

# HERITAGE & STABILISATION FUND BILL 2006

**RAYMOND GATCLIFFE, AMCHAM'S PRESIDENT, HAD A CONVERSATION WITH SENATOR THE HONOURABLE CONRAD ENILL AT HIS OFFICE ON THE 20TH FLOOR OF THE FINANCE BUILDING RECENTLY (MARCH 14TH 2007) ON THE HERITAGE AND STABILISATION FUND WHICH GOVERNMENT IS IN THE PROCESS OF LEGISLATING. THIS IS WHAT MINISTER ENILL HAD TO SAY:**



*It is in the country's interest to maintain and build the Fund as it "allows us to continue to be where we want to be".*

## **Q. Why did Government decide to establish the H&S Fund?**

During the last oil boom of the 1980's the country experienced a situation of sustained high prices and grew accustomed to a particular level of expenditure, when the oil prices fell and there was no longer the income to sustain that high level of expenditure, massive adjustments had to be made. The impact on the populace was high unemployment and a fall in the standard of living; Government exhausted its savings in an effort to stabilise the economy.

Taking a lesson from this experience, Government made a conscious decision to ensure that the mistakes of the past were not repeated. Minister Enill also noted that Government has taken the view that petroleum and natural gas are depleting resources and although it would take 50-60 years for this to occur, steps had to be taken to save for the future.

Based on a 15 year projection of the economy, Trinidad and Tobago will earn 1/6 of its revenue from petroleum and 5/6 from natural gas. The natural gas market operates differently to the petroleum market and has a long-term revenue stream which makes it more predictable and easier to plan for the future. It was therefore decided that a Fund should be established to save and invest surplus petroleum revenues (as defined in the Petroleum Taxes Act) derived from production business which would

- sustain public expenditure capacity during periods of revenue downturn
- and more importantly, generate savings and investment income derived from the depleting resource which would be the heritage for future generations of Trinidad and Tobago citizens.

## **Q. Governance of the Fund – How will the Fund be Governed and Operated?**

There will be a Board of Governors who will set the policy framework for the operation of the Fund. Specifically, the Board of Governors will determine the governance structure and operational and investment guidelines for the Fund in accordance with prudential standards e.g. the

Board can set the parameters for the investment of the Heritage Portion of the Fund as well as the rate of return on investments. Although the Board will be responsible for the management of the Fund, the Bill allows for the Central Bank of Trinidad and Tobago to be contracted as the executing agency for its day to day management. The Board will however retain oversight over the Fund, its operations and performance.

The Minister noted that according to Section 15 (1) of the Bill, the Board cannot withdraw more than 25% of the Fund's balance for stabilisation purposes. Currently, the Interim Revenue Stabilisation Fund stands at roughly TT\$8.6 billion, however as a consequence of Section 15 (3) of the Bill, which sets the minimum balance of the Fund at US\$1 billion, the current value of the heritage portion of the Fund effectively amounts to TT\$6.3 billion, with only TT\$2.3 billion available for Stabilisation purposes at this time.

Minister Enill also noted that there is a view that Parliament should be responsible for the management of the Fund, however, he expressed the opinion that this is not a job for Parliament. In the normal course of business, the Minister of Finance is responsible for the management of the economy and reports to Parliament. The same would obtain in the case of the Heritage and Stabilisation Fund with the Minister reporting on its operations and performance to Parliament.

## **Q. During the last oil boom there were as many as 22 Funds, what is the difference between the H&S Fund and those which came before?**

The Heritage & Stabilisation Fund is a capital asset which will be invested to provide a future stream of income which will replace the depleted physical asset (oil reserves). The Funds which were established previously were simply pools of money set aside for specific purposes or projects.

## **Q. What measures are there to ensure that the H&S Fund will not be depleted?**

The Heritage & Stabilisation Fund has been legislated, therefore to effect any change to the mechanism for withdrawals, the Government would have to go back to Parliament. The Funds of the past were not legislated.

Now one might say that the Government would always have the majority and so any request to change would be approved; however, there would be public discussion of the request and more importantly to deplete the Fund would be to negatively affect the country's international credit rating as the international financial markets have given us an A- rating because of the existence of this Fund.

It is in the country's interest to maintain and build the Fund as it "allows us to continue to be where we want to be".

## **Q. Recent comments by the Opposition Party about the present size of the Fund relative to the revenues of the Government over the period of its administration is woefully low. How do you respond to that position?**

Government has an objective to achieve developed nation status by 2020 and as such has committed to investments in various sectors such as education, health, social infrastructure etc. Investments in these areas have therefore been 'ramped up'. In addition, Government sheltered the national populace from the high petroleum prices through subsidised gas (TT\$1.2 billion annually) and has given back over TT\$6 million by reducing the marginal tax rate and increasing the personal allowance. These measures are impacting on the non energy deficit and have had the effect of

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redistributing the energy sector surpluses. That is to say we have chosen to develop the country with some of the surpluses but we have also prudently chosen to save some via the fund.

**Q. The Bill has set out a minimum limit of US\$1 billion, which represents the Heritage portion. Do you think that this is enough?**

I don't know what the rate of return of the Fund will be or whether the minimum balance will change when the Board of Governors is established, however, I wanted to set an absolute minimum balance below which it should never fall. The current proposed legislation does not prevent the Board of Governors from establishing a higher minimum.

**Q. When looking at production and prices of hydrocarbons and projections over the last year, would you say that Trinidad and Tobago is peaking in production?**

Government is developing alternative strategies for Trinidad and Tobago to be a processing point for natural gas from Latin America. Government is therefore looking into joint venture arrangements with countries that

do not have our expertise; "I do not think that we will ever find ourselves in a position where we cannot be either a producer or a processor" for example Venezuela will not be in a position to build enough plants to treat with their reserves." At this time, I do not foresee a problem as our evaluation shows that there will be oil reserves for the next 50-60 years.

In terms of price, I believe that oil prices will peak in the short term at around US\$100 per barrel then go down to around US\$60 in the medium term and bottom out at around US\$40 in the long term. The price of natural gas however will only continue to rise largely because U.S. demand is rapidly outstripping their production.

**Q. When will the Bill be proclaimed? And what will be your next steps?**

The Bill has already been passed in both the House of Representatives and the Senate and is waiting to be proclaimed as Law.

When the Bill becomes law, the first order of business will be the selection and establishment of the Board of Governors and the retirement of the Interim Revenue Stabilisation Fund. The Board will be given their mandate and asked to report on the operations of the Fund starting at the end of the first quarter of its operations. We expect to have the Fund fully operational well before the end of the fiscal year in September 2007. ■

You can view the entire text of the bill at [www.ttparliament.org/bill/house/2006/b2006h22.htm](http://www.ttparliament.org/bill/house/2006/b2006h22.htm)