

Remarks by

Minister of Energy and Energy Industries

Senator the Honourable Franklin Khan

at the

**Trinidad and Tobago Energy Chamber Energy Conference
2021 Virtual Launch**

January 26th 2021

9am

SALUTATIONS

Dr. Thackwray Driver, President and CEO of the Energy Chamber;

Dwight Mahabir, Chairman of the Energy Chamber;

Executives of Energy Companies;

Other specially invited guests;

Ladies and gentlemen,

Good morning.

It is my honour to address you today in such a critical time for the energy sector, and to welcome you to the virtual launch of the Energy Conference 2021. Over the years, we have witnessed the Energy Conference grow to become a much-anticipated annual fixture on our calendars, and with good reason. The Energy Conference has become something of a one-stop shop, a central point of focus which brings together key players from the energy sector, and presents opportunities to forge business relationships, all within a proven hydrocarbon province, with advantageous regional linkages.

When I speak to Trinidad and Tobago being a proven hydrocarbon province, I draw reference to the results of the latest Reserves Audit conducted by Ryder Scott, for year-end 2019, which I presented to the media last week. The Reserves Audit revealed that the country's Total Unrisked Technically Recoverable Resources, which was formerly called 3P Reserves, have been increasing since 2016. Between 2018 and 2019, we were able to replace our P1 + C1 Technically Recoverable Resources at a rate of 113%, taking our P1 + C1 Resources, which was formerly

known as Proved Reserves, from 10.5 TCF to 10.7 TCF. Exploration resources continued to exceed 50 TCF due mainly to successes in deepwater exploration, which also resulted in the movement of large volumes out of this category and into Technically Recoverable Resources.

As is well known, the energy sector remains the largest contributor to the social and economic development of Trinidad and Tobago, and the Government has been actively working with industry stakeholders to maximize the contribution from the development of these resources. However, the COVID-19 pandemic has resulted in a slow-down of activity in the energy and other sectors of the economy.

To address the impacts on the country, in April 2020, the Honourable Prime Minister Dr. Keith Rowley established the Roadmap to Recovery Committee. The Committee was given the mandate to chart a Roadmap to Recovery, focusing on three (3) immediate priorities, namely:

1. Addressing and mitigating the hardship inflicted by the COVID-19 pandemic;
2. Restarting the economy, and
3. Laying the foundation for sustained economic recovery.

The Committee's Phase 1 Roadmap to Recovery report was laid in Parliament in July 2020, and included several energy sector initiatives which were required to encourage activity in the sector. Paramount among the initiatives identified by the Roadmap to Recovery Committee was the maintenance of the exploration and development schedule of major upstream projects.

Trinidad and Tobago has a well-established upstream sector, with participants including major International Oil Companies (IOCs) such as BP, Shell, BHP and

EOG. Working alongside the IOCs, there is a well-developed and experienced service sector residing here in Trinidad and Tobago.

We consider the upstream companies as partners in the development of the country's hydrocarbon resources. We have been working with the upstream companies to understand the challenges that they are facing and the part that Government can play to minimize the delays in start-up of projects. The implementation of several projects was unavoidably delayed by the disruption of global supply chains and the implementation of strict COVID-19 protocols. However, the upstream companies have used the lost time to recalibrate and rework their schedules. As a result, the delayed projects are due to come onstream in the latter part of 2021 and onwards. The projects include:

- Production from Touchstone's Ortoire Block, namely the Coho and Cascadura wells, in Quarter 3 2021;
- BHP's Ruby and Delaware projects in Quarter 4 2021;
- Shell's Barracuda and Colibri in Q4 2021 and into 2022, adding a combined total of about 450mmscfd at peak production;
- EOG's Osprey East in 2022, and
- BP's Cassia-C and Matapal projects in 2022, adding incremental production increases of up to 300mmscfd, and peak production of 300mmscfd respectively;

Further afield, we are working with Shell to mobilize production from the Manatee Field, which was successfully delinked from Loran on the Venezuelan side, as early as 2025. Production from this field could range from 300mmscfd to as high as 750mmscfd.

Consequent on the relatively positive outlook for gas production in the next 3-5 years, Government has taken the strategic decision to perform critical maintenance on Train 1 to ensure that the train is operable and ready to go when more gas becomes available.

Now, ladies and gentlemen, I want to spend some time addressing the issues of the downstream industry. The downstream industry has not been forgotten or neglected, contrary to the mis-information being circulated in the media. The downstream industry has and continues to be a major achievement of Trinidad and Tobago also internationally known as the Trinidad and Tobago's Model of development. As a significant earner of foreign exchange, the downstream has a critical part to play in the country's economic recovery.

However, the downstream industry operates in a highly elastic global environment where prices are dictated primarily by demand. Prior to 2014, commodity prices for ammonia and methanol were at an all-time high. In 2012 for example, ammonia prices reached as high as US\$670/MT for the Caribbean Ammonia Spot Price, and US\$700/MT for the US Tampa Spot Price. Since then, prices have fallen to just over US\$200/MT. Similarly, for methanol, in 2014, FOB US Gulf Coast prices were in excess of US\$400/MT, before falling steadily from there. There was some recovery in methanol prices in 2018 on the back of increased demand from China for methanol-to-olefins projects. In 2020, the US Gulf Methanol FOB price fell below US\$200/MT. It has since recovered somewhat, as a result of reduced global supply. In December 2020, the FOB US Gulf Coast methanol price stood at US\$385/MT.

Ladies and gentlemen, the Government has no control over the global demand for commodities such as methanol and ammonia. We are at the mercy of the market. Global ammonia trade, for example, fell by an estimated 800,000-900,000 MT in

2020, according to Argus Analytics, which also noted that global ammonia demand, particularly for industrial use, fell in line with COVID-19 lockdowns and containment measures.

The issues within the petrochemical sector, I must admit, are not solely due to COVID-19, but have certainly been exacerbated by the reduction in demand resulting from global lockdowns.

In a low price environment, it is only reasonable to expect that companies would do what is in their best interest and reorganize their portfolios to cut costs, operate more efficiently, and support global prices for the commodities that they produce. This reorganization of portfolios has come at a cost to Trinidad and Tobago. In Nutrien's Q3 2020 Earnings Release, the company noted that the September closure of the O3 plant is expected to enhance the competitiveness at the Trinidad site, and that the three other plants at the site are running at normal production levels. Similarly, in Yara's Third Quarter 2020 Presentation, it was noted that the company's overall improved energy efficiency was driven in part by the closure of the Yara plant. In this new environment, some of these old, inefficient plants cannot survive. This is the reality of operating mature plants in a low price environment. However, this issue is not unique to Trinidad and Tobago. Russia also is reported to have reduced its ammonia exports by 300,000 MT, while Egypt's EBIC ammonia plant reduced its capacity from July to October 2020, until markets improved.

It is a fact that the cost of feedstock is higher than US competitors with abundant shale gas. However, according to an assessment by Argus Media, Trinidad's production costs still remain relatively low. For ammonia, Trinidad's production cost is the second lowest, second only to the US, who has now become our main competitor. With respect to commodity prices and global economic growth, Argus

Media's medium-term outlook for the ammonia industry is stable, with prices forecast to remain firm, projecting that ammonia prices will range between US\$255 per metric tonne to US\$275 per metric tonne in 2021. For methanol, S&P Global Platts expects that prices in the first half of 2021 will trade above US\$400 per metric tonne due to tightness in supply. However, in the second half of the year, production capacity is expected to increase, bringing prices down to just below US\$350 per metric tonne by the end of the year.

While there is little that can be done about the global economy, as a Government, we have taken steps to ensure there is an adequate and reliable supply of gas available to the downstream. This is important in this low-price environment as it will allow companies to optimize their production.

Ladies and gentlemen, this Government is doing everything within our means to strengthen the natural gas value chain. In the natural gas business, more so than almost any other industry, the upstream, midstream and downstream are inextricably linked, and each of these sectors is a complex, moving part in its own right.

On the one hand, we have the upstream players who have been requiring higher prices to adequately compensate for a return on capital investment and refurbishment of ageing infrastructure, and there is veracity in that claim. On the other hand, we have a mature downstream petrochemical industry which has to operate in a competitive global environment. In between both of these, we have Atlantic LNG, which is in the midst of a restructuring exercise, and the midstream aggregator and transporter, the National Gas Company (NGC), which has been squeezed by the diminishing margins.

In order to better understand the relationships between the sectors, we enlisted the services of UK consultants, the Gas Strategies team, to critically examine and

recalibrate our natural gas value chain. The Gas Strategies team has been engaged in consultations with stakeholders across the value chain, the results of which will be used in fulfilling their mandate of developing a 2030 Natural Gas Master Plan, which embodies a medium to long-term strategy for the sustainability of the natural gas industry of Trinidad and Tobago.

Energy sector development is not complete in the 21st century unless it includes renewable energy and energy efficiency. Next week's conference will deal with this topic. The Government is making strides towards adding renewable energy to our local energy mix, in the interest of meeting our energy needs in a clean and sustainable manner, while also fulfilling our commitments made under the Paris Accord. We have taken steps to meet our commitment and expect the tangible results will soon be apparent.

As we move forward with future projects in this area, we must be mindful that each country's transition strategy would be unique to that country, created based on its needs, resources and starting position. Some countries are still in the process of moving away from coal, and others are beginning to recognize the importance of natural gas alongside renewables in a transition strategy, while Trinidad and Tobago was one of the first countries to utilise natural gas for power generation and has been doing so for decades. This is not to say that we should rest on our laurels and allow the rest of the world to overtake us, like the proverbial tortoise. To explore strategies for the decarbonization of our natural gas, we intend to restart the discussions surrounding Carbon Capture, Utilization and Storage. I would like to reiterate the point that this Government continues to see natural gas as a transition fuel for the upcoming years. Natural gas continues to remain an important source of income for Trinidad and Tobago, and will continue to be while it is used as a transition fuel.

The Trinidad and Tobago Energy Conference has now grown to become the premier energy conference within the Caribbean region and beyond, which is re-emerging as a hub for hydrocarbon exploration and production. In Suriname, four (4) oil discoveries were made in 2020, totaling 1.4 billion barrels of oil equivalent, with another major oil and gas discovery announced last week. In Guyana, Exxon has made eighteen (18) discoveries since its first find in the Starbroek Block in 2015, totaling some 8 billion barrels of oil equivalent. With these recent hydrocarbon discoveries, the annual Energy Conference will become increasingly important in connecting players in the upstream, midstream and downstream with each other, and with established and experienced energy service companies.

To this end, I am carded to have my first official meeting tomorrow with the Honourable Vickram Bharrat, the Minister of Natural Resources of Guyana, who has the responsibility for the petroleum sector in Guyana. Among other things, we will discuss the role that Trinidad and Tobago can play in collaboration with the Guyanese government, as defined in the Memorandum of Understanding on Energy Sector Cooperation that was signed in September 2018 by our Prime Minister, the Honourable Dr. Keith Rowley, and then President of Guyana, His Excellency Brigadier David Granger. We also intend to put the mechanisms in place to foster the growth of the Trinidad and Tobago energy services sector for our mutual benefit, and for the continued evolution of our local energy service companies.

Ladies and gentlemen, I can assure you today that the Ministry of Energy and Energy Industries, and the Government by extension, is working assiduously to capitalize on this period of downtime, so to speak. We are determined to use this period to recharge and recalibrate, so that we are well-positioned and well-equipped for the recovery phase, and beyond that, for the long-term sustainability of the sector.

I would like to once again recognize the Energy Chamber for its perseverance and dedication in hosting events like the Energy Conference and the Energy Efficiency and Renewables Conference. In challenging times, a forum such as this esteemed Energy Conference is all the more necessary for fostering healthy discourse within the industry, and building symbiotic relationships. Crises present unique challenges to our sector, but with these challenges come opportunities for growth and renewed collaboration to share our learnings.

Ladies and gentlemen, thank you once again for your attention and I sincerely hope that we may be able to reconvene in person in June, once it is safe to do so, for a productive, engaging and enlightening Energy Conference 2021. Thank you very much.