



# Introduction

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Increases in consumer welfare and poverty reduction derived through broad-based economic growth are two key goals of governments in developing countries. The Government of Trinidad and Tobago clearly recognises that the private sector contributes to these goals in two ways. First, it enhances competitive forces which are needed to produce growth and jobs. Second, it allows government to provide for more flexible spending in social and infrastructure sectors, which are fundamental to sustaining growth in the long term.

From a development perspective, the economic rationale for governments seeking foreign direct investment includes the fact that it brings to the host country not only capital, productive facilities and technology, but also employment, new job skills, management expertise, export markets and tax revenues. In Trinidad and Tobago, the economic driver is the petroleum sector. It is highly capital-intensive and extremely risky. Given this, the government has always encouraged multinationals to utilise their risk capital to achieve an equitable share of the returns when the country's hydrocarbon resources are monetised.

A key realisation that has guided the actions of the Government of Trinidad and Tobago is that the country's narrow output base makes it vulnerable to external shocks. The fortunes of the oil and gas industry have long determined the rhythm of the overall economy. Consequently, both macro-economic and sectoral policies aimed at diversifying the country's exports have helped reduce vulnerabilities and indeed made it stronger and more competitive. The current financial crisis has borne out the astuteness of the government's approach.

Given that domestic demand is limited, export-oriented industrial projects have played a major role in monetising the country's petroleum resources. The state continues to be focused on providing an investor-friendly regulatory, administrative and fiscal framework for attracting investment in the upstream and downstream sub-sectors. This strategy aims to ensure the long-term adequacy of gas resources to support the already established array of gas-based industries, to attract new industries and encourage exploration for and production of oil.

## History of Sector Development

Trinidad and Tobago is blessed with hydrocarbon resources in excess of its domestic energy needs. Current proven reserves are 600 million barrels of crude oil and 17 trillion cubic feet of natural gas. The country's petroleum industry is now well developed with operations both onshore and offshore. Currently, exploration and production activities are expanding into the deep offshore area where prospects for hydrocarbon production are quite attractive.

The history of the energy sector in Trinidad and Tobago dates

back to the latter part of the nineteenth century. Oil was first discovered in 1857 and the first successful oil well drilled in South Trinidad in 1866. However, commercial production did not start until 1908, with Shell becoming the first major producer in 1913, and for the next 60 years the emphasis was on the production of crude oil. Associated natural gas produced during that period was considered a nuisance and gas flaring was widespread throughout the industry.

By the 1950s, British Petroleum, Royal Dutch Shell and Texaco operated oil refineries in Trinidad, augmenting domestic crude with imports from Venezuela. The 1950s and the 1960s were the heyday of foreign investment promotion, using incentives such as tax holidays, subsidised loans and factory space, and tariff protection. The decade of the 1950s proved to be a turning point in the utilisation of natural gas in Trinidad and Tobago. This process began in 1953 when the predecessor company to the country's public electrical utility, the Trinidad and Tobago Electricity Commission (T&TEC), began using natural gas for the generation of electricity at its Penal power station.

The discovery of significant reserves of natural gas during exploration activities offshore the East Coast of Trinidad, which began in the late sixties and continued into the seventies, formed the genesis of plans for the development of the natural gas sector. Unlike the evolutionary-type development of the crude oil and refining sub-sectors, a deliberate policy approach was adopted by the state for the development of the natural gas sub-sector.

By the early 1970s petroleum extraction and refining accounted for almost three-quarters of exports, one-fifth of government revenue, and one-fifth of GDP. The 1970s were the decade of economic nationalism, with the de-privatisation of foreign-owned companies in many industries. Charged with the responsibility of seeking its economic national independence, the government formulated plans that would see the unprecedented development of the natural gas sector.

## Policy Initiatives on Gas Use

Another distinctive feature of the country is that before the first windfall, the gradual decline in oil output from established fields had precipitated a period of austerity. By 1974 it was widely understood that the new offshore finds developed in the early 1970s were limited. The public was therefore aware of the need to proceed with caution in using the income from the country's finite oil resources.

To reduce the risk, the government chose a fairly diversified portfolio. In 1975 it concluded agreements with WR Grace to build a large ammonia plant and with three steel firms to construct a DRI steel unit. In 1976 it agreed to a joint venture

fertiliser plant with Amoco. Later it explored proposals for an aluminum smelter with National Southwire, for an LNG terminal with Tenneco and Midcon, for a urea plant with Agrico-Chemicals, and for a methanol facility with Borden.

What is interesting here is that Trinidad and Tobago, a small developing island state with modest reserves of oil and gas was able to generate such a high level of interest from a host of multinational companies. The apparent catalyst for this interest was the deliberate policy intention of the government to develop a gas-based industry and the transmission of this intent to the international business community.

The pivotal turning point in Trinidad and Tobago's energy policy occurred in the early 1970s when the country's first Prime Minister, Dr The Right Honourable Eric E. Williams convened a multi-sectoral conference on the optimisation of petroleum resources. The blueprint that emerged focused on the utilisation of this country's surplus revenues from the export of oil and refined products for the development of world-class gas-based industries. Concomitant with this industrialisation thrust was the infrastructural development of roads, ports and power generation. From that point onwards, policies that favoured natural gas as a premium energy resource and as a potential generator of foreign exchange were supported. This signalled a step-change in government thinking, an intention to monetise natural gas to offset declining gross national revenue from the oil sector.

The policy of the Trinidad and Tobago Government on Natural Gas was spelled out in a document labelled *A White Paper on Natural Gas* which was published in 1981. In that paper, in recognition of the increasing importance of natural gas, policy makers targeted the achievement of certain prescribed objectives emphasising that "the future of the national development programme is, even at this time, inextricably tied to the definition of the country's gas reserves and the timely production and efficient utilisation of these reserves".

This early policy position led to a greater appreciation of the worth of natural gas. Successive governments have recognised the merits of this policy approach and the underlying premise has not undergone any significant change with the passage of time. The paper emphasised that in the long-term "natural gas will become the major mineral resource in Trinidad and Tobago and will play a critical and dominating role in the overall development of the Nation."

## Strategic Initiatives Taken by Government

In the 1970s, government stimulated development of the energy sector by participating as an equity investor, either on its own

or on a joint venture basis. More recently, the state has been divesting itself of its interests except where those interests are seen as being of strategic importance.

The Government of Trinidad and Tobago was the principal source of equity in ammonia, methanol, steel and electricity projects. Since the early 1980s the policy pendulum has swung back in favour of foreign investment as a result of the privatisation and liberalisation policies promoted by the international financial institutions and supported by World Trade Organisation's (WTO's) protectionist policy of intellectual property and investment. Likewise, the state has been divesting itself of its interests except where those interests are seen as being of strategic importance.

In 1992 the Government of Trinidad and Tobago began a series

*Port of Spain's International Waterfront Centre: new home of the Ministry of Energy and Energy Industries (MEEI)*



of economic reforms which transformed the economy from a state-controlled to a market one. These included the lifting of import restrictions, privatisation, floating the currency, and the encouragement of foreign investment, and have been the basis for Trinidad and Tobago's improved economic performance over the past several years. Trinidad and Tobago has one of the Caribbean region's most liberal trade and investment regimes and as a result investments have been flowing into the country. So began a new wave of foreign investment, and as the 1990s have progressed into the 2000s the country has seen a 'second round' of expansion in ammonia, methanol, LNG and electricity generation being dominated by foreign direct investment.

Underlying these achievements have been the several initiatives that have been adopted by the Government of Trinidad and Tobago and inculcated in its plans for Vision 2020.

### Creation and Generation of Wealth

The overarching strategy of the government is the achievement of developed nation status for Trinidad and Tobago by the year 2020. One of the key elements that will underpin the achievement of this objective is the utilisation of revenues earned from the exploitation of the country's hydrocarbon resources in a manner which supports overall national development.

This plan for Trinidad and Tobago to achieve developed country

*Government geologists examining the MEEI's extensive collection of geological maps*



status by the year 2020 proposes five development priorities to serve as foundations for achieving developed nation status. These are developing innovative people, nurturing a caring society, governing effectively, enabling competitive businesses and investing in a sound infrastructure and environment.

Vision 2020 is thus a vision for the economic, social and political development of the country. The achievement of the stated goals of Vision 2020 requires a transformation of the economy. Historically, Trinidad and Tobago has relied on the energy sector for the majority of its wealth, making it susceptible to industry and market volatility. The economy is now much more robust and some of the wealth accumulated from hydrocarbon exploitation over the years is being diverted into the development of other aspects of the economy, with the aim of achieving diversification and sustainable growth.

The key initiatives planned for the sector include the following:

**Upstream** – Initiatives are under way to ensure acreage is being offered at regular intervals as well as streamlining and improving the bidding process cycle time. This is being done to ensure that reserve replacement occurs in a manner that supports the overarching development objectives of the government.

**Downstream** – Development of approved projects is proceeding and the review of proposals for new projects is ongoing. Infrastructure to support these projects is also being developed to match the pace of industry expansion.

#### Investments in the LNG Value Chain

– Government is reviewing the results of the 'Train X' feasibility study. Once the gas reserve situation allows for further expansion, the government already has a blueprint on how to proceed.

**Local Value Added** – Several initiatives are under way here including review of the existing mechanisms. This area in particular holds significant opportunity for sustaining the country's development thrust and the appropriate strategies are being employed.

**Oil and Gas Taxation Review** – Maintenance of a competitive fiscal system that delivers value to both investors and the people of Trinidad and Tobago is absolutely critical. The most current review is almost complete and will be ready for the next round of competitive bidding.

All of these initiatives have one large objective, namely translating economic prosperity into social prosperity. In this way, the Government of Trinidad and

Tobago remains committed to an integrated and people-centred policy of social and economic development with a target of reaching developed country status by the year 2020. The government is mindful that despite growing national economic prosperity, major socio-economic challenges remain.

### Conclusion

While oil production has steadily declined over the years, there is still potential for large finds in the deep water off the East and Northeast Coasts of Trinidad and Tobago and this augurs well for the future of the oil industry for possibly the next 50 years.

Trinidad and Tobago is a tremendous base of opportunity for gas-related businesses. The reserve base that has already been proven and the potential for growth in that reserve base places the country in a leadership position to capture a lot of the evolving gas opportunities.

Prospects for growth in the natural gas business in Trinidad and Tobago are bright. The gas reserve base is large and the advent of several new suppliers has enhanced security of supply. The country has done what can be considered to be an outstanding job of nurturing its domestic asset-based industries.

The past five years have seen the oil and gas sector consistently contribute over 70 per cent of foreign exchange earnings and over 40 per cent of total Gross Domestic Product. These statistics reveal just how important petroleum activities are to the Trinidad and Tobago economy. There are many who see the dependence on one sector as being a weakness. The Government of Trinidad and Tobago has taken the opposite position of seeing it as an opportunity to position the country as a major player in the industry. By so doing, the country has attracted significant levels of foreign direct investment that is being leveraged into development activities for the country.

Trinidad and Tobago has been able to diversify its industry profile via a comprehensive gas market development strategy. By having LNG, ammonia, methanol and steel within the same sector, the country has been able to mitigate against some of these dependency risks. As such, the government is astutely managing investments in the petroleum sector in order to maintain balanced growth in the economy.

Economic development must be sustainable, especially in a small island country. Bold economic reforms have given Trinidad and Tobago the region's most liberal trade and



*The development of human capital is at the heart of the Trinidad and Tobago Government's drive towards developed nation status by 2020*

investment policies and an outstanding investment climate. Substantial increases in trade and investment have made it the biggest market in the region.

Trinidad and Tobago has always relied upon direct foreign investment and has always put a high value on it. But whereas in the past the country has tended to take a generic approach, the government has introduced a new focus to the promotion of Trinidad and Tobago as an attractive investment destination. This is being done in two ways: by connecting potential investors with specific investment opportunities and by identifying areas where Trinidad and Tobago is especially well placed in terms of international competitive advantage.

The creation of a conducive investment environment has been and continues to be one of the central planks of the government's national development policy. The country's history of political and economic stability has provided a healthy environment for attracting gas-based investments to the country. On all counts, Trinidad and Tobago's energy sector has continued to be a source of dynamism to the national economy. Its international market leadership and past decisions made in the country have impacted on the energy business throughout the Western Hemisphere. The seeds of success have been sown and the country is beginning to reap the rewards as it enters its second century in the oil and gas business. □