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EUROPEAN UNION & COMPETITION

East Timor: Entry into Force of the New Competition Act

Law No. 1/2026, of 25 March, which approves the first legal regime for competition in East Timor, enters into force Monday, 21 September 2026.

The Competition Act (Law No. 1/2026) aims to promote free competition in East Timor, introducing a new mandatory merger control regime (with low turnover and market share thresholds); the prohibition of restrictive agreements and abuses (of dominant position, economic dependence and purchasing power). The new regime provides for market studies and fines of up to 10% turnover. Enforcement will be secured by a newly created competition authority.

The Competition Act applies to all economic activities in the private, public and cooperative sectors. Although the preamble suggests that the Oil & Gas and minerals sectors are excluded from its scope, the Act itself does not provide for such limitation.

Until such time as the new Competition Authority is created (due to occur 90 days following the entry into force of the Competition Act), and depending on the relevant sector, the Competition Act will be enforced by the Ministry of Commerce and Industry of Timor-Leste and the Central Bank (where it involves the financial sector).

All undertakings with a current or prospective business in East Timor should immediately assess the impact of the new regime on their activities.

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Law No. 1/2026, of 25 March (Competition Act), adopting East Timor first legal regime for competition, enters into force on 21 September 2026. The Act enters into force 180 days after its publication in the Official Gazette and aims to promote and protect free competition in national markets, reflecting the Timorese State's commitment to building a competitive, fair and transparent market, fostering sustainable economic development and consumer welfare, in a context of Timor-Leste's ongoing efforts to integrate into the Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO).

The new Act applies to all economic activities carried out, on a permanent or occasional basis, in the private, public and cooperative sectors, including conduct carried out outside national territory where it generates, or is capable of generating, effects within Timor-Leste. The Government may, by decree-law, exclude certain activities from the scope of application of the Act. Although the preamble of the Act suggests that the petroleum, natural gas and minerals sectors may be excluded from its scope of application, the Act itself does not provide for any such limitations.

- **Competition Authority**

Enforcement of the Competition Act will be entrusted to a new competent public authority, vested with **broad supervisory, regulatory and sanctioning powers**. For the **financial sector**, the competent public authority is the **Central Bank of Timor-Leste**. The law approving its statute must set the deadline for its installation and for the appointment of its governing body, which may not exceed 90 days after that law's entry into force. Until the new authority is established, its powers will be exercised on a transitional basis by the governmental body responsible for trade and industry.

- **Prohibited Restrictive Practices**

The Act prohibits agreements between undertakings, concerted practices and decisions by associations of undertakings that, whether by object or effect, prevent, distort or appreciably restrict competition, distinguishing between **horizontal restrictive practices**, such as price-fixing, output limitation, market sharing and bid-rigging, and **vertical restrictive practices**, such as imposing minimum resale prices or discriminatory conditions.

Agreements and decisions caught by the horizontal prohibition are null and void and will produce no effects, unless justified (i.e., where efficiency gains exist).

Three types of unilateral conduct are also prohibited: **abuse of a dominant position** (an undertaking is presumed dominant where it holds at least 45% of the relevant market; a dominant position is likewise presumed between 35% and 45%, with this presumption being rebuttable; below 35%, dominance may still be established where market power is demonstrated); **abuse of the state of economic dependence**; and **abuse of purchasing power**.

- **Merger Control**

The new Act introduces a prior merger control regime. Mandatory prior notification applies to transactions carried out in the energy, transport, postal services, telecommunications and financial services sectors that result in the direct or indirect acquisition of control of one or more undertakings with a **market share exceeding 25%** or **combined annual revenues exceeding USD 10 million**.

Transactions must be notified after the agreement is concluded and before its completion, and it is prohibited to implement a notifiable concentration without having obtained the corresponding non-opposition decision (prohibition of *gun-jumping*). In the regulated sectors referred to above, the competent authority's decision is subject to a prior, mandatory and binding opinion from the relevant sectoral regulators.

Concentrations that do not create significant obstacles to effective competition in the national market or a substantial part thereof are cleared. Where a transaction creates such obstacles, the competent authority may refuse clearance, approve the transaction subject to adequate commitments offered by the notifying undertaking, or approve it where it significantly strengthens the international competitiveness of the undertakings involved, among other justification grounds set out in the Act.

- **Market Studies and Recommendations**

The competent public authority may carry out **market studies** and **sector inquiries**, **by economic sector and by type of agreement**, with a view to **monitoring markets** and

verifying circumstances indicative of distortions or restrictions of competition, and may issue recommendations identifying behavioural or structural measures it considers appropriate to prevent, remove or compensate for such effects.

- **Infringements and Penalties**

Breaches of competition law expose infringing parties to **fines of up to 10% of the preceding financial year's turnover**. In turn, failure to provide information, the provision of false, inaccurate or incomplete information, as well as failure to cooperate with the competent authority and unjustified failure to appear in procedural steps, constitute infringements punishable **by fines of up to 5% of the preceding year's turnover**.

Negligence is punishable, and the competent authority may also impose other administrative measures, such as warnings or written orders. These infringements constitute administrative offences, without prejudice to any criminal liability, and the infringer is always guaranteed the right to be heard before any sanction is imposed.

- **Appeals**

Decisions of the competent authority are subject to appeal before the administrative, tax and audit courts, pursuant to the Timorese Judicial Organisation Law.

- **Next Steps**

Full enforcement of the Competition Act will depend largely on the setting-up of the new authority, whose statute is expected to be approved in the short term. Effective implementation will also require the development of adequate institutional infrastructure and skilled human resources, and the strengthening of international partnerships, including within the **Lusophone Competition Network**, of which Timor-Leste has been a member since its inception in 2004, as well as the **International Competition Network** and regional cooperation within ASEAN.

Until the new authority is effective, enforcement will be secured on a transitional basis by the governmental body responsible for trade and industry (i.e. East Timor's Ministry for Commerce and Industry). Given also the broad supervisory, investigative and sanctioning powers granted to the competent authority and the significant fines set out in the

new Act, all undertakings with a current or prospective presence in Timor-Leste should carefully assess the impact of the new regime on their activities, commercial conduct and any planned concentrations, with a view to ensuring compliance with the new Act.