Oil and money: financing the energy industry in Trinidad and Tobago

BY DAVID RENWICK

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Throughout its first 100 years of commercial existence, the Trinidad and Tobago petroleum industry has largely had to rely on foreign capital to keep it functioning.

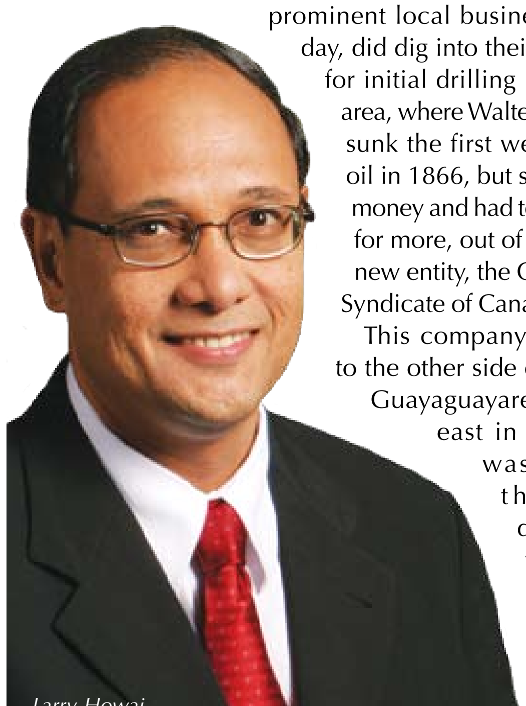
This was true in all segments of the sector, from upstream (exploration and development), through midstream (pipelines and refining) to downstream (marketing).

In the earliest days this was understandable, since the rudimentary state of the economy largely precluded substantial capital formation, the banking system was in its infancy and there was no domestic capital market.

Not that this made it completely impossible to raise money from the small number of wealthy local merchants and farmers. As early as 1866 – nine years after the US company, Merrimac sunk the first well ever drilled in Trinidad to 250 feet in the vicinity of the world-famous Pitch Lake in the south west – the Paria Petroleum Company, successor to the West Indies Petroleum Company, the employer of English engineer Walter Darwent, who had made the first oil find at Aripero, four miles east of the Pitch Lake in that year, succeeded in attracting some local capital to help fund its operations.

As the late George Higgins tells us in his classic work *A History of Trinidad Oil*, "The attempts to stimulate local interest and raise funds were successful and the Paria Petroleum Company was the first of not too many local companies formed to drill and prospect for oil." The accent there is on the 'not too many.'

Messrs Randolph Rust and John Lee Lum, prominent local businessmen of the day, did dig into their own pockets for initial drilling in the Aripero area, where Walter Darwent had sunk the first well to produce oil in 1866, but soon ran out of money and had to go to Canada for more, out of which came a new entity, the Oil Exploration Syndicate of Canada.



Larry Howai

This company soon moved to the other side of Trinidad, to Guayaguayare in the south east in 1902, and it was there that the various discoveries were made which clearly established Trinidad as an oil province,

Forest Reserve Discovery Well "Helena" coming in as a gusher, 1914

though not yet a commercial one. As noted in other articles in this publication, that status was not achieved until 1908 in Point Fortin further down the west coast from Aripero, where the Trinidad Petroleum Development Company (TPDC) found the oil that could flow in a sustained manner and therefore be able to supply a market on a regular basis. But to fund the development of its fields, TPDC had to go to London in 1910, where it re-launched itself as Trinidad Oilfields Ltd (TOL), raising £300,000, which was more capital than it actually needed. Between 1909 and 1912, no fewer than 57 companies were registered in Trinidad to explore for oil, all drawing their capital from UK, US or Canadian sources.

Despite its successful flotation, TOL soon faced "difficulties in financing field development", as Higgins puts it, which triggered the entry of the first major to become involved in the country's oil industry – namely Shell – as early as 1913. A Shell subsidiary, United British Oilfields of Trinidad (UBOT), took over the TOL operation in Point Fortin in that year and the major remained there for the next 61 years.

As the majors homed in on the Trinidad petroleum sector – after Shell came BP (1937), Texaco (1938) and Amoco (1961) – funding became an in-house matter, particularly for exploration, with budgets being assigned to the various locations in which these companies operated, including Trinidad and Tobago. (This is still largely true today, since exploration remains the riskiest part of the industry, for which loan capital is very difficult to find.)

As the majors swallowed up most of the smaller companies that had survived from the early decades of the 1900s, more and more of the activities associated with oil exploration and development were funded from head office budgets or with cash flow from the local subsidiary with little, if any, need for capital from domestic sources.

And so it remained until the Trinidad and Tobago Government itself moved into the industry as an owner of petroleum assets in its own right, first as part owner of British Petroleum's exploration and production assets, then as full owner of those of Shell and Texaco. In the process, the government acquired several score barrels of crude oil and two refineries. Those assets were largely paid for in a combination of cash, loan funds and kind (barrels of oil). Some transfers from the central government budget may also have to some extent been necessary for short periods in the early days.

With the state as an owner, some local commercial bank capital may probably have become more readily available (at least to the government companies) but even though it is official policy to 'localise' the country's petroleum sector in as many areas as possible, the domestic banking system and capital market has been noticeably reluctant to support the non-state, locally-owned part of the industry in the way that might have been expected.

Though more financing for the industry from local sources is one of the principles outlined in the Trinidad and Tobago Government's *Local Content And Local Participation Policy and Framework*, drawn up in 2004, this has been honoured more in the breach than in the observance.

Central Bank figures show that a mere 2.8 per cent of all outstanding loans and advances by the country's commercial banks in 2007 went to petroleum companies – that's TT$1,126 million out of TT$40,410 million. The picture does not improve much if loans from finance companies and merchant banks are taken into account. While the percentage is slightly higher – 4.3 per cent

Daniel Sankar

at the end of 2007 – the absolute amount is far lower – TT$148 million, out of TT$3,422 million.

In a sense, both sides are culpable – the financial institutions for their apparent reluctance to lend to the energy sector and the bigger international companies upstream, like BP, BG, Repsol, EOG Resources and the downstream gas-based sector, represented by giants such as Atlantic LNG, Methanol Holdings Trinidad Limited, PCS Nitrogen and Methanex, for their unwillingness to seek at least some operational capital locally.

To its credit, bpTT did try to break this mould in 2002, when it took the initiative in going to the local long-term TT$ market to raise TT$480 million to fund some of the development and production costs of its Cassia B processing hub and its Bombax pipeline in its east coast offshore Trinidad acreage. The facility was organised by Citibank Trinidad and Tobago, which parceled out the entire issue in the form of 'derivative participation rights' to local banks, insurance companies and pension funds. It was probably the first time in the 100-year history of Trinidad oil that pension funds had a chance to invest directly in the industry!

BPTT's Chairman and CEO, Robert Riley, remarked at the time that "we could have got these funds more cheaply if we had gone to the international market, but we chose not to do so in the interest of helping to develop the local capital market."


Karen Nunez-Tesheira

It is probably a source of regret on the part of many local financial institutions that bpTT has not, as far as is known, chosen to repeat that experiment nor, if it comes to that, has any other international company active in the Trinidad and Tobago upstream chosen even to give it a try.

So much for debt capital but what about the local stock exchange? That institution has shown an equal lack of interest in energy-related assets. Only one company has ever taken the plunge into the local stock market and that was Moraven Holdings Ltd, the major shareholder in the Mora field and platform off the east coast, which was once held by bpTT. It needed capital to develop its field and did receive support from investors but the fact that, until recently, the value of Moraven shares had languished on the stock exchange, may have discouraged other issuing companies and shareholders from a similar exercise.

While the big boys can always take care of themselves, the domestic financial system probably has most relevance for smaller local upstream companies, who have tended to be most vocal in their condemnation of the parsimonious attitude of commercial banks towards the industry (and the figures quoted above appear to support such complaints).

But newer banks on the local scene appear to be thinking differently from their more cautious predecessors. Take First Caribbean International Bank (FCIB), the child of a marriage between the branches of Canadian Imperial Bank of Commerce (CIBC) and the UK's Barclays throughout the Caribbean. It recently set up an energy unit in Port of Spain, headed by Daniel Sankar, a former senior financial executive of the state-owned National Gas Company (NGC) and someone highly regarded in the industry.

Mr Sankar's mandate is to seek out all opportunities in the Trinidad and Tobago and Caribbean energy sectors and fund them if he deems them to be commercial. No other bank in the region has even done anything similar, as far as is known.

The very same small upstream companies that have been griping about the tight-fistedness of other banks, may soon be seeking refuge at Mr Sankar's door. "If small companies need finance, say, for a multi-well drilling programme," he points out, "and they get turned down by their regular banks because it's a risk issue for them, they can come to us and we could treat it like project financing. We may take more risk in this regard."

That is undoubtedly music to the ears of the companies the Ministry of Energy & Energy Industries (MEEI) wants to encourage to enter the upstream sector in order to rectify the current wide imbalance between international and domestic companies in that segment of the industry.

Sankar's offer will be particularly useful when it comes to accessing the foreign exchange that local companies may require in order to purchase the equipment necessary for upstream work. As he points out: "Other domestic banks will need to have some links with an international bank to get a source of foreign exchange funding because I don't think they are generating enough US dollars in Trinidad itself. We don't have that kind of problem because our parent is CIBC out of Canada and we already have a foreign exchange funding link among the various FirstCaribbean regional branches and also readily available advice for smaller companies."

While at least one commercial bank may be getting the message of the need for energy funding, another has moved to

Photograph courtesy of Paria Archive

Royal Bank of Canada's headquarters in downtown Port of Spain, 1938

set up an energy fund to offer risk capital in the form of equity to companies that are disposed to using it. This is a relatively new element on the energy funding scene in Trinidad and Tobago and the Caribbean and First Citizens Group's Energy Fund was one of the first to offer an alternative to bank debt.

As First Citizens' Managing Director, Larry Howai says: "We have been able to capture some reasonable growth out of it and have invested in the equity of an electricity company in St Lucia. Ironically, however, the opportunities in Trinidad and Tobago itself seem much more difficult to come by."

One of the barriers to acquiring petroleum companies as clients for domestic commercial bank loans, despite the effort made by bpTT mentioned earlier, is that, as Mr Howai says, "they come to Trinidad with already established international relationships and they want A-rated banks. We find ourselves at a disadvantage there." The First Citizens Managing Director insists, however, that his bank does its best to help the mainly locally-owned service company sector, whose needs can more easily be accommodated within the local foreign exchange pool available to the domestic banks.

Interestingly, the Prometheus energy fund, established not by a bank but an insurance company, Guardian Holdings Limited (GHL), has faced no such constraints. It has sought out and taken equity stakes in a local upstream company, an energy services company, a new gas-to-liquids (GTL) company, a new caustic soda and calcium chloride company called CariSal and even the ground-breaking Caribbean gas pipeline, said to be due on stream in three years time.

It was the investment in CariSal that caught the eye of major US private equity capital firm, Denham Capital (it had also taken shares in the company) and it promptly decided it wanted to purchase all of Prometheus's portfolio because it saw the opportunity for further equity investment in Trinidad and Tobago and the Caribbean – in contrast to Mr Howai's unfavourable view of the investment possibilities in energy.

Denham has renamed the fund Canboulay Energy Capital and poached GHL's head of business development,


Kristine Thompson

Kristine Thompson, to run it. For her part, she sees an exciting future in energy equity, rebuking the commercial banks for their failure to spot the openings in the sector.

"I went to a certain commercial bank to persuade it to invest in CariSal and, I'll never forget, they finally called me on Christmas Eve when I was baking a ham and said that the project was not financeable, there was too much risk. One month later, Denham was valuing GHL's original equity investment at four times what we had originally put in."

Ms Thompson has a point when it is considered that it is largely because of the existence of the energy industry that Trinidad and Tobago has now decided to establish an international financial centre (IFC) which will be housed, appropriately, in the same downtown Port of Spain office tower as the Ministry of Energy & Energy Industries itself.

The country's Minister of Finance, Karen Nunez-Tesheira, sees a very bright future for an IFC in Port of Spain, because of its location between the Caribbean and South America.

"When the current world economic downturn comes to an end, as it must," she says, "we will be very well placed to offer services such as in back-office work for the credit card business, in reinsurance and other services. Our consultants think we will succeed and have given us a final report which we will proceed to implement as soon as it is feasible."

Minister Tesheira does not believe the unexpectedly abrupt downturn in the world economy will undermine the IFC project in a significant way. On the contrary, she insists that the current situation has, in fact, "given us an opportunity to do all the work we need to do and in a more reflective way. Even if we have lost Lehman Brothers, which was supposed to be one of our anchor tenants, I am sure there will be more opportunities for us as we move forward." ❑

Port of Spain's Waterfront development, home to the TTIFC