.

East Timor's paltry current annual budget of US\$74.6 million is heavily reliant on foreign aid, which is set to rapidly decline over the next three years. In May 2004 the Government of East Timor announced cuts to its expenditure budget of US\$40.5 million over the next four years. These cuts will likely further reduce the government's capacity to deliver essential services and improved infrastructure to meet the needs of the people of East Timor. Despite these cuts, East Timor still faces a budget deficit of US\$30 million for the next four years.

Fortunately for East Timor, there is a window of opportunity for financing its development needs and investing for future generations over the coming decades - the lucrative oil and gas reserves of the Timor Sea. Under the waters of the Timor Sea between Australia and East Timor lie vast reserves of oil and natural gas worth tens of billions of dollars which are currently subject to overlapping maritime boundary claims by the two countries.

The Australian Government is reaping more than \$1 millionⁱⁱ a day from oil fields in a disputed area of the Timor Sea that is twice as close to East Timor as it is to Australia. This is contrary to its obligation to restrain from exploiting these resources given the overlapping maritime boundary claim. In total, Australia has received nearly ten times as much revenue from Timor Sea oil and gas than it has provided in aid to East Timor since 1999.

Under a temporary treaty signed with East Timor, Australia has access to two-thirds of the known oil and gas deposits in the Timor Sea, even though a maritime boundary set according to international law could deliver most, if not all, these resources to East Timor.

East Timor has yet to negotiate maritime boundaries with its neighbours and wants to resolve ownership of the Timor Sea expeditiously. It wants access to the resources it believes it is entitled to under international law so that it can develop without being dependent on foreign aid.

The Australian Government is refusing to enter into maritime boundary negotiations in a timely manner. Whilst East Timor wishes to move the process forward with monthly meetings, Australia will only agree to discussions on a six monthly basis to negotiate a maritime boundary. This may drag the process on for decades. Australia has also denied East Timor's right to refer the issue to an independent umpire by withdrawing from international tribunals for maritime disputes.

Australia received enormous international recognition for its recent actions in East Timor through its lead role in INTERFET and through being a major donor to East Timor. However, the unfolding tensions over the Timor Sea that stand to push East Timor to the brink of becoming a failed state through no fault of its own, undermine Australia's relations with our closest neighbour and tarnish the current Australian Government's strongest foreign policy achievement – supporting the fledgling country over the past five years. If the people of East Timor are to have any chance at winning the battle against poverty, Australia should give them a fair go.

Recommendations

It is in Australia's national interest to do all it can to reduce poverty and promote social, economic and political stability in East Timor. Central to this is an urgent need to expedite agreement to a permanent maritime boundary with East Timor. Access to oil and gas revenue from the Timor Sea is a vital economic lifeline to address the poverty experienced by the majority of East Timorese people.

To this end, the Australian Government should:

- 1) Negotiate a permanent maritime boundary with East Timor within the next three to five years. In the event negotiations fail, the issue should be referred to the impartial independent arbitration process set out within the International Tribunal on the Law of the Sea (ITLOS).
- 2) Negotiate a maritime boundary in good faith and not link in any way development assistance or support for security in East Timor to negotiations over the Timor Sea. These are separate issues, and should be treated as such.
- 3) Reinstate Australia's adherence to the dispute settlement mechanisms of the International Court of Justice (ICJ) and International Treaty on the Law of the Sea (ITLOS).
- 4) Cease unilaterally issuing new exploration licenses in the Timor Sea in areas subject to overlapping maritime claims.

- 5) Hold all revenues from licensing, royalties and taxation on East Timor's side of the median line, but outside of the Joint Petroleum Development Area, in escrow until completion of negotiations on permanent maritime boundaries.

The Government of the Democratic Republic of East Timor should:

- 1) Initiate a process of public information and consultation and subsequently establish the proposed petroleum fund to ensure transparent administration of Timor Sea oil and gas revenues.
- 2) Ensure that East Timorese civil society organisations are allowed both sufficient access to information and are provided with political space to be active in scrutinising Government management of Timor Sea oil and gas revenues.

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Front cover image: Agretina, a student at Lauhata school in East Timor, watches a health and hygiene class hosted by Oxfam Community Aid Abroad. Credit: Lara McKinley.

ⁱ All dollar amounts are in Australian dollars unless otherwise stated.

ⁱⁱ Timor Sea Office: www.timorseaoffice.gov.tp