

Feature Address by
Dr. Keith C. Rowley MP
Prime Minister of the Republic of Trinidad and Tobago
At the
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“Coping with the Current Oil Crisis”

Salutations

Mr. Vincent Pereira, Chairman of the Energy Chamber and President of BHP Billiton Trinidad and Tobago

Mr. Norman Christie, Regional President BP Trinidad and Tobago

Dr. Thackwray Driver, President and CEO of the Energy Chamber of Trinidad and Tobago

Cabinet Colleagues

Members of the Diplomatic Corps

Specially invited guests

Members of the Media

Ladies and Gentlemen

Introduction

Good Morning. I am sure that a significant number of persons will agree with the view that as an oil producing country we are at a critical juncture in our existence. Whether this situation becomes a crisis or not depends on our approach to survival and managing our affairs.

The word crisis conjures certain emotions and can trigger interesting debate given the number of uses for this word. We now use this word to mean disaster, emergency or predicament. This word seems to have entered the English language around 1425, well before Trinidad and Tobago became known to Europeans. The word came from medical practice and to it was attached the meaning “turning point of a disease”.

By 1627 the meaning was extended to cover “a decisive moment”. With respect to our energy industry, I submit we are in fact at an incipient or decisive moment or “crucial point”.

What is the evidence before us?

The month of June, 2014 marked the end of four years of high and reasonably stable oil prices. Commodity prices supported by growing demand from emerging markets peaked in 2011 and all but oil were on a declining trend. The excess supply situation looming in the last quarter of 2014 soon grew into a glut. OPEC decided in November of that year, to leave production quotas unchanged, shifting policy from price targeting to market share defense. In addition, geopolitical risks did not have the expected effect on oil supplies, and these two along with the significant appreciation of the US dollar presented the ingredients for a perfect storm.

The onslaught of unconventional oil and gas supplies, has forced redefinition of a number of market relationships. Firstly shale oil and gas production bolstered the US drive for energy independence. The loss of the key US market meant producers, like Trinidad and Tobago, now face intensification of competition for markets. Exporters are challenged to find alternative markets in the face of declining demand for which the US could be competing as well. Consumption in China and India has slowed and slower demand growth has intensified the battle for market share. Changes to the energy intensity of GDP in these countries given the levels of pollution will impact on energy demand.

Consequent changes to the energy fuel mix will occur as a result, with some energy sources in decline while others emerge.

Against the backdrop of record low prices, new trading patterns have become the order of the day as the role of energy as a diplomatic instrument becomes more pronounced. Sanctions against Russia over Ukraine, the easing of sanctions against Iran given agreement on its nuclear programme will and have disrupted the settled patterns of the last few years.

Conceptualizing the challenge

Given the facts before us, the question becomes, can we compare this experience with any other? What is the outlook for prices? What are the implications for our economy?

The fall in prices is significant but not a unique event. According to some energy experts; in a 2014 World Bank Policy Note, over the last 30 years, five other episodes of price declines of more than 30 percent over a seven month period can be identified and all coincided with major changes in the global economy and oil markets. The 1985-1986 price collapse, the 1990-1991 and 2001 weakened demand situation following US recessions, the 1997 -1998 Asian Crisis and in 2008-2009 the Global Financial Crisis.

The current price fall has much in common with the 1985-1986 experience. Both were characterized by the rapid growth of Non-OPEC oil supply. In the 1985/86 situation it was the growth of North Sea, Alaskan and Mexican output. In the present situation it is the growth of unconventional oil.

In both cases the high prices that prevailed facilitated the proliferation of the technology that led to profitable Non- OPEC supply increase. The addition of supply from unconventional sources between 2004 and 2014 also parallels the 6.0 million barrels per day added to global markets between 1973 and 1983.

The second issue is the change in OPEC policy. OPEC's decision to abandon price targeting in 2014 is similar to the decision in 1986. After cutting production from 30 million barrels per day in 1979 to 13.7 million barrels per day in June 1985, OPEC switched to defend market share. Prices adjusted downwards in response to supply increase and weak demand, and the rest is history.

In the current situation, the implications for oil exporters like Trinidad and Tobago are clear-significantly reduced revenues, loss of reserves, capital outflows, sharp depreciation, and reassessment of sovereign risks by investors which is exacerbated by limited diversification of the economy.

It is important, however to point out significant differences between the 1986 situation and the current situation. There is a significant difference to note. In 1986, the world was dominated by conventional oil. Supply adjustment to price spikes took time as there were long periods between discovery and production of oil and gas reserves. Thus supply tended to be price inelastic in the short to medium term but elastic in the long run. Price shocks therefore took some time to work through the global energy system. Compared with conventional oil, un-conventional oil has a shorter life cycle from development to extraction (2.5 to 3 years).

This means a shorter investment cycle. With declining capital costs, unconventional oil supply can respond to price movements far faster than conventional oil. This suggests that

unconventional oil can be expected to be more sensitive to oil prices going forward. This has implication for a conventional oil producing country like Trinidad and Tobago since the quest for markets will intensify and unconventional oil will be able to respond to price stimuli in a shorter interval than conventional oil.

Additionally, we may want to consider the scenario of whether or not the current situation marks the first energy transition of the 21st century. Should it emerge that the producers of unconventional oil replace OPEC as the swing producer in the international oil market, given the shorter life cycle of unconventional oil, producers like Trinidad and Tobago can face an extended period of low oil and gas prices and prolonged adverse circumstances.

More interestingly as countries confront the imperatives of climate change and reconfiguration of the mix of energy required, we may see a world with a reduced role for OPEC. This of course recasts the actions of OPEC as a struggle for survival as a major player in the market. While some may view this as unlikely, it is not impossible.

The challenge for Trinidad and Tobago emerging from such a scenario is that the approach to adjustment used in 1986 may well be insufficient. This will force us to rethink the mix of initiatives and in addition to the usual macroeconomic measures we will require a rethink of economic objectives and strategy.

The issue will now become rapid reconfiguration of our energy industry while accelerating the thrust to diversify our economy. Postponement of deep water exploration on which we pin our hopes for increases in petroleum reserves means continued depletion of our oil and gas resources and contemplation of a Trinidad and Tobago with reduced reliance on oil and gas.

One of the benefits of the 1986 experience was the drive to develop indigenous energy entrepreneurship. The predecessor to this Energy Chamber along with the Government of Trinidad and Tobago and state companies TRINTOC and TRINTOPEC established the Lease Operatorship and **Farmouts programme**. This allowed the return of idle wells to production by these local independent producers. For the first time indigenous firms could contribute to increasing oil production.

While the initiative has been hailed as a success, the critical question is can we find these entrepreneurs today? Where are the pioneers of this effort of 1989?

As we approach the need to optimize production in this period of soft prices these players may well be critical if we can find, motivate and incentivize them. While we appreciate the role of international capital, and it is important, the continued development of indigenous energy firms in oil and gas production is essential. Local content must also mean local ownership and entrepreneurship and not just the procurement of goods and services to others.

The 1986 episode is important to us for another reason. This price collapse marked one of the most painful adjustment periods for the Trinidad and Tobago population.

It remains etched in the minds of all those of us who experienced it. The population deemed the required measures as harsh and the IMF became a dreaded expression. Many citizens still recall the reduction in government expenditure including several subsidies, the ten percent reduction in wages, the hurried divestment of state enterprises, and the erosion of a large stock of foreign exchange given the apparent insatiable appetite for imported goods, the foreign exchange reform, fiscal and monetary reforms that became necessary in the light of drastically reduced revenues.

Response to the current situation

To any keen observer of the energy industry therefore, cycles of price increases and falls represent the hallmark of the oil business. Days of abundance followed by periods of adjustment. In spite of this fact the downturns tend to take us by surprise when we get carried away by the euphoria of abundant revenues. The record shows that since the decade of the 1980s adjustment in the oil business occurs every ten years or so. Over the years we have come to expect the players in the industry to experience the stages of grief before taking action. This is succinctly articulated by John England of Deloitte's Energy Practice [\[1\]](#):

- Denial—"This is just a blip and won't last long" (this view in Trinidad and Tobago died by March 2015)
- Anger—"It's OPEC's fault" (for producing as much as they can...a lot like US producers)
- Bargaining—"If only we had invested for returns, not growth, for the past five years"
- Depression—"Cash flows continue to diminish, and balance sheets continue to weaken"
- Acceptance—"I guess we'd better prepare to ride this out for as long as it takes" (current view of most players).

The standard policy actions that usually follow include:

- Cut capital expenditure and defer projects
- Cut operating expenditure and reduce headcount
- Pressure suppliers for reduced prices

· Hope for recovery.

While hope cannot be classified as a strategic action it is critical to the psyche. I can assure you that these actions are already in train. I met them in my extensive discussions, in London, with the major players in Trinidad and Tobago and you hear them in the international and local news. If industry is a microcosm of the society in which it exists, then we should not be surprised that countries can behave in the same way and it is essential that we do not follow that path.

Denial means delays and delays mean the deterioration of the situation and reduced response time. It is far easier to drive company adjustment programmes than it is to implement adjustment at the level of the country. In the case of this country there are some takeaways from the 1986 experience.

For those of us who were around, the response to the challenge of the 1985/86 episode exemplified a level of national creativity that we need to re-discover. The Lease Operatorship and Farmout programmes, Internal Lease Reactivation initiatives in the state oil companies and State /private sector partnerships all testify to the era. While many recall the trials and tribulations, there is the tendency to forget the creative solutions that emerged and the innovative measures used to increase oil production.

The second issue is the importance of timing. This is essential. The earlier the activities commence, the more likely the situation will be successfully resolved. Another of the lessons of the 1986 experience was that the longer we take to respond, the more drastic the required measures and the more painful the adjustment will be. It is important that we have the will, the fortitude, to act and act expeditiously.

The next question that the industry asks is what will the government do? What incentives will be tabled? From a historical point of view every recovery in this economy has been built of a clearly defined role for the state. At some periods it has been the role of prime mover and as our fortunes changed the role was converted to that of presiding official supervising the playing field.

The bulk of the land acreage which constitutes a major platform for industry rejuvenation is in state hands as well as some aspects of the oil and gas value chain. This is an area for engagement of all stakeholders including Labour.

The Government accepts that we all need to contribute to ease the burden of adjustment. No single group can, neither should any one group shoulder the adjustment process alone. How therefore do we survive? Please note the term “WE”. Proposed solutions must consider the fiscal state of affairs. The Government is caught in the situation as well and declining revenues will require reassessment of objectives, priorities and strategies; even forced deferment of some economic programmes.

In our situation there are those who hope for the salvation that comes from price recovery and hope it comes sooner rather than later. There are even those of the ostrich variety who accuse the tellers of truth of being purveyors of doom and gloom. The reality, however is that recovery can take a long time given the level of inventories and forecasts of world economic activity; so we need to take action.

While we do not have any influence on global energy prices and energy intensive products, we can influence the production of these products and assist the companies---upstream and downstream—already operating in Trinidad and Tobago to maintain their respective positions in the global energy space.

This new Government cannot simply reflect on this crisis situation and wait for changes outside of its control. It has taken and will continue to take specific steps to ensure not only that Trinidad and Tobago weathers this crisis, but comes out of it stronger and regains the buoyancy of this sector.

I wish to bring to your attention the steps already taken and outline an action plan for the future.

Firstly, **the Standing Committee on Energy has been re-established and is functioning.** This forum comprising key Ministers, Permanent Secretaries of their Ministries, key stakeholders of the Energy State Enterprises and other energy experts, chaired by the Prime Minister, treats with all policy matters, proposals and major problems that emanate from the Energy Sector.

Secondly, The Ministry of Energy and Energy Affairs, and the Standing Committee of Energy has under active review:

- **The 2015 Ryder Scott Report**
- **The September 2015 Gas Master Plan**
- **The Proposal for further expansion of Methanol expansion**
- **Options for dealing with the Natural Gas Supply** curtailment in both the Short and Medium Terms.

Concurrent with the above, a delegation led by me as Prime Minister met in London with the CEOs of **BP, BG Group and Shell.** The Trinidad and Tobago CEOs of all of these companies attended these meetings.

Those meetings addressed, in particular, possible solutions for reducing the shortage but, as important, the exploration and production programs that will not only alleviate the current shortage but place Trinidad and Tobago, once again, in a position to promote and develop gas intensive projects.

These conversations are continuing and additionally I will be meeting the other private sector stake holders of the Energy Sector, both Upstream and Downstream.

A program of continuing dialogue with all such stakeholders is part of the Government's plan to create a buoyant and expanding energy sector but also to benefit from the experiences and expertise of these companies in two areas:

- Diversification of our industrial sector
- Initiatives outside of Trinidad and Tobago---in the Caribbean, USA and Africa.

Diversification into the Manufacturing and Services Sector can be catalyzed by the Energy Sector, as has happened in several countries.

As we look closer to home, Cuba, Haiti, the Dominican Republic and all the CARICOM countries provide opportunities for investment expertise and experience from Trinidad and Tobago.

As a country with a mature and successful Energy Sector, we need to look offshore for opportunities that can lead to mutual benefits from Trinidad and Tobago experience and expertise in the development of a natural gas sector in gas- rich developing countries.

Trinidad and Tobago is proud to have as corporate citizens some of the leading Companies in the Energy Sector-- upstream and downstream.

The partnerships between these private corporate citizens, local and foreign have proven to be of great benefit to this country and its citizens.

This Government is committed to strengthening and expanding these relationships.

The road ahead

We stand at the crossroads and the approach we take must give consideration to the possible futures we can envisage. What kind of energy world will emerge in 2016 and beyond?

I just want to highlight some possibilities to illustrate that we cannot adopt a single solution approach but recognize we need to think through the various possibilities and identify the measures that should constitute our arsenal of responses.

- What if the future ahead of us is one of US \$20.00 oil, a world where the period of low prices, supply glut and slow recovery extends into 2017 and beyond? What if we are forced to compete with increased US exports of oil and gas in the Caribbean Basin?

· What if, as I indicated a while ago, beyond 2016 brings a new world where today's crude prices spark an energy transition so that energy supply mix has a reduced role for oil and gas? What if this is a world with an increased role for Non-OPEC supplies? What if the market drives and OPEC follows?

What if we are unsuccessful in stimulating local oil and gas production?

· What if Providence smiles on us and a return to OPEC ability to affect prices by production restraint? And low prices spur demand growth and declining OPEC spare capacity serve as the catalyst for price recovery. This is the scenario that no doubt represents the hope of many, yet leaders and the captains of industry must anticipate and plan for the possibility of a worse case based on the projections which are starkly before us.

Coping with the current situation therefore begins with mental renewal on the part of all citizens. There is limited room to maneuver but our limited fiscal space is the reality we must accept and live with. This will require us to reach deep within ourselves and re-discover the creativity of the 1980s. Some issues however remain unchanged- resource depletion, the age and condition of our assets but there is also the resilience of our citizens. This is where we need to begin.

Optimization of oil and gas production with existing assets is an imperative. State as well as private enterprises will need to focus on asset integrity as fundamental requirement and we must pursue greater utilization of existing assets as we optimize resources. Waste must be eliminated as a matter of urgency. All negligence in the discharge of entrusted responsibility, whether in the state sector or the private sector is patently unacceptable. We simply do not have the luxury of wasting resources at this time. Resources are scarce; too scarce for this. Fortunately in the hydrocarbon sector we have some considerable under-utilised physical and intellectual assets within our borders. We must put them all to work now! This is not a time to run from the battle in shrieking despair. This is a time for all good men and women to run to the ramparts fortified in the knowledge that in situations like these only the strong survive and oil and gas people are known to be a tough people.

Securing investments will be challenging so we will need to come up with creative ways to achieve that objective. As I have indicated above one of the effects of the fall in oil prices is the changing perception of sovereign risks. This will increase the cost of raising resources in capital markets. This is where the contribution of industry partners becomes critical. We recognize they are confronting the same oil price realities as we are. We expect that reassessment of programmes and projects will occur but we have mutual interests in the success of the industry since it is inextricably tied to our success.

The thriving domestic society is a necessary condition for business success. We continue to envisage a role of our international partners as we adjust to changing industry configuration. Working together we can design the strategies that will be to our mutual benefit as we share the burden of adjusting to the times in which we operate.

Service companies and contractors benefit from the multiplier effect of income when the industry is growing. They will have a key role in driving innovation and cost control in these times. Remember, if activity ceases we all suffer but value for money will be essential to survival. There will also be the need for local investors to come forward and there must be a renewed focus on local content going beyond the supply of goods and services to securing local entrepreneurship and ownership. We also expect and intend to ensure that our nationals will be fairly treated in terms of industry opportunities. Empathise and respect your employees as the hands which grasp the nettle and don't jettison them at the first sight of the dark cloud. Here the government has the responsibility for establishing the framework for operations. We at the level of Government want to see success and are anxiously wanting to work with you on all fronts. This not a time for ceaseless moaning and complaining . This is a time for resolve.

Tell us what you want to do to improve things and show us how we can help you help the country to do better in your area of endeavor.

There have been significant levels of investment in the human resources of this country but we need to sharpen the focus to prepare for the loss of cadres of energy professionals through retirement while ensuring that the institutional knowledge is not lost to our society. The continued development of our citizens is of paramount importance. Here as in other areas, our partners in the Labour movement have a critical role to play.

Like other stakeholders they are critical to our survival and the revitalization of our industry. We will not make the progress we need without their support. We are confident we can engage each other to ensure the benefit of Trinidad and Tobago. The Government is committed to the Tripartite approach and we trust that you are too and will demonstrate that by participating with a great sense of public service garnished with more than a thin glaze of self interest.

Finally, it is easy to become so caught up in the need to survive in times of economic difficulty that we treat our Corporate Social Responsibility in a casual manner.

Our fence line communities will need to adjust expectations of the operating companies but they cannot be ignored. Neither should we sacrifice the environment in the thrust to cope with our current condition since this will be the proverbial scorpion's tail that will sting us and deplete our pockets in the future.

Conclusion

Trinidad and Tobago is once more at the crossroads as we consider the actions required to preserve our energy interests going forward. We are concerned about supply and demand issues, since our energy security and economic security is at stake. We are a small state, heavily dependent on energy and until the economy is diversified our dependence remains. As a result the support and contribution of all stakeholders is imperative. In order to achieve this we must continue to develop our industry, encourage indigenous enterprise but with the objective of growing more world class firms. This means taking the long outward view.

My message is therefore that this is not the time to simply inquire as to what the Government is doing to extricate us from this predicament. The question is what are we all as nationals and stakeholders collectively prepared to do to extricate Trinidad and Tobago from this situation.

This is by no means an easy task, but pursue it we must. Our survival is hinged on this. We the members of the Government of Trinidad and Tobago are committed to this and we would like to count on all stakeholders to join us in this enterprise. Can we count on you?

I thank you very much for your attention and I wish you every success in your challenging endeavours.