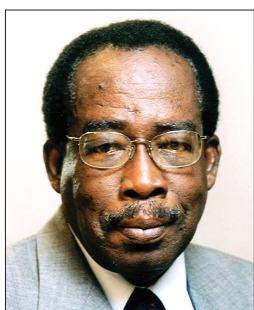


In search of new markets

INTERVIEW WITH MALCOLM JONES

EXECUTIVE CHAIRMAN, PETROLEUM COMPANY OF TRINIDAD AND TOBAGO LIMITED (PETROTRIN)



MALCOLM JONES was appointed Director and Chairman of Petrotrin on January 7th, 2002 and elevated subsequently to the position of Executive Chairman. An engineer by profession, Mr Jones graduated from Queen's University, Canada in 1970. He has spent most of his career in the energy sector having served as President of the National Gas Company of Trinidad and Tobago (NGC) from 1988 to 1996. His commitment to the energy sector dates back to his early involvement as a process engineer with Texaco in 1965.

Petrotrin recently posted record profits for the second year in a row. Is this indicative of improved productivity at the company, or simply a reflection of high oil prices and refining margins?

I would say it's a combination of all of all three. Not so much the high oil price, because we have to buy more crude on the open market than we produce ourselves – we refine 160,000 barrels a day and only produce 60,000 – so if anything, it has been a negative factor for us. Having said that, we have been able to keep our upstream units on-line a bit longer over the last couple of years, so we have seen our upstream productivity improve somewhat, although our operating costs have not reduced significantly.

At the end of the day though, our business is a margin business and the past couple of years have seen an improvement in the margin between crude prices and those of refined petroleum products due to the shortage of refining capacity in the world right now, so I would say that has been the most significant factor in the revival of the company's fortunes.

You have spoken in the past about the need to reduce the company's cost base; what progress has been made on that front?

Very little, unfortunately, although I would like to think that we are laying the groundwork for it. Our costs in general are still too high and the major element, I would say, is our labour costs as a percentage of our operating costs. Over 50 per cent of our operating costs is labour, compared to 30-35 per cent elsewhere in the world.

There is no point in simply cutting costs for its own sake, we need to re-engineer our working practices and re-think the whole way we do business if we are to really turn this company around.

Presumably that will entail a certain amount of jobs being lost, won't it?

Well, the message I'm trying to get across is that lowering costs doesn't necessarily mean job losses. I'm talking about lowering overall operating costs, and if you can operate more efficiently and productively then you will find that you can achieve a lot more with the same costs, so your unit cost of production goes down.

The problem is a historical one. You see, this refinery was started in the early 1900s, and then expanded in the 1950s and '60s, when you didn't have the kind of

industrial base in Trinidad that you have now. You therefore had to cater for all your own maintenance work, so this refinery had a big maintenance staff for turnarounds and shut-downs – and they are still with us today. Nowadays these things are all outsourced – if you go to Point Lisas, with all the various plants, you won't find one with its own machine shop, welding shop, pump shop or whatever. When a turnaround is scheduled they utilise contractors or engage the services of external workshops.

What I believe we should do therefore is to hive off these maintenance shops into subsidiary companies, so that when we don't need them they're not standing idle but can service the other industrial facilities that are springing up across Trinidad. They would still have a base load of work here at Petrotrin, but it would mean more business and more money for them in the longer term and would enable us to reduce our standing costs as well.

You have a 49 per cent stake in the proposed GTL (Gas to Liquids) plant to be built in Trinidad. What are your expectations for this project?

To be honest, some people here in Trinidad treat the project as a bit of a joke, because it's only a 2600 barrels per day plant, compared to the 10,000 or 20,000 barrels per day GTL plants that people are building in Qatar and elsewhere in the world. The fact is that GTL technology is still somewhat new – although the Fischer-Tropsch process that it uses is very old – and the whole continuous process of ensuring that you get the product that you want still has a few bugs in it, so our project is something of an experiment.

Our partner in the project is a group called World GTL, which is largely made up of ex-Arco people, and their concept was to get the costs of GTL down by using idle methanol plants in parts of the world with relatively cheap supplies of gas – so of course they came to Trinidad. They were prepared to pay a reasonable price for our gas – although less than if we had put it into LNG – and according to their estimates, they reckoned they could make a 33 per cent return. Naturally, we wanted a piece of the action, so in return for our cheap gas we secured a 49 per cent stake in the venture.

There is a certain amount of technical risk, but if the plant works as we think it ought to, we are likely to

get around 2600 barrels per day of high-cetane diesel, which would be very important to us for blending.

What are your ambitions for the company's new joint ventures with Repsol and PetroCanada? Do you have any plans for further tie-ups with foreign partners on the upstream side?

First and foremost, we expect that our joint venture operation offshore on the west coast will improve our gas portfolio. We believe that the areas we have out there are more gas prone, and that is why we went into block 22 with PetroCanada and we are also in with Canadian Superior around the Mayaro area. In the case of Repsol and TSP, there is also a gas field that was part of that purchase and we hope to see that develop.

We are also working with EOG and PetroCanada in the Gulf of Paria, and with Exxon Mobil on the south west coast. Exxon have identified about three good prospects and recently spudded their first well at that location, on the maritime border with Venezuela.

On the north coast, neighbouring the NCMA (North Coast Marine Area) there is a field that originally belonged to Petrotrin but was taken back by the government and incorporated into a larger area that is now out for bid, and again we hope to be involved there, as I said, to improve our gas assets.

How do you see the outlook for refining demand worldwide, and what is the current status of Petrotrin's Pointe-a-Pierre refinery upgrade?

Well, refining is in short supply, there's no doubt about that. Of course, as with any commodity cycle you are then going to see a tendency to over-build and before you know it there will be excess capacity again. Given the time it takes to build such things however, I believe it will take a minimum of about five to six years before we see any ease-up or before the capacity will have satisfied the demand situation. So, in the intervening period I expect to see reasonable margins in refining.

The question is, are we in the running for increasing refining capacity? I would say not really. The government of Trinidad and Tobago, however, feels that Trinidad is a good location for additional refining capacity – especially Pointe-a-Pierre – and that companies that may be interested in meeting this requirement gap may see a trick and decide to locate a new refinery here. As I have said before, I would prefer to ensure that we, as a company, are on a more solid foundation before we commit to further expansion, so whether Petrotrin would be involved in any such new refining venture remains to be seen.


In terms of our current upgrade process, all it is really doing is enabling us to stay in business. Environmental standards are becoming stricter all over the world, and we need to get our product into

that range, because if we don't we're going to get left behind and no one will want to buy from us. We have already lost our markets in the French Caribbean because, as part of France, they are subject to European environmental standards.

And what effect is Venezuela's Petrocaribe initiative (to provide cut-price oil products to the Caribbean) likely to have on this scenario?

It will mean that we have to get into the US market, because of course we are going to lose our traditional market here in the Caribbean to the tune of 50,000 barrels a day. We are looking at Central America and we are looking at the US but we have to meet the specifications required there, and that is what we are doing. Notwithstanding that, we do expect to see a loss in revenue in the short to medium term because the Caribbean is our best market, because we sell in small lots and the transportation distances are not that far. If we now want to go and sell in the US we are going to have to knock out a lot of transportation costs in order to be competitive.

What do you hope Petrotrin will achieve during the remainder of your tenure?

I would like to see the gasoline optimisation programme that we have underway almost complete by the time I leave. I would like to see us consistently making the level of profits that we have been making these past two years. I would like to see us become far more efficient, and our people more businesslike. I would like to see them approach their work with a greater sense of urgency and pride. And when people talk about the energy sector in Trinidad and Tobago, I would like them to talk of Petrotrin first, rather than some foreign multinational. That is what I want to see. 

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Pastures greener: Petrotrin's Pointe-a-Pierre refinery and residential compound

