

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

By David Renwick

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For most of the early decades of its existence, the Trinidad and Tobago petroleum industry had to rely on foreign capital to keep it functioning.

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

This was understandable, since the rudimentary state of the local 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, the Paria Petroleum Company, successor the West Indies Petroleum Company, the employer of English engineer, Walter Darwent, who had made the first oil find at Aripiero four miles east of the Pitch Lake in that year, succeeding in attracting some local capital to help fund its operations.

Messrs Randolph Rust and John Lee Lum, prominent local businessmen of the day, dug deep into their own pockets also to drill in the Aripiero area 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. This company soon moved to the other side of Trinidad, to a place called Guayaguayare in the south east and it was here that the various discoveries were made, starting in 1902, that clearly established Trinidad as an oil province, though not yet a commercial one. That status, as noted elsewhere in this publication, was not achieved until late 1908 and in Point Fortin, further down the west coast from Aripiero, when the Trinidad Petroleum Development Company (TPDC) found the oil that could flow in a



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

sustained manner and be able to supply a market on a regular basis, thus qualifying as "commercial." But to fund field development, TPDC was obliged to go abroad, to London, where it re-launched itself as Trinidad Oilfields Ltd (TOL), raising £300,000.

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Despite its successful flotation, TOL soon faced "difficulties in financing field development," as we are reminded by the late George Higgins in his classic work *A History of Trinidad Oil* (published by Trinidad Express Newspapers Ltd in 1996) and this contributed to triggering the entry of the first major to become involved in the country, namely Royal Dutch Shell, as early as 1913.



Larry Nath
CEO, First Citizens Group



and Oil (LGO), which has recently moved into the Trinidad upstream in an active way (see article on the Independents elsewhere in this publication) reports that one of the reasons he was able to acquire a block called Goudron was because the previous holder, Trinidadian oilman Rodriguez Cameron, had faced problems with the banks.

“When we talked with Mr Cameron,” Ritson told this writer “and we asked him why he was not able to invest properly in Goudron, his answer was that

As the majors homed in on the Trinidad petroleum industry, funding became an in-house exercise, particularly for exploration

A Shell subsidiary, United British Oilfields of Trinidad (UBOT), took over the TOP operation in Point Fortin and the major became indelibly associated with the town for the next 61 years, soon establishing its own refinery.

As the majors homed in on the Trinidad petroleum industry – after Shell came BP (1937), Texaco (1938) and the US’s Amoco (1961), funding became an in-house exercise, particularly for exploration, with budgets being assigned to the various locations in which these companies operated, Trinidad and Tobago included.

Development expenditure, after a discovery (the challenge TOL faced) was also initially financed from head office and then from cash flow.

In effect, the local financial sector was shut out of the country’s most important industrial activity.

Both sides are culpable in this situation – the foreign operators for showing no desire to access the local financing market and the banks for being unduly wary about lending to the sector.

Neil Ritson, chief executive officer (CEO) of UK company Leni Gas

the banking sector in Trinidad and Tobago did not support the oil industry. He said he wanted to borrow money to invest and the banks said no.”

Official figures from the Central Bank of Trinidad and Tobago support this reluctance. Of all the loans and advances made by commercial banks in 2012 – latest full-year figures available – a minuscule 3 per cent went to the petroleum industry, which was TT\$1.49 billion compared with overall lending of TT\$50 billion.

Even when the government moved into the industry in the 1960s and 1970s, acquiring first BP’s onshore producing assets, then Shell’s fields and refinery and, finally, Texaco’s fields and refinery (all amicably – it

was not nationalisation in the accepted sense), the loan element in payments was largely derived from abroad.

Government-owned companies in the petroleum sector today, such as the National Gas Company (NGC), the most profitable of the lot, the Petroleum Company of Trinidad and Tobago (Petrotrin) and the National Petroleum Marketing Company (NP), are all registering surpluses of varying sizes on an annual basis and ►



Larry Howai
Minister of Finance

Of all the loans and advances made by commercial banks in 2010 – latest full-year figures available – a minuscule 3.1 per cent went to the petroleum industry



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

► can thus finance much of their operations on cash flow.

Being government-owned, however, the banks are unlikely to resist requests for loan financing. It is the smaller Independents like Cameron Oil and Gas which mainly get the thumbs-down from the banks, despite the fact that they most need the capital. Though more financing from local sources is one of the principles outlined in the government's "Local Content And Local Participation Policy and Framework" (published in 2004), the banks have largely not taken heed of the message.

To be fair to the banks, at least one of the locally-owned financial institutions, First Citizens Bank, has made an effort to lend to the local

private energy sector, including the oil service companies, where domestically-owned firms are most prevalent.

First Citizens current group chief executive officer (CEO) is Larry Nath but his predecessor was Larry Howai, who was lured into government and is now Trinidad and Tobago's Minister of Finance and the Economy and in a good position to give subtle encouragement to his former commercial banking colleagues to pay more attention to the needs of the local independents.

Local banks need to be wary that foreign banks and other financing entities do not move in smartly and take over energy funding opportunities for themselves. First Caribbean



Monty Pemberton
CEO, Trinity E&P

International Bank, the child of a marriage between the Caribbean assets of the Canadian Imperial Bank of Commerce and the UK's Barclays, has, for example, set up a unit in Port of Spain specifically to seek out energy business.

Citibank has, for some time, been funding investments in the sector on a spasmodic basis.

The overseas Independents that have increasingly been moving into the Trinidad and Tobago upstream have the added advantage of mostly being quoted on stock exchanges abroad and can raise investment capital that way.

Three such examples are Touchstone (Calgary), Range Resources (London and Australia) and Leni Gas and Oil (London).

Leni recently borrowed US\$8 million from YA Global Master, a fund administered by Yorkville Advisors LLC of the United States, and plans to close a US\$50 million facility with a blue chip bank in 2014, as well as entering into some operating leases with a local bank in Trinidad and Tobago.

With facilities like those, it could well be argued that Leni does not need the Trinidad and Tobago banking system at all.

Despite their difficulties with local banks, few local companies have chosen the alternative – the domestic stock market.

In fact only one has done so, Mora Oil Ventures Ltd, now listed on the Second Tier market (a kind of 'local AIM') of the Trinidad and Tobago Stock Exchange under the name Moraven Holdings Ltd. The company is also unusual among the diminishing band of local Independents in that it operates exclusively offshore, producing a modest 400 b/d from its Mora block.

If the figures show that commercial banks fight shy of the energy industry, at least one local operator, Trinity Exploration and Production, has managed to spectacularly break through this glass ceiling.

Not only has it easily been able to access bank credit – particularly from Citibank, whose most recent assistance to the company was US\$25 million "for development capital expenditure or acquisitions,"

bringing the total Citibank has committed to Trinity to US\$43 million – but it has been unafraid to go to the capital market internationally.

In February, 2013, after acquiring the Trinidad and Tobago production assets of a small UK company, Bayfield Energy, which already enjoyed a listing on AIM, Trinity "reversed" into Bayfield and undertook an initial public offering (IPO) which raised US\$90 million.

Its CEO, Joel (Monty) Pemberton says local shareholders still constitute a majority but among his other shareholders are "a substantial core of the top tier investment funds in Europe."

Mr Pemberton's ambitions put other local Independents in the shade. Indeed, now it is listed in London, Trinity is in some ways more "international" than it is "local" and the CEO wants to broaden that to eventually become "the first internationally recognised independent Trinidad and Tobago oil and gas company."

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First Citizens Corporate Centre in Port of Spain

