



TIMOR-LESTE EXTRACTIVE INDUSTRIES TRANSPARENCY  
INITIATIVE

TL-EITI SUPPLEMENTARY REPORT 2013

**Contents**

- Executive Summary ..... 2
- I. Background..... 2
- II. Objectives ..... 3
- III. Supplementary Material..... 3
  - a. Contribution of the extractive industry to Timor Leste’s economy ..... 3
    - Requirement 3.4 (d) Employment data..... 3
    - b. Total production volumes and the value of production by commodity..... 4
      - Requirement 3.5 (a) Production data ..... 4
      - c. Total export volumes and the value of exports by commodity..... 4
        - Requirement 3.5 (b) Export data ..... 4
        - d. Register and Allocation of Licenses ..... 4
          - Requirement 3.9 & 3.10 Licenses..... 4
          - e. Mandatory Social Payment ..... 5
          - EITI Requirement 4.1 (e) Social expenditures ..... 5
          - f. Credible audit assurance ..... 5

## Executive Summary

As stated in 2013 EITI Report, Timor-Leste's multi-stakeholder working group committed to produce a supplement report in order to address the findings from pre-validation and observations reports. The pre-validation report was based on 2012 EITI Report and the observations were made based on 2013 EITI Report.

It was difficult for Timor-Leste's MSWG to agree on a reporting template that guaranteed complete compliance with the new EITI Standard, in particular on EITI Standard Requirement 3.5(a&b) which related to disclosure of production and export data and 4.1(b) comprehensiveness of payment and revenue streams. This is mainly due to relatively small size of the extractive industry activities in the country. Due to the reality of the activity in the country, industry representatives have voiced their concern on the risk of releasing commercially sensitive information.

Nonetheless, this reality does not prevent the members of MSWG to continue its communication and collaboration to ensure maximum efforts to achieve full compliance. One of this efforts is the production of this supplement report.

### I. Background

The fifth and sixth reports for Timor-Leste Extractive Industries Transparency Initiative (TL-EITI), were published in 2015. The reports were compiled by Moore Stephens as the Independent Administrator (IA) in collaboration with members of Multi-Stakeholder Working Group (MSWG). Due to delayed in publication of 2012 EITI Report, Timor-Leste was required to produce the report in accordance to the new EITI standard. Hence, both 2012 and 2013 EITI reports were published based on the new EITI Standard adopted in June 2013.

Following the publication of the 2012 EITI Report, a pilot validation process was conducted by the EITI International Secretariat to assess Timor-Leste's compliance. Based on the pilot validation process, EITI International Secretariat produced a draft report, which identified issues related to comprehensiveness of the report. As noted in the report "... the Secretariat's preliminary assessment is that *requirements 1.4, 3.9, 3.5a, 3.5b, 4.1.b, and 5 are unmet. Some of these are assessed as "unmet with limited progress". The major areas of concern relate to work plan execution, disaggregation of production, export and revenue data, and adherence to the EITI agreed upon procedure for EITI Reporting.*"

The pilot validation process does not impact Timor-Leste's ranking and compliant status. It was treated as an indicator for the future validation process, which is scheduled for April 2016. As part of the preparation to the validation process, the EITI International Secretariat agreed to assist Timor-Leste EITI Secretariat to review Timor-Leste's draft 2013 EITI Report, in order to identify possible gaps against the 2013 EITI Standard. In this process, a number possible non-conformances were identified.

In an effort to ensure full compliance, Timor-Leste stated in the final 2013 EITI Report, that the country will produce a supplement report. This Supplement Report aims to minimize the gaps identified in the observation issued by EITI International Secretariat against draft 2013 EITI Report. This report will also provide the reasons and justifications for specific findings that require further disclosure of data provided within 2013 EITI Report for Timor-Leste.

Due to the fact that there are no data for reconciliation to be included in this report, Timor-Leste's multi-stakeholder working group (MSWG) agreed to complete the report without an Independent Administrator. The MSWG believe that the Independent Administrator will only be required for reconciliation of data when new data is presented.

## II. Objectives

The purpose of the Supplementary Report is to provide additional information required to complete the 2013 EITI report. The MSWG also hope that the supplement report could address findings and recommendations listed within the observation completed by the EITI International Secretariat.

## III. Supplementary Material

As identified in 2013 EITI Report for Timor-Leste, there are specific areas which would need to be elaborated. These areas included requirements 3.4 (d), 3.5 (a)&(b), 3.9, 3.10,3.12 (b), 4.1 (e), and 5.3 (e) of 2013 EITI Standard. The MSG has revised the 2016 Work plan<sup>1</sup> and published it as a separate document in TL EITI website, hence it is not included in this report.

### a. Contribution of the extractive industry to Timor Leste's economy

#### *Requirement 3.4 (d) Employment data*

The employment numbers provided in 2012 and 2013 EITI reports lacked the data on employment in the extractive industry in absolute terms and as a percentage of total employment. The MSWG have conducted additional research and obtained data on total employment number in the country. That data was then compared to the employment in the oil & gas sector and re-produced in table below. We note in table below that the number of employment of Timorese in the extractive industry is 0.6% in 2012 and 0.2% in 2013.

	2012	2013
<b>Total Employment (no. of people)</b>	63,200 <sup>2</sup>	189,800 <sup>3</sup>
<b>Extractive Sector (no. of people)<sup>4</sup></b>	371	413
<b>% of Total Employment in extractive sector</b>	0.6%	0.2%

Source: Directorate General for Statistic and ANP

<sup>1</sup><http://www.eiti.tl>

<sup>2</sup><http://www.statistics.gov.tl/wp-content/uploads/2014/07/BUSINESS-ACTIVITY-SURVEY-OF-TIMOR-LESTE-2012.pdf>

<sup>3</sup>[http://www.statistics.gov.tl/wp-content/uploads/2015/04/LFS\\_2013\\_ENGLISH\\_VERSION.pdf](http://www.statistics.gov.tl/wp-content/uploads/2015/04/LFS_2013_ENGLISH_VERSION.pdf)

<sup>4</sup> ANP's Annual Report for 2012 (page 53-58) and 2013 (page 32). This has not include mining sector and Timor GAP staff

*b. Total production volumes and the value of production by commodity*

**Requirement 3.5 (a) Production data**

As stated in the reports, production data provided were presented in barrels of oil equivalent (BOE). Due to the fact that the oil & gas industry in the country were only based on two fields producing different commodities, it was difficult to present the data beyond the current format.

For additional information on production data, readers can visit the Autoridade Nacional do Petroleo (ANP) website. As the regulatory authority for extractive industry, the ANP produces relevant information accessible to the public. The ANP website is [www.anp-tl.org](http://www.anp-tl.org)

*c. Total export volumes and the value of exports by commodity*

**Requirement 3.5 (b) Export data**

It was evident that export volumes by commodity were not included in the 2012 and 2013 report. As the industry remains relatively small, this data could not be produced without creating risk in exposing commercially sensitive information. However, there are some information made available at ANP's website. Readers can access information at [www.anp-tl.org](http://www.anp-tl.org)

*d. Register and Allocation of Licenses*

**Requirement 3.9 & 3.10 Licenses**

The 2013 EITI Report provided brief overview on the award of PSC 11-106 and the PSC has been made available in ANP's website. It is important to note that in accordance to Petroleum Mining Code (PMC) section 5, 5.1(b ii) "*the Designated Authority may award authorization without issuing invitation provide that in the case of all other authorization, where it is in the public interest to do so*".

*Technical and Financial Justification for the Award of the PSC 11-106 in 2013.*

*Technical Justification*

The contract area of PSC 11-106 has several discoveries such as Jahal, Kuda Tasi and Ikan Mua. Eni and its predecessors have been actively involved in exploration in the JPDA and the surrounding area of the Bonaparte Basin since the late 1990. Eni as the company, has been exploring for oil and gas in this area of the Timor Sea since the late 1990s, have significant expertise in hydrocarbon exploration in the Middle to Late Jurassic petroleum system of the Bonaparte Basin and have been instrumental the discovery of both oil and gas field in this area, one of is the discovery of Kitan Project.

The main reason was that Eni is familiar with the geology of the area and had acquired significant amount of petroleum geology information of the surrounding area particular the understanding of the JPDA petroleum system and geology of the said PSC area.

Another important aspect for the direct award was the ability to work together with the newly established national oil company, TIMOR GAP, E.P. with a carried interest equity participation of 24%.

### Financial Capacity

Eni and Inpex are global oil and gas businesses. In 2010, Eni reported revenues from core business of €98.52 billion, with an adjusted net profit for 2010 was a record €6.87 billion. Eni Australia, in 2010, held a total net acreage in offshore Australia water, the JPDA and PNG, of 15,241 km<sup>2</sup>.

While Inpex was the largest E&P company among the Japanese E&P, has 71 projects in 26 countries, currently discovered two largest gas fields Ichthys (Australia) and Abadi (Indonesia). In Indonesia, Inpex is the operator of Mahakam Block with Total. Inpex, as global E&P with strong financial position of consolidated net sales of ¥ 943.1 billion, and consolidated net income of ¥128.7 billion, held various acreage in Australia, Indonesia and one of the JV partner in Bayu-Undan PSC, Kitan PSC.

All relevant information are available in ANP's website

#### *e. Mandatory Social Payment*

##### *EITI Requirement 4.1 (e) Social expenditures*

In accordance to the Petroleum Sharing Contract (PSC) currently applicable in Timor-Leste, companies place great effort in ensuring percentages of its operation costs are spent in Timor-Leste. This is known as companies local content commitments. This data have been included in 2012 and 2013 EITI Reports for Timor-Leste.

Aside from the local content commitments, there are also social initiative projects and these projects are agreed between companies and the government. At the moment these information is also provided in 2012 and 2013 Reports. However, there are no specific expenditures reported due to the facts that these social initiatives projects, which are in form of constructions, etc. have not commenced. Thus, there are no expenditures to be reported.

#### *f. Credible audit assurance*

##### *EITI requirement 5.3 (e) Assessment and recommendations from IA*

To ensure conformance to Requirement 5.3 (e) of the EITI standard, companies, Government Agencies and related entities are consulted for their audited financial statements, to confirm their compliance to international standards and practices. All companies have confirmed that they had audited financial statements in 2012 and 2013.