

TIMOR-LESTE
INVESTMENT CLIMATE STATEMENT
2019

Executive Summary

The Government of Timor-Leste has welcomed foreign investment and business development opportunities since gaining independence in 2002. Plagued by conflict and turmoil during the first years of independence, Timor-Leste emerged as a peaceful and stable democracy. Peaceful presidential and parliamentary elections in 2017 and snap parliamentary elections in May 2018 signal Timor-Leste's readiness for development. The government is implementing a fiscal and economic reform process to bring its system into compliance with international best practices as it seeks to join the Association of Southeast Asian Nations (ASEAN). Challenges remain, however, as the country struggles with incomplete and unclear legislation, inadequate regulatory mechanisms, corruption, insufficient personnel capacity, and deficient infrastructure. The private sector is weak and primarily dependent on government contracts, and government's ability to regulate industry remains limited. The government offers investment incentives to offset some of these challenges including five, eight, or ten-year tax holidays depending on the location and nature of the investment. Investment opportunities outside of the oil and gas sector are increasing, with interest growing in the agricultural, construction, telecommunications, and tourism sectors. The government is looking for partners to develop the Greater Sunrise offshore natural gas reserves and will renovate five municipal water management systems over the next four years. Timor-Leste further plans to invest in significant infrastructure on the country's southern coast and maintains Special Economic Zones in Oecusse and Atauro Island. Key objectives for the U.S. Embassy in Timor-Leste and all U.S. government agencies represented in the Embassy include diversification of Timor-Leste's economy, support for women entrepreneurs, and developing a welcoming business-enabling environment. The Embassy works toward these goals through a number of projects. The U.S. was instrumental in developing the coffee industry in Timor-Leste, which is now the second largest source of the country's GDP behind oil and gas. Timor-Leste's coffee and spices are now sold to prominent U.S. companies. The U.S. Embassy, through USAID, is fostering public-private partnerships in the tourism sector, improving horticultural value chains, and working to modernize and restructure the government customs authority. The U.S. Department of Agriculture's McGovern-Dole School Feeding program engages private sector farmers to help combat malnutrition in Timor-Leste's schools. The U.S. Millennium Challenge Corporation and Timor-Leste's Compact Development Team are working to address commercial and legal barriers to private sector-led economic growth. The Embassy's public diplomacy section supports STEM education for women and girls while the U.S. Ambassador's small grants fund to support women's entrepreneurship to accelerate opportunities for women and U.S. businesses.

Table 1: Key Metrics and Rankings

Measure	Year	Index/Rank	Website Address
TI Corruption Perceptions Index	2018	105 of 180	http://www.transparency.org/research/cpi/overview
World Bank's Doing Business Report	2019	178 of 190	http://www.doingbusiness.org/en/rankings
Global Innovation Index	2018	N/A	https://www.globalinnovationindex.org/analysis-indicator
U.S. FDI in partner country (\$M USD, stock positions)	2018	N/A	http://www.bea.gov/international/factsheet/
World Bank GNI per capita	2017	USD 1,790	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

1. Openness To, and Restrictions Upon, Foreign Investment

Policies towards Foreign Direct Investment

Timor-Leste has made considerable effort to establish effective legislative, executive, and judicial institutions, draft laws and regulations, and build government personnel capacity. The political and social environment in Timor-Leste has been generally calm since 2008. In 2011, the National Parliament unanimously approved the government's National Strategic Development Plan. The plan focuses on using petroleum revenues to support non-petroleum economic development and help the country become a middle-income country by 2030. Peaceful presidential and parliamentary elections in 2017 and 2018 demonstrate the country's political maturity and readiness to focus on economic development issues. Early Parliamentary elections in May 2018 proceeded peacefully and in accordance with international standards. A continuing political stalemate between the President and the Prime Minister prevented nominees for key cabinet positions from swearing in to office; vacancies included the Minister of Finance, the Minister of Petroleum and Minerals, the Minister of Tourism, Commerce, and Industry and other positions. In November 2017, Timor-Leste successfully held its second international investment conference intended to highlight Timor-Leste's potential across a range of industries. During the conference, the government noted that international investment and business partnership play key roles in developing a diversified and sustainable economy in Timor-Leste.

The government, through its autonomous agency, the National Petroleum and Minerals Authority (ANPM), contracts with foreign firms to explore and develop offshore oil and gas deposits. The government deposits taxes and royalties into a sovereign petroleum fund, which held about USD 16.6 billion in February 2019. Government expenditures are mostly dependent on this fund. Besides the oil and gas sector, coffee exports, government spending, small-scale retail activities, and subsistence agriculture are the primary sources of employment and contributors to GDP. With a population of approximately 1.3 million, Timor-Leste has one of the world's most rapidly growing populations, with sixty percent of the population under the age of 25 and a birth rate of 5.2. Timorese authorities are intent on expanding private sector economic activities to provide employment for new labor market entrants.

Timor-Leste is applying for full membership to the Association of Southeast Asian Nations (ASEAN) and previously served as President of the Community of Portuguese Speaking Countries from 2014-2016. The government views building international ties as part of its effort to increase investment opportunities within the country. Timor-Leste is also pursuing trilateral economic cooperation opportunities with Indonesia and Australia to boost cross-country investment.

There are no laws or practices in the country that U.S. investors allege discriminate against foreign investors by prohibiting, limiting or conditioning foreign investment in a sector of the economy. Under the constitution, only citizens may own land. However, article fourteen of the Private Investment Law No.14/2011 states that foreigners can be granted the right to private property for investment and reinvestment projects subject to the limits set out in the Constitution and in legislation on land and commercial companies. A land law, promulgated in 2017, does not address the prohibition on foreign ownership, and requires additional decree laws before the land law can be implemented.

TradeInvest Timor-Leste, I.P. is Timor-Leste's investment and export promotion agency. The organization's goal is to facilitate and support potential investors in Timor-Leste and assist foreign companies in identifying projects among the array of business opportunities that are emerging in Timor-Leste. TradeInvest is a one-stop-shop that provides services such as licensing, taxes, investment opportunities, permits, tariffs, and educating importers on correct procedures and policies. The agency's official website is www.investtimor-leste.com.

As outlined in the government's Strategic Development Plan, key investment areas include oil and gas, agro-industry, forestry and livestock, fisheries, tourism, energy, infrastructure, civil construction, coffee, spices, and transportation. Information regarding opportunities in the country has been disseminated both in domestic and international expositions and business and economic forums.

In March 2018, Australia and Timor-Leste signed an agreement delineating a permanent maritime boundary between the two nations, which was heralded internationally as the first use of the Compulsory Conciliation Mechanism under the UN Convention on the Law of the Sea. The agreement, signed at the United Nations in New York, once entered into force, will resolve the longstanding maritime boundary dispute stalling development of oil and gas reserves in the Timor Sea. The treaty will enter into force once ratified by the national parliaments of Timor-

Leste and Australia. The Timor-Leste government recently bought out the majority rights of several companies involved in a consortium to develop an oil and gas reserve called Greater Sunrise. The government plans to build oil and gas refineries to process the offshore reserves and significant associated infrastructure on its south coast.

Limits on Foreign Control and Right to Private Ownership and Establishment

Foreign investors may invest in any sector other than postal services, public communications, transportation, protected natural areas, funeral services, and weapons production and distribution, as these are specifically reserved for the state. Investors are also prohibited from investing in sectors otherwise restricted by law (such as criminal activities).

Section 54 of Timor-Leste's constitution grants the right of land ownership exclusively to Timorese nationals, either individuals or corporate entities; however, foreigners may conclude long-term (up to 50-year) leases. Although the government promulgated a land law in 2017, it still requires 18 – 22 pieces of complementary legislation before it can be implemented. Investors who wish to lease property must often sort through competing claims from the Portuguese colonial administration, the Indonesian occupation era, and the post-independence period.

TradeInvest, the government's investment promotion agency, reviews foreign investment applications which are then presented to the Private Investment Commission for further study and evaluation. The Executive Director of TradeInvest chairs the Private Investment Commission, which is composed of directors general or equivalent from the relevant government ministries in the areas of taxation, customs, land and properties, economic activities of licensing, professional training, labor, immigration, building and housing, territorial planning and the environment. Other ad-hoc members may also be called upon to be present during the meeting.

The Private Investment Commission evaluates applications for foreign investment permits, verifying the following:

- Compliance of the application with requirements established in the National Development Plan, in the Procedural Regulation for Foreign Investment and other applicable legislation;
- Suitability, capacity, experience, and availability of financial resources necessary for implementation and operation of the proposed investment enterprise;
- Capacity, experience, and business or technical characteristics of the promoter or its managers in order to guarantee implementation and operation of the enterprise;
- Positive operational balance of the business, according to the project proposal;
- Environmental, infrastructural, and social implications which could condition the viability of the enterprise or that can result from its implementation;
- Guaranteeing availability of necessary land for installation and functioning of the investment enterprise;
- Ensuring consistency of the expected new jobs to be created in the short and medium term;
- Establishing interconnection with other economic sectors.

The documents required for investments include:

- TradeInvest application form
- Descriptive project summary (project briefs, technical plans)
- Identification of promoters, professional CV/Firm Corporate Capability
- Bank credentials (bank statement, bank reference)
- Business plan
- Documents of Land Ownership
- Lot location
- Budget for construction/remodeling
- Environmental Impact Assessment (Environmental Licensing)
- Criminal Records (Original/Certified copy)

TradeInvest can issue a certificate of investment for projects approved by the Private Investment Commission valued at less than \$20 million. Investments of more than \$20 million or that require more than 5 hectares of state land for tourism or 100 hectares of state land for agriculture, livestock, or forestry require approval from the Council of Ministers. Investors can also request a Special Investment Agreement, through TradeInvest, prior to submitting the project to the Council of Ministers for approval. According to the TradeInvest website, application fees are \$500 for national investors and \$2,000 for international investors. TradeInvest issues investment decisions within 30 days.

Other Investment Policy Reviews

Timor-Leste has not yet conducted any investment policy reviews through OECD, WTO, or UNCTAD. Timor-Leste was accepted as an observer to the WTO in 2016, and its Working Party for accession to the WTO was established in December 2016. The country is in the process of designing and adopting fiscal and economic reform that include new laws on private investment, export promotion, commercial companies, sanctions, taxation, and the value-added tax (VAT). The government dissolved the Fiscal Reform Commission in March 2019, but indicated fiscal reform would continue within the line ministries. Timor-Leste's overall political stability has allowed businesses to grow; however, a protracted political impasse, during which the country operated without a state budget, reduced opportunities for government contracts in 2017 and 2018. The political impasse affected many areas of the economy, including commerce, public services, and larger public works projects. Other than the oil and gas sector, investment opportunities exist in the service, tourism, agriculture, and infrastructure sectors. While the government is committed to improving its services in critical sectors, challenges remain. Bureaucratic inefficiency, infrastructure bottlenecks, a paucity of local financing options, the absence of a real property law and other essential legislation, a lack of commercial courts, uncertain implementation of government procedures, significant deficiencies in human capacity, perceptions of malfeasance, conflicts of interest, and corruption are the notable challenges.

Business Facilitation

Timor-Leste's Business Verification and Registration Service office (SERVE – Serviço de Registo e Verificação Empresarial) processes business registration and licensing in the country. SERVE was created in 2013 as one-stop-shop to make business registration faster and easier. The agency's website is www.serve.gov.tl. Business registration and application processes require an in-person visit to SERVE's office. Getting a business license takes between one and five days. For companies involved in civil construction, food processing, or pharmaceutical

industries, the agency works closely with relevant ministries, particularly the Ministry of Tourism, Commerce, and Industry, to facilitate business licenses.

Outward Investment

The government does not promote or incentivize outward investment, nor does it restrict it.

2. Bilateral Investment and Taxation Treaties

Timor-Leste and Portugal have signed an Agreement on Mutual Protection and Promotion of Investment. Timor-Leste signed a Bilateral Investment Treaty (BIT) with Germany in 2005 and with Qatar in 2012, but they have not entered into force. Timor-Leste does not have a BIT or a bilateral taxation treaty with the United States.

3. Legal Regime

Transparency of the Regulatory System

Timor-Leste's regulatory system is still in its formative stages. The existing tax, labor, environment, health and safety, and other laws and policies do not present obvious impediments to investment. However, property rights remain an issue of concern for foreign investors and businesses. A comprehensive land law was promulgated in 2017, but requires an additional decree law before it can be implemented.

In 2011 and 2012, the government issued a number of tax assessments on private firms (both foreign and domestic) stretching back several years, with compounded interest plus penalties. Several of the affected firms have contested these assessments. In February 2016, the government reached a negotiated settlement with one private firm on most of the outstanding assessments.

The Ministry of Finance launched an online Procurement Portal in 2011, intended to increase transparency by providing equal access to information on government tenders and procurement contracts. However, updates are inconsistent and not all tenders appear to be included in the site. In 2012, the government hired an internationally recognized firm to serve as its procurement agent for major projects but concerns about nontransparent and unfair procurement practices remain. The Audit Chamber, under the Court of Appeals, is responsible for reviewing government procurements above \$5 million. In 2016, the Audit Chamber rejected the government's proposed \$720 million contract with a large Korean company for a development on the south coast claiming it was non-compliant with fundamental norms currently in place in Timor-Leste. The government appealed the decision, and the company withdrew from the process in June 2016 before a decision on the appeal.

In 2018 and 2019, the Ministry of Finance launched the ASYCUDA system in Aportil, the organization managing international port customs, and International Airport of Nicolao Lobato as part of the fiscal reform process with the aim of improving efficiency, customer service, and transparency. The government hopes to facilitate trade by implementing a modern and reliable system to track and manage imports and exports.

In June 2013, with assistance from the International Finance Corporation, the government established the Business Registration and Verification Service (SERVE) as a one-stop business registration center for both foreign and domestic investors. SERVE is the government's attempt to streamline the business registration process to less than five days from start to finish. Prior to the opening of SERVE, business operators had to visit three different government ministries to complete a process that could take upwards of one year. SERVE has registered over 20,000 businesses, approximately half of which are construction-related enterprises.

In addition to registering businesses, SERVE can also issue business licenses for what it determines to be low-risk undertakings. The Ministry of Commerce, Industry, and the Environment must issue business licenses for high-risk endeavors. Currently, both business registration and licensing are free. However, there are proposals to institute a small fee for business license renewals. The initial business license is valid for 12 months, with renewals also generally valid for 12 months.

Parliament and parliamentary committees regularly hold hearings and debates on proposed laws. For certain major legislation, the government holds limited public consultations or solicits public comment.

There are no known informal regulatory processes outside of the government. Regulations are adopted and implemented at the national level, and most oversight occurs in the capital, although some agencies have staff at the district level that monitor compliance. Regulations are published in the national journal in advance of their entry into force, although applicable information may be difficult to find for those entering the market.

International Regulatory Considerations

Timor-Leste has a pending application for full membership into the Association of Southeast Asian Nations (ASEAN) and served as President of the Community of Portuguese Speaking Countries from 2014-2016 and also part of Macau Economic Forum (between China and CPLP). The government views building these international ties as part of its effort to increase investment opportunities within the country. Timor-Leste is also pursuing trilateral economic cooperation with Indonesia and Australia to boost cross-country investment and exploring membership in the Commonwealth.

Reforms currently underway in Timor-Leste's fiscal and economic systems aim to bring the country into compliance with ASEAN standards. The Timor-Leste ASEAN Mobilization Plan (TLAMP) aims to bring all the relevant line ministries into compliance with ASEAN economic best practices.

Timor-Leste was accepted as an observer to the WTO in 2016, and its Working Party for accession was established in December 2016.

Legal System and Judicial Independence

The Portuguese law system heavily influences Timor-Leste's civil law system. Timor-Leste applies Indonesian law, which was in force until August 1999, as a subsidiary source of law for issues not yet addressed in Timorese legislation, including the commercial code. The justice

system - police, prosecutors, and courts - are still evolving and short-staffed. Until October 2014, when Timor-Leste's Parliament voted to dismiss all foreign judges, prosecutors, and advisors from the judiciary, the government relied upon significant numbers of foreign experts and advisors to augment local resources. In the immediate wake of the dismissals, a significant backlog in cases grew. Observers note the backlog has since lessened, but waiting times to bring a case before a judge remain long.

The Office of the Prosecutor General continues to accumulate experience and capacity to establish and implement case management and other essential systems. Timor-Leste has courts of first instance and a court of appeal. However, courts operate in only four of the thirteen districts, and customary law governs most cases at the local level. Additional courts outlined in the Constitution and legislation, such as specialized tax courts, have not yet been established. The U.S. Embassy is not aware of any major court cases testing the sanctity of contracts or enforcement of contracts processed to conclusion; however, one U.S. oil company successfully argued tax cases against the government in Dili District Court. The company came to a confidential negotiated settlement with the government in the remaining pending cases.

In January 2019, the Council of Ministers approved judicial reform to create a new mechanism for resolving conflicts – Conciliation and Arbitration – with the objective of reducing pending court cases. This reform would create specialized sections in district courts that would include commercial law and contracts sections among others.

Laws and Regulations on Foreign Direct Investment

The Timorese legal system is based on a mix of Indonesian laws and regulations, acts passed by the United Nations Transitional Administration, and post-independence Timorese legislation, which is modeled on Portuguese civil law. The country is working on a review of its legislation to harmonize the system, but has yet to undergo a comprehensive overhaul of the overlapping yet disparate systems. Timor-Leste has two official languages, Tetun and Portuguese, and two working languages, Indonesian and English; all new legislation is enacted in Portuguese and is based on the civil law tradition.

In January 2019, President Lu-Olo promulgated an amended version of the 2005 Petroleum Activities Law. The amended law states that decisions regarding the state's participation in petroleum operations will be approved by the Council of Ministers, which can delegate this competency to the Prime Minister. The law also removes the 20 percent limit on state participation in oil projects. The law states the Petroleum Fund can directly finance (rather than via the state budget) petroleum operations – domestic or international. Finally, the law removes the requirement of a preliminary review by the Audit Court.

The Private Investment Law (Law No.14/2011) specifies the conditions and incentives for both domestic and foreign investment and guarantees full equality before the law for international investors. Other major laws affecting incoming foreign investment include the Companies Code of 2004, the Commercial Registration Code, and the Taxation Act of 2008. In accordance with article 30 of the Private Investment Law, the Government of Timor-Leste announced the establishment of a Specialized Investment Agency, a one-stop-shop for investment and export promotion on January 5, 2015. The agency became TradeInvest Timor-Leste in November 2015.

The agency has the responsibility to promote Timorese exports and investment opportunities in the country and to encourage domestic entrepreneurship. A new private investment policy, tax codes, and customs agencies are part of the ongoing fiscal reform effort that is designed to align Timorese legislation and regulation with best practices in ASEAN (under the ASEAN Comprehensive Investment Agreement) and under UNCTAD (United Nations Conference on Trade and Development).

Competition and Anti-Trust Laws

Timor-Leste does not have a competition or anti-trust law.

Expropriation and Compensation

Timor-Leste does not yet have a separate expropriation law. However, both Article 54 of the Constitution and the Private Investment Law permit the expropriation or requisition of private property in the public interest only if just proper compensation is paid to the investor. The Private Investment Law calls for the equal treatment of foreign and national investors in expropriation cases and prohibits nationalization policies or land policies that deliberately target the property of investors.

Before expropriation occurs, the affected occupants or claimants, if non-occupying, are given 30 days to leave the property and 10 days for filing cases at the local courts. If no claims are filed during the 10 days, the occupants should clear the property before being evicted. During the last five years, expropriation primarily affected urban squatters occupying state property. The government relocated significant numbers of residents for large development projects in Oecusse and Suai. Two known private investments in Dili have negotiated with the government to remove residents as part of the investment agreement.

Dispute Settlement

ICSID Convention and New York Convention

Timor-Leste is a member state to the International Centre for Settlement of Investment Disputes (ICSID Convention). It is not a signatory party to the convention of the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). Timor-Leste's Court of Appeals must first recognize a foreign judgment or arbitral award in order for it to be enforced in the country.

Investor-State Dispute Settlement

The domestic court system handles civil disputes, but is not properly equipped for the demands currently placed upon it. The Timorese justice system suffers from a shortage of qualified judges and attorneys, incomplete and piecemeal national legislation, and insufficient geographical coverage. New legislation is enacted in Portuguese, while many legislators, prosecutors, judges, attorneys, police officers, plaintiffs, and defendants do not speak the language. Legal professionals lack specialized technical expertise to address complicated commercial or tax cases. The country's sole Legal Training Center focuses on developing competency in Portuguese language at the expense of technical legal expertise.

The government pursued international arbitration against at least one private company in a tax dispute. There were four cases filed against the company in Singapore in arbitration in 2014.

After more than a year of process, both sides signed a negotiated agreement in February 2016 that resolved most of the pending cases.

International Commercial Arbitration and Foreign Courts

Alternative dispute resolution is consistent with Timorese traditional justice systems, but there is no formal system yet in place. The Council of Ministers approved the Arbitration, Mediation, and Conciliation Law in December 2016 as part of the fiscal reform efforts, but the law has not yet received parliamentary approval.

The domestic court system is not properly equipped to handle commercial or tax disputes, and most legal professionals lack specialized expertise or training in these types of cases.

Bankruptcy Regulations

The Council of Ministers approved an insolvency law in March 2017, but parliament did not act on the law. In 2019, the World Bank ranked the country 168 of 190 in resolving insolvency.

4. Industrial Policies

Investment Incentives

The Government of Timor-Leste offers investment incentives, including tax credits and import duty exemptions, to both domestic and international investors. Domestic investments worth over \$50,000, foreign investments of over \$1.5 million, and joint foreign and national resident investments where the national resident controls at least 75 percent of shares of \$750,000, investors benefit from a five-year exemption from income, sales, and service taxes, and customs duties for goods and equipment used in the construction or management of the investment. The period of exemption is extended to eight years for investments in Rural Zones (outside of the cities of Dili and Baucau) and to ten years for investments in Peripheral Zones (the exclave of Oecusse and the island of Atauro). Even after these periods have expired, investors may deduct from their tax obligations up to 100 percent of the costs of constructing or repairing transportation infrastructure.

Foreign Trade Zones/Free Ports/Trade Facilitation

There are no foreign trade zones in Timor-Leste. Law No.3/2014 defines and regulates a free trade zone in the Oecusse exclave called the Special Zone for Social Market Economy (ZEESM). The ZEESM will prioritize activities of a socioeconomic nature to promote the quality of life and well-being of the community, namely:

- Development of commercial agriculture
- Creation of an ethical financial center
- Creation of a free trade zone
- Increased tourism
- Creation of a center for international studies and research on climate change
- Creation of a center of green research
- Implementation and development of industrial activities for export and import
- Other economic activities that add value to the region, as well as strengthen its international competitiveness

The government has approved a decree law on the development of Atauro (an island outside Dili) as part of ZEESM.

Performance and Data Localization Requirements

Some individual investment agreements and government contracts specify local content requirements. One such contract mandated 30 percent local employment, but the specific requirements vary depending on the agreement.

Timor-Leste's current immigration laws permit workers to apply for work permits in-country after entry on a 30-day visa acquired at arrival. Timor-Leste passed an amended immigration and asylum law in 2017; but had not implemented it as of 2019. The law creates a visa regime and allows for the possibility of applying for visas outside Timor-Leste.

5. Protection of Property Rights

Real Property

The legal regime governing land and property ownership in Timor-Leste remains unclear and uncertain. The country lacks set processes to address the competing claims on land and properties arising from various occupancies during Portuguese, Indonesian, and post-independence eras. A history of displacement, overlapping titles, and lack of legal clarity regarding land ownership compound these issues. A 2010 World Bank report found that the resolution of land ownership disputes is often dominated by the use of customary norms and local or traditional authorities, especially outside of urban areas. A 2016 Asia Foundation study found that 70 percent of occupants in Dili fear eviction within the next five years. Combined with the lack of a comprehensive land law, securing and protecting land titles or property rights proves difficult. However, the government is making some progress as it undertakes efforts to map properties and adjudicate conflicting claims. In 2017, Parliament passed a package of land laws intended to rectify the claims process. Under the law, claimants must register claims, which will be decided in arbitration. Parliament must pass additional decree laws before the land law can be implemented, however. Timor-Leste does not allow for foreign ownership of land.

Intellectual Property Rights

Section 60 of Timor-Leste's constitution provides for the protection of literary, scientific, and artistic work. In addition, Article 1223 of the country's Civil Code stipulates the necessity of specific regulations to protect authors of the property. However, legislators have yet to create specific regulations to codify or systematize domestic protection of intellectual property rights. Timor-Leste is not party to any international agreements on intellectual property rights. As a result, some international companies resort to printing cautionary notices in local newspapers in order to establish claims to their trademarks and patents. However, the dearth of domestic legislation in this area means that it is unclear the extent to which these practices afford any legal protection. In December 2017, the International Trademark Association (INTA) held a workshop to address copyright and trademark laws with Timor-Leste government officials. The U.S. Ambassador, embassy representatives, and the U.S. Department of Justice Resident Legal Advisor participated in the workshop.

Timor-Leste is not on USTR's Special 301 Report and it is not on the Notorious Markets List. For additional information about national laws and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

6. Financial Sector

Capital Markets and Portfolio Investment

Timor-Leste does not have a stock market and has limited credit and liquidity to facilitate investment. There are no known restrictions on portfolio investment.

Money and Banking System

There are five commercial banks operating in Timor-Leste: ANZ of Australia, Mandiri of Indonesia, BRI of Indonesia, BNU of Portugal, and a subsidized national bank, National Commercial Bank of Timor-Leste. Foreign citizens must have a tax identification number that demonstrates residency in Timor-Leste in order to maintain an individual bank account. According to Central Bank data, commercial banks' credit to the private sector totaled \$182.5 million as of December 2016. The overall non-performing loan rate was 15.2 percent in September 2016.

The Central Bank of Timor-Leste is the country's monetary authority. It supervises the activities of commercial banks, money transfer operators, currency exchange offices, insurance companies, and other deposit-taking corporations, as well as serving as the operational manager of the country's sovereign wealth Petroleum Fund. The bank also operates as the clearing house for interbank payments and undertakes bank operations for the government and Timor-Leste's public administration. American citizens must submit a copy of their passport notarized by the Consular Section of the U.S. embassy attesting to their citizenship status to open a bank account.

Foreign Exchange and Remittances

Foreign Exchange

The U.S. dollar is the official currency of Timor-Leste. There are no official currency controls, although the Central Bank of Timor-Leste imposes reporting requirements for the importation or exportation of cash above \$5,000 and requires explicit authorization for sums in excess of \$10,000. The four foreign banks operating in Timor-Leste – Bank Mandiri, BRI, ANZ Bank, and Banco Nacional Ultramarino – may also impose reporting requirements for transactions above a certain amount in order to comply with home-country anti-money laundering regulations in addition to the requirements stipulated by the Central Bank. American citizens must have a tax identification number that demonstrates residency in Timor-Leste in order to maintain an individual bank account. American citizens must also submit a copy of their passport notarized by the Consular Section of the U.S. embassy attesting to their citizenship status to open a bank account.

Remittance Policies

Timor-Leste does not have a specific policy governing remittances. The government facilitates Timorese going overseas in the UK, South Korea, and Australia for industrial and agricultural work but data on remittances is limited. In 2016, Timorese workers participating in bilateral

workers' programs in South Korea and Australia sent \$9.89 million back to Timor-Leste. By 2017, estimated total remittances had grown to \$43.8 million, according to the Secretary of State for Professional Training and Employment Policy (SEPFPOE). The government is also currently discussing a bilateral work program with Japan.

Sovereign Wealth Funds

Established in 2005, the Petroleum Fund is Timor-Leste's sovereign wealth fund. The Minister of Finance is responsible for its overall management and investment strategy. The Central Bank of Timor-Leste is responsible for its operational management, although the Minister of Finance has the authority to select a different operational manager. By law, all petroleum and related revenues must be paid into the Fund, with the balance of the Fund invested in international financial markets for the benefit of present and future generations of Timor-Leste's citizens. The Fund's receipts are invested in approximately 40 percent equities and 60 percent bonds, but the Petroleum Fund Law permits the investment of up to 50 percent of the Fund in equities, 10 percent of which may be in exotic investments. The Petroleum Fund publishes monthly, quarterly, and annual reports online. As of February 2019 Petroleum Fund assets stood at \$16.6 billion. The law governing the Fund provides that there shall at all times be appointed an independent auditor, which shall be an internationally recognized accounting firm (most recently Deloitte Touche Tohmatsu). In February 2016, the Sovereign Wealth Institute rated the Petroleum Fund as an 8 out of a possible 10 points for transparency.

The Petroleum Fund is the primary source of funding for the government budget, with a ceiling on annual withdrawals set by law at 3 percent of Timor-Leste's total petroleum wealth (defined as the current Petroleum Fund balance plus the net present value of future petroleum receipts). Recent budgets have exceeded the annual ceiling with the approval of Parliament; however, budgets have rarely been fully executed, returning up to one-third of the budget to the government coffers.

The Petroleum Activities Law no 13/2005, article 22, limits the government to investing 20 percent of the fund in petroleum activities. The government amended the law in 2019 to allow 5% of the Petroleum Fund to be invested in Timor GAP, while reducing the percentage of the Fund held in stocks from 40% to 35%. TimorGAP must use the investment to exploit known oil and gas fields, which are commercially competitive and will contribute to development and diversification of the national economy. TimorGAP will pay 4.5% interest on the investment and comply with reporting requirements.

In July 2010, Timor-Leste became the third country in the world and the first in Asia to be certified as compliant with the Extractive Industries Transparency Initiative (EITI), but was suspended in March 2017 because it did not submit required reports. EITI is a G-7 endorsed undertaking that involves a country's government, extractive-sector companies, and civil society in ensuring transparency of relevant payments and revenues.

In 2008, Timor-Leste participated for the first time in the IMF-hosted international working group on sovereign wealth funds. The country follows the best practices of the Santiago Principles.

7. State-Owned Enterprises

The Timorese government operates several state-owned enterprises (SOEs) across various sectors, including broadcasting, aviation, oil and gas, pharmaceuticals, and telecommunications.

- The Government of Timor-Leste owns 20.6 percent of Timor Telecom, a telecommunications provider while Telecomunicações Públicas de Timor (TPT) owns 54 percent. In 2013, two private foreign companies began telecommunications operations, ending Timor Telecom's monopoly of the fixed and mobile network. In exchange for the end of the monopoly, Timor Telecom acquired certain equipment procured by the government and will retain no-cost usage rights of some government-owned infrastructure and equipment until 2062.
- In mid-2011, the government established TimorGAP, E.P., a 100-percent state-owned petroleum company intended to partner with international firms in exploration and development of Timor-Leste's petroleum resources and to provide downstream petroleum services. TimorGAP is supervised by the Minister of Petroleum, but is governed by an independent Board of Directors. Firms that partner with TimorGAP will receive preferential treatment in tenders for petroleum projects.
- In November 2008, the Timorese government transformed Timor-Leste's Public Broadcasting Service, Radio Televisão de Timor-Leste (RTTL), into a state-owned enterprise known as RTTL. The government owns RTTL under the supervision of the State Secretary of Social Communication governed by an independent Board of Directors. In 2016, the government established an official news agency, TATOLI.
- In November 2005 (Government Decree No.8/2005), the government established ANATL, E.P., a state-owned company to administer the domestic airports in all aspects, including air navigation.
- The government also created SAMES, E.P. in April 2004 (Government Decree No. 2/2004) - a public enterprise that imports, stores, and distributes medicines and medical products and equipment. In April 2015, the government converted SAMES, E.P. into SAMES, I.P., an autonomous institution, which operates under the tutelage and supervision of the Ministry of Health.

Several autonomous government agencies are active in the economy: the Institute of Equipment Management (IGE), the Dili Port Authority (APORTIL), and the National Aviation Authority (AACTL). Postal and communications services may shift from the Ministry of Transportation and Communications to autonomous agency status eventually. Timor-Leste Electricity Company (EDTL) has recently ceased to be an autonomous institution and currently operates under the direct supervision of the General Directorate for Electricity, which resides under the Ministry of Public works. Other autonomous and self-funded institutions include the National Petroleum and Mineral Authority (ANPM), which regulates the oil and gas sector, and a lottery operated by the Ministry of Tourism. A National Authority of Communication (ANC) under the Ministry of Transport and Telecommunication will eventually shift to become an autonomous and self-funded institution.

Timor-Leste has not adhered to the Organization of Economic Cooperation and Development (OECD) guidelines on Corporate Governance of SOEs. Line ministers supervise SOEs but independent boards of directors administer them. Senior management reports directly to a 5-7

member Board of Directors. Line ministers are responsible for nominating or dismissing the President of the Board of Directors with approval from the Council of Ministers.

Privatization Program

Timor-Leste does not have a privatization program, but has voice a desire to privatize its energy and water utilities in the near future.

8. Responsible Business Conduct

Businesses are generally aware of expectations and standards for responsible business conduct, although regulation of those standards is inconsistent. The government monitors business compliance with labor and environmental regulations, although the capacity to do so is insufficient. The government does not appear to factor responsible business conduct policies into procurement decisions.

There have been no high-profile business-related instances of corporate impact on human rights. Civil society and other organizations are generally able to monitor and promote human rights, both related to corporate actions and otherwise, without undue interference from the government.

Timor-Leste is not an adherent to the OECD Guidelines for Multinational Enterprises. In July 2010, it became the third country in the world and the first in Asia to be certified as compliant with the Extractive Industries Transparency Initiative (EITI), but it was suspended in March 2017 for failing to submit its required 2014 report, although the EITI statement on the suspension recognized Timor-Leste's consistent commitment to transparency. The criteria and procedures by which the national government awards natural resource contracts or licenses are specified in the 2005 Petroleum Act. The process actually used to award contracts is broadly consistent with the procedural requirements set by law or regulation. Once a contract or license is awarded, the government makes public the basic terms of the awards. The government publishes quarterly reports on its Petroleum Fund on the Central Bank website.

9. Corruption

Transparency International ranks Timor-Leste at 105 out of 180 countries on its Corruption Perceptions Index in 2018, and the Government of Timor-Leste is continuing to take steps to combat corruption. In 2010, the Anti-Corruption Commission (CAC), an independent agency, opened its doors. That same year, the Office of the Prosecutor General also forwarded its first high-profile corruption case to the courts. Since then, the CAC has referred several cases to the Office of the Prosecutor General, which have resulted in several ongoing investigations. In 2016, former Minister of Finance Emilia Pires and former Vice-Minister of Health Madalena Hanjam, were convicted of participating in improper procurement of hospital beds. Both received prison sentences, which were suspended during the appeals process, although Pires was out of the country at the time and has not yet returned. Other corruption cases involving high-profile leaders, including the former President of the National Parliament, Vicente Guterres, have stalled due to claims of immunity. Business people operating in-country report concerns about operational difficulties they ascribe to lower-level corruption with regard to bureaucratic processing in areas such as licensing, importation, and taxation.

The government is working to establish internal discipline and performance standards. In October 2017, the government established a new customs authority and adopted the revised Arusha Declaration towards integrity in customs. The customs authority is also in the process of implementing the Automatic System for Customs Data (ASYCUDA), a UN-development customs management software, to streamline customs processing and reduce corruption.

Under Timorese law, bribery is a crime punishable with up to four years of imprisonment. It is illegal to bribe a foreign official, although Timorese law would not apply to an attempted bribery of a foreign official overseas. Bribes cannot be deducted from taxes.

Timor-Leste has signed and ratified the UN Anticorruption Convention; however, it is not a party to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

In March 2019, the National Parliament approved a new anti-corruption bill in generality with new identified offenses, including in the private sector, which included penalties for construction fraud and a failure to declare assets or unjustified wealth; however, the details have not been approved, and the law has not been promulgated.

Resources to Report Corruption

Anti-Corruption Commission of Timor-Leste

Rua Sergio Vieira de Mello

Farol

Dili, Timor-Leste

Phone: +670 77305564; +670 77326597; or +670 77326599

Email: keixa@cac.tl

Contact at watchdog organizations:

La'õ Hamutuk – Walk Together

PO Box 340, Bebora, Dili Timor-Leste

Phone: +670 3321040

Mobile: +670 77234330

Email: info@laohamutuk.org

Lalenok ba Ema Hotu (LABEH) – The Mirror for the People

Avenida Presidente Nicolao Lobato-Comoro-(in front of SDN.07-Malinamuc)

Comoro

Dili, Timor-Leste

Phone: +670 3331068

Email: gil.silva@labehe.org

10. Political and Security Environment

Timor-Leste emerged from a history of colonialism, occupation, and civil strife to the period of domestic calm that it has enjoyed for more than a decade. After twenty-five years of occupation by Indonesia, under an agreement between the United Nations, former colonial power Portugal, and Indonesia, a popular consultation was held in August 30, 1999 to allow the Timorese to vote on whether to remain part of Indonesia or to become independent. The majority chose independence; Timorese militias opposed to the decision organized and, supported by the Indonesian military, commenced a campaign of retribution. Approximately 1,300 Timorese were killed and as many as 300,000 people were forcibly relocated into West Timor as refugees. The majority of the country's infrastructure, including homes, irrigation systems, water supply systems, and schools, and nearly 100 percent of the country's electrical grid were destroyed. On September 20, 1999, at the request of the Timorese government, Australia led a deployment of peacekeeping troops (the International Force for East Timor, INTERFET), which ended the violence.

After almost three years of UN administration, Timor-Leste became a fully independent republic with a parliamentary form of government on May 20, 2002. UN peacekeepers departed in 2005 leaving a special political mission in its stead. In 2006, however, civil order collapsed due to domestic political struggles, which led to armed conflict between the police and military. The Government of Timor-Leste urgently requested police and military assistance from Australia, New Zealand, Malaysia, and Portugal. In August 2006, the UN Security Council passed Resolution 1704, creating the United Nations Integrated Mission in Timor-Leste (UNMIT) to assist in restoring stability, rebuilding the security sector institutions, supporting the Government of Timor-Leste to conduct the 2007 presidential and parliamentary elections, and achieving accountability for crimes against humanity and atrocities committed in 1999. An Australian-led International Stabilization Force (ISF) supported UNMIT's mission. Timor-Leste held free, fair, and largely peaceful presidential and parliamentary elections in 2007. Nobel Peace Prize Laureate José Ramos-Horta assumed the Presidency, and former guerilla leader and outgoing president Xanana Gusmão became Prime Minister.

National elections for president and parliament in 2012 were peaceful, free, and fair. UNMIT and the ISF departed from Timor-Leste at the end of 2012. Following free, fair, and peaceful parliamentary elections in July 2017, Mari bin Amude Alkatiri became prime minister of a two-party coalition government. In a March 2017 presidential election, also judged as free and fair, voters elected Francisco Lu Olo Guterres. In contrast with previous years, elections proceeded without extensive support from the international community. Security forces maintained public order with no reported incidents of excessive use of force. Alkatiri's government was not able to pass its program or budget. In January 2018, President Lu Olo dissolved parliament and called for early elections. The elections, which took place May 2018, were considered fair and transparent. A coalition of parties won a Parliamentary majority and Taur Matan Ruak became Prime Minister. A standoff between the President and Prime Minister over cabinet appointments continues to inhibit the swearing in of a full cabinet of ministers.

11. Labor Policies and Practices

Shortage of skilled labor is a significant constraint on private sector growth in Timor-Leste. Business executives report difficulties identifying skilled tradespeople to undertake or manage

new construction projects. Public and private sector employers consistently encounter problems locating managerial, clerical, and other office staff. There is a surplus of young, inexperienced, unskilled labor, with 15,000 new entrants into the labor market each year in an economy with an estimated total of 75,000 formal sector jobs. The government, donors, and employers place enormous emphasis on education and training in order to build local capacity. This policy aims not only to fill the skill gaps but also to meet local hiring requirements for foreign investors. According to a 2013 government report, 71 percent of the working population is employed in the informal sector.

The 2012 Labor Law put in place regulations for labor conditions, including a 44-hour work week, standard benefits such as leave and premium pay for overtime, and minimum standards of worker health and safety. In June 2012, the government set the minimum wage for full-time employment at \$115 per month. Enforcement of labor laws remains uneven, but increasing. Special economic zones are permitted to maintain different labor laws.

The government's labor inspectorate identifies and remediates labor violations and holds violators accountable, investigates and prosecutes unfair labor practices, such as harassment and/or dismissal of union members, and investigates and prosecutes instances of forced and/or child labor. Most cases come from temporary labor agreements in the construction and service sectors.

As stipulated in labor code, workers have the right to strike; however, they must notify companies in advance of the planned strike, and most labor disputes are settled through the mediation and conciliation service and the labor arbitration council. Workers must present claims in writing to their employer and give the employer five days to respond prior to declaring a strike. If the employers do not respond within that timeframe or respond but the parties do not reach agreement within 20 days, the organization representing the workers must provide five days' advance notice of a strike. The strikes can be stopped by the government if they disturb public order. Strikes against international companies have occurred, primarily over employment contracts and salary entitlements, but generally create limited disruption.

The Government of Timor-Leste is member to the following major international labor and human rights conventions:

- International Labor Organization (ILO) Convention No. 29 on Forced Labor
- ILO Convention No. 87 on Freedom of Association and Protection of the Right to Organize
- ILO Convention No. 98 on the Right to Organize and Collective Bargaining
- ILO Convention No. 182 on the Worst Forms of Child Labor
- International Covenant on Civil and Political Rights
- International Covenant on Economic, Social, and Cultural Rights

As of 2018, no new labor-related laws were enacted. However, SEPFOPE plans to review some articles of the labor code, including possibly adjusting minimum wage to reflect the current market.

12. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) and the Government of Timor-Leste signed an Investment Incentive Agreement in 2002. OPIC is open for business in Timor-Leste and welcomes contact from potential U.S. investors (www.opic.gov). Potential U.S. investors and exporters are encouraged to contact the U.S. Export Import bank (www.exim.gov) and the United States Trade and Development Agency (www.ustda.gov) as well.

Timor-Leste has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 2002. The International Finance Corporation (IFC) maintains an office in Timor-Leste, co-located with the World Bank Country Office in Dili.

13. Foreign Direct Investment and Foreign Portfolio Investment Statistics

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*	USG or international statistical source	USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year Amount
Host Country Gross Domestic Product (GDP) (\$M USD)	2015	\$3,104	2017 \$2,955
			www.worldbank.org/en/country Host country: Ministry of Finance, Statistics Directorate
Foreign Direct Investment	Host Country Statistical source*	USG or international statistical source	USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other
U.S. FDI in partner country (\$M USD, stock positions)	N/A	N/A	2017 \$0
			BEA data available at https://www.bea.gov/international/direct-investment-and-multinational-enterprises-comprehensive-data No host country source available.
Host country's FDI in the United States (\$M USD, stock positions)	N/A	N/A	2017 -\$4
			BEA data available at https://www.bea.gov/international/direct-investment-and-multinational-enterprises-comprehensive-data No host country source available.

Total inbound stock of FDI as % of host GDP	N/A	N/A	N/A	N/A
---	-----	-----	-----	-----

UNCTAD data available at <https://unctad.org/en/Pages/DIAE/World%20Investment%20Report/Country-Fact-Sheets.aspx>

Table 3: Sources and Destination of FDI

No data is available for Timor-Leste.

Direct Investment from/in Counterpart Economy Data					
From Top Five Sources/To Top Five Destinations (US Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	Amount	100%	Total Outward	Amount	100%

Table 4: Sources of Portfolio Investment

No data is available for Timor-Leste.

Portfolio Investment Assets					
Top Five Partners (Millions, US Dollars)					
Total		Equity Securities		Total Debt Securities	
All Countries	Amount 100%	All Countries	Amount 100%	All Countries	Amount 100%

14. Contact for More Information

Political, Economic, and Consular Section
 United States Embassy
 Av. De Portugal, Praia dos Coqueiros
 Dili, Timor-Leste
 Phone: +670 332-4684
 Email: ConsDili@state.gov