



Submission No 45

Inquiry into Australia's Relationship with Timor-Leste

Organisation: Austrade

Joint Standing Committee on Foreign Affairs, Defence and Trade
Foreign Affairs Sub-Committee

**Inquiry by the Joint Standing Committee on Foreign Affairs,
Defence and Trade into
Australia's Relationship with Timor-Leste**

Submission by the Australian Trade Commission

TERMS OF REFERENCE

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall inquire into and report on Australia's relationship with Timor-Leste, with special emphasis on:

- bilateral relations at the parliamentary and government levels;
- aid, including support with governance issues;
- economic issues, including trade and investment;
- cultural, educational and scientific relations and exchanges;
- people to people links; and
- defence cooperation and those aspects of regional security that affect Timor-Leste.

The Committee will consider both the current situation and the opportunities for the future.

Submission by the Australian Trade Commission (Austrade)

Summary

Whilst the Timor-Leste market does offer opportunities for Australian businesses, Austrade assesses that the scale and number of opportunities does not at this point warrant a dedicated in-country Austrade presence given competing priorities within current funding levels.

Austrade will continue to monitor the market and will review the case for an in-market presence if there is a material increase in the volume of significant business opportunities where Australian companies have strong capabilities.

For the short to medium term, advice for Australian businesses interested in the market will continue to be provided by the Senior Trade Commissioner Pacific with assistance from Austrade's Darwin office. Austrade has also identified a number of in-market service providers whose services companies can draw upon as a complement to advice from Austrade's Australian offices.

This report addresses the issue of trade and investment under the Terms of Reference.

The Democratic Republic of Timor-Leste (also sometimes known as East Timor) comprises the eastern half of the island of Timor, the nearby islands of Atauro and Jaco, and Oecussi-Ambeno, an exclave on the north western side of the island, within Indonesian West Timor. The small country of 14,874 square kilometres is located about 640 kilometres northwest of Darwin, Australia.

Economic overview¹

Timor-Leste is one of the poorest countries in the Asia-Pacific region. It was ranked 147th out of 187 countries in the 2011 UN Human Development Report, placing it in the category of 'low human development'.

Timor-Leste has made significant progress in building institutional frameworks to support economic development and promote macroeconomic stability. The ADB has forecast GDP growth of 10 per cent in 2013 and 2014.²

However, Timor-Leste faces a range of long-term development challenges to achieve sustainable and broad-based economic growth. These challenges are compounded by infrastructure deficits, notably in the areas of transportation, telecommunications and electricity. Timor-Leste is the only country with double digit inflation in the Pacific (ANZ) and at about 12 per cent, one of the highest in developing Asia (IMF).

Timor-Leste benefits from the commercial exploitation of petroleum resources in the Joint Petroleum Development Area (JPDA) in the Timor Sea, shared with Australia.

The revenue generated from Timor-Leste's petroleum resources is used by the Timorese Government to support long-term economic development, economic diversification and poverty reduction. Timor-Leste has established an internationally-acclaimed Petroleum Fund, managed by Banco Central de Timor-Leste to manage its petroleum revenues transparently and sustainably. As at 31 December 2012 the fund had a balance of US\$11.77 billion.³

On 13 July 2011 the East Timorese Government released a Strategic Development Plan, which provides a framework for 2011-2030. The Agreement includes a significant program of infrastructure projects.

Trade and Investment

Overall, Timor-Leste's global trade balance has been steadily improving, largely reflecting the considerable contribution of petroleum development to the economy. Excluding hydrocarbons, coffee accounts for around 90 per cent of Timor-Leste's merchandise exports.

In 2011-12, Timor-Leste ranked as Australia's 109th largest goods trading partner, with total merchandise trade valued at A\$28 million. Australian merchandise exports to Timor-Leste were valued at A\$26 million with major items including passenger motor vehicles; refined petroleum; milk, cream, whey and yoghurt; and beef. Imports were valued at A\$1 million, mostly refined

¹ DFAT Timor-Leste country page (http://www.dfat.gov.au/geo/east_timor/east_timor_brief.html)

² ADB Pacific Economic Monitor March 2013

³ Banco Central de Timor-Leste Petroleum Fund reports Dec 2012

(<http://www.bancocentral.tl/PF/Reports.asp>)

petroleum. Timor-Leste has had preferential duty free access and quota free access to the Australian market since July 2003.

The table below compares Australia’s bilateral trade with Timor-Leste to trade with Australia’s Pacific trade partners. In 2011, our bilateral trade with Timor-Leste was comparable to our trade with Kiribati - our seventh largest Pacific trading partner.

Trade – 2011-12	Merchandise Exports (A\$)	Merchandise Imports (A\$)
*Papua New Guinea	\$2.4b	\$3.5b
**New Caledonia	\$357.0m	\$185.0m
*Fiji	\$303.0m	\$187.0m
Solomon Islands	\$126.0m	\$123.0m
Vanuatu	\$63.0m	\$1.3m
Timor-Leste	\$26.0m	\$2.0m
Samoa	\$29.0m	\$34.0m
Kiribati	\$24.0m	\$1.0m
Nauru	\$18.3m	\$9.0m
Tonga	\$6.5m	\$0.681m
Tuvalu	\$1.5m	\$0.280m
Niue	\$0.383m	\$0.026m
Investment	Not available for Timor-Leste	

Source: DFAT country fact sheets

**: Countries in which Austrade has a permanent presence*

*** Austrade office closed in 2012 due to resource constraints and competing priorities.*

Timor-Leste Market Context⁴

The World Bank in its latest Ease of Doing Business [Report](#) rated Timor-Leste as the 169th country from 185 surveyed.⁵

There have been four years of stability and growth of Timor-Leste’s economy with GDP during this period growing at between 9-14 per cent. Timor-Leste has been a stable and functioning parliament.

In November 2012, the International Stabilisation Force ceased its security operations in Timor-Leste, withdrawing around 460 personnel. On 31 December 2012, the United Nations peacekeeping mission in Timor-Leste also ended its operations, in line with the expiration of its mandate and

⁴ Information in this section comes from in-market meetings with senior Australian government and business leaders in Timor-Leste, unless otherwise attributed

⁵ World Bank “The Ease of Doing Business in Timor-Leste (<http://www.doingbusiness.org/Rankings>)

amidst significant progress made in establishing peace and security in the country. There are differing opinions about the impact of these withdrawals on the community.

As outlined earlier, Timor-Leste has established a Petroleum Fund which has been well received internationally, and at 31 December 2012 was valued at US\$11.77 billion.

The Petroleum Fund has a legislated draw-down amount called the Estimated Sustainable Income (ESI) level, which is equivalent to three per cent of Timor-Leste's total petroleum wealth (total petroleum wealth is calculated as the petroleum fund balance plus forecast future oil and gas revenue from the two operating fields). The Government can exceed the three per cent limit by seeking the agreement of the parliament. It does this in effect by including the excess withdrawals in the budget papers, which are approved by parliament.

The Government exceeded the ESI every year between 2009 and 2012 to increase public investment in Timor-Leste's development and fund major infrastructure projects. In 2013, budget spending returned to the ESI limit.

A number of measures to oversight major projects have been implemented by the Government including the establishment of a Major Projects Secretariat, which reviews project submissions, and the Agency for National Development, which has overall responsibility for the implementation of Major Projects. Major Projects are determined as projects greater than US\$1.0 million. A National Procurement Commission has also been established with UK firm Charles Kendall providing capacity building assistance.

Challenges of doing business

Timor-Leste is an emerging market undergoing continued political and economic reform and doing business there can be challenging. Some of the challenges include a lack of clarity around land title, a slow and inefficient judicial system, a fragmented investment registration process which is handled by multi agencies and a slow, multilingual bureaucracy which uses a mixture of English, Bahasa, Portuguese and Tetum.

There is a limited supply of local skilled labour owing to the lower levels of education and the fact that around half of the population is under the age of 18. Other barriers to business include difficulties accessing finance and significant variation in the performance of government agencies in relation to payments to suppliers with some agencies providing timely payments and others being quite slow.

Recognising the obstacles that corruption has placed in the path of progress of the country, the Government has established the Comissão Anti-Corrupção, the Anti-Corruption Commission of Timor-Leste.

Opportunities Assessment

A visit to Timor-Leste was undertaken mid 2012 by Mr John Brand, Austrade's Senior Trade Commissioner Pacific, to:

- assess market opportunities in Timor-Leste; and
- review Austrade's service delivery model for Timor-Leste based on an assessment of the current levels of commercial activity and the growth potential of the market.

Appointments with a wide range of contacts from the Australian and Timor-Leste governments, private sector and NGO organisations were made with the assistance of the Department of Foreign Affairs and Trade (DFAT).

The visit provided an update on the previous visits to the market by an Austrade officer in May 2011.

Resources/Infrastructure Sector

There are a number of major infrastructure projects in production or planning by Australian companies:

- **One Australian infrastructure company has identified over A\$3 billion of infrastructure projects in Timor-Leste that form part of Timor-Leste's five-year strategic infrastructure plan. This plan and these projects have been developed in concert with the IFC, World Bank, and ADB. The projects range from irrigation; construction of sewers in Dili; space and master planning of districts; construction of major buildings, highways, schools, and hospitals; to water and sanitation, and power projects. The Timorese Government 2013 budget allocated over US\$700 million of funding to infrastructure development, including development of new sea and airports.**
- **Woodside continues to discuss development options for the Greater Sunrise area with the Australian and Timor-Leste Government.**
- **ENI – Operator of the Kitan Oil Project – oil production commenced in 2011 and it is expected that gas will come on stream in three years. ICN Darwin has been working with the major subcontractors to promote Australian content. ENI also source supply inputs out of Perth and have local content obligations.**
- **Following an Austrade/Post-facilitated visit, an Australian company has expressed interest in operating in Timor-Leste and possibly bidding for the Tibar Bay Port and the Presidente Nicolau Lobato International Airport PPP projects.**

Existing projects are well serviced through current supply channels in Darwin and Perth. New developments such as the Greater Sunrise LNG Project or other major new infrastructure projects can be effectively monitored from Australia until such time the project goes to EPC contract stage. At this point Austrade can introduce Australian subcontractor supply capability to the EPC contractors through its own network and in partnership with the Industry Capability Network.

Tourism

The Chamber of Commerce and Industry of Timor-Leste (CCITL) has been established for approximately 18 months and has, as its key priority, the development of tourism. Timor-Leste is blessed with a wide range of natural attractions and is pushing the government to create a range of incentives to encourage foreign investment. However, poor infrastructure remains a key barrier to growth in the tourism sector.

For the moment there is little opportunity in this sector but given Australia's internationally recognised capability in tourism infrastructure and tourism management, the Senior Trade Commissioner Pacific will closely monitor government initiatives in this area to ensure emerging opportunities are identified and actioned.

Agriculture

Some observers see coffee as a potential growth industry. The IFC is currently working with an unidentified investment proponent to re-establish a plantation. There seems limited opportunity at this stage for inputs to larger scale projects although there is some opportunity for small holder agronomy consultancies.

Building and Construction

Apart from the largest resource and infrastructure projects there is a significant amount of new small to medium scale construction in and around Dili.

The Chinese government has constructed some buildings for the Timorese government. Typically these projects are “ring fenced” by Chinese-owned construction companies with most or all inputs coming from China.

Major commercial developments are being undertaken by the Dili Development Company, owned by the Australian-Timorese Jape family who have made significant commercial investments in Darwin. This company has developed a major retail, commercial office and residential centre in Dili. A second commercial complex is complete, with a third stage in development. The Jape operations are a fully integrated design, development and construction company. It has commercial links to China, where the Jape family has also invested.

Australian building company RMS Engineering & Construction has established itself in market as a quality Australian standard construction and services provider. RMS has well established supply channels out of Australia.

There are also a number of large Indonesian engineering and construction firms active in the market, as well as the Portuguese company Ensul.

The three main players (Dili Development Company, RMS of Townsville and Ensul) are well established and control the majority of the market. All three have established supply chains back to their home countries of China, Australia and Portugal. There appears, therefore, to be limited opportunity for new entrants and suppliers to this sector although the Senior Trade Commissioner Pacific will continue to monitor developments.

ICT

Timor-Leste has recently liberalised its mobile telecommunications sector. The World Bank estimates that opening up to two new operators (Digicel and Telin) will expand coverage to 90 per cent of the population. The country depends heavily on mobile telecommunications as most cables were destroyed in conflicts following the referendum on Timorese independence in 2001. However, currently only half of the population has access to mobile phones and around two-thirds of these people live in the country’s capital, Dili.

There are potential opportunities for Australian suppliers in the medium term for technologies and services to overcome inadequate fixed infrastructure, eg mobile banking, e-health, etc.

Business environment

Major government procurements are handled by the National Procurement Commission. Timor-Leste Government tender opportunities are advertised on the Government's [Procurement Portal website](#). Most donor partner tender opportunities are advertised internationally. Smaller value contracts might only be advertised in Timor-Leste. Many opportunities also require on-the-ground market intelligence to be identified.

Business set-up in Timor-Leste

A new foreign investment law was passed by the Timorese Parliament in 2011, which aims to simplify business registration for foreign investors. In 2012, the Timor-Leste Government established a Registry and Verification of Enterprises Service (SERVE) for one-stop registration of businesses. The Government has also established an agency to promote foreign investment and assist investors called TradeInvest Timor-Leste.

In early 2009, the Victorian Employers Chamber of Commerce and Industry (VECCI) was invited by the Prime Minister of Timor-Leste, Xanana Gusmão, to provide assistance in the establishment of a Chamber of Commerce. This was part of the wider governance project coordinated under the auspices of former Victorian Premier Steve Bracks, who is assisting the Timorese Government to build a stronger governance structure and civil society.

With VECCI continuing to support and mentor, the CCITL will initially provide entry-level establishment services for the business community and foreign companies seeking to set up in the country.

The International Finance Corporation (IFC) provides advice on the process of starting and running a business in Timor-Leste in its [Doing Business report](#).

The business environment in Timor-Leste presents challenges to foreign investors. There is no collateral law and no form of regulated security against which borrowers can apply for credit. There are currently only two insurance providers in the market. Although company, foreign investment and labour laws are in place, property rights may be difficult to enforce through the courts and there is no land law operating. Business-related legislation is published (in Portuguese and Tetum) in the official [Journal of the Republic](#).

Intellectual Property Protection

Intellectual property protection in Timor-Leste relies on civil and criminal laws for action. It may be difficult for companies to take the matter to court and/or get the finding enforced.

Banking and Finance

Three commercial banks operate in Timor-Leste and provide personal and business banking:

- [ANZ](#) (Australia)
- [Bank Mandiri](#) (Indonesia)
- [Caixa Geral de Depósitos](#) (Portugal)

The ANZ Bank maintains a network of ATMs in Dili and Baucau.

Dispute resolution

Civil and criminal courts resolve legal disputes in Timor-Leste, although inadequate resourcing limits the ability of courts to process matters in a timely way.

Austrade's International Network

The Australian Trade Commission – Austrade – is the Australian Government's trade, investment and education promotion agency. Through a network of offices in 50 markets, Austrade assists Australian companies to grow their international business, attracts productive foreign direct investment into Australia and promotes Australia's education sector.

In May 2011, Trade Minister Emerson announced a series of reforms for Austrade. The reforms were designed to address changes in the global business environment and to Austrade's responsibilities in recent years. The reforms meant a reallocation of Austrade resources to markets where the agency's role could be best utilised.

In established markets such as North America and Europe, Austrade's activity is now predominantly focused on opportunities for inward investment and international education and training services. Austrade makes greater use of partners, referrals and online information and services to support exporters in these markets.

In the Pacific, Austrade resources are focused in Auckland (where Austrade manages the Consulate-General), Port Moresby (staffed by one Trade Commissioner and two business development managers) and Suva (staffed by two business development managers).

Assessment

Whilst the Timor-Leste market does offer opportunities for Australian businesses, Austrade assesses that the scale and number of opportunities does not at this point warrant a dedicated in-country Austrade presence given competing priorities within current funding levels.

Austrade will continue to monitor the market and will review the case for an in-market presence if there is a material increase in the volume of significant business opportunities where Australian companies have strong capabilities.

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