

Timor-Leste's oil wealth:

Financing government, building for development and providing for people

Presentation by Charles Scheiner to
25 Years of IPJET Conference

Lisbon, Portugal

29 May 2017



29 May /2017

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La'o Hamutuk?

- **The Timor-Leste Institute for Development Monitoring and Analysis, founded in May 2000.**
- **Timorese and international supporters "walking together" on the journey to create a new nation.**
- **An independent, Timorese, non-governmental organization which does research, policy analysis, public education and advocacy.**
- **Working toward participatory, equitable, sustainable and evidence-based policies and practices.**

Petroleum Dependency

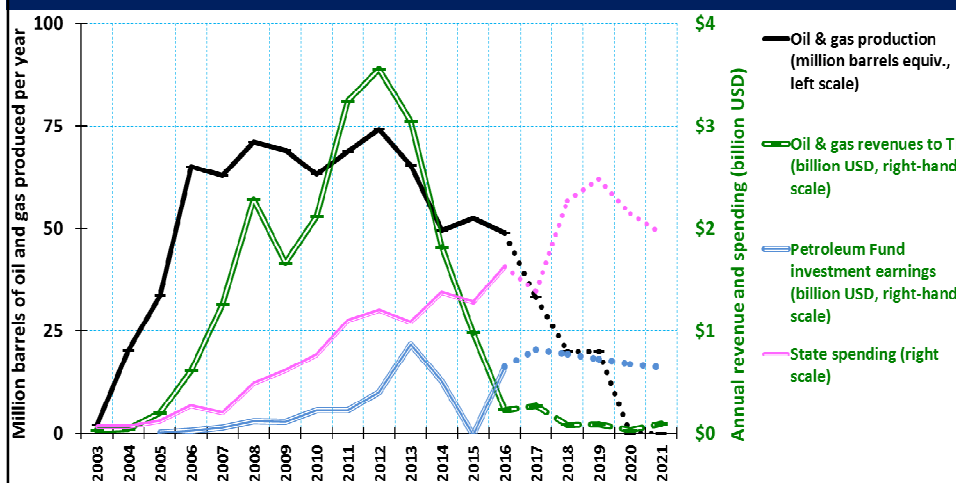
(million current US dollars)	2013	2014	2015
Petroleum GDP	\$4,234 (75%)	\$2,591 (64%)	\$1,496 (48%)
Non-oil GDP	\$1,410 (25%)	\$1,451 (36%)	\$1,607 (52%)
Productive (agric. & manuf.)	\$289	\$295	\$293

- Projected state revenues in 2017:..... **\$1,312 million**
 \$843 million (64%) from investing the Petroleum Fund
 \$263 million (20%) from oil and gas revenues
 \$206 million (16%) from non-petroleum sources
- 2017 State Budget:..... **\$1,387 million**
 \$1,079 million (78%) directly from the Petroleum Fund
 \$ 206 million (15%) from non-petroleum (domestic) revenues
 \$ 102 million (7%) from loans which will have to be repaid with interest
- State activities, paid for with oil money, are about half of the "non-oil" economy, because some of this money circulates locally.
- Petroleum "income" goes to the government, not the people.

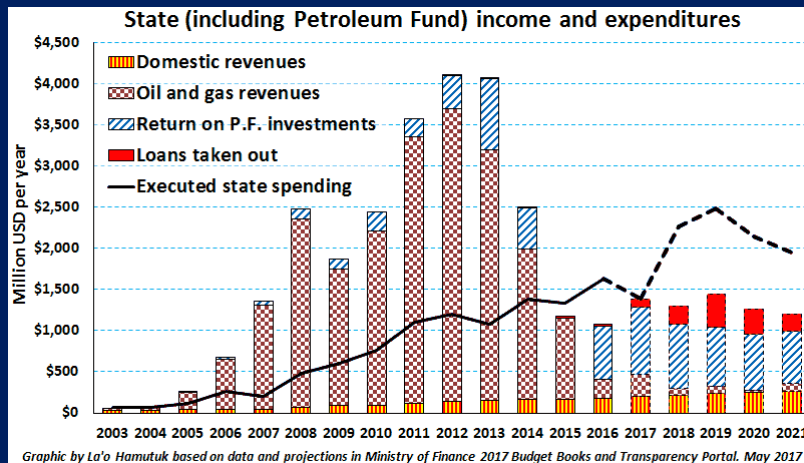
Only South Sudan, Libya (and Equatorial Guinea?) are more dependent on oil and gas exports than Timor-Leste was.

Oil and gas income has been falling since 2012.

Production is dropping faster than prices, and will not go back up.
 Revenue falls even faster as production costs increase.



Spending now exceeds income.

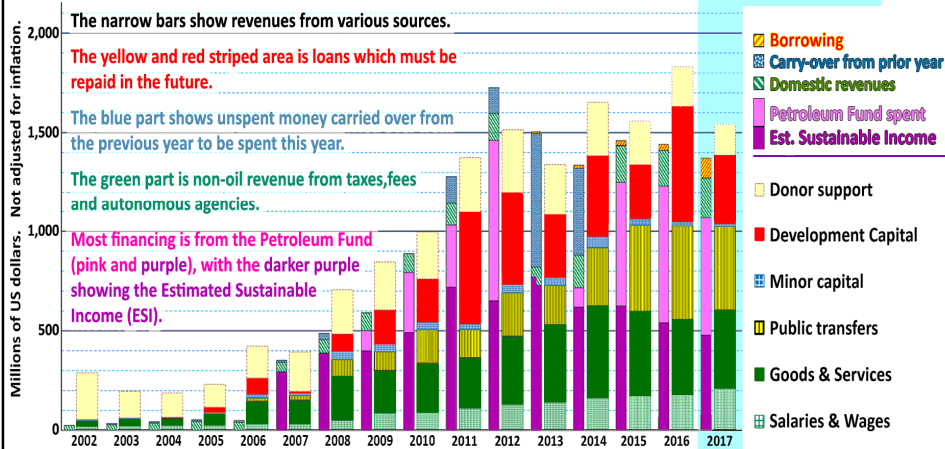


State Budgets 2002-2017

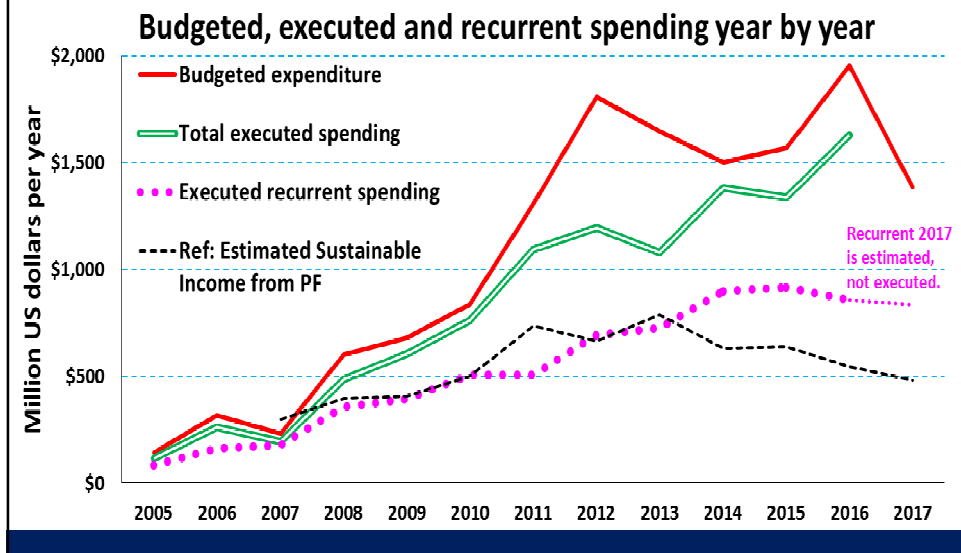
State Revenues and Expenditures (including auton. agencies)

2002-2016: Executed

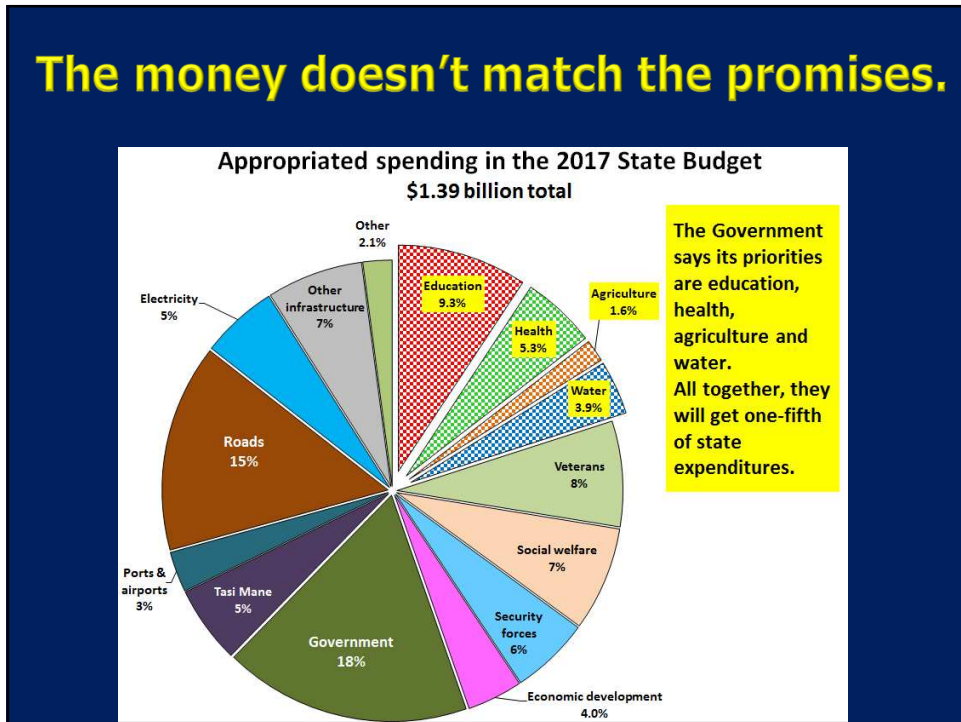
2017: enacted



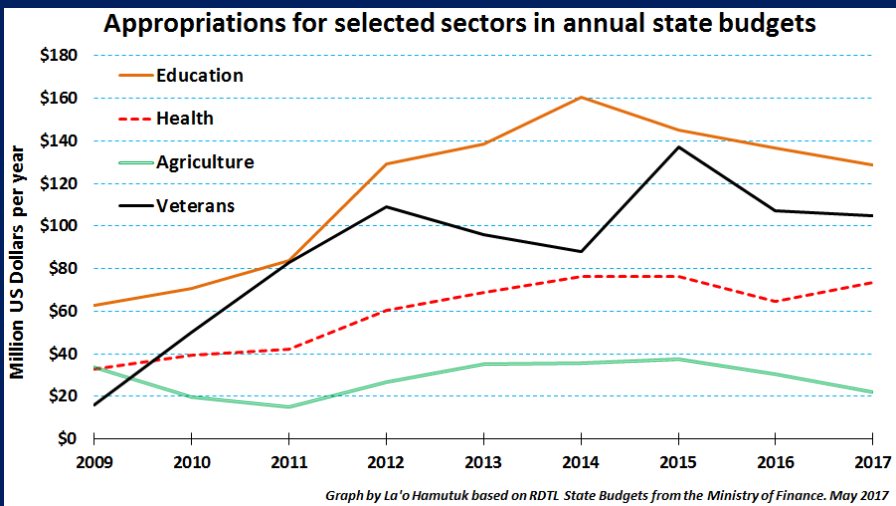
Budgeted & executed spending



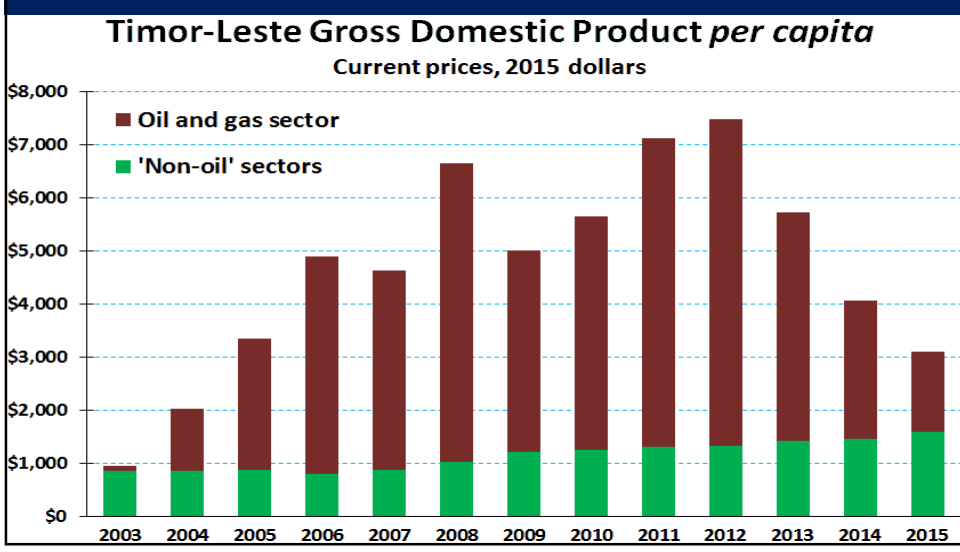
The money doesn't match the promises.



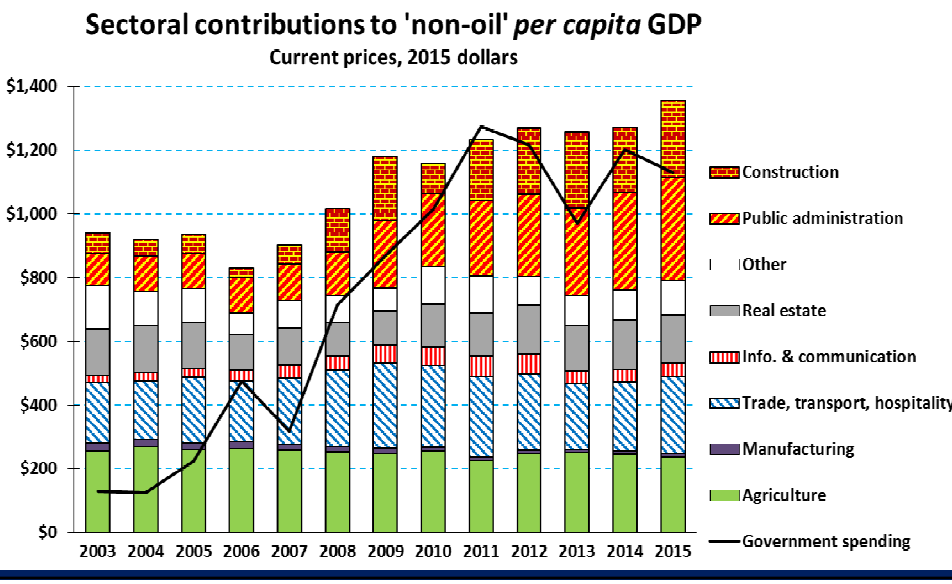
'Priority' sectors get less resources than they did three years ago, but veterans get more.



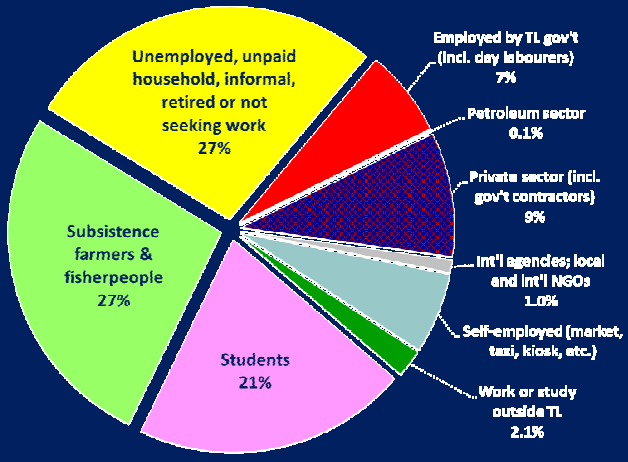
Oil dropped from 82% to 48% of GDP in three years and will continue to fall.



The 'non-oil', non-state GDP is stagnant.



What do 672,000 Timorese people aged 15-64 do for work?

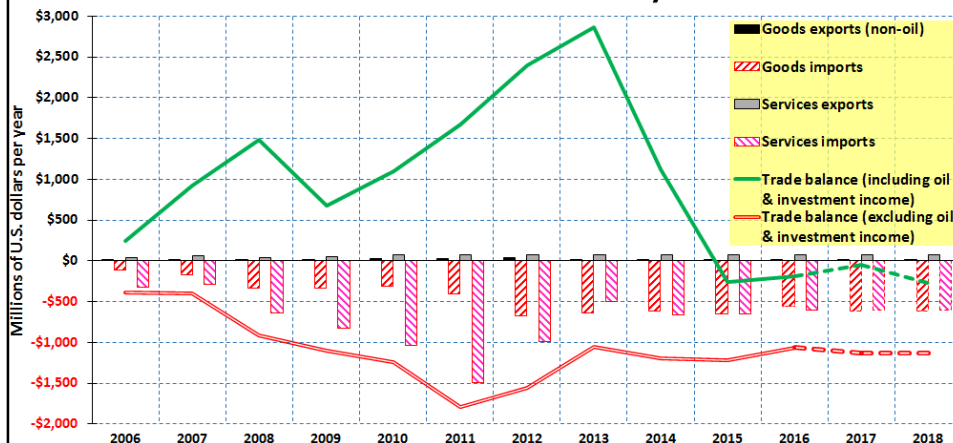


The potential workforce grows by 19,000 people every year.

Since 2015, more money goes out than comes in.

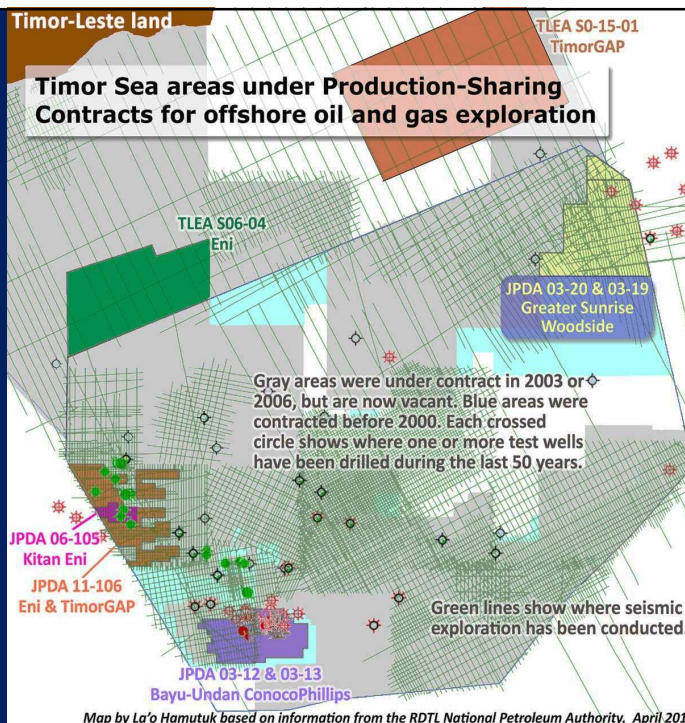
2016 trade:	services	non-oil goods	total
Imports	\$603m	\$559m	\$1,162m
Exports	\$ 77m	\$ 20m (99% coffee)	\$ 99m
Deficit	-\$526m	-\$539m	-\$1,063m

Timor-Leste's External Balance of Payments



Our seas have been explored for 50 years.

There may be no other fields.



Map by La'o Hamutuk based on information from the RDTL National Petroleum Authority, April 2016

What's in their future?



Use www.laohamutuk.org

Instituto ba Analiza no Monitor Dezenvolvimento iha Timor-Leste
 Timor-Leste Institute for Development Monitoring and Analysis
 Institut Permantauan dan Analisis Pembangunan Timor-Leste



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Go to the **Topic Index** to look up any posting by subject.
 Go to the **Updates Page** to see new items on this website.
 Go to the **Reference Index** (also **Tetum**) to find documents.

Type in this box to search La'o Hamutuk website and blog:

Recent Postings

- Apr 2017: **Creating a Mining Code / Dezenvolve Kóidigu Mineiru ba Timor-Leste** (Eng/Tet)
- Apr 2017: **Presidential Election** including pamphlet, radio program, TV interviews, results and **observation report** (also **Tetum**)
- Apr 2017: **Maritime boundary dispute with Australia** with documents, **submissions from LH** and others, articles and photos
- Apr 2017: **Bobby Boye: Convict, Advisor and Fraud** (also **Tetum**) **sentenced to six years in prison: loses appeal; files lawsuit to overturn sentence**
- May 2017: **Extractive Industries Transparency Initiative (EITI)** in Timor-Leste: reports and background
- Mar 2017: **Second UN Universal Periodic Review (UPR)** of Human Rights in TL
- Jan 2017: **U.S. Millennium Challenge Corporation (MCC)** to re-engage in Timor-Leste
- Dec 2016: **General State Budget for 2017**, including budget books and **La'o Hamutuk submission** (also **Tetum**), blog and invitation to public discussion
- Nov 2016: **Sulinning straw into gold: Facts remain true, regardless of public relations; also**

Pagina indise

- Orsamentu Estadu 2017 (4/17)
- Orsamentu Estadu 2016 (12/16)
- Fundu Petroliferu (2/17)
- Radio Inqualidade podcasts (3/17)
- Prosesu Kona-ba Rai (7/16)
- Fronteira maritima (5/14)
- Konferensia duador nan (7/16)
- Portu Tibar (8/16)
- Kazu Konupsaun Bobby Boye (1/16)
- Proiektu mina rai Tasi Mane (9/12)
- Base Fornesimentu ha Suai (10/13)
- Sunrise LNG (7/11)
- Kontratu faha produusaun petroleu (4/17)
- Lei Imprensa (6/16)
- PPP no Aeroportu Dli (6/14)
- Fabrika enerjia oleo pesadu (1/12)
- Dokumentu husi UNMIT no UN (12/12)
- TL tamé ha devé (3/12)

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- Petroleum Fund (2/17)
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- Land processes (7/16)
- Donors' conference (7/16)
- Tasi Mane oil/gas project (6/16)
- Bescu LNG plant (7/15)
- Suai Supply Base (6/16)
- Sunrise LNG (3/15)
- Betano refinery EIA (5/16)
- TimorGAP nat'l oil company (4/17)
- Tibar Port (8/16)
- Petroleum production-sharing contracts (4/17)
- Overdue petroleum taxes (4/17)
- Bobby Boye fraud (4/17)
- Media Law (6/16)
- Dli airport and PPPs (6/14)
- National electricity project (8/14)
- UNMIT and UN documents

Thank you.

You will find more and updated information at

- La'ó Hamutuk's website
<http://www.laohamutuk.org>
- La'ó Hamutuk's blog
<http://laohamutuk.blogspot.com/>

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**The rest of these slides provide
additional information about
topics discussed in this
presentation.**

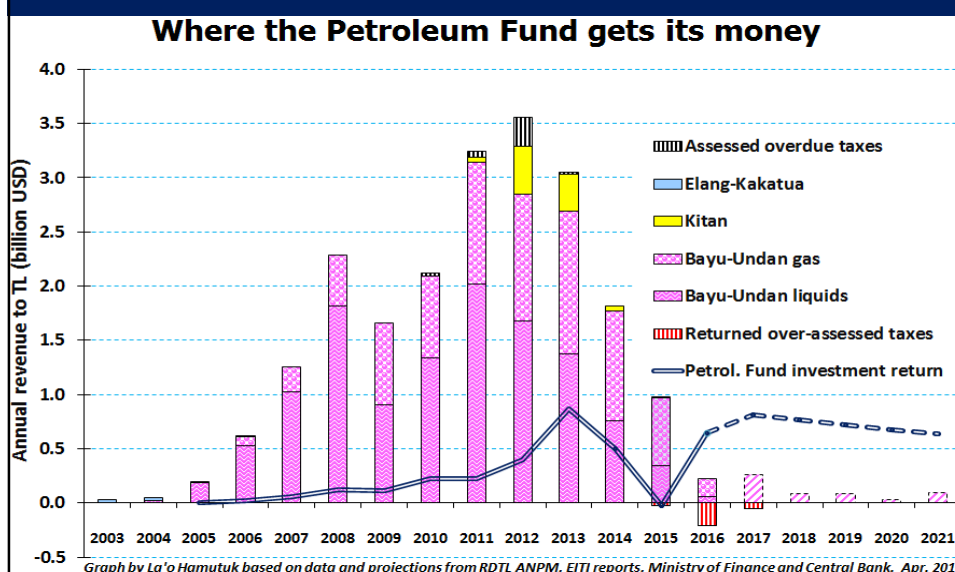
They are part of a longer presentation which is at

<http://www.laohamutuk.org/econ/briefing/RightSustainCurrentEn.pps>

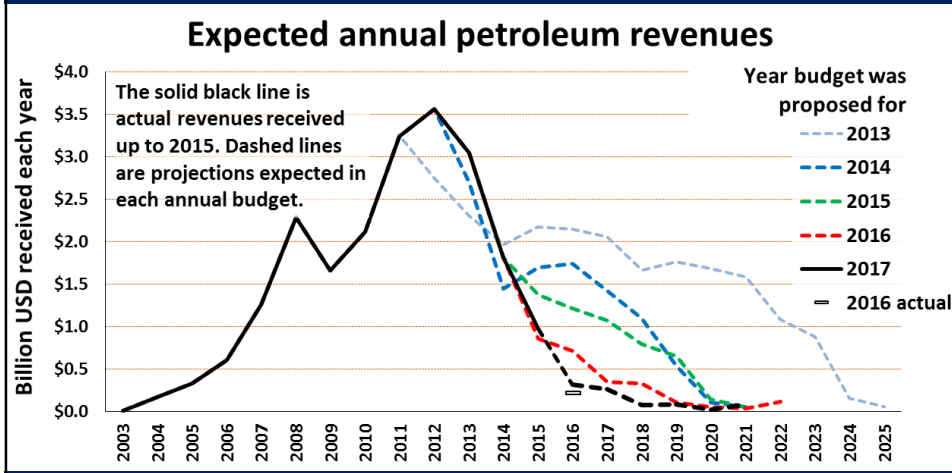
Basic Statistics

- Nearly half of Timor-Leste's people live in poverty.
- Two-thirds of our people live in rural areas, largely by subsistence farming.
- About 1,200 Timorese children under 5 years old die from preventable conditions every year ... 15 times the number of people who die from physical violence.
- Poor sanitation and malnutrition are endemic.

Where TL's oil income comes from

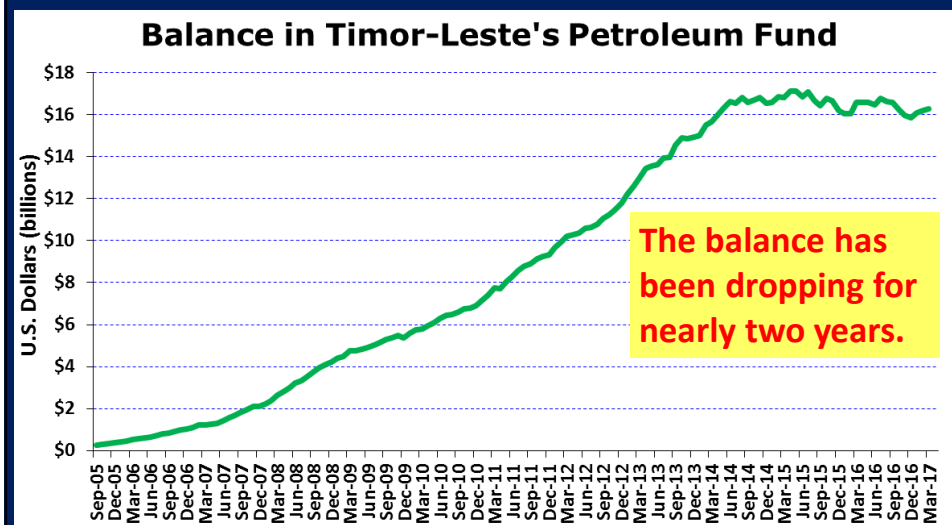


Oil income is lower than expected.

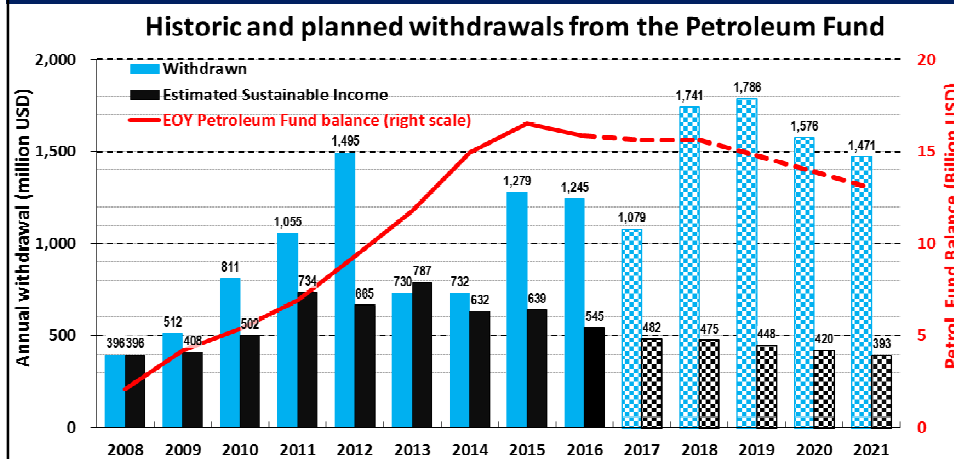


Timor-Leste has already received 98% of the revenue from Bayu-Undan and Kitan, and they will end entirely in 2021.

We've moved from oil dependence to relying on our declining savings.

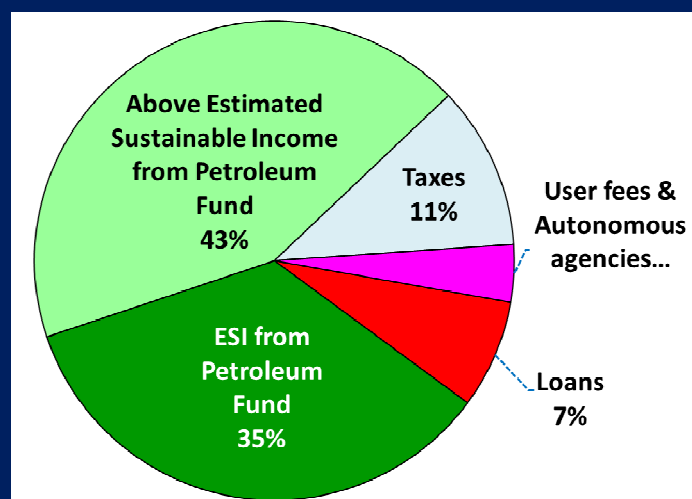


We're spending down our savings.

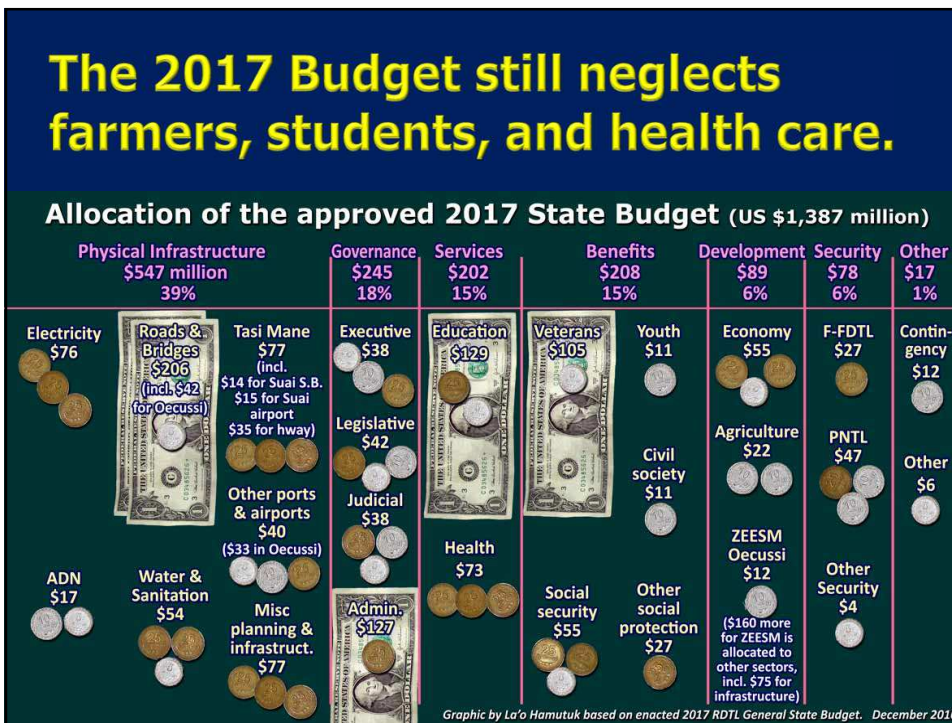
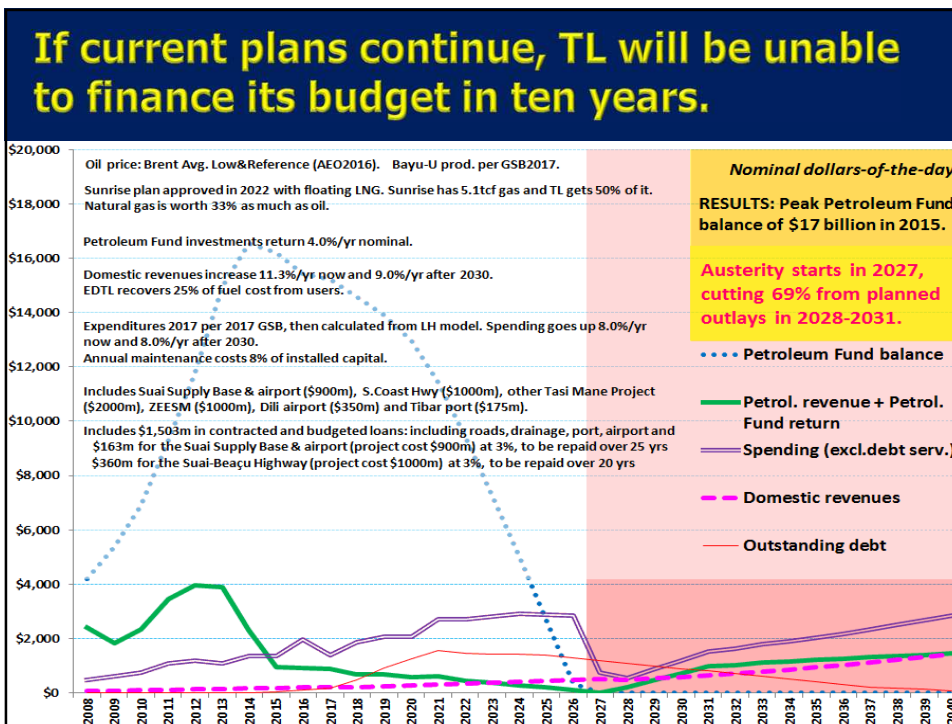


The Petroleum Fund balance at the start of 2016 was \$16.2 billion, significantly lower than the \$16.6b that the Ministry of Finance expected six months earlier. It was \$15.8b at the end of 2016; the Ministry had expected \$15.6b.

Income in the 2017 state budget



Total revenue: \$1,387 million, of which 85% is from past, present and future oil and gas income.

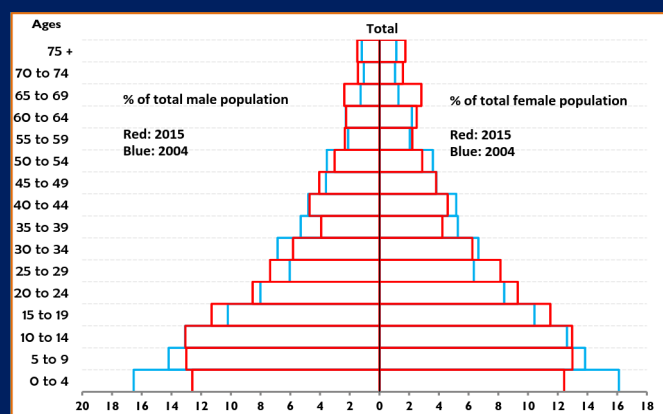


Real Threats to Real Security

- Human security is health care, food, education, employment, housing, etc.
- 20 times as many Timorese children under five die from avoidable conditions as people are killed by violence.
- These children will not be helped by police, soldiers or judges, but many donors prioritize the "security sector," seeing everything through a conflict lens.
- We must diversify our economy and strengthen our people and workers to prepare for the day our oil runs out and we can no longer pay for imports.



Many children are becoming youth.



Timor-Leste is struggling to find jobs for 19,000 people who will enter the work force in 2017.

By 2024, it will be about 28,000/year, and the oil will be gone. Today's youth will have their own children.

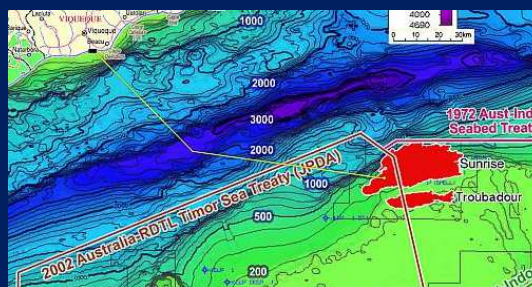
Tasi Mane petroleum infrastructure project

- In 2010, TL began the South Coast Petroleum Corridor.
- During 2011-2016, TL already spent \$286 million on it.
- Total project costs could be more than \$15 billion if Timor-Leste pays for the refinery, pipeline or LNG plant.
- The 2017 budget allocates \$65m in 2017 and \$1.62 billion in 2018-2021, but leaves out the biggest items.
- **The largest contract in TL history was signed in 2015: \$719 million to build the Suai Supply Base. It was ruled invalid.**



The Greater Sunrise stalemate

- The project is stalled because Timor-Leste and the companies do not agree on how it should be developed.
- Woodside and its partners Shell, ConocoPhillips and Osaka Gas believe a floating LNG plant in the sea is the most profitable.
- Timor-Leste wants a pipeline from Sunrise to Beaco, to get more tax revenues and anchor the Tasi Mane project.
- Under contracts and treaties, the companies can choose the path, but both governments need to approve it.
- TL could have withdrawn from most of CMATS at any time before a development plan is approved.
- Because of Australian spying, TL successfully pressured Australia to invalidate all of CMATS in January 2017.



Problems with the Tasi Mane project

- It makes TL more dependent on the oil and gas sector.
- Dubious concepts and planning; it is unlikely to provide a reasonable return on investment.
- It neglects sustainable development (agriculture, tourism, small industries etc.), exemplifying the obsession with oil.
- Nearly all the billions 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.
- Cost projections leave out most expenditures, including nearly all of the highway, LNG plant and refinery.
- What if Sunrise gas doesn't come to Timor-Leste?

The Government has made many unrealistic promises to local communities about profit-sharing, jobs and other benefits.

Special Market Zone in Oecusse

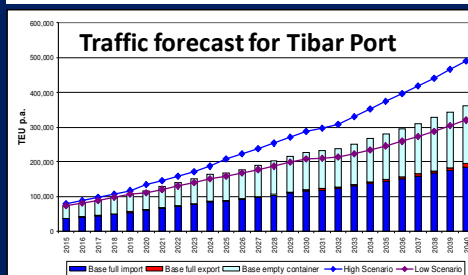
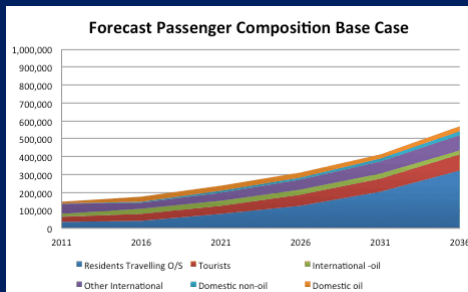


- In 2016, ZEESM got \$218 million with no accountability.
- What are Oecusse's competitive advantages?
- Can ZEESM justify a \$4 billion investment?

Who benefits: residents of Oecusse or political ex-opposition?

Overbuilding ports and airports

- IFC is encouraging Timor-Leste to build a port and airport far beyond realistic traffic expectations.
- How will the country pay for a \$6 billion annual trade deficit after the oil is gone?



Timor-Leste is going deeper into debt.

- Laws in 2009 opened the door to foreign loans.
- In 2012, Timor-Leste signed contracts to borrow \$107 million from Japan and from the ADB.
- In 2013, TL signed for \$90m more from ADB and World Bank. In 2015, TL signed for \$12m more from ADB. In December 2015, TL borrowed \$50m from China's Ex-Im bank. In March 2016, TL signed for another \$76m from the ADB. In April 2017, TL signed for \$35m more from the World Bank.
- During 2016-2021, TL hopes to borrow about \$1.3 billion:

2016	2017	2018	2019	2020	2021	Total
\$50m	\$102m	\$223m	\$399m	\$300m	\$200m	\$1.27bn

