

# Petrotrin: T&T's leading oil producer

## INTERVIEW WITH KENNETH ALLUM

PRESIDENT, PETROLEUM COMPANY OF TRINIDAD AND TOBAGO LIMITED (PETROTRIN)



**KENNETH ALLUM** has over 34 years of technical and leadership experience in the energy sector in Trinidad and Tobago. He has worked in both the upstream and downstream sub-sectors, for both national and multinational companies. Mr Allum has significant experience in marketing, economics and business development at the senior level and has played an integral role in developing Petrotrin's Marketing Division. Prior to his current position, Mr Allum held the position of Vice President, Refining and Marketing. He was appointed President of Petrotrin on 1 July 2009.

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**The Chief Executive's role at Petrotrin not an easy position to fill at the best of times. What is your strategy for putting the company back on a growth path, and how do you intend to turn around its TT\$456 million (mn) loss for the first half of this year, in particular?**

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Actually, as of the end of August we were back almost to a break-even point. But the TT\$456 mn loss was mainly due to a change in inventory value, so with prices moderately holding up again we expect to recover that loss and, by the end of this fiscal year (September) be in a break-even position.

We have no choice but to focus on what we have control over. We have no control over market conditions but we can control our cost structures and our productivity, while at the same time seeking to increase our gas and oil production.

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**It's no secret that Petrotrin's production costs are unsustainably high, as much as US\$65 a barrel, as I understand it. What is your strategy for bringing this down to a more manageable level?**

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The US\$65 dollars a barrel production cost includes all costs, indirect and direct: royalties, Supplemental Petroleum Tax (SPT) and other lifting costs and is applicable to our mature fields on land. Our average costs really are about US\$32 dollars a barrel of oil equivalent. Our direct (E&P) costs are just about US\$9 per barrel, so SPT and royalties make up a large percentage of the overall cost. SPT moves with the crude price, so the higher the crude price, the higher the SPT. The US\$65 dollar per barrel price was a reflection of the higher price of crude at the time.

We are about to complete our next strategic five-year plan which will chart the way forward for us. We have got to become more cost competitive. We are in a global marketplace, both upstream and downstream, so we need to become a leaner company if we are to compete. Right now our wage bill is about 50 per cent of our costs and we need to bring it in line with the industry standard of between 30 and 35 per cent. We need to position ourselves for growth over the next few years.

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**What opportunities do you see for the divesting of non-core operations?**

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Let's talk about the upstream. Part of our strategy is to enter into strategic alliances where appropriate.

We have already started this initiative. Today we are in twenty one (21) joint ventures in our upstream operations. We have just entered into a strategic alliance in our Galeota field, with Bayfield Energy and we are just about to let out our Eastern fields. We are evaluating our Trinmar operations (offshore the west coast) to determine the best approach to increase production there.

So really our strategy is to operate on our own what we can do efficiently and seek strategic alliances where appropriate.

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**The government is understandably concerned about the country's revenue situation, given that the price of gas is in the doldrums and oil production is in decline. What role can Petrotrin play in rebalancing the country's energy portfolio?**

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Petrotrin has predominantly been engaged in oil production and refining. We got into gas only recently. We control most of the oil acreage on land in Trinidad and are the largest oil producer in the country, producing slightly less than 50,000 barrels a day. We intend to increase production on land and we will be carrying out 3D seismic, which we have never done on land before. We expect to find opportunities for both exploration and development. At our Trinmar operations we aim to increase oil production. Our goal is to become a more balanced, market-driven company. We intend to stay in both upstream and downstream operations. Currently, our refinery has a capacity of 150,000 barrels a day of crude throughput but we only produce 50,000 barrels per day of crude. We need to reduce the gap as much as possible, by producing as close to 150,000 barrels a day of crude oil as we can. At the same time we're also going after increased gas production.

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**How important is gas now to Petrotrin and can you give us any detail on your sources of gas income?**

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Gas is becoming increasingly important for us. Today gas probably accounts for around 5 per cent of our total revenue, so it is a significant contributor to our revenues. Our main income from gas comes from our participation in the North Coast consortium, the gas from which goes to LNG. That makes up probably about 50 per cent of our gas production and the other 50 per cent we sell – some to NGC with the balance

coming to the refinery as fuel. Our total production is about 150 million cubic feet a day and we intend to increase our gas production.

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**And where do you see amongst your existing assets the greatest potential for expanding gas production?**

The greatest potential is offshore. Our participation in the North Coast consortium still remains one of the main opportunities for us.

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**Despite the previous predictions of the demise of Petrotrin's regional market for gasoline in the Caribbean, it appears that Venezuela's Petrocaribe has not been the 'end of the world' scenario that was forecast. How many of your barrels have actually been displaced on a daily basis by Petrocaribe?**

It varies from month to month, averaging somewhere between five and 10,000 barrels a day. We have however been able to sell all displaced products into other markets.

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**Does that affect your strategy of a year ago to target more the US market?**

No, it doesn't. We embarked on our upgrade programme as a defensive strategy from a quality specification point of view. We needed to produce a product that can go into practically any market, thus opening up new markets for us. This would also assist in offsetting any effect of the Petrocaribe initiative. Yes, the US is still part of our overall target market, but our primary market remains the regional market – Central, North and South America, as well as the various Caribbean islands.

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**You mentioned the upgrade of the refinery. I gather that a lot of your big capital projects have been running quite far over their original budget estimates. Are you confident that the eventual benefits will equal or outweigh the costs, or are you too far down the road now to change course?**

Well, it is really a combination of both of those things. As I said, we took the decision as a defensive position, had we not done it we would have had to close the refinery because we would be producing a product which no market wants. In hindsight one may argue that the timing may have been a little wrong but we did not foresee the economic turmoil which we are experiencing. It is unfortunate that the start of the project coincided with the overheating of the economy – the rising crude price and the subsequent overheating of the engineering, material and labour costs. As you know the energy business is cyclic. So, stopping the upgrade project at that time and trying to continue it when the market was turning around would not have

given us any advantage. We are now positioned when the market turns around, as it will do at some time in the future, to take advantage of it. So, we believe that in the long run that we will reap the benefits.

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**The forthcoming Commonwealth Heads of Government Meeting and associated Business Forum will bring together many of the world's leading and emerging producers, including many of the countries that the government has been offering advice to on their energy sectors. How significant is the event for Petrotrin as a potential networking and deal-making opportunity?**

We are looking forward to it for the networking opportunity that it will provide. We import 100,000 barrels of crude per day for our refinery, mainly from West Africa. We anticipate that we would have the opportunity to meet not only the country representatives but also companies with which we can network. We would be pleased to share how we have developed our energy resource here in Trinidad and Tobago. As you quite rightly say, some of them have visited us already but we have the opportunity to be exposed to a wider audience and hopefully we can network with some of the people we now do business with already, purchasing crude, as well as those who we may be interested in doing business with. We are looking at the Meeting as an opportunity to network and expand our business.

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**And do you see potential for asset swaps or other kind of exchanges?**

That always remains an opportunity for us, but as you know as a state company whatever we do must be done on a commercial basis. Having said that though, should the government enter into any government-to-government arrangement, and we are called upon we are ready to do our part.

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**I understand that part of the proposed new fiscal arrangements for the forthcoming bid rounds for the deep water acreage will no longer stipulate that companies have to carry Petrotrin to the tune of 20 per cent. Where does this leave the company's exploration strategy going forward?**

Deep water exploration is high risk, so we can understand the proposed stipulation that companies no longer have to carry the state or Petrotrin for a certain percentage.

Having said that though, we have in the past participated in certain blocks on our own so the opportunities still exist for us to participate as Petrotrin. However, in our short- and medium-term planning strategy, deep water is not on our radar. We will be concentrating on our existing acreage for the time being. F

**We control most of the land acreage in Trinidad and are the largest oil producer in the country, producing approximately 50,000 barrels a day**