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The Looting of Timor-Leste's Oil Wealth

Timor-Leste may have fought off two foreign invaders only to have its independence – and its precious petroleum fund – sold off by its own leaders.

By **Bardia Rahmani**

In development speak, a "white elephant" is a building project that is extremely expensive but that has little use or practical value.

It would not be a stretch to call Timor-Leste, Southeast Asia's most democratic nation but also one of its poorest, a graveyard of white elephants. All along Timor-Leste's southern coast lie the empty shells of multimillion dollar infrastructure projects – new,

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gleaming, but largely vacant – and the skeletons of those still under construction.

Take Xanana Gusmão International Airport in the coastal town of Suai. The airport, which was completed in 2017, is named for the country's revered independence leader-turned-politician. At a cost of $70 million, it strikes an impressive figure, a modern glass-and-metal marvel looming above sweltering jungle and corrugated tin shacks.

Enter the building, however, and there is not a single soul. Not at the check-in counter, its spanking-new desktop computers still wrapped in plastic. Not in the main lobby, cavernous and silent as a cathedral. And not at the departure gate, its empty chairs looking out onto a tarmac devoid of planes. The airport receives just one flight per day – an 11-person propeller plane from the capital, Dili – raising the question of how, exactly, the government justified its price tag.

Xanana Gusmão International Airport sits quiet in the coastal town of Suai.

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A stone's throw away is the four-lane South Coast Highway. Cutting a 32-kilometer swathe through dense forest from Suai to the village of Fatukai, it is among the best roads in Timor-Leste – and at a cost of $12 million per kilometer, certainly the most expensive. But like the airport, the highway is empty. In the 45 minutes it takes to travel its length, I spot only two motorbikes (both going the wrong way due to a lane-obstructing landslide) and not a single car. A group of children play in the middle of the road, unconcerned by the thought of oncoming traffic.

The airport and highway are not stand-alone curiosities. They are part of a larger state-led infrastructure push called the Tasi Mane project. Under Tasi Mane, the government plans to spend $10-14 billion on projects along the southern coast, including a supply base in Suai, a liquid natural gas plant in Beaçu, a refinery in Betano, and centrally planned grid cities in all three towns. The highway will link the projects together.

The ostensible goal of Tasi Mane is to transform Timor-Leste's undeveloped southern coast into a hub for the petroleum industry. In 2018, Timor-Leste struck a deal with Australia on their long-disputed maritime boundary. The deal gave Timor-Leste control of Greater Sunrise, an oil and gas field that lies in the sea between the two countries. Timor-Leste now plans to pipe the gas from Greater Sunrise to its southern coast to be cooled and exported abroad. Tasi Mane is thus central to the government's vision of an indigenous petroleum industry capable of supporting the economy for decades to come.

However, to pay for Tasi Mane, and to buy a controlling stake in the Greater Sunrise consortium, the government will have to shell out the majority of its $16 billion petroleum fund. The fund, derived from the revenues of past petroleum projects, provides for around 90 percent of Timor-Leste's yearly budget. The country is among the most oil-dependent in the world. In other words, like a gambler betting the family silver, the government has decided to put its entire non-renewable natural resource endowment – the money it uses to fund schools, hospitals, the water system, and the police force – on the line.

But Tasi Mane makes little sense from an economic perspective. Every independent expert interviewed for this article agreed that it would be far more efficient for Timor-Leste to simply pipe the gas to the already-functional gas liquefaction plant in Darwin, Australia, than to build a new petroleum industry from scratch. Besides the unnecessary, profit-eating cost involved, there is the technical hurdle of building a pipeline across the marine trench that separates the gas field from Timor's south coast. In short, the government plans to bet all its chips on a project with high risks and, if all goes perfectly well, few obvious returns.

Why, then, is Dili so dead-set on moving forward with Tasi Mane?

At first glance, the empty airport, the deserted highway, and the construction zones pockmarking Timor-Leste's southern coast might appear to be monuments to government incompetence, the spoiled fruits of a well-meaning development strategy gone wrong.

But James Scambary, an Australian academic and an expert on Timor-Leste, cautions against this reading.

“I’m highly skeptical that there is any development motivation in Tasi Mane,” he says. “It’s about kickbacks. It’s about securing overpriced projects and creaming off the excess. This is what happens at every single level, all the way from a rural toilet to a refinery.”

While the petroleum-funded megaprojects carry few benefits for normal Timorese, they have made certain individuals extraordinarily wealthy. It would thus be more accurate to view them as the byproducts of a *successful* strategy, one aimed at siphoning money from the country’s closely-guarded petroleum fund and channeling it to a small circle of beneficiaries: corrupt politicians, their friends, families, and allies, and foreign companies on the hunt for lucrative construction contracts.

This is the story of how elites used grandiose but questionable construction projects to subvert the strict rules governing Timor-Leste’s petroleum fund; how recent legal changes, including a law pushed through in January of this year, have made it easier for politicians to raid the fund; and finally, a tale of consequences, for Timor-Leste’s economy and its democracy. If the wheels of the corruption machine are allowed to keep turning, Timorese people might well see their independence – hard-won after a decades-long struggle – stolen out from under them.

The lobby of Xanana Gusmao International Airport, empty of staff or passengers

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Timor-Leste’s road to self-rule was rocky. The half-island nation was a colony of Portugal until 1975. After Portugal relinquished control, Timor-Leste enjoyed just nine days of freedom before neighboring Indonesia invaded and occupied the country.

For decades, Timor-Leste violently and nonviolently resisted Indonesian rule. At least 100,000 people died from conflict-related violence, starvation, and disease. The struggle culminated in a 1999 referendum in which Timorese overwhelmingly voted for independence, followed by an explosion of violence as the departing Indonesian army and its paramilitaries went on a vengeful killing spree. Finally, after a UN peacekeeping mission quelled the chaos, Timor-Leste gained formal sovereignty in 2002.

As the world's newest democracy, and one of its most petroleum-dependent states, Timor-Leste recognized that its natural resource wealth had to be made to serve the interests of its people. If it could get petroleum right – if it could manage those resources fairly, equitably, and sustainably – it might be able to avoid the curse that plagued so many resource-rich countries and ensure the success of its democratic experiment.

With the support of a bevy of international advisers, Timor-Leste set about crafting a natural resource governance framework that drew on best practices from around the world. The framework had two major components.

The first component was the Petroleum Fund Law. This 2005 law decreed that all oil and gas revenues were to be deposited directly into the petroleum fund by the state-owned oil company, TimorGap. To minimize the risk of losses, 90 percent of the fund was to be invested in foreign government bonds and none inside Timor. Every year, once Parliament approved the government's budget, Timor-Leste would transfer enough money from the fund to cover the budget. A 2008 tribunal ruled that the Petroleum Fund Law was to take precedence over other laws.

The second component was a collection of rules governing state contracts. The Petroleum Activities Law of 2005 outlined how the Timor-Leste government was to relate to oil companies. In 2011, Parliament passed a critical piece of legislation requiring that contracts awarded by the government to private companies for the purpose of developing infrastructure projects go through prior review by an audit court. The audit court would decide if these contracts were awarded fairly and made economic sense. If not, it could strike them down.

At the time these laws were written, the World Bank described Timor-Leste as the "world leader in the responsible management of oil revenues."

Soon, oil and gas dollars began pouring into the country's coffers. With a strong legal regime protecting the petroleum fund from crooks and rent-seekers, it appeared that Timor-Leste might indeed overcome the resource curse.

But just because a bank has a safe does not mean robbers won't try to crack it. The prospect of millions – potentially billions – of dollars ripe for the taking proved enticing for foreign economic interests and the more unscrupulous members of Timor's elite.

These elites devised a workaround, one that had been successfully deployed in other countries. The rules governing the fund made it nearly impossible to transfer petro-dollars to private bank accounts. However, it was perfectly legal to pass a budget that would invest those dollars in infrastructure projects: big, bloated megaprojects valued far above their actual worth and contracted out to foreign companies in exchange for kickbacks.

"How it generally works is that you inflate the price of an item," Scambary explains, "and from the excess you generate the payment to the contractor and the commission to the politician or the public servant."

There are three cogs in this machine. The first is the Timorese politicians – anyone from a high-ranking party leader to a low-ranking bureaucrat. They have the political power to define projects, pass state budgets, and award contracts to whomever they see fit.

The second is the foreign companies. They have the resources to carry out contracts and the deep pocketbooks to bribe politicians responsible for awarding them.

The third is the brokers, the middlemen connecting the companies to the politicians.

"The brokers are unnamed people who have influence in government," says Scambary. "They give inside information to the company so they can prepare a bid that suspiciously matches an upcoming tender. Or, alternatively, the foreign company will use the broker to lobby the government to pursue a project it otherwise wouldn't have, saying, 'We think you should have this particular thing, and this company should build it.'"

The strange story of how the Suai airport came to be helps to illustrate this process.

In 2012, the Parliament of Timor-Leste gave TimorGap the go-ahead to construct an airport in Suai. Five companies submitted bids to construct the airport, and it fell to the National Procurement Commission (NPC) to decide which would receive the contract.

The NPC stated publicly that it would make its decision based on which company had the highest quality score and lowest bid price. By this metric, China Harbor, a Chinese company, should have won the contract. Instead the NPC awarded the contract to Waskita Karya, an Indonesian company, for $68 million, despite the fact that Waskita had a lower quality score and a higher bid price than its competitor.

According to a source with knowledge of the matter, Zenilda Gusmão, who acted as the broker in this case, "stepped in on behalf of Waskita and subverted the tender process." Zenilda Gusmão is the daughter of former President and Prime Minister Xanana Gusmão, Timor-Leste's most powerful political figure and the man for whom the airport is named. NPC's director Aniceto Do Rosario, a Xanana-era appointee, acquiesced to the request and recommended that Waskita Karya receive the contract. The Council of Ministers approved. In 2014, a further $19 million was added to Waskita Karya's contract.

Neither Aniceto Do Rosario nor Zenilda Gusmão responded to *The Diplomat*'s request for comment.

Charles Scheiner, a researcher at La'o Hamutuk, an independent Timorese NGO focused on development processes, sees the Suai airport as a particularly egregious example of misguided infrastructure spending.

"The plane that flies there, it's tiny. It can land on a grass strip. It doesn't need a big airport," he says. "The second mistake was building the airport for more than $80 million. But the first was deciding to build it at all."

Of course, the problem goes beyond one airport, one broker, or one company. As Scambary observes, and *The Diplomat*'s analysis confirms, most if not all of the foreign companies that have won tenders for major projects under Tasi Mane have been implicated in cash-for-contract deals or collusion scandals in their own countries. For example, South Korean Hyundai Engineering and Construction, which received a whopping $719 million contract in June 2015 to build the Suai supply base, was barred for two years by its own government from bidding on state contracts following a collusion scandal.

But the corruption machine is bigger even than Tasi Mane. Infrastructure routinely dominates the state budget, crowding out investments in health, education, and public safety. In recent years, over half of government spending has been on a handful of big construction projects. By contrast, only 9 percent of Timor-Leste's 2018 budget was allocated to education and just 6 percent to health, far lower than the average among Least Developed Countries (LDCs).

Still, even as Timorese politicians and foreign business elites enriched themselves under this cash-for-contracts system, it was not yet open season. Infrastructure spending ultimately had to be approved by Parliament, and thus ran the risk of being voted down or held up by partisan gridlock, as happened in 2018.

More meddlesome was the audit court, which Scambary calls "the one shining light" for political accountability. Tasked with performing prior review of infrastructure contracts, the courts curbed some of the government's worst impulses. In 2018, the audit chamber rejected a contract to borrow $50 million from China to redo Dili's drainage system. It even struck down the half-billion-dollar contract awarded to Hyundai Engineering for the Suai supply base – though this ruling was later reversed on appeal.

The petroleum fund was battered, but not broken. So long as Parliament and the audit courts had teeth, there remained important safeguards on how Timor-Leste's riches could be spent.

A common thief might continue to dream up ways to crack the bank's safe. But a master thief might instead ask: What if I could convince the bank to get rid of its safe?

That is what Timorese elites set out to do next. Winning control of Parliament, they openly legislated to dismantle the legal regime governing the petroleum fund. This time, their goal was not to subvert the rules, but to remove them.

The sea between Timor-Leste and Australia holds vast oil and gas deposits

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For the first decade after independence, Fretilin, the successor party to Timor's resistance movement, dominated the country's political scene. But after a quasi-civil war broke out in 2006, Xanana Gusmão, the national hero who had led the resistance on the battlefield, founded a new party, the Congress for National Reconstruction of Timor-Leste (CNRT).

Some of the members of parliament who made up CNRT's ranks – though not all – had been opposed to independence in the 1990s, seeing autonomy or integration as more pragmatic. As the violence escalated, several received scholarships to live, work, and study in Indonesia. It was during this time that they forged close relationships with members of Indonesia's political and business elite, including the leaders of state-owned construction companies.

Between 2007 and 2015, CNRT was part of the majority coalitions in Parliament. In 2011, with Xanana Gusmão as prime minister, the CNRT-controlled Parliament passed a revision to the Petroleum Fund Law.

The revision lowered the share of the petroleum fund that had to be invested in bonds from 90 percent to 60 percent. This opened the door for millions more petro-dollars to be allocated toward domestic projects. Many of these projects were contracted out to Indonesian companies, which Scambary sees as the reaping of seeds sown during the war years.

More troubling, the law set a precedent that if a petroleum-related law contradicted the Petroleum Fund Law, the latter could be overruled. This paved the way for amendments that could alter or even eliminate elements of the country's petroleum governance framework.

In 2018, a CNRT-led coalition was once again in control of Parliament. The coalition introduced a new amendment to the Petroleum Activities Law. While the proposed amendment contained many provisions, two stood out as particularly radical.

The first stated that the petroleum fund could be invested directly in "petroleum operations" without having to go through the state budget. In other words, TimorGap's officials could simply transfer money from the fund to any project they deemed to be a "petroleum operation" without needing to seek parliamentary approval.

The second provision stated that contracts for "petroleum operations" no longer had to go through prior review by the audit chamber. The courts, the last independent check on petroleum fund spending, would be barred from inspecting such contracts.

But what exactly were these "petroleum operations" that were to escape oversight?

“The way it’s written, it could be interpreted extremely broadly,” says Scheiner of La’o Hamutuk. “That’s the point.”

The refinery in Betano and LNG plant in Beaçu would almost certainly qualify as petroleum operations. However, so might projects only tenuously connected to oil like the Suai airport and the South Coast Highway, since their purported aim is to enable participation in the petroleum industry. Some observers have even speculated that the government could, in a display of circular logic, call anything a petroleum operation simply because it is being funded by petro-dollars.

In short, a petroleum operation is whatever the government says it is. And with the audit court out of the picture, who would be left to challenge the government’s interpretation?

With CNRT and its allies forming a majority in Parliament, members pushed forward with the amendment. In December 2018, it passed Parliament. President Lu-Olo Guterres of the Fretilin party quickly vetoed the resolution, arguing that it would undermine the rule of law.

Parliament moved to override the veto. Fretilin walked out in protest.

On January 10, 2019, the veto was overturned and the amendment passed into law by a vote of 48-1. A single member of parliament, Adriano Do Nascimento of the independent PD party, opposed the amendment.

According to some of the experts interviewed for this article, the amendment removed the last of the safeguards protecting the petroleum fund from rent-seekers.

“There really isn’t much else that stands in their way,” says Scambary. “I don’t think there’s any real thorn in their side anymore.”

The weakening of the audit courts in particular might have a knock-on effect beyond the oil sector, eroding the institutions for oversight and accountability that are necessary to a functioning democracy.

“The danger is that you might continuously undermine the role of the courts in providing oversight, not only in terms of how state money is spent, but whether politicians are abiding by the rule of law in general,” says Guteriano Neves, a Timorese economic advisor to the prime minister.

In other words, Timor-Leste’s democracy may be left weaker than it would have been had the country never tapped its oil and gas fields.

Undoubtedly, the lesson the international community will draw from this is that developing countries will need even stronger institutions than Timor-Leste’s next time around. They will need better laws, tougher courts, more rules, requirements, and regulations – the perfect natural resource governance framework.

But this might be missing the point. Perhaps the lesson is not that developing countries need stronger institutions, but that oil *corrodes* institutions, no matter how strong they are at the outset. Oil creates powerful incentives for aspiring rent-seekers to chip away at democracy so that they can operate under the cover of darkness. This is especially true where political systems are just starting off or economies are insufficiently diverse. Perhaps it would be safer for democracy, not to mention the environment, to leave oil in the ground.

When it comes to the future of Timor-Leste’s economy, the effects of the January amendment are difficult to predict. But they are potentially seismic.

“I think the biggest danger is that basically [officials will] raid the petroleum fund,” says Scheiner. “They’ll call it investments, but it won’t be investments that produce return. And as a result the government will have no money to operate in 10 years.”

If that happens – if Timor-Leste burns through its petroleum wealth in the next few years – the consequences would be felt in almost every sector of public life.

“Our projection is that once the petroleum fund is used up, government spending is going to have to be cut by about 70 percent,” says Scheiner. “So that means closing 70 percent of schools and hospitals, laying off 70 percent of the police force, not maintaining 70 percent of the roads."

The prospect of a population stripped of its vital public services, competing for scarce goods without a functioning police force to keep order, is a frightening one. It recalls the nightmare of Timor-Leste's not so distant past. Could the country conceivably see a return to unrest or even violence?

"Well, it depends what you mean by violence," says Scheiner. "To me, starving people by taking away their ability to get food to eat is violence. It's just as deadly as a machete or a gun. But in terms of a widespread popular alternative movement…?"

Scheiner pauses, considering the possibility.

"I wish there would be. I wish people would assert their rights more actively, rather than passively relying on their leaders."

Ameu and Azai hope the Tasi Mane project will bring jobs to Suai.

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Historically, Timorese have been tireless in advocating for their rights. Portugal's colonial administrators had to contend with local leaders intent on subverting their rule. Indonesia saw Timor's fighters wage a costly guerrilla war against it and its activists receive a Nobel Peace Prize for their impassioned defense of freedom.

Even today, Timor-Leste's political system is marked by high voter turnouts and perennial demonstrations against perceived corruption and economic injustice. In November 2018, for example, students at the National University of Timor-Leste (UNTL) organized a series of protests against the decision by members of Parliament to buy themselves millions of dollars in new Toyota

Prados instead of prioritizing social spending. Several of the students were gassed, beaten, and arrested.

Yet for some reason, the issue of oil – which concerns not millions of dollars, but billions – does not appear to draw the same level of public attention or scrutiny.

One explanation is that people generally accept the government's economic rationale for projects like Tasi Mane.

Ameu and Azai, both from Suai, work at the TimorGap gas station near the airport. They say that local residents are optimistic about Tasi Mane.

"We hope it will create jobs. Jobs for Timorese people, not just *malae*," says Ameu, using the Tetun word for foreigner. "It hasn't happened yet, but we hope it will."

"I think a lot of people think these [projects] are good ideas and that they will eventually benefit them, that there will be some kind of bonanza that will come from them," says Scambary. "That's what the government has been telling them."

The government's economic case rests on a 2016 report by the consulting company ACIL-Allen suggesting that Tasi Mane could be profitable.

However, ACIL-Allen has a history of making dubious claims at the behest of resource-rich countries. In 2008, it predicted that an Exxon-led LNG project in Papua New Guinea would double the country's GDP. The project turned out to be a disaster, with the expected gains failing to materialize and the country's debt and deficit skyrocketing. According to La'o Hamutuk, ACIL-Allen's Tasi Mane report suffers from similarly unrealistic assumptions and projections, mostly provided by TimorGap

But as Timorese adviser Guteriano Neves points out, economic arguments for and against Tasi Mane and the January amendment are unlikely to register with the public.

"Sure, there is some public discussion about oil, for example from [economic watchdog] La'o Hamutuk," he says. "But the amendment is very technical. Only a small number of people understand it. Most don't."

Because economic arguments tend to be a wash for most people, Neves explains that public discussion has largely revolved around questions of nationalism and patriotism: Are you for Timor-Leste – for its right to develop its own petroleum industry – or against it?

“The petroleum sector in Timor-Leste has been framed in a very nationalistic kind of way,” says Neves. “And it is a part of the legacy of being occupied, of being colonized. There is a sense that, no, this belongs to us and we should have complete authority.”

“Xanana [Gusmão] has been able to capitalize on this kind of argument. Suddenly we have a maritime boundary and this oil is ours, so why don’t we develop it ourselves? People don’t care how we develop it. That’s the government’s job. But the question of whether we should develop it ourselves – that they understand. So it becomes a kind of nationalism,” says Neves.

In this climate, even the most reasoned economic critiques of Tasi Mane or the January amendment are likely to be dismissed as manifestations of neocolonialism.

“Officials call everyone who is against the Tasi Mane project unpatriotic, unnationalistic, saying that they serve the foreign interest,” says Neves.

La’o Hamutuk, which releases critical but objective appraisals of the Tasi Mane project, tries its best to ignore such rhetoric. Scambary says he has been labeled “anti-Timor” for his research and has received “continued hostility from government officials and their supporters.”

According to one ranking Timorese policymaker, who requested anonymity in order to speak freely on this topic, even being born and raised in Timor-Leste is no shield against such criticism.

“My own family, they don’t agree with me on Tasi Mane. They say I’m wrong,” says the policymaker. “So now I have changed my argument. In order for me to continue to be relevant in this discussion, I must accept the fact that [Tasi Mane] will go ahead and try to work within that, and to use patriotic arguments. Because if you make a purely economic argument, you will be dismissed.”

The experts interviewed for this article contend that there is, in fact, a “patriotic argument” to be made against Tasi Mane and the January amendment.

If all that Scheiner and La’o Hamutuk predict comes to pass – if injudicious infrastructure spending depletes the oil fund in a matter of years – Timor-Leste may have no choice but to seek financial assistance from abroad. Any assistance would likely come with stringent conditions that could force Timor-Leste to essentially cede elements of its sovereignty.

For example, if Timor-Leste were to secure a loan from China, it could find itself in the same “debt trap” that has ensnared countries like Sri Lanka and Djibouti, both of which were forced to hand over control of vital ports to Chinese companies. Alternatively, Timor-Leste might share the fate of Nauru; having blown through its mineral wealth, Nauru accepted aid from Australia in return for housing its notorious refugee detention centers. Ensuring the petroleum fund does not run out could be the best way for Timor-Leste to protect its political and economic autonomy into the future.

Still, the fact that critiques must be packaged in terms of nationalism at all represents a final, perverse effect of oil: a narrowing of the public discourse. That the quality of debate has declined so precipitously in a country that has few formal limits on free speech and for which open dissent has always been a source of pride, is disappointing – a betrayal of the promise of independence.

It does not help that the most vocal advocates for Tasi Mane – and for revising the oil fund’s rules – are heroes of the liberation struggle. People like Xanana Gusmão risked their lives for Timorese independence. It is no mystery, then, that people trust what they say.

“Most of the leaders of Timor today are former fighters or leaders of the movement against Indonesian occupation,” says Timorese activist Juvinal Dias, whose TV program “Timor-Leste Diskute” has sought to spread public awareness about petroleum issues.

"The difficulty we face is convincing people to criticize these leaders," he says. "It's very difficult to get someone to oppose the government's policy, because leaders come from the resistance and people still feel loyal to them."

The irony – the tragedy – is that Timor-Leste may have fought off two foreign invaders only to have its independence sold off by its own leaders.

If the country is to avoid this outcome, if it is to ensure that the wealth beneath its feet serves the interests of the people, it must shake off the ghosts of its past. Otherwise the Timor-Leste of tomorrow will be the Timor-Leste of today: An emerald island, heartbreaking in its beauty, scarred by empty airports, deserted highways, and broken promises.

The Author

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