

May 11, 2018

Minister's Address for Launch of Trinidad and Tobago EITI Report 2016

Salutations

Permanent Secretary Mrs. Penelope Bradshaw-Niles

Victor Hart, Chairman of the TTEITI Steering Committee and member of the EITI International Board

Their Excellencies and Members of the Diplomatic Corps

Mrs. Claire Fitzpatrick, BPTT's new regional President

Captains of Industry

Members of the Media

Ladies and Gentlemen

It gives me great pleasure to address this audience of diverse stakeholders today. I recognize representatives from the leading energy and mining companies, civil society groups, diplomatic missions and Government agencies present. This is the fifth launch of the Trinidad and Tobago EITI Report.

The EITI's key words are 'extractive' and 'transparency' as the name suggests focuses on transparency and accountability in how a country manages its oil, gas or mineral resources. As a Government, we subscribe to the principles of transparency and accountability and therefore the EITI has our full support. In the forward to the report "Trinidad and Tobago civil recognizes that the resources belong to the people". In a democratic country, the people is represented in the Parliament by the House of Representatives, both the Government and the Opposition.

Our commitment to these principles are unquestionable. Recent events in the form of the Gas Master Plan and the Spotlight on Energy are testimony to our commitment to transparency and accountable. We also laid the Gas Master Plan in Parliament and for the first time citizens had access to that level of detail into our energy sector policy. Through the Spotlight on Energy Conference, we highlighted the country's energy sector challenges and gave a lucid overview of how this Government plans to deal with these setbacks decisively. It is the first time in the history of Trinidad and Tobago (T&T) that such a fundamental issue for the sector was discussed with the people. The energy sector has been a sector always in secrecy.

The EITI process is relatively straightforward, but its importance cannot be understated. For a particular year, companies submit data on their tax payments. The Government submits information on its tax receipts, while an independent auditor verifies the information, reconciles the differences and explains the reason for the differences between the figures submitted by both Government and companies. Companies, Government agencies and Ministries must provide supporting data to the independent auditor to support their claims as well, whether actual receipts or audited financial statements.

Over seven years (7) of EITI implementation, the difference between Government and companies' revenue have been reconciled and the Independent Administrator/Auditor has confirmed that all revenue has been accounted for. This independent verification is very important, as it provides an impartial account of the payments made by companies and revenue received by the Government. The records will show that there has been full reconciliation of the payments made by companies with Government's receipts from the extractive industries from the inception of this report.

Findings of Trinidad and Tobago EITI Report 2016

This latest EITI Report confirms the decline in Government revenue from the energy sector, a downward trend that has impacted us all. For 2016, the report shows that we received total receipts of TT\$**8.8Bn**, compare this to the **\$28.6Bn** for 2014. This is a seventy (70) percent decline. This is not only due to lower prices and lower production but also very generous tax concessions.

In 2014, the then Government agreed to the grant of accelerated allowances which entitled companies to write off development costs against revenue in three (3) years, 50% in year 1, 30% in year 2, and 20% in year 3, as compared to a period of five (5) years. Companies were also allowed to write off 100% of exploration costs in the year incurred. The combination of these allowances and the loss relief of 100% of losses, contributed to the substantial reduction in Government's take from the sector. This situation remains untenable. As a consequence, the Government is in discussions with two of the major gas producers-BPTT and Shell to ensure a more equitable sharing of revenue earned from the monetization of our hydrocarbon resources is attained. As I have always maintained, the State has a sovereign right to

an equitable share of the economic rents derived from its wasting resources. This Government intends to ensure that this right is respected and honoured.

For 2016, these totals were reconciled against the payments disclosed by forty-three (43) reporting companies. There were minor differences amounting to TT\$26M, which were due to foreign exchange differences; timing differences and insurance premium tax payments on foreign policies paid by insurance brokers.

For the third year running, the NGC is the largest taxpayer contributing TT\$5.7Bn to Government revenue, followed by EOG Resources with payments of TT\$1.3Bn and BPTT with payments of TT\$480M. This statistic is most revealing. The obvious question is how can EOG with a production of 400 to 450 Mmcf/d contribute TT\$1.3Bn in taxes and other receipts to Government whereas BPTT with five (5) times the production in the amount of 2.2 Bcf per day contributed a mere TT\$480M or one-third of EOG's contribution. In the extractive industry, there cannot be taxation based on profits only. This wide disparity in revenue has indicated, among other matters, a lack of consistency in royalty regime and is the justification for the introduction of 12.5% royalty rate across the board for gas. The positive impact on revenue has already been realized as royalty receipts from gas for first quarter calendar 2018 amounted to TT\$534M, which was substantially higher than quarterly payments in the previous year.

This gives credence to the conclusion drawn by Poten and Partners in the Gas Master Plan Report that T&T was systematically being denied of its revenue entitlements. They estimated that the country lost up to US\$6Bn annually from transfer pricing practices for the period 2010 to 2014 and continues to lose US\$1.5Bn annually. They deduced that the revenue leakage was sustained primarily through the LNG business.

Review of these arrangements form part of the discussions between Government and the main players in the LNG business for the improvement of Government's revenue.

In the Spotlight of Energy Conference held by the Ministry of Energy and Energy Industries (MEEI) in March 2018, the revenue challenges faced by the Government and the findings of Poten and Partners were brought to the attention of citizens of T&T. In the face of such disclosure, it was disappointing that agencies charged with overseeing the public's interest such as EITI did not see it fit to interrogate the matter and to assume a position on Poten's assertions. It is my expectation that as the EITI develops it would take a more active position on such matters.

Ladies and Gentlemen, only yesterday in the mid-year review, the Minister of Finance addressed the positive trends in the energy sector growth. They are:

- 1) Increasing gas production
- 2) Nominal GDP - 9% expansion
- 3) Increased royalty payment
- 4) Fiscal consolidation
- 5) Pick up in the energy sector- knock on or affect or growth in non-energy sectors

A new feature in the EITI reporting is the inclusion of the contributions of mining companies. I want to publicly thank the five mining companies that participated this year; Hermitage Limestone Limited, Trinidad Cement Limited, F.W. Hickson and Company Limited and state-owned National Quarries Company Limited and Lake Asphalt of Trinidad and Tobago (1978) Limited. This is the second year in a row the

mining sector has been included in the EITI report and pioneers in any field should be saluted.

It is also important to note that the EITI is more than simply matching or comparing numbers. We can view the EITI as a health check-up where the vital signs of our revenue collection, audit and assurance and data management processes are examined. The report provides concrete recommendations for us to improve our performance in these areas. In this regard, the EITI can be used as a guide by the administrators and regulators for the improvement of administrative systems in the administration of their portfolios.

Conclusion

This year is a significant one for EITI implementation in T&T where EITI will undergo validation and be judged to ascertain how well it is meeting the stringent requirements of the EITI Standard. I am satisfied with our performance and I am assured that the country will retain its EITI compliant country status, the highest level of EITI membership.

The EITI is one of the institutions, which provide citizens with substantiated information on the revenue accrued from our extractive industries, particularly oil and gas. It removes any ambiguity or doubt on the revenue earned from this sector. The oil and gas sector is occasioned by volatile price swings and the consequential impact on revenue. Therefore, EITI has an important role in substantiating such revenue fluctuations.

This week, oil prices rebounded to \$70 per barrel, the highest level since 2014. Therefore, Government's revenue should increase. With sixty (60) per cent of oil

production coming from PETROTRIN land and marine operations, its farm-outs and lease operators, the impact of PETROTRIN's financial constraints PETROTRIN is highly impacting on Government revenue as the company has not been remitting taxes and royalties due to Government. EITI would be able to confirm this irregular situation.

As a Government, we are committed to holding firm to the principles of transparency, accountability and sharing revenue data from our extractive sectors with citizens. Our support of the EITI is proof of this. As I launch this report, I reaffirm Government's duty to the stewardship of our natural resource wealth and our commitment to transparency and accountability of revenue earned from our extractive industries.

It gives me great pleasure to formally launch the EITI Report 2016.

I thank you.