



Keynote Address

By

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Energy Policy in The Second 100 Year Period”*

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Ministry of Energy and Energy Industries

Salutations

We meet here today at a very special time in our history in the middle of our centenary celebrations for commercial oil production and of course a global environment that suggest some uncertainty for some period of time. We have 100 years of history which we must now examine to determine what lesson may be learnt as we begin our second century in a business which today is still not understood by many.

The Government's continued drive to develop our energy business is for the specific purpose to deliver high quality goods and services to our citizens in the achievement of our goal of developed country status by the year 2020.

Ladies and Gentlemen, in this context therefore I welcome today's conference, since it gives me the chance to share with you some of the developments in the local energy sector, and to consider very briefly the ramifications of the global economic uncertainty on the energy sector.

On all accounts, Trinidad and Tobago's energy sector has continued to be a source of dynamism to the national economy. Our market leadership and past decisions have impacted the energy business throughout this Western Hemisphere. We have LNG leadership in the Atlantic Basin, global leadership in the export of ammonia and methanol, and we are a major political force in this part of the world.

Trinidad and Tobago is one of the oldest oil producing countries in the world with a long and storied history. The country's claim as a producer of hydrocarbons dates back to the period of European expansionism and the documented record of Sir Walter Raleigh's use of Trinidad's pitch – a naturally occurring asphalt to seal leaks in his ships dated back to 1595.

The Merrimac Company drilled the country's first exploratory oil well to a depth of 61 metres, at La Brea in 1857. However, this venture proved unsuccessful. The country's history as a producer of crude oil has actually been traced to a well drilled in 1866 by an American engineer named Captain Walter Darwent.

Despite this early exploratory success, the commercial exploitation of the country's crude oil reserves was not forthcoming until 1908, some forty-two years after initial discovery.

The fledgling industry in Trinidad and Tobago found itself in the then unhappy though now fortuitous position as a producer of crude oil in association with natural gas. For the next sixty years, the emphasis was on the production of crude oil. Associated natural gas produced during that period was considered a nuisance and gas flaring was widespread throughout the industry.

As was the then prevailing practice, within the international hydrocarbon industry, emphasis was placed on crude oil to the detriment of natural gas, even though its use as an energy source precedes that of crude oil. In fact, Trinidad and Tobago's associated natural gas was flared almost unabated into the 1930's in keeping with industry norms.

Prior to early 1950's the industrial use of natural gas was limited to the oil field or refinery operations of the petroleum sector. As might be expected, even this sectoral usage was limited to certain traditional applications.

The decade of the 1950's proved to be a turning point in the utilization of natural gas in Trinidad and Tobago. This development was evidenced by the introduction of new uses of natural gas. This process started in 1953 when the predecessor company to the country's public electrical utility - Trinidad and Tobago Electricity Commission began using natural gas for the generation of electricity at its Penal power station.

The discovery of significant reserves of natural gas during exploration activities offshore the East coast of Trinidad which began in the late sixties and continued into the seventies, formed the genesis of plans for the development of the natural gas sector.

Unlike the evolutionary-type development of the crude oil and refining sub-sectors, a deliberate policy approach was adopted by the State for the development of the natural gas sub-sector.

In 1963, one year after Independence, a Commission was established by the Government with the following Terms of Reference:

“(1) To examine the present situation and future prospects of the oil industry of Trinidad and Tobago in the context of the economics of the world oil industry;

(2) To recommend a legal framework for the oil industry of Trinidad and Tobago which would stimulate the operations of foreign investors while safeguarding the interests of the nation;

(3) To make recommendations designed to ensure the greatest possible stability compatible with growth in the industry, including the level of employment”.

Now, those terms of reference seem just as applicable today as they most certainly were 45 years ago. The recommendations of this Report led to major changes in the legislation that governed petroleum activities in the country and broadened the mandate of the Ministry of Petroleum and Mines which had itself only been established in 1963.

Other significant events included the Government’s purchase of BP’s assets in 1969, the establishment of The Trinidad And Tobago National Petroleum Marketing Company in 1972 and the formation of the National Gas Company in 1975.

In late 1973, world oil prices quadrupled. During the rest of the decade, the economy experienced rapid growth and was drastically transformed. In the 1970’s, the country enjoyed its second major economic boom in thirty years. At a time when many of the world’s economies entered a deep recession, Trinidad and Tobago’s economy experienced real annual growth of 9.6% from 1974 to 1979. Government revenues from

petroleum increased from a level of 20% of GDP in the early 1970's to 41 % of GDP by 1980, fuelling 65% of government revenues by the end of the decade.

It is also important to understand the context of our country vis-à-vis the global market when these recommendations were made and the ensuing strategic decisions taken:

- Trinidad and Tobago had less than 1% of the natural gas reserves of the world;
- We had never produced a single kg of steel;
- No new harbour or port facilities had been created since colonial times;
- Ammonia had been produced in limited amounts since 1962, but no new plant had been erected for twelve (12) years;
- Our peak demand for electricity was 300MW, the demand of the steel plant was 180MW, half the peak demand of the whole country;
- Methanol was yet to be produced in the country;
- A single 16" gas pipeline existed between Penal and Port of Spain. There were no natural gas offshore or cross country lines;
- The challenges to monetise our natural gas were forbidding and formidable, including a skeptical national community that had not historically identified with the Energy Sector.

This is where the matter of a Vision for our energy future was most critical. One of the most often quoted, but none the less relevant statements made in our energy history was the following quote from the late Dr. The Right Honourable Eric Williams, the then Prime Minister of Trinidad and Tobago in January 1976;

"There have been attempts to persuade us that the simplest and easiest thing to do would be to sit back, export our oil, export our gas, do nothing else and just receive the revenues derived from such exports and as it were, lead a life of luxury – at least for some limited period. This, the Government has completely rejected, for it amounts to putting the entire nation on the dole. Instead, we have taken what may be the more

difficult road and that is, accepting the challenge of entering the world of steel, aluminium, methanol, fertilizer, petrochemicals. We have accepted the challenge of using our hydrocarbon resources in a very definite industrialization process”.

From that point on, the natural gas industry had a clear mandate and further actions were taken by the Government to deliver on the promises of the Prime Minister.

The early policy position of the Trinidad and Tobago Government on Natural Gas was articulated in a document labeled a “White Paper on Natural Gas” which was published in 1981. In that paper, it was argued that from the viewpoint of revenue generation, Trinidad and Tobago regarded crude oil as its major and dominating hydrocarbon resource.

It was then postulated that oil revenues would have stabilised at that level until 1984 as projected price increases would not have been able to offset projected declines in oil production. This was premised on the assumption that no new fields would have been found and developed in the intervening period.

Based on the foregoing analysis, energy sector policy makers concluded that **Trinidad and Tobago had a window of opportunity, extending for some four to five years, within which efforts should be made to develop revenues other than those which would accrue from crude oil. It was further noted that natural gas was the only other significant natural resource from whose exploitation sufficient revenues could be generated to meet the forecasted decline.** The paper emphasized that in the long-term “Natural Gas will become the major mineral resource in Trinidad and Tobago and will play a critical and dominating role in the overall development of the Nation”.

If we look at the history we will recognize that all Governments have supported this policy approach and the underlying premise has not undergone any significant change with the passage of time. This administration has noted that the gas-based downstream industries has benefited from a policy of tax holidays to get industries going. With the maturity of the business in the country, this policy has been amended.

Our position today is to facilitate natural gas based industries which will create greater value downstream. As a consequence, emphasis is being placed on those downstream investments which generate spin-off industries, provide opportunities for significant permanent employment, create greater linkages with the domestic economy and widen the country's tax revenue base.

Our policy on the use of the country's natural gas is guided by the following criteria:

- i) the provision of infrastructure,
- ii) the development of a skilled labour force,
- iii) the development of a range of petrochemical and other gas-based industries,
- iv) the support of direct strategic investments, through the State-owned National Gas Company and other agencies, and the
- v) encouraging of local and foreign investment by the active marketing of Trinidad and Tobago as a preferred location to do business.

In the implementation of our plans to achieve these goals, the Government of Trinidad and initiated the following:

- Promotion of exploration and development activities in existing fields
- Opening up of new acreage for exploration with a view to increasing the reserve base
- The establishment of a second natural gas based industrial estate
- The further development of gas transmission systems
- Application of appropriate incentives to stimulate investment

- Review of reserve and production levels and the implementation of appropriate reserve depletion policies in the light of the goal of maximising returns in a sustainable development environment
- Evaluation of upstream and downstream options for optimal energy sector growth and development
- Establishment and strengthening of administrative facilities

The energy sector continues to play a critical role in the achievement of Trinidad and Tobago's national objectives contributing just over 45 percent of the Gross Domestic Product of Trinidad and Tobago and accounting for approximately 64.4 percent of the Government's total revenue stream in 2007. It is this revenue that provides the financial resource for the majority of the Government's social policy initiatives and interventions in education, health, job creation, and poverty alleviation.

Trinidad and Tobago is currently the global leader in the export of ammonia and methanol with indigenous exports in 2007 of 3.3 million tonnes and 3.7 million tonnes respectively. The major market for these products is the United States of America (USA) where our exports account for 69% of ammonia and 63% of methanol imported by that country. In terms of our other key export, LNG, our local capacity now stands at 15.2 million tonnes per annum and we are the number one supplier of this commodity to the USA where in 2007 we held over 58% of the market. Further, there are facilities for gas liquids removal, steel and HBI production and several other integrated petrochemical, aluminium and other steel facilities that are at various stages of construction or development.

The upstream energy sector continues to be driven by policies that are intended to achieve the expansion of activities for exploration and production of hydrocarbon resources.

In the upstream arena, the last competitive bid programme offered in 2005/06 gave rise to another wave of exploration activities which commenced this year. It is the Government's intention to offer shallow marine acreage for competitive bidding by early 2009. Five blocks located on the East Coast and the North Coast of Trinidad and Tobago are to be offered for this bid round. Our evaluation indicates that the blocks are likely to be gas prone and offers great potential for enhancing our gas reserves.

This exploration thrust will be sustained in 2009 with the offer of blocks in the Trinidad and Tobago Deep Atlantic Area. The Southerly part of this acreage was offered in 2006 and attracted one bid from Statoil. We expect that these negotiations will be completed by March 2009. Since then we have re-evaluated the area and will be acquiring new data, which will form the basis for the determination of location of the blocks. The mix will include the more Northerly blocks in the Trinidad and Tobago Deep Atlantic Area, east of blocks 23b and 24.

During the course of this year, there have been three discoveries announced in the local media. In January, Petro Canada announced a 1.6 Tcf discovery in its Block 22 and Canadian Superior announced a 1.1 Tcf discovery in Block 5c. On 13th August 2008, Canadian Superior announced that the results from the "Bounty" well and interpretations of extensive 3-D seismic data and other data indicate a natural gas resource potential of up to 2.6 TCF of natural gas from the tested structure in Block 5c.

According to available data, exploration activities have only covered one third of our potential hydrocarbon resources. Our new initiatives will target resources that are located primarily in the Deep Atlantic, our new frontier.

The Government of Trinidad and Tobago's policy on the natural gas industry is to continue to diversify the sector so that a broad range of commercial activities are developed. This strategy is intended to protect this sector from too much reliance on a

particular industry, thus ensuring the sustainability of the natural gas-based industrial sector in the country.

We are also promoting the establishment of downstream industries that maximise the multiplier effects and value added through the creation of linkages between the Energy Sector and the rest of the economy. We have taken a policy decision that proposals for new projects must move beyond primary outputs to include value added products that can be either exported for higher value or used in local processes. This applies evenly for projects that produce first stage products such as ammonia and methanol as well as for completely new products, such as aluminium.

In this regard, the government has undertaken to develop an industrial estate at La Brea, and has selected Point Lisas South and East, Cap De-Ville and Oropouche Bank for further studies to confirm their suitability as industrial sites. There are also proposals to develop industrial port facilities at Brighton, Galeota, and Chatham.

Let us now look at the strategy for power. The Government in recognising the growth of the electricity needs in Trinidad and Tobago has developed generation and transmission projects that are required to meet national electricity needs.

A strategy has also been developed for capacity additions to continue to meet the country's power requirements to 2016 and beyond. The strategy is centered on conversion from Gas Turbine and Steam Plants to Combined Cycle Generating Units, which would result in a decrease in natural gas consumption and generate revenue savings. This is to be achieved by converting some of the less efficient Gas Turbine and Steam Plants to Combined cycle and ensuring that new generation additions are Combined Cycle technology.

According to the Business Monitor Intl. Trinidad & Tobago Oil and Gas Report Q4 2008, Trinidad & Tobago will remain one of the strongest sovereign credits in the Latin

American region, largely thanks to the fiscal and foreign reserves built up in recent years, as well as the trimming down of public external debt liabilities to around 6-7% of GDP. Despite a projected rise in public external debt in 2008 and 2009 - as the government looks to boost spending in infrastructure the islands' net creditor status will not come under any serious pressure.

While countries across the emerging markets universe have deteriorated markedly as a result of growing external asymmetries, structural economic weaknesses and global risk aversion, Trinidad & Tobago is projected to remain one of the strongest sovereign economies in the region. The country's fiscal outlook is undergoing review due to the sharp decline in global energy prices since Q208, but the government's net creditor position (at US\$7.4bn, international reserves far exceeds the US\$1.4bn public external debt load) remains well intact.

At a projected 3.4% and 2.9% in 2008 and 2009 respectively, economic growth is reduced and the country is relatively well placed, especially compared to the bulk of its Caribbean peers, to contend with the growing global economic and financial headwinds. In August 2008, Standard & Poor's (S&P) raised its long-term foreign currency rating on Trinidad & Tobago's sovereign debt to 'A' from 'A-' (the fourth upgrade since 2002).

Impact of Financial Crisis

The world is not new to financial crises. Two of the more recent crises affected different parts of the world. The 1980-82, Third World Debt crisis resulted from an exponential increase in external indebtedness disproportionate to the debt service capacities of developing countries. The collapse of commodity prices, high interest rates and appreciation of the US\$ further tightened their internal fiscal positions and balance of payments, forcing them to re-finance maturing debt.

The Asian financial crisis which began in 1997 saw foreign debt-to-GDP ratios rise from 100% to 167% in the four large ASEAN economies in 1993-96, then increased beyond 180% during the worst of the crisis.

In both cases, the economies of the countries concerned weathered the storm and rebounded to see significant growth once the recessionary cycle was completed.

Most prognosticators have concurred that the present crisis has a cycle to go through following which it is expected that the world economy and commodity markets will rebound.

Ladies and Gentlemen, in the context of Trinidad and Tobago and given the dominance of the energy sector in economic activity in the country, the Government is aware that a continued decline in energy prices, especially against the backdrop of falling local oil production, maturing oil fields and limited new gas and oil discoveries, is likely to have direct implications for government earnings from the energy sector.

In addition, the declining demand for energy in global markets seems to have impacted the operations of service companies in the energy sector which have already begun to report falling demand for their services.

While the 2009 budget was predicted on an oil price of US\$70 per barrel and a gas price of US\$4 per barrel, the steady decline in oil prices since October has caused the Government to review its revenue position, and make appropriate adjustments. This we expect will continue for some time during this period.

The government has clearly understood that a revision in the plans for the effective management of the economy is required given the global financial crisis. In doing this, the government has been very deliberate in trying to ensure that the most dependent persons in the society are properly taking care off while at the same time providing enough stimulus to allow for the continued growth of the country's economy.

We believe that in any consideration of the future a few things must be understood, these include the results of:

- a follow up economic summit of leading industrialised and emerging countries early next year to decide on the specifics for leading the world economy out of this difficult situation;
- the strength of our own economy, which was achieved over the last seven years;
- the projection for reduced economic growth rather than recession in Trinidad and Tobago;
- the objective to maintain a level of spending appropriate to achieving our development objectives.

Platform for Sustainability

In the context of the downturn in the world economy, the Government has in a very deliberate, policy-guided and holistic manner, set the stage for the country's sustained growth and development. This is being done via the pursuance of strategies in the upstream, mid-stream, downstream and in fiscal management that are all integrated with the sole objective of ensuring the growth of our country's revenue stream in a manner that allows for a competitive business environment and drives us towards developed nation status by the year 2020. I will now touch briefly on some of the key initiatives in each area.

Upstream

As I have outlined earlier, the Government clearly recognises that the key to the sustainability of the energy value chain is the existence of hydrocarbons in commercial quantities. In accepting this, the Government is vigorously pursuing the offer of several new offshore blocks in both shallow and deep waters to ensure that additional reserves are proved up. This is a major feature of our energy policy thrust and is the foundation block upon which our industry is built.

New Refinery

Regarding the mid-stream operations, the Government is presently reviewing proposals for the establishment of a new refinery in Trinidad and Tobago. This project will revitalise and revolutionise the refining business in the country and lead to the introduction of new technology, creation of new jobs and increases in Government revenue through taxes on the earnings of the plant.

Downstream

In terms of downstream, the Government is pursuing several initiatives in order to seize every opportunity for further diversification of this sub-sector by establishing industries that maximise the value added through the creation of linkages between the energy sector and the rest of the economy. In doing so, this will contribute toward expansion and deepening of the natural gas industry and as a consequence the country's revenue will increase, additional employment will be created and opportunities for local entrepreneurship will be enhanced.

Alutrint Aluminium Smelter Complex

One of the key projects is the development of a 125,000 tonne per annum (tpa) aluminum smelter and related downstream facilities. The overall Complex would provide approximately 880 direct permanent jobs, with a projected minimum job creation ratio of 2:1 indirect jobs in support services and entrepreneurial activities. The economic multiplier effect of 880 direct jobs and over 1500 indirect jobs generated by this facility will be particularly significant in an area where unemployment is higher than the national average.

In addition, the history of industrial development in Trinidad and Tobago suggests that new industrial sites serve as nodes of social and economic development that leads to a general improvement in the social and economic well-being of the areas in proximity to the facility.

This project also has the significant advantage in that it is designed to produce aluminium rod, bars, wire cable which could be used locally to fuel a whole new manufacturing thrust in aluminium products and technology development. In addition, the current plans call for Molten Aluminium to be made available in the form of ingots for domestic downstream users which will act as a spur for entrepreneurial endeavours.

Establishment of a Plastics Industry

Another major project involves the establishment of an integrated polypropylene complex which will realise the production of 490,000 tonnes of polyolefins based on three world-scale plants, including a methanol plant and a methanol to propylene (MTP) plant.

The polyolefins industry is one of the downstream sectors identified for development as it is viewed as a building block for expansion of the local plastics converting sector and one that can position this country as a major supplier of varied plastic products to the Caribbean and Latin America markets. The Government has positioned all of the elements logically such that maximum value is added to our thrust for the sustained development and expansion of domestic entrepreneurship through plastics.

The GORTT regards the downstream petrochemical industry as one of strategic importance and, as part of our energy Vision 2020 plan, we are seeking to encourage private investment in new types of industry in the downstream sector. One of the Vision 2020 objectives requires, in part, the development of competitive and sustainable local enterprises in the domestic energy sector.

Fiscal Review

There is still some work ongoing with the fiscal review with our consultants to finalize our plans in this area and this is expected to be complete in the first half of 2009.

Again here, the Government is seeking to implement a system that enhances the country's competitiveness as an investment location while at the same time ensuring the maximisation of Government revenues.

Conclusion

Ladies and Gentlemen, the petroleum sector continues and will continue to be of significance to Trinidad and Tobago. We very clearly understand that no other industry can comparably offer more promise, opportunity, potential to spur investment, job growth and diversification in Trinidad and Tobago.

We will be very attentive to the opportunities associated with oil and gas. Many of these opportunities will pass this way only once, and we cannot afford to let them slip through our fingers. In fact, we won't.

The new approach means vision and vigilance: in other words, knowing what we want to achieve, and not resting until we get there. And what we want to achieve is straightforward. We want to gain fundamental and lasting benefits from oil and gas development in order to improve the way of life in Trinidad and Tobago.

Is that really too much to expect?

The Government's obligation is to the people, and we realize that we will do a much better job of fulfilling that obligation to the people if we proceed with industry, labour, and other partners in the spirit of teamwork and cooperation.

As Trinidad and Tobago moves relentlessly towards achieving developed country status by the year 2020, the view is that the long-term outlook is bright, the country is ripe with opportunity and all that is required is the effort to realize our stated vision.

May I take this opportunity to thank the organizers for their invitation to speak here today and I wish you a successful conference.

Ladies and Gentlemen, I thank you.