

**MINISTER OF ENERGY AND ENERGY INDUSTRIES**

**Response to Motion moved by Member for Pointe-a-Pierre**

**RE: No Confidence Motion against Minister of Energy and Energy Industries**

**House of Representatives - February 26<sup>th</sup>, 2021**

Thank you very much, Madam Speaker.

Madam Speaker, I have a lot to say today in my half an hour so I wouldn't waste much time in responding to the Member for Pointe-a- Pierre, save and except that he has constantly claimed that he has limited or no knowledge of the energy sector. His contribution today has not made me change my mind.

Madam Speaker, I will start with this. Under the Petroleum Act, Chapter 62:01, the Minister of Energy and Energy Industries is the Regulator of the Energy Sector, and as such, I accept and take full responsibility for the performance of the sector, through the good times and sometimes through not so good times.

Before we begin, I want to make four fundamental points, not to the Opposition but to the country so that they can understand the dynamics of what is happening.

First and foremost, the dynamics of the Energy Sector is not played out here in Port of Spain. It is not about a motion of no confidence from Pointe-a-Pierre against Trinidad's Energy Minister. It is decisions made in the board rooms of international players that affect price and production. It is what happens in Houston, London, in The Hague, in Qatar and Moscow. That is what shapes the energy sector because we are a global industry.

Secondly, in Trinidad and Tobago, we are fortunate to have some of the key global players on our shores. In the upstream, we have BP and Shell: second and third largest energy companies in the world, second only to ExxonMobil. We have BHP,

the Australian giant, and EOG, a top US independent. In the downstream, we have the likes of Proman, Methanex and Nutrien, global players in petrochemical production and marketing. In the State Sector, we have the NGC, Heritage and Paria. That's point two.

Point three: this country's economic wellbeing, especially its foreign exchange earning capacity, largely depends on the export of four (4) major commodities:

- Crude oil
- Natural gas, in the form of LNG
- Methanol, and
- Urea

The Member for Pointe-a-Pierre is right and I will say it again. We do not determine prices; we are at the mercy of the market. We are price takers, whether we like it or not. When commodity prices are high, revenue is high, but when prices are depressed, as it currently is, we suffer some form of economic shock.

The fourth and final fundamental point that I want to raise is that Government revenue, which is all of our concern, is a function of three (3) factors:

1. Production volumes (both oil and gas, and petrochemicals)
2. Commodity prices, and
3. The untold story is the fiscal regime

Today, in my short discourse, I will show the interaction of these factors and demonstrate how this Government has performed creditably on all fronts to keep the industry viable in spite of COVID-19 and the softening of global commodity prices.

For those of you, Madam Speaker, who have listened to me over the years, and it seems as though the Member for Pointe-a-Pierre has done so, I am not one to cast blame. I take responsibility.

But, Madam Speaker, let me contextualize this motion.

When we returned into office in September 2015, the industry was saddled with some major challenges. A continuum.

There was declining production, in both oil and gas, driven largely by low levels of upstream investment;

There were outstanding contract negotiations between NGC, upstream suppliers, and downstream gas contracts. The latter resulted in major claims on the NGC, amounting to US\$756 million. Under this administration, we have reduced those claims to a mere US\$363 million.

Thirdly, there was dwindling revenue, and I will deal with this later on, because of more than generous fiscal incentives that were offered to the energy companies by the UNC. You all threw the baby out with the bathwater.

Fourthly, there was significant revenue leakage, as identified in the Poten report, from 2011 to 2014 under the UNC because of LNG trading issues, largely as a result of transfer pricing and arbitrage.

Fifthly, and very importantly, we met, and again it is a continuum, a major loss-making state enterprise called PETROTRIN, that was about to have, if not attended to, a systemic impact on the economy.

What did we do? I will deal with Petrotrin first because it is in the constituency of the Member for Pointe-a-Pierre.

Madam Speaker, if Petrotrin was left unattended, this economy would have had some serious systemic impact. The situation was so serious that the Honourable Prime Minister himself addressed the nation on two (2) occasions on the state of Petrotrin, in January 2017 and September 2018.

The state of play was as follows.

Petrotrin had a TT\$10 billion debt.

A bullet payment of US\$850 million was due in November 2019. Do you know what is a bullet payment? Come up with the money or walk. Where were they going to get the money from?

At that point in time, Petrotrin was owing the State, in unpaid taxes and royalties, TT\$3 Bn.

This one takes the cake. Staff expenditure at Petrotrin made up 50 percent of its total operating cost. There is no oil company in the world, and I can tell you that without fear of contradiction, where staff salaries made up 50% of its operating costs.

And more importantly now, the company did not have enough oil to run its refinery operation. It had to import two thirds of the oil, 100,000 barrels a day, and on every barrel you refined, you were losing US\$5. You were importing oil to lose money.

What did we do?

The Board of Petrotrin looked at it and they came up with the option, which was supported by Cabinet, that we should focus on exploration and production and terminalling facilities, and close the refinery and put it on the market for a potential buyer or operator.

We restructured Petrotrin. We formed a holding company and four subsidiaries, and it is well known.

And this is the assessment of the restructuring.

Madam Speaker, I say here today, the restructuring of Petrotrin has been a success story, and I will go further to say that is probably the understatement of the year.

For Heritage, listen to the figures, for the financial year 2019, which was its first year of operation, the company achieved a net profit of \$1.4 billion on revenue of \$5.4 billion and for the 12 months ended September 30, 2020, it achieved a profit of \$884 million after tax. Over that two-year period, it paid \$1.9 billion in taxes and royalties to the State, something that Petrotrin was not doing. This resulted because the lifting cost of Petrotrin had reduced substantially, that is the cost to lift a barrel of oil, from US\$35-38 to \$28, and the field lifting cost was a mere US\$17.

And, listen to this, its MOLO crude, which is the locally produced crude, was fetching good price on the international market. When we restructured Petrotrin, you all will remember David Abdullah, Carolyn Seepersad-Bachan, Kevin Ramnarine and a lot of UNC operators were saying that the crude has no value. How will you sell it? Today I can say that Heritage's crude is selling at Brent minus \$2. This morning Brent was \$66/barrel. In December 2020, MOLO crude, which is Petrotrin's crude, for the first time in my forty-year history in the oil industry, sold at a higher price than Galeota crude. Member for Mayaro, you know that Galeota crude as the highest price crude in the country. Imagine Petrotrin's crude, which is now Heritage's crude is selling at a higher price than Galeota, and all that resulted from the restructuring exercise.

Added to which, Madam Speaker, with the \$1.4 billion in profit, Heritage is also servicing the entire debt portfolio of Petrotrin, and caused a refinancing of the bond without the Government Guarantee. They refinanced the US\$850 million bond, without a Government Guarantee, based on the cash flow only of Heritage.

Madam Speaker, Paria is similarly successful. It made \$109 million in profit in its first year, and \$176 million profit in its second year. Paria has secured the fuel supply of this country.

The story goes on. The Guaracara Refinery was put on to the market. What has transpired from then to now has been well played out in the public domain, and as we speak, the Minister of Finance has indicated this, we will be going back out to the market, as a result of the failed Patriotic bid.

But Madam Speaker, from a loss-making position of \$2 billion/year, to a profit of over \$1 billion/year is a net increase of over \$3 billion/year. This is a corporate turnaround of epic proportions, and I say that almost boastfully.

In fact, to me it is a case for a corporate turnaround case study for Harvard Business School. Very rarely do you see that.

Madam Speaker, as an adjunct to that, we have also managed to bring one of Petrotrin's former projects to fruition by working alongside a private entity called NiQuan Energy Trinidad Ltd. NiQuan, who acquired Petrotrin's incomplete Gas-to-Liquids plant in 2018, has successfully completed the plant and has commenced commercial production of No Sulphur Fuel. As a matter of fact, on Monday 8<sup>th</sup> March, I will be officially commissioning the plant and the plant is producing at full capacity.

Madam Speaker, let me now deal with the upstream issues.

Led by the Honourable Prime Minister, the Government engaged upstream energy companies and obtained a commitment of US\$12 billion over a five (5) year period.

These investment projects are continuing. I just want to make this significant point. For those of you who have been reading the newspaper, it should be noted at this

juncture that because of a shift to a low carbon future, and in some cases a no-carbon future, oil majors have reduced capital expenditure in the upstream sector. Trinidad and Tobago is one of the few countries in the world where this did not happen in any significant way. BP, Shell, EOG and BHP have all maintained their level of upstream investment. I will go through some of them now very quickly because time is short.

On the BP side, there is the Maersk Discoverer rig. They are currently drilling the Matapal field. The Matapal field is supposed to come instream in Quarter 1, 2022, and that will bring 400 mmscf per day. The Cassia-C Compression platform was expected to be onstream all now, but there were delays because of COVID, because the topsides were being constructed in Mexico and the Mexico fabrication yard was hit by COVID. That production is now carded to come in the second quarter of 2022. Production from Ginger is expected to come on in 2023, and Macadamia/Cypre in 2024.

On the Shell side, Shell is drilling Barracuda and Colibri, in the East Coast and North Coast, that will bring on 450 mmscf per day.

And then there is the Manatee Development. The Member for Pointe-a-Pierre spoke about Manatee.

Madam Speaker, there is something called a Unitization Treaty, where gas fields that straddle international boundaries are subject to Unitization Treaties. We, through the Prime Minister, have successfully decoupled Manatee from Loran.

We had a meeting with the Shell CEO a couple months ago, the Prime Minister, myself and Minister Young, and he told the Prime Minister that never in his whole career has he seen something like that happen. But you all were not speaking about that. You all were criticizing Dragon. You all were glad when the US sanction came

and stopped the Dragon project. The Member for Oropouche East wrote the US Ambassador, begging him to sanction Trinidad.

Today we went and decoupled our umbilical cord from Loran and nobody says anything, and that production will come in 2024: 700 mmscf per day. You will not say the good things because your focus is so negative. I don't blame you for being negative to the PNM because we are your political opponents, but do not be negative to Trinidad and Tobago.

There is something more in this country than the PNM and the UNC. There is something significantly more at stake, and unless we begin to see that, this country is going nowhere.

On the BHP side, there is another rig drilling for BHP, drilling the Ruby oilfield. That is supposed to come on in November of this year. It will bring in 15,000 barrels of new oil production, and all of that will be terminalled in the Galeota tank farm, so Member for Mayaro, you should not join this debate.

The deepwater drilling exercise: we have found, with BHP, between 5 to 6 trillion cubic feet of gas. BHP has already applied to the Ministry of Energy to go into the Market Development Phase. That is the final step before the Declaration of Commerciality and an FID. Once deepwater gas comes onstream, it will come onstream in 2025 and that will bring as much as 1 billion cubic feet of gas per day to this country.

So the outlook of the future is good, but oilfield projects have a gestation period. You cannot want production from this month to go up by 200 mmscf per day next month. It does not work that way. If you can move a motion of no confidence on an experienced Energy Minister and your only narrative is randomly quoting a series

of newspaper articles, something is wrong, because the newspaper journalists themselves don't understand the industry.

There were fiscal matters, which probably the Minister of Finance can deal with more explicitly than I can, but under the UNC you had 100% write off on exploration expenditure in the year it was expended. Imagine you are drilling an exploration well for US\$30 million and you write off that entire capital cost in the year it was expended. You have no tax liability then. Other capital expenditure was written off over a three-year period. We changed that. We put it over a five-year period, and we stopped the 100% exploration write off. The Minister of Finance instituted a 12.5% royalty on natural gas in 2018. We have collected \$7.2 billion in natural gas royalties, which did not exist. So when the Member for Pointe-a-Pierre said that royalties dropped in 2020, it dropped because prices were low. Under your UNC, there was no revenue, period.

On the side of LNG leakages, which is an area that I wanted to cover but I don't have the time, the same Poten report said that this country was foregoing revenue in the tune of billions of US dollars per year, because of transfer pricing issues coming out of Atlantic. And what does the transfer pricing issue say? When you sell LNG, it is priced at Point Fortin FOB, and under those old contracts, the Point Fortin FOB price was based on Henry Hub prices. What was happening in the sector was that, for tax purposes, the companies were declaring Henry Hub prices, but the actual cargoes were going into Asia, to China, Korea and Japan, and selling at three times the price that was declared FOB Point Fortin. None of that additional revenue was net backed to Trinidad. We have plugged that hole.

Madam Speaker, I will spend my last couple minutes on Point Lisas.

Madam Speaker, a lot has been said about the current challenges being experienced by the petrochemical sector at Pt. Lisas and attempts to blame the government for these issues.

It is only someone who is totally ignorant of how the industry works could make such an unfounded accusation. There is something called the Gas Value Chain that has to work in its entirety for the industry to be viable.

The gas value chain involves four (4) components:

1. Upstream purchase price agreements;
2. Midstream aggregator and transporter, which is the NGC;
3. Downstream cost of production; and
4. Commodity market prices.

A chain is as strong as its weakest link. If any link the that chain breaks, the whole chain is destroyed. So we now have to go into the gas value chain that deals with Pt. Lisas and bring some order. We have engaged an international consultant, the Gas Strategies Group out of London, an expert at that. We have a team that is chaired by former Finance Minister, ORTT, Mr. Wendell Mottley, and I want to thank him here publicly for his service to this country. The team also includes myself and Minister Young and the PS in Energy. Minister Young and myself, as Ministers, we are under direction from the chairman of the Committee, Mr. Mottley, which is the respect that we have for the guy.

What has happened in Point Lisas is really a precipitous fall in methanol and ammonia prices. That is the genesis of the problem. It has nothing to do with the Government.

In 2014, which you boast about, ammonia prices were US\$500 per metric tonne. Do you know what was the price in 2020? US\$200 per metric tonne. From \$500 to \$200.

It has nothing to do with the Government, and the \$500 had nothing to do with the UNC either. It has to do with international market conditions.

In methanol, in 2014 the price was US\$400 per metric tonne. In 2020, it was under US\$200.

There is an uptick and an upscaling of the price in the first quarter of 2021. Prices are now moving back up and we hope that trend will continue and bring some sanity to the system.

On the shutting down of plants. Plants have been shut down all over the world during the COVID period. During 2020, ammonia plants in China, Ukraine, France, Qatar and Brazil have been mothballed and idled. Methanol plants in Chile have been down. Urea plants have been shut down in India, Bolivia, China and Brazil. All these things are happening internationally. Trinidad is not immune.

However, Trinidad has some advantages. Our petrochemical plants have already paid back its initial capital investment, and Trinidad and Tobago is still considered one of the lowest costs of production of ammonia, compared to countries like Russia and Indonesia.

What I have tried to do Madam Speaker is give a general indication of how this industry works. I could have spoken here for two hours, but all I have is half an hour.

As I conclude, I want to say that I have outlined, with the greatest honesty, the challenges the industry faces and how we are successfully overcoming them, based on sound government policy.

Under the leadership of the Honourable Prime Minister Dr. Keith Rowley and his energy team, led by myself, and my technocrats, we will chart these rough water ahead. And we are making significant progress and achieving great success. It is that

progress that the Opposition UNC are very uncomfortable with, because they do not like to see Trinidad and Tobago progress.

So Madam Speaker, as I conclude, this No Confidence Motion has no foundation in fact or performance. Let me repeat that. This No Confidence Motion has no foundation in fact or performance. Just like the one brought against my colleague, the Minister of National Security, it will fall flat.

And as I close Madam Speaker, my final comment is this:

The only motion of no confidence that has succeeded in recent times was on August 10, 2020 when the country voted on a No Confidence Motion against the United National Congress and returned in resounding fashion the People's National Movement for another five-year term in office.

And we plan to govern with honesty and integrity over this five years, and transparency.

I thank you very much Madam Speaker.