



**Government of the Republic of Trinidad and Tobago
MINISTRY OF ENERGY AND ENERGY INDUSTRIES**

SPEECH

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**ENERGY CHAMBER'S ANNUAL GENERAL MEETING
GOVERNMENT'S STRATEGIES FOR THE ENERGY SECTOR**

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A good-day to every-one and thank you for the warm greetings and congratulations on my appointment as the Minister of Energy and Energy Industries. The past few weeks have been hectic. With the short time frame before the Budget I have had to hit the ground running. Nonetheless, I am very pleased to have been asked to address the chamber's Annual General Meeting.

It is some 40 years ago that our Prime Minister Dr. The Honourable Eric Williams turned the sod at Pt. Lisas to mark the start of construction activity at the abandoned sugar cane estate. The turning of the sod on that memorable day triggered a wave of development that was probably never anticipated. Here was a country with less than 1% of the world's gas reserves, a very small population, a very small landmass, and with no significant place in the energy industry. Thus began the Trinidad and Tobago Experience, sometimes referred to as "the Bold Passage".

This was a journey which saw a government taking a position of being investor, developer, promoter and facilitator for the natural gas sector and the gas-intensive industry. Our government took some high risk decisions which fortunately have paid huge dividends to our nation.

From playing an insignificant role, if any at all, in the global energy industry, Trinidad and Tobago has become a significant global player. To the extent that in the 2014 Overview of the Global Energy Industry we see the following quotations:
And I quote:

“As the largest oil and gas natural gas producer in the Caribbean, Trinidad and Tobago’s hydrocarbon sector moved from an oil-dominant to a mostly natural gas-based sector in the early 1990s”

“In 2013, Trinidad and Tobago was the world’s sixth-largest LNG exporter”

“Trinidad and Tobago houses one of the largest natural gas processing facilities in the Western Hemisphere”

“Trinidad and Tobago is the world’s largest exporter of ammonia and the second-largest exporter of methanol as the country possesses nine ammonia plants and seven methanol plants” End quote.

As we reflect on the success of our energy industry, it is only fitting that we pay tribute to the Minister of Energy who pioneered that effort, the late Minister Errol Mahabir. On behalf of the Ministry of Energy and Energy Industries, I extend our deepest condolences to his family. He did leave a legacy behind.

So what of the Future: The Honourable Prime Minister recently made the point that there is no need for panic notwithstanding the rapid decline in energy prices. He is completely correct.

Over the last year and a half energy prices have been volatile and unpredictable. In the current market scenario the marker crudes WTI and Brent averaged US\$50 and US\$55 respectively in the first three quarters of 2015. The weighted average price of local crude and condensate, which is usually valued at a differential to the marker crudes, averaged US\$50.39 up to August 2015.

That’s the current situation – but what was the scenario prior to that?

From the mid-80's until September 2003, the inflation-adjusted price of a barrel of crude oil on NYMEX was generally under \$25 a barrel. Up until 2004, oil prices fluctuated around \$20.

There was a dramatic shift in 2005 when it moved to almost \$40 and continued to rise almost exponentially to the \$100's for 2011 and maintained that through 2014. Now we are witnessing prices hovering between \$40 and \$50.

The major lesson here is that oil prices over the past 40 years have shown a high level of volatility. It is certain that this characteristic will continue. Dramatic changes of 60%+ have occurred and this pattern no doubt will continue.

The current decline in crude prices has been due to several factors which impacted on the market and created a supply glut:

- US shale boom increased that country's production to the level of self-sufficiency for the first time in 40 years;
- lacklustre demand resulting from the economic slowdown in China, the second largest consumer of oil, and Europe;
- Organization of Petroleum Exporting Countries' (OPEC) November 2014 decision to maintain its production levels and thus retain market share.

These factors combined with continued expansion of Russia's production have widened the supply glut to more than 2 million b/d of crude oil.

The Energy Information Administration projects a Brent price of US\$59 per barrel in 2016, while WTI is expected to average US \$54 per barrel in 2016.

In the case of natural gas, there is much less volatility. Henry Hub has been varying between \$2.50 and \$5.00 per mmbtu, with a peak in 2004 of around \$8.00.

Currently Natural Gas prices are lower than the preceding periods. However, there is a marked differential in prices in the various markets. The Interfax Global Gas Analytics Monthly Publication for fiscal 2015 has projected Henry Hub gas price at US\$3.09 per mmbtu. Over in the UK, the NBP projected gas price is US\$7.362 per mmbtu. The JCC gas price on the other hand is US \$11.752 per mmbtu.

In Trinidad and Tobago, our natural gas prices are a function of domestic and export prices. The export price is linked to Henry Hub and the global market. Whereas the domestic price is based primarily on product pricing, a negotiated formula and to a lesser extent Henry Hub. For fiscal 2015 average domestic gas price is projected at US\$2.83 per mmbtu with the average export gas price being projected at US\$2.22 per mmbtu. This gives a country weighted average price of US\$2.50 per mmbtu.

Trinidad and Tobago's LNG Exports no longer have the USA as a primary destination. LNG cargoes are diverted to higher valued markets. Current information shows that 49% of LNG goes to South America, 11% to Europe and 10% to the USA. This redistribution of LNG to higher valued markets has however not resulted in any significant increase in revenue to the country.

It is my understanding that there are a number of LNG contractual arrangements which in their execution do not live up to the spirit or intent of the agreements and therefore deprive the State of revenue due to it. In this current scenario of low to moderate energy prices the State can ill afford such leakages.

Accordingly, the Ministry **will** be undertaking a review of the LNG contractual arrangements to ensure that Government revenues under these arrangements are preserved.

In a global context we are a small to moderate energy player. Notwithstanding our membership in the World Petroleum Congress and Gas Exporting Countries Forum, we are mere bystanders and have no shield against the pricing volatility that has become the norm in the industry.

In terms of economic impact, the energy sector is the main driver of our national economy. The sector's standing in the economy however has been gradually eroded with the unabated decline in reserves and production. At present oil production is at the lowest level ever in this country with a production of approximately 81,000 barrels per day YTD and natural gas production which peaked with a production of 4.3 bcf per day in 2010 is currently averaging 3.86 bcf per day.

That being accepted there is need to reinvigorate the industry to accelerate production, to build back reserves and to provide the certainty of gas supply to domestic industry to enable it to move from the current short term planning to a longer horizon.

The question that arises, and is being addressed, is **what** is needed to realize the potential of expanding and deepening our energy sector.

Firstly I will treat with Natural Gas

This Administration will be giving priority consideration to alleviating the imbalance between the supply and demand for natural gas. At present the industry is characterized by inadequate supply which has led to short term contractual arrangements and a state of uncertainty, given that the contracts between the Upstream operators and NGC are due to expire over the period 2015 to 2018.

Accordingly I have instructed NGC to take immediate steps to expedite these negotiations and complete in the earliest timeframe. This should provide a level of comfort and certainty to the domestic gas based industries in relation to the gas available from existing reserves.

However, the solution to the current gas inadequacy requires collaboration by the Upstream Companies and the Government, to convert hydrocarbon resources to reserves. The 2014 Ryder Scott Reserves Report identified 127 prospects within the acreage currently operated by Upstream Operators under Production Sharing Contracts and Exploration and Production Licences. These prospects represent an unrisksed resource estimated at 31.9 tcf and a risksed resource estimated at 7.2 tcf. Unrisksed field sizes range from as low as 100 bcf to 1.0 tcf.

As part of our strategy to convert hydrocarbon resources to reserves, we will consider providing fiscal incentives where appropriate or necessary. In return Upstream Operators **shall** be expected to develop a programme of activity which exploits fully the acreage they currently hold. If the requisite programs are not developed, the Upstream Operators will be required to relinquish acreage that remains idle. This does not include any relinquishment that operators are contractually obliged to undertake.

In parallel with such action the Ministry will be continuing with its programme of bid-rounds for both land and marine areas. I have tasked the Ministry with identifying suitable blocks in both land and marine areas for a new bid-round at the earliest possible date.

Collaboration with Venezuela

Over the period September 18-22, we received visits from Technical and Ministerial Delegations to discuss areas of co-operation between the governments of Trinidad and Tobago and Venezuela in planning the way forward with respect to the cross-border Loran-Manatee Gas Field.

A significant development in the discussions has been the willingness of the Government of the Bolivarian Republic of Venezuela to allow cross boarder gas to be processed in Trinidad and Tobago. There was a mutually expressed desire to expedite the development of the Loran- Manatee Field. As a priority it was agreed that both countries will follow-up with the participating companies operating within their jurisdiction to finalize the Unitization and Unit Operating Agreement.

In the area of Oil Production,

Over the last five years oil and condensate production have fallen under 100,000 barrel/day. In 2010 production of crude oil and condensate averaged approximately 98,100 barrels per day. Currently crude oil and condensate production averages 81,000 barrels per day. The decline in production is due to two factors – (i) the lack of new discoveries and (ii) a reduction in condensate production which fell by as much as 17,400 barrels per day.

With the exception of the lease operators, crude oil production has been stagnant. State owned Petrotrin which owns the rights in the most prospective land and marine acreages has failed to engender any significant increase in production in its portfolio.

It is therefore time to take a serious look at Petrotrin to determine its capability to effectively exploit its hydrocarbon resources. The first task of the recently installed Board will be to conduct an assessment of the company's capability and to chart a way forward, understanding that the country cannot wait forever for the company to get its act together.

The clock is counting down on Petrotrin.

What is the Way Forward?

The current low price environment has brought about structural changes in the oil and gas industry. These changes have been manifested by acquisitions and mergers among key players in the industry, the deferral of capital expenditure and the reduction in operating and discretionary expenditure. This situation has been compounded by rising industry costs.

Being part of the global energy framework, Trinidad and Tobago energy sector is not immune from the fallout of the low-price environment. We recognize that it is not business as usual and innovative changes are required to ensure that the sector remains viable and progresses in a sustainable manner.

Accordingly, as regards the cost structure of the industry, we shall be taking steps to ensure that the services offered by our institutions/state agencies both regulatory and commercial, are conducted in an efficient and effective manner and at a cost which is competitive by international standards.

We have also taken on board for consideration the several suggestions that have been advanced for the sustainability of the industry. The Fiscal Review Committee of the Ministry will be reconvened with a view to soliciting and evaluating proposals received from the industry and making appropriate recommendations.

Upon assuming office I was presented with the **Natural Gas Master Plan 2014 – 2024**, which was contracted last year. In light of the different priorities of the new administration, and new developments regarding our cross-border reserves, I will be reviewing the plan to see how it can be incorporated to guide the development of the natural gas subsector in an efficient and effective manner, to the benefit of the country.

Trinidad and Tobago has had a long history in the oil and gas industry. Commercial oil production commenced in my constituency of La Brea in 1908. The experience and expertise developed from the 100 plus years in the industry has been valued by energy companies operating in Trinidad and Tobago and by developing oil and gas economies which have sought to model their industries on our experience.

Notwithstanding this **deep** and **long** association with the industry, local participation has **not** kept pace with the developments in the industry. This has to change. Let me repeat – this has to change.

Accordingly, the local content policy will be reviewed, taking into consideration comments from all stakeholders to ensure that the local private sector obtains a larger share of the activity generated by the energy sector. In addition to the more traditional areas such as fabrication, construction, well services, platform operations and maintenance and support services, we will also include activities related to exploration and production, both onshore and offshore. The Ministry will also be closely monitoring foreign based companies to ensure they meet their local content obligations under their respective work permits.

Our ultimate goal is to maximize local content and local value added through appropriate guidelines and /or legislation. To this end the **National Local Content Committee**, under the Chairmanship of the Ministry, will be reactivated and tasked with the responsibility for the development of new legislation for the maximization of local content in the domestic energy sector.

Government is committed to the growth and development of the country's renewable energy resources and promotion of energy efficiency. Government is also supportive of international efforts for the climate change mitigation strategies and will be participating in the international climate change dialogue scheduled for later this year in Paris, at which the country's position will be presented and at which a new convention to replace the Kyoto Protocol is expected to be developed.

Regionally, we will also continue to collaborate with our CARICOM partners recognizing the importance of such collaboration to the progress of RE and EE initiatives in the region. In this latter regard the Government expresses its full support to the establishment of the Caribbean Center for Renewable Energy and Energy Efficiency, the inauguration of which is due to take place later this month in Barbados.

In terms of priority the promotion of energy efficiency is high on the Government's energy agenda as improved energy efficiency can play an important role in addressing energy security and economic competitiveness of our nation.

In this regard the work of the ESCO Certification Committee in finalizing the administrative and regulatory framework for the conduct of energy audits will be accelerated and translated into legislation at the earliest opportunity. This will allow access to the fiscal incentives available in respect of such audits.

International Partnerships

Trinidad and Tobago will seek to establish or rebuild relationships with new and existing oil provinces, and seek to partner as an equity investor in suitable energy related projects internationally. The Trinidad and Tobago's Model of Development in the energy sector has formed the basis of development in many of the emerging oil and gas economies. We need to build on our reputation by translating our goodwill into tangible outcomes. Over the years the Ministry has been host to many delegations from the African continent. We need to resuscitate and develop these relations along mutually beneficial commercial lines. Government would be supportive of such ventures.

Minerals Sector

Often at meetings such as this, we tend to forget that the Ministry is also responsible for the Minerals industry. The minerals sector is one in which we have depended on over the years for all of our construction materials for the development of our physical infrastructure. The government intends to improve and modernize this sector to ensure that the value derived from our mineral resources redounds to the benefit of all our citizens.

To facilitate this, we will be strengthening the legislative framework of the industry with the introduction of the Miscellaneous Provisions (Illegal Mining) Bill and by the amendment of the Minerals Act (2000) to harmonize areas of duplication in other pieces of legislation such as the Environmental Management Act in the upcoming legislative agenda. We will also be embarking on capacity building within the industry as we move to improve the management and regulation of the mining sector.

Asset Integrity

Given the country's long history of involvement in the energy sector, we are faced with a significant amount of aging physical assets. The safety and security of these physical energy assets is critical to ensuring our continued safe operating environment. The Ministry has engaged DNV Trinidad Limited to conduct a full asset integrity assessment of the physical assets in the entire value chain. The Ministry will also be examining the current security arrangements for our critical energy infrastructure to ensure a coordinated and efficient approach to securing our energy infrastructure.

The exercise will be commencing this week with the audits of the Petrotrin Refinery and NGC. These audits will take place over a period of 5 months and the final report to the MEEI will be submitted 2 months subsequently. Thirty (30) companies will be audited from within the upstream, midstream and downstream sectors. The results of this audit will inform the MEEI regarding measures such as policy, regulation and enforcement of the energy sector in order that asset integrity is preserved for future generations.

It has also been recognized that in light of our aged assets and possible security vulnerabilities that there is the need to have robust plans in place to address major oil spill events. It is our intention that the National Oil Spill Contingency Plan (NOSCP) would be fully implemented in the shortest possible time. To this end an Implementation Committee is being established.

In conclusion

The energy sector has always been the main driver of economic growth in this country contributing on average approximately **40%** to Gross Domestic Product. However, we have seen a progressive decline in its contribution to the economy. The MEEI is committed to restoring the sector's importance to the national economy. Given the global environment it is a challenging task. But where there is a will there is a way. I am confident that we are up to the challenge. In this room we have probably all of the players in the industry and I am assured that we can count on your support to return the sector to its prominence in the national economy.

I wish to thank the Energy Chamber for inviting me to apprise you on Government's priorities for the sector. There is a lot of work to be done and much detail to be ironed out. I look forward to your constructive comments.

It would be remiss of me to end without a comment on yesterday's budget. Given the current reality with regards to petrochemical prices, as I detailed earlier, we have pegged the national budget at \$45.00 per barrel of oil and \$2.75 per mmbtu of natural gas.

The increases we have implemented are deemed necessary to ease the subsidy burden somewhat and increase revenue. We believe these to be manageable and will not unduly negatively impact our citizenry, as we are all called upon to share the burdens of adjustment.

I wish to commend the minister of finance on his excellent presentation. The citizens of Trinidad and Tobago have no doubt recognized that we have been true to our manifesto promises as we **have** commenced implementation of our one-year commitments.

In closing as we reflect on the difficult times that maybe ahead, we can take comfort from the words of the – Psalmist “weeping may endure for a night, but joy cometh in the morning”.

I thank you.