FEATURE ADDRESS BY

THE HONOURABLE CAROLYN SEEPERSAD BACHAN,

MP FOR SAN FERNANDO WEST

MINISTER OF ENERGY AND ENERGY AFFAIRS

AT THE FIRST CITIZENS MARKET OUTLOOK CONFERENCE

HYATT REGENCY, PORT OF SPAIN

04 FEBRUARY 2011

SALUTATIONS:

I was delighted to accept your invitation to address this conference this morning on the Trinidad and Tobago oil and gas sector at this global financial market outlook seminar.

It is in fact, a good opportunity to give you the global picture, from the Energy front, of how the Government of the People's Partnership has undertaken the task of repositioning our economy to successfully move beyond challenges that exist.

And in beginning this presentation, let me headline what I am about to say by telling you – yes, there are challenges! More importantly, however, is – **YES**, we will rise over them and move forward!

Ladies and Gentlemen the world economy continues to emerge out of one of the worst recessions in a generation. The major financial institutions are predicting that for 2011 and 2012 global recovery will advance.

With the encouraging pace of recovery, however, the world's leading Central Bankers are cautioning on perils from inflation and rising food prices in emerging markets.

The recovery is particularly strong in emerging economies such as China, Brazil and India, according to the group of Central Bankers that meets in Basel, Switzerland, every other month to assess the world economy. Importantly, this recovery will also take place in the world's largest economy, the United States, which is projected to see a substantial acceleration in growth.

It is expected that there will be a modest narrowing of the performance gap between the developed and emerging market economies, in absolute terms and relative to their trends.

This is good news for energy producing countries like Trinidad and Tobago because growth in the world's economy particularly in the United States usually means stronger energy prices as you are already seeing with crude prices.

In fact the U.S Energy Information Administration expects the price of West Texas Intermediate (WTI) crude oil to average about $93 per barrel in 2011, $14 higher than the average price last year. For 2012 the EIA expects WTI prices to continue to rise, with a forecast average price of $99 per barrel in the fourth quarter of 2012.

The EIA's forecast assumes that U.S. real gross domestic product (GDP) will grow by 2.2 percent in 2011 and 2.9 percent in 2012, while world real GDP (weighted by oil consumption) will grow by 3.3 percent and 3.7 percent in 2011 and 2012, respectively.

For those who may not be in the industry, the weighted average price for crude in Trinidad and Tobago is based on the weighted average quality or the API gravity of the crudes.

Trinidad and Tobago's land and West Coast offshore crudes are relatively heavy at about 25 degrees and East Coast crude at about 40 degrees. As a result in 2009 - 2010 fiscal year land and West coast crudes were priced at US$68.43 per barrel while East Coast crudes were at US$77.40 with the weighted basket of crudes in Trinidad at US$US72.30.

The average price of world marker crudes was US$77.25 per barrel for WTI and US$76.94 per barrel for Brent respectively. The weighted oil price therefore would be from US$5 less than the international marker price. Today with WTI and Brent at about US$90 per barrel, the differential with local crudes is closer to US$7 per barrel.

So where is our oil and gas sector and where do we take it from here?

For the period 2000 to 2010, oil production declined from a high of 145,000 bpd to approximately 100,000 bpd. This has resulted due to no new discoveries in this mature province and the fact that previously, there were no effective policies to stem the decline rate.

Similarly, during the same time period, gas production has increased from 1.6 billion cubic feet per day to about 4.1 Billion cubic feet per day. This is an almost threefold increase. This rise was related to the growth of gas production for LNG manufacture and also some growth in gas based petrochemical production.

However, **proven** natural gas reserves have declined from 22tcf to just over 14.5 tcf due to a failure to stimulate activity to replace gas production by new reserves. What we therefore need to do is drill 5 to 7 exploration wells per year to find new resources to replace the current gas depletion of about 1.4 Tcf per year. This is estimated to cost approximately US$500MM per year.

In recognizing the critical need to address issues in the upstream sector by stimulating exploration once again, consultations were held early on taking office in 2010 with energy companies, financial and energy based State Agencies, tax consultants and the Energy Chamber which represents the majority of energy based companies in Trinidad and Tobago.

Arising out of these consultations were proposals for measures which were, to a large extent, in line with our policy positions. I want to tell you, however, that with some further tweaking, we developed significant intervention measures to increase Exploration and Production activity. These were embodied in a reformed fiscal regime as well as measures which included:

- Reverting to the 1996 PSC Model for the recently concluded shallow bid round.
- A revised PSC Model for the upcoming Deep Water round which recognizes the risks and challenges of deep water exploration. As a result the Petroleum Profit Tax for Deep Water will be reduced from 50% to 35%.
- For mature marine or small marine fields, a reduction in Supplemental Petroleum Tax of 20%.
- An Investment Credit of 20% on qualifying capital expenditure will be granted with respect to SPT for mature oil fields, both land and marine or for enhanced oil recovery projects, for example steam, carbon dioxide or water-flood injection .

With the implementation of these carefully considered policy positions we anticipate:

- An increased exploration activity
- Arrest in the decline in oil production
- Stimulation of oil production in mature fields
- Extended life of marginal fields
- An overall rejuvenation the energy services sector beginning in 2011

Already we have awarded four blocks in the shallow water for exploration and we expect to sign those Production Sharing Contracts in the very near future. As we closed the shallow water round last year, we simultaneously launched the deep water bid round and that will be closed on February 18th.

This year companies are projecting an increase in drilling activities. And ladies and gentlemen, the Government of the People's Partnership has given the assurance that this increase in drilling activity must also lead to an acceptable share going to local businesses. But I will discuss this further, later in my address.

Concomitant with these measures and the anticipated results a revitalized upstream sector will power the development of other key areas of the energy industry including downstream development and energy services. This is why immediately upon taking office, our priority was to reform the fiscal regime.

In preparing to support this increase in activity, since coming to office a mere seven months ago, we also developed a clear and transparent process for evaluating gas-based projects in the downstream sector. These are:

- Degree of value added in the production process (15 points)
- Environmental impact (15 points)
- Capital expenditure (10 points)
- Early construction plan in terms of utilization of natural gas (10 points)
- Degree of local content (10 points)
- Projection of local content during construction and operation of the plant (5 points)
- Energy efficiency measures (5 points)
- Extent of variation between key terms and conditions of gas contract with NGC (15 points)
- Extent of variation between key terms and conditions of contracts for power and water (5 points)
- Extent of variation between key terms and conditions of estate and pier user contracts with NEC (5 points)
- Additional benefits including CSR (5 points)

Ladies and gentlemen, the new framework provides an important set of conditions which will serve the Energy Sector by achieving:

- Transparency in the assessment of projects, and therefore greater global confidence in the sector. This, as you will all appreciate will also boost the competitiveness of the sector in the global market place

- Consideration of the environmental impact of projects.
- Clear incentives to increase local content in projects and therefore broader local ownership and participation in Energy.
- Impetus for use of energy efficient processes.
- Impetus for downstream processing.

And we went further, ladies and gentlemen. In the 2011 Budget Statement, a clear statement was made assuring that the Government will institute a structure to develop the entire value chain in the energy sector from primary products to finished manufacturing industries.

Our signal towards implementation of this is what we have initiated with Melamine. You will recall that last year Methanol Holdings Trinidad Limited started its Melamine plant – the AUM1 Complex. At the formal commissioning of the AUM 1 plant in late 2010, I challenged stakeholders to take the opportunity to begin a bold thrust deeper downstream.

Rather than simply producing this commodity for export, we had to find a way to link the use of this commodity to the local manufacturing sector's output.

This, ladies and gentlemen, heralded our nation's first truly aggressive thrust further downstream of the energy sector and, using the Melamine model, we have now successfully linked the energy sector with the manufacturing sector.

We partnered with State agencies, the financial institutions, local manufacturers, academia, the Methanol Holdings Company and other stakeholders of the energy sector to consider ways that we can take the same Melamine and develop smaller scale industries locally, for the manufacture of consumer products.

Our discussions focused on finding the impediments to local participation in the energy sector and removing them, thereby clearing the way for local businesses to compete to gain ownership of our energy resources.

Through the Melamine approach we have now linked the local energy sector to the local manufacturing sector and it is through this linkage that we anticipate, local ownership in energy will grow, with the support of the Government.

In fact, I am pleased to tell you that very soon, by May of this year, a product profile for the use of Melamine by local manufacturers will be developed and delivered to the Ministry of Energy and Energy Affairs. Following this, we will move to the actual manufacturing process.

Ladies and gentlemen, the Melamine model represents the approach we intend to use to make Local Content a mainstay in our Energy Sector. We brought all the elements together, found the linkages to connect, found the impediments to remove and created a model by which other projects can now take shape.

As we move to the actual manufacturing process, I urge you here in the local financial sector to see the opportunities to make capital available to those who may be interested in taking hold of manufacturing opportunities in Melamine.

Of course this will be subject to your prudential criteria, but it is an opportunity that I feel you should explore. The investment size is not as large and in fact can help to facilitate what we call the smaller, byte size industries. It may even be seen as a part solution to the excess liquidity in the financial system.

In fact, should this form part of your forward strategy, the financial services sector would also be happy to note that the Government has also mandated the development of smaller energy based projects such as inorganic chemicals.

These types of projects have inherent advantages including:

- Natural gas is used as a fuel as opposed to a raw material
- Minimal infrastructure is required as compared to large energy based projects
- Relatively small capital expense with greater potential for local participation
- Modest utility requirements
- Minimal land requirements and subsequent environment and community impact
- Less complex to establish than organic industries

You may then ask why we have taken this particular approach.

Ladies and Gentlemen Trinidad and Tobago produces on average 4.2 billion cubic feet of natural gas per day. Fifty eight percent of which is exported in the form of LNG. Thirty percent is used in methanol and ammonia production, Seven percent goes to electricity and four percent in manufacture of export products such as direct reduce iron, liquid petroleum products such as diesel and fuel oil and in the processing of natural gas liquids.

Less than one percent is used in manufacture of cement and the wide range of finished goods by the 100 plus light industrial natural gas customers referred to as

LIC. These include goods such as bread, bricks and other consumables for the domestic market.

This sector benefits from the lower cost natural gas rather than the alternate fuels such as LPG, diesel and fuel oil whose prices are linked to crude oil prices. This sector has the competitive advantage of a lower fuel cost and it generates cheaper goods and employment opportunities

From another perspective, some 92 percent of the gas production of this country is used in the generation of foreign exchange and revenues. Primarily, the three major gas based products are LNG, Ammonia and Methanol generate revenues with the majority from LNG.

It is in that context that international commodity prices of LNG, Ammonia and Methanol play a more pivotal role in Government's revenue streams than crude oil.

Let's now take a quick look at today's three major LNG markets in the world, namely; Asia, Europe and the United States. South America is an emerging market but it will be important in the future.

In Asia, the major LNG importers are Japan, Korea, Taiwan, and more recently China and India. The Asian outlook for 2011 remains uncertain as the economic outlook for Japan is somewhat less optimistic than the other Asian economies.

Of course energy prices tend to reflect economic conditions because you need to have the ability to support higher energy prices if they are to hold. So Korea, Taiwan, and China are all set to post modest-to-strong growth in gas demand because of the continued expansion of their economies.

North America, the dominant market on which our LNG was based, is undergoing major changes. The most significant of which is the rapid emergence of shale gas. This gas was severely discounted in the past due to the very low production rates. But with old technology of hydraulic fracturing and the modern drilling technology of controlled horizontal drilling has made the difference.

While the initial production rates may be between 1 to 5 million cubic feet per day with a steep decline rate down, the difference comes about from the number of wells drilled. One thousand new wells drilled would generate one to two billion cubic feet of gas that is equivalent to two to four LNG plants.

When one considers that some 22,000 new wells are drilled per year one can see the impact of this new source of natural gas combined with drilling and completion technology. As a result of the impact of shale gas on the supply side natural gas prices have declined in the largest gas market.

Today, it is normal to see LNG cargo diversions from the traditional markets in USA to higher value markets in Europe and Asia. These developments have a serious impact for Trinidad and Tobago and its economy.

In addition, the traditional LNG market structure was based on comparatively rigid long term contracts that linked our suppliers with specific terminals in USA. The terms of sale were linked to particular cost structures in these long term contracts which under today's and medium term projections are no longer valid.

They would need to be re-examined and if necessary to be restructured. And I want to tell you I am not afraid to start the process.

Because of the rapid development of spot markets versus long term markets more of the value is accruing to the marketing of the LNG versus the production of gas and the manufacturing of LNG. The Government and the upstream producers need to secure a larger share of the revenues in the LNG value chain

There is an expected surplus of 3.0 billion cubic feet per day from new LNG production in Qatar and other locations.

In 2011 it is expected that Trinidad and Tobago will continue to experience the impact of soft LNG prices caused by the abundance of shale gas in the US, an over-supply of LNG on the global market and a lower gas demand since the US economy has not bounded back to the pre 2007-08 levels.

In other words ladies and gentlemen, the local economy is presented with a challenge which it must face frontally and carefully and deliberately navigate. This is a time for ensuring that as we face dampened energy prices on the global market, together with a five year history of steady decline in local oil production, which we are currently addressing, we ensure we extract maximum value for our resources here at home.

In fact, ladies and gentlemen, the Government of the People's Partnership will use these challenges as our fuel to drive towards a full diversification of energy as well as the local economy by employing an aggressive approach to Local Content and Local Value added in conventional energy, renewable and alternative energy, as well as other economic pillars.

Ladies and gentlemen, in four decades, we experienced two major energy booms. To be left today in a situation where we have only recently structured an approach to Local Content and diversification is unsatisfactory. Be that as it may, the Government of the People's Partnership has been shouldered with the challenge and we have every intention of coming out on top.

At the tail end of our second energy boom, this may well be our last opportunity to get local content and economic diversification right. Our work is therefore cut out for us.

As your Government revives the long-dormant energy sector there will be opportunities for companies in all aspects of the energy sector. From Maintenance to Finance, local companies and local employees stand to benefit from the shift in Government's strategy for energy.

Our citizens must be given a fair chance by the large multinationals and in that context we have accepted recommendations made by a committee that examined the issue of local content.

Two recommendations, in order to create immediate opportunities for Energy Services, were that in this fiscal year:

- The State Energy Sector companies will be required to implement a local content policy to enhance local participation in their projects, and
- For all incoming projects, local energy service companies will be given specific packages by which to become involved and participate.

It was also recommended that a Regulatory unit be formed for the implementation of measures associated with local content. This entity is proposed to work in tandem with organizations such as the Local Content Chamber, the Energy Chamber and the Ministry of Energy and Energy Affairs in implementing and monitoring local content policy. Enforcement is important.

We believe that as a Government, we must ensure maximum participation of local content in pursuit of large scale projects and shortly, I will be taking this recommendation to Cabinet for approval and I will follow through to implementation!

In fact, I must seek to accelerate this to ensure that when we gear down to begin moving forward at full throttle, our foundation is strong and capable of supporting the increased activity we will soon experience. For now, I will say no more on that.

So ladies and gentlemen there are real challenges in the energy sector. We can neither hide from them, nor can we escape them. Rather, we have taken the approach of facing them head on, and adapting our economy for sustainability and progress.

We have spent the early months of our administration laying a solid foundation to ensure that the needed shifts in policy approaches can sustainably support us into the future. With only some tweaking left, we are ready for an acceleration in activity in Trinidad and Tobago.

As I conclude, I urge you to join with us in the Government to ensure that we navigate the challenges together and deliver a broad based, strongly diversified economy, where progress abides and opportunity abounds.

I thank you.