



**FISTFUL OF DOLLARS:** Money is coming from all directions to help rebuild the shattered community

AP/DONALD PEREIRA

# East Timor: the promising land

HUNDREDS OF AUSTRALIAN COMPANIES ARE EXPECTED TO COMPETE FOR CONTRACTS AS THE UNITED NATIONS GETS ON WITH ITS MAMMOTH RECONSTRUCTION TASK BY WILSON DA SILVA

**T**he first waves of reconstruction are sweeping East Timor, most visibly in the capital, Dili. With the Indonesian military gone, and the pro-Indonesian militias chased out of the half-island territory, an army of contractors has moved in.

The clamor of building activity can be heard in almost every street. And this is only

the beginning of a reconstruction bonanza. At a conference in Tokyo in December, donor countries, including Australia, pledged \$860 million to the rebuilding of devastated East Timor.

It is this injection of cash, more than half of which is earmarked for infrastructure, that has led to a rush of Australian companies registering with the United Nations administration.

Australian UN suppliers in East Timor now number 182, whereas two years ago there were none. Only the United States, Britain and Norway have more. The number of registered companies is expected to increase

in the months ahead as pledged money starts landing in UN-managed trust accounts and tenders are called for everything from rivets to road-making.

Competition for contracts will be intense. Although Australian companies are likely to do well out of the reconstruction, contracts will not be as easily won as they were in the emergency phase (September to December last year) after the overwhelming August independence vote that triggered the violence by pro-Indonesia militias. At the time, UN and aid organisations were forced to withdraw almost completely to Darwin, 500 kilometres to the south-east. The Australian-led East Timor Interfet force used the Northern Territory capital as its launching pad.

At the height of the emergency, there were 30 flights a day between Dili and Darwin. The

number of containers landed in Darwin increased 700%, shipping arrivals jumped 55% and international aircraft landings trebled. Darwin's hotels were heavily booked in September and retail sales soared as buyers searched for anything that might be useful in war-torn Dili. "It was a bit of a boom for Darwin," says Glen Rogerson of Industry Search and Opportunities, a non-profit business-matching service. "Generators, mosquito nets, tents, buckets — it was right across the board."

Now that the emergency is over and Interfet has been replaced by a UN peacekeeping force, the buying is on a more orderly basis.

"It is all going to be an open and transparent bidding process," says Ken Johnson, head of Austrade's East Timor section, which in April will conduct seminars in Brisbane, Melbourne and Sydney on business opportunities in East Timor. "You would hope that logistics will favor Australia. But it will come down to a blend of technical expertise, demonstrated competence and price. Mostly price."

Although the big dollars will not flow for several months, there are still opportunities. Tasmania's Pitt & Sherry has won a road-repair contract funded by the Asian Development Bank; the North Queensland builder Chappell Development Group has refurbishment work in Dili and has opened an office in Darwin to chase more business; Darwin's Shamrock Chemicals has sold \$700,000 of supplies; and TNT has started a twice-daily parcel and freight express service to Dili.

Albatross Timor, a joint venture of the ship providers Albatross Marine and Sealanes, has supplied fresh food and beverages to peacekeepers in East Timor since September. General manager Tony Furness estimates that the turnover will be \$18-20 million by the time the contract expires next month.

Chubb Protective Services, an early participant in the UN operation that provided security for refugee camps in Darwin and warehouse services for aid agencies, is now operating throughout Dili. It has 325 local staff and another 275 are to be hired in the next few weeks. The company estimates that, since September, it has earned \$3 million from its involvement in the Timor operation.

The winners of UN contracts will be companies able to cope with extended payment terms. Those that win the larger

contracts will have to factor in settlement periods of 90-120 days.

Until formal independence in two to three years, the UN Transitional Administration in East Timor (UNTAET) is in charge. Its procurement officers can sign supply contracts up to a value of \$US200,000. Orders above that are handled by the UN procurement division in New York, which uses its buying power to get bulk discounts.

UNTAET is also authorised to sign large, longer-term contracts, although these may be subject to review once an East Timor government is established. Contracts are also issued by agencies including the World Food Program, the World Bank, the UN High Commission for Refugees and the UN Development Program; and aid agencies including AusAid, Britain's DFID and USAid.

Johnson of Austrade says: "At first, I think it is going to be consulting more than anything else. There will be some hard infrastructure but there's going to be more focus on building the institutions, the legal system, the tax system, government. That's going to happen first before we see the big dollars in infrastructure projects."

UNTAET, which took formal control of East Timor on October 25, is headed by a Brazilian diplomat, Sergio Vieira de Mello, who has served the UN in Cambodia and Kosovo. It is staffed by scores of long-term UN personnel, technical specialists on six-month contracts and Timorese, some who worked as civil servants during the 24-year Indonesian occupation and others, overseas educated, who have returned to their homeland.

Among Timorese members of UNTAET is Fernanda Borges, acting head of finance, development and economic affairs. Her family fled East Timor after Indonesia's 1975 invasion and she grew up in Australia, studying economics at the University of Wollongong. She took part in the World Bank assessment mission early in November that produced the blueprint for the reconstruction of East Timor.

"I don't think the UN makes a secret of the difficulty of the task ahead," Borges says. "There is little information on the economy, on the tax base, on businesses. Everything was burnt, so you are starting from scratch."

The World Bank estimates that the infrastructure, about 75% of which was destroyed by pro-Indonesia militias, could cost close to \$500 million to rebuild. The cost of building construction alone is

projected at \$321 million, to be spent over the next two years. Because mostly local labor will be used, costs should stay low, with just under half the construction budget earmarked for materials. East Timor's gross domestic product, which had been growing at an annual average of 10.1% since 1994, fell an estimated 40-45% last year. The bank says the UN presence and foreign investment will help the economy.

It is not just the reconstruction phase that presents opportunities for Australian companies. The economy's potential has been held back by 25 years of skirmishing between 15,000-20,000 Indonesian troops and pro-independence Falintil guerrillas.

The Indonesian Government claims to have spent \$1.6 billion developing East Timor since 1976, but the World Bank estimates that most of that money was pilfered by the local Indonesian-dominated civil service and its business cronies.

East Timor's tourism potential has yet to be developed. It has pristine beaches, sweeping mountains and a network of paved roads (mainly built by the military). The population is light and labor is cheap, wages ranging from \$5 to \$10 a day. Rob MacDonald, project manager with Queenstown Investments, a division of the Singapore-based Excalibur Group, says: "The projections are that it will really take off. If it's managed

well, it has the potential to become better than Bali."

Queenstown is planning a resort at Dili with an 18-hole golf course. It has opened a Western-style supermarket in the city, the first of 15 around the country; it is considering motorcycle dealerships and hardware stores; and it is chasing road-building contracts. Queenstown has Third World experience, having followed the UN into Cambodia, Mozambique and Somalia.

"There's a lower level of risk associated with East Timor than many of the other places we have been in," MacDonald says. "A lot of places we have been in, people steal things and aren't interested in learning the business. They are good people, the Timorese. They are keen to learn, there is no ethnic conflict... I don't think I've been to a place where the people are so happy, despite all the hardship."

MacDonald, who is training local staff to

take over the business, says Queenstown plans to sell down its stake as the economy develops, retaining sole ownership of hotels and resorts. It pays an average local wage of \$127 a month, and up to \$200 for senior staff.

Borges of UNTAET says: "I think the advantage East Timor presents is that it's a new country being created from the ground up, and there are opportunities for those with imagination. Take fisheries, for example. There's a lot of potential that is unexploited." She says there are deepwater species, including tuna, that migrate through East Timor waters.

Borges, tipped by many as a future treasury secretary of an independent East Timor, is a former member of the economic development committee of the pro-independence coalition, the National Council of Timorese Resistance (CNRT), which won 78.5% of the vote in last August's referendum. Its leader, Xanana Gusmao, is widely respected as a moderate. He spent 17 years leading the Falintil guerrillas before being captured and jailed by Indonesia. His deputy is Jose Ramos Horta, the movement's chief diplomat and a long-time Australian resident, who won the Nobel Peace Prize in 1996.

UNTAET is careful to consult the CNRT regularly, and many CNRT staff are being

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BERTRAND DE GRAMONT

integrated into the administration. It has also established a parliament of sorts, the National Consultative Council, a 15-member body appointed by the UN. It has a Timorese majority from all political factions, including two pro-Indonesian members and seven from the CNRT.

Most investors prudently establish links with the CNRT leadership early in the process because it is likely to form the first government. Of the 220 businesses registered in East Timor, most are Australian-owned or joint ventures with Timorese back from exile. Bertrand de Gramont, head of UNTAET's trade and commerce section, says: "There is no requirement for businesses to be joint ventures and, personally, I would not favor such a requirement. But it is good to see



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some companies choosing that."

East Timor has been tax-free since September. As a result, some companies have jumped in for a quick killing, charging exorbitant prices and paying rock-bottom wages. A 5% import duty and sales taxes of 5-15% from March 20 are likely to result in some of these companies packing up and leaving. With business and personal taxes unlikely before early next year, East Timor still represents a low-tax and growing market right on Australia's doorstep.

Companies with longer-term horizons are working at generating goodwill in the local

community — some are sponsoring school soccer teams and social events — and they are also working hard at forging political links with the CNRT (there is no evidence, as there is in many developing countries, that money is changing hands).

Telstra has long-term aspirations. When it entered the territory with Australian troops in September, it set up under a mango tree in the garden of the burnt-out Hotel Dili, and put together a mobile-telephone service within a week. The service is still restricted to Dili but it will soon be operational in Baucau and Suai. There are about 5500 mobiles on the network. East Timor had 12,000 fixed-line connections before the post-referendum violence, and Telstra has begun reconnecting part of the network on a contract basis. Officially, it is on a revolving 90-day contract with the UN that expires at the end of May, and it will not commit itself to significant investment unless it wins a communications tender.

Telstra's officer in charge (country manager) in East Timor, Tony Reid, says the company wants to be either a fully owned



A VISIBLE AUSTRALIAN PRESENCE IN EAST TIMOR: The new tax system will send some foreign companies packing

operator or in a joint venture with the future government. It has nurtured contacts with UNTAET and has had briefing sessions with the CNRT leadership. "The market is small and quite immature but presents some opportunities," Reid says. "We would like to build the infrastructure, whether in partnership or alone. The quicker we can roll it out, the quicker we can make the operation profitable."

Telstra's main rival is Portugal Telecom. Until the 1975 Indonesian invasion East Timor had been a Portuguese colony for 460 years, and the Portuguese have been solid supporters of the Timorese independence cause, financially and diplomatically. A Portuguese company recently won the contract to run East Timor's postal service.

Robert Cooksey, managing director of the Sydney venture capitalist Euro Pacific Partners, which is also eyeing the telecommunications market, says money is to be made from the 20,000 Timorese living overseas. "The money will be in international traffic," he says. "People here

with little money will phone family overseas and get them to call back. That's how it is done in most developing countries; and the critical charge for the telecommunications provider is the termination fee — where the call lands."

Cooksey has set up a shelf company, East Timor Telecommunications, and he hopes to raise funds with a listing on the Australian Stock Exchange, reserving 30% of the equity for the future government of East Timor and 20% to be held in trust for sale to private Timorese investors later. His proposal has the approval of the CNRT.

Julian Manser is chief executive of Perkins Shipping, which runs a container and cargo service from Darwin and Singapore to Dili. He says: "In 10 years' time, East Timor could be a success story. It will need foreign assistance for a while yet, but there is potential in coffee, tourism, fishing, aquaculture and, of course, the Timor Gap oil fields. We have taken a view that it fits in well with our business, and we would like to be part of the reconstruction and future opportunities." ●