The national energy flagship: a profile of Petrotrin

BY DAVID RENWICK

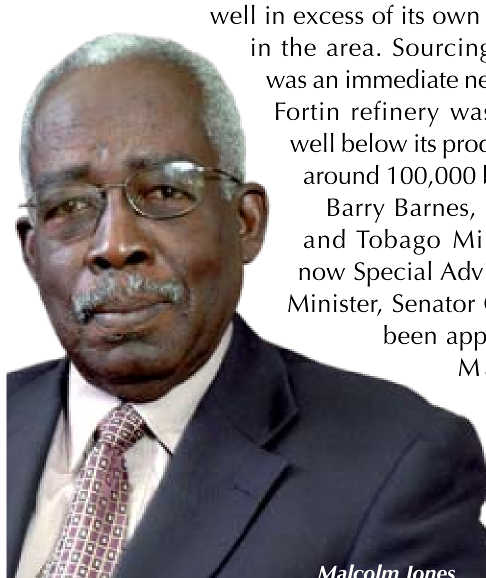
Like all the government's investments in oil (though not natural gas), today's Petroleum Company of Trinidad and Tobago (Petrotrin) – the country's flagship energy corporation in all but name – is the scion of takeovers of foreign oil companies' assets at various points in time.

It all started, as has been outlined elsewhere in this publication, with BP's local oilfields in 1969, which became Trinidad-Tesoro, and then, several years later, the Trinidad and Tobago Petroleum Company (Trintopec).

The Shell oilfields and refinery were bought out in 1974, and given the more 'nationalistic' name of the Trinidad and Tobago Oil Company (Trintoc), incorporated on 31 August that same year. The government's oil holdings were considerably enlarged in 1985 with the purchase of the assets of Texaco Trinidad Inc, which included a second, and much bigger, refinery, along with a substantial number of producing fields.

It made no sense for the government, or any savvy owner, to be running two oil companies in the same small land mass as separate entities, with all that implied in terms of resource duplication and cost and in 1993, Trintoc and Trintopec were merged into Petrotrin, with Trevor Boopsingh as first Chairman and Keith Awong as first Managing Director, both of them men of considerable expertise in various facets of the petroleum industry. As a final touch, in 2000 Petrotrin bought out the one-third share of Gulf of Paria producer Trinmar, it did not already own.

In straightforward, chronological order like that, it all sounds simple, but the government clearly faced significant challenges along the way, as it found itself a player in the world's leading industrial activity, especially when it took on the Shell refinery, at Point Fortin in south west Trinidad, the demands of which were well in excess of its own crude production in the area. Sourcing imported crude was an immediate necessity if the Point Fortin refinery was not to function well below its productive capacity of around 100,000 b/d.



Malcolm Jones

Barry Barnes, a former Trinidad and Tobago Minister of Energy, now Special Adviser to the current Minister, Senator Conrad Enill, had been appointed Marketing Manager when Shell became Trintoc, and he remembers the first Chief Executive Officer (CEO), later renamed Managing Director, of the new Company, Walton (Wally) James having to "go out and buy a cargo of Nigerian crude, at a price at the time, I think of about US$2 million (mn), in the days when a Trinidad and Tobago Cabinet Minister could not authorise expenditure of more than TT$100,000 without the approval of the entire Cabinet. We were a little worried that Wally had done the deal without authorisation from the new owners of the refinery, the government," although according to Mr James the Chairman of the Board (and then Governor of the Central Bank) Victor Bruce gave the purchase his blessing.

However, the administration of the day, headed by the late Dr Eric Williams, generally regarded as the 'father of the nation', apparently had the sense to realise that an oil company, with daily dealings in the international arena, manifestly could not be run like a government department and Trintoc was given the leeway, under a Board appointed by the government, to operate as it needed to, both from the point of view of purchasing crude and marketing the refined products, in which Mr Barnes had a direct hand.

Fortunately for the country, Trintoc could count on the services of professionals like Messrs James, Barnes and others to successfully operate the first integrated oil company wholly-owned by the state.

The government almost didn't get Mr James to stay on after the purchase. He had been in charge of the refinery, as what was called Manufacturing Manager, at the time of the transfer of ownership, and Shell had already tempted him to remain with the international organisation.

"When the purchase had been completed," James recalls today, "I was telephoned by the then Minister of Energy who asked me what I was going to do and I told him that Shell had offered me a job in London. He said, 'No, you can't go.' And I asked, 'What do you mean?' He responded that the government needed me to stay on to sort everything out."

James's sense of service to country apparently triumphed over the blandishments of Shell (his father, after all, had also been in public service, having worked with the government as a chemist) and he agreed to become the first local man in charge of Trintoc. Sourcing crude was only one of the many challenges he faced. Finding staff with the right technical skills was also a difficult matter.

"At Shell, we operated centres of activity and relied on getting a lot of foreign support but that was, of course, cut off. Shell offered us some services but we had to pay for them and they were hard negotiators."

Trintoc suffered particularly from a shortage of geologists.

"We had to advertise in the United States (US) and Canada for them. I had to fly up to Canada where a Trinidadian I knew introduced me to as many people in the field from Trinidad and Tobago as possible who might want to come back home."

A few did accept the offer and Trintoc created the nucleus of its Geological Department this way, enabling the new company to have the sort of expertise essential for identifying new oil reserves. The Texaco acquisition 11 years later was attended by far fewer problems because the managers of the nationally-owned part of the industry had by then acquired extensive experience in operating oil assets and Texaco, in any case, had bequeathed a pool of talented Trinidad and Tobago petroleum professionals to the state.

Photograph courtesy of Petrotrin

Petrotrin's Pointe-a-Pierre refinery is undergoing a US$850 million upgrade

The product configuration of the much bigger 360,000 b/d Texaco refinery at Pointe-a-Pierre in west-central Trinidad was perhaps the biggest challenge in this case, because, as Barry Barnes points out: "Texaco had expanded the refinery in Trinidad after they took it over to be all things to all men. They had basic units, they had paraffin units, they had bits and pieces of every goddamn thing under the sun, the idea being to bring in the ultra-large crude carriers (ULCCs), which could not dock at Gulf of Mexico ports at the time, into Pointe-a-Pierre, drop off crude, refine it and then ship it on to the US in smaller tankers."

However, Trinidad and Tobago's value to Texaco in that regard vanished as soon as the Louisiana Offshore Oil Port (LOOP), which could accommodate VLCCs, was built. As Barnes says, "They could now get tankers directly into the US refining system, so the Trinidad refinery, along with others in the Caribbean in places like Curaçao and Aruba, became absolutely redundant. Texaco informed the government that it had no further use for the refinery here. The government was faced with the choice of it being abandoned so, very reluctantly I might say, decided it had to purchase the damned thing."

In order to keep the Texaco refinery operating, Trintoc was obliged to provide 30,000 b/d of its own crude for processing over a three-year period. Negotiations for the purchase of the Texaco holding were conducted by a government-appointed team under the leadership of Doddridge Alleyne, which included Trevor Boopsingh, John Andrews and Barry Barnes, among others.

But Trintoc, which was handed control of the former Texaco properties, certainly gained crucial assets in the process, including another refinery and oil-producing land fields (the offshore assets were, at the time, not included in the buy-out). Indeed, Mr Barnes recalls, "Texaco presented a dossier of its land holdings in Trinidad to the negotiating team, which amounted to approximately 20 per cent of the surface area of Trinidad."

Following the merger between Trintoc and Trintopec in 1993, which begat Petrotrin, the Point Fortin refinery was shut down. The refinery occupied much of the land on which the four trains of the Atlantic LNG Company sit today. All processing has, since then, been centred at Pointe-a-Pierre and, it is fair to say, the refinery has been Petrotrin's biggest challenge since the company was established.

It quickly moved to improve its capability, with a nine-unit US$350 mn upgrade in the mid-1990s, which saw full refining capacity increased from 90,000 b/d to 160,000 b/d (the 360,000 b/d that Texaco could process in its day was mainly confined to primary distillation, not full refining).

Further upgrading has since been embarked upon, and is still in train as this publication is being produced, which will see three units refurbished or replaced and two new ones added. This was costing US$850 mn at last count and focuses, as the company says, on "the production of greater quantities of gasoline and refined products that meet the more stringent specifications required to enter the US market. Meeting these specifications is crucial to our continued profitability."

This is true in more ways than one, since with the advent of what is called the PetroCaribe scheme for supplying deferred-payment petroleum products to the Caribbean market by Venezuela, Petrotrin faces the potential loss of about 49,000 b/d in that market and has no option but to find alternative buyers, mainly in the US.

As Petrotrin's current head, Malcolm Jones, who was given the title of Executive Chairman when appointed in December 2002, points out: "The new upgrade will increase our gasoline output from about 20 per cent to close to 30 per cent. At the moment, we make a lot of gasoline blending components, but what we are now doing will enable us to use all the blending components in finished gasoline."

As for the environmental aspect of it, Mr Jones notes that "if we didn't do this, we might not stay in business at all, never mind marketing challenges specific to the Caribbean. Environmental standards are becoming stricter all over the world and we need to get our product into that range. If we don't, no one will want to buy from us."

He draws reference to the fact that Petrotrin has already lost its diesel markets in the French Caribbean, because those territories are obliged to adhere to European Union (EU) emission standards. When the Gasoline Optimisation Programme (GOP), as it is called, is completed, Petrotrin will then turn its sights to an ultra low sulphur diesel (ULSD) programme, also with an eye to keeping in sync with market specifications. This diesel will be of a cetane number higher than 45 and a sulphur content lower than 0.5 per cent.

Simultaneously with the current upgrade, Petrotrin is also pursuing what it calls its Journey to Excellence (J2E), designed to raise the performance of its entire refinery operation, by increasing the availability of key process units through more effective maintenance and raising productivity by the optimum use of technology.

Both J2E and GOP are expected to boost Petrotrin's refinery margin to at least US$3 a barrel, since the refinery is, after all, where the company makes its 'real' money ('profit' on crude transferred from its own production is merely an accounting transaction; crude is actually a 'cost' centre for Petrotrin, since it has to bring in so much of it).

Even though it does have to import, the company has access to a baseload of crude through the 17,000 b/d it obtains from its own onshore fields, another 23,800 b/d from Trinmar and about 15,800 b/d from other domestic sources (bpTT's 21,000 b/d from condensate and oil output and Repsol YPF's 16,300 b/d from offshore fields acquired from bpTT in 2005 are not available because of other contractual commitments).

In fact, Petrotrin became the biggest single oil producer in 2004, as the crude output of the previous leader, bpTT, precipitously declined. The company imports about 103,000 b/d to fill out the rest of its 160,000 b/d requirement from such places as Venezuela, Colombia, Brazil and Gabon.

From this crude comes about eight different products, mainly used in transportation, such as gasoline, diesel, turbine fuel, marine diesel, kerosene and aviation fuel.

Petrotrin has been making a profit in recent years, which, for the first six months of the 2007-2008 fiscal year (latest data available), was TT$2.1 billion before tax, compared with TT$880 mn in the previous six-month period.

But for an oil company with assets of TT$27.5 billion, this is not considered good enough and, as Mr Jones stresses, costs have to come down. He points out: "Costs in general are too high and I would say the major element is labour costs, which are over 50 per cent of operating costs, compared with 30-35 per cent in refineries elsewhere in the world."

Cost-cutting will eventually mean having to reduce the workforce, which currently stands at around 5,500 people. "I would want this to get down to about 3,200," Jones notes.

This will inevitably be resisted by the Oilfield Workers Trade Union (OWTU), which has represented most oil industry workers since its formation in the late 1930s following the workers' rebellion in the oilfields over low rates of pay in 1937.

Errol McLeod, who recently retired after many years as President-General of the OWTU, observes that "Trinidad and Tobago oil workers can claim today to be among the beneficiaries of some of the most modern conditions in the international oil and gas industry. The OWTU is responsible for that and we like to think our struggles have been on behalf of all the workers of Trinidad and Tobago. We have improved rates of pay in the oilfields from 7-8 cents TT in 1937 to about TT$53 an hour today, to which should be added paid sick leave, cost of living bonuses, vacation savings plan, good pension scheme, etc."

Besides refinery margin improvements and cost reduction, Petrotrin's other challenges as the next century of the Trinidad and Tobago petroleum sector unfolds, will include the following, in keeping with its 2007-11 strategic plan:

- A gross reserves target of 600 million barrels of oil equivalent (mn boe) by the end of the period. Reserves will be acquired, it is hoped, through new discoveries by the joint venture (JV) partnerships with foreign operators of Petrotrin-owned blocks, as well as the new blocks being distributed by the Ministry of Energy and Energy Industries in which Petrotrin has a mandatory, carried share, plus targeted purchases of modest stakes in gas-prone assets, such as block 22 operated by Petro-Canada off Trinidad's North Coast. In fact, Petrotrin has been diversifying from oil into gas in a determined way, in order to broaden its revenue base, (hence its 19.5 per cent interest in the BG-operated NCMA field, which has propelled it into LNG). It has also taken a 49 per cent share in the 2,250 b/d gas-to-liquids plant being built by New York's World GTL Ltd in Trinidad.
- Reduction in exploration and production (E&P) costs, to complement the envisaged refinery margin increases. The target here is a US$2 per boe improvement by 2011, which Petrotrin spokesmen acknowledge will be hard to meet, bearing in mind the upswing in E&P costs worldwide. ❑