Remarks by Senator the Honourable Larry Howai

Minister of Finance and the Economy

Trinidad and Tobago Energy Conference

Hyatt Regency, Port of Spain

29th January, 2013

The Road to Economic Recovery

Thank you Mr. Chairman.

Senator the Honourable Kevin Ramnarine, Minister of Energy and Energy Affairs;

Mr. Roger Packer, President of the Energy Chamber;

Dr. Thackwray Driver, CEO, Energy Chamber;

Distinguished members of staff of the Energy Chamber;

Specially invited guests;

Members of the media;

Good morning.

I am delighted to join you at the Energy Conference this morning and

I must begin by recognizing the Energy Chamber as one of Trinidad and Tobago's most important stakeholders and partners in the development and expansion of the sector. It is primarily through the Energy Chamber's initiative that today, we continue what has so far been an extremely rewarding collaboration and dialogue on the future of our energy sector.

I congratulate the Energy Chamber, and the various organizers and sponsors of the Energy Conference for convening such an informed and distinguished group representing Government, industry and academia for these two days.

I am also pleased to join in, what I am sure has been extremely valuable discourses on issues related to the energy sector, the economy, investment and competitiveness.

Today, my focus will be on the performance of the local economy and Government's plans for stimulating economic growth and diversification in the context of a global restructuring of the energy sector. In addition, as we begin the new calendar year, I will discuss some important issues pertaining to Government's medium term framework as part of a broader public policy agenda for job creation and economic development. However, I would like to preface this with some analysis of the economic situation locally and abroad, as we see it.

Though the global financial crisis is now behind us, and while the global economy has improved slightly since then, the already lethargic recovery faces new setbacks with uncertainty weighing heavily on growth prospects and overall confidence. The International Monetary Fund in its January update of the World Economic Outlook identified renewed strains in the Euro area, revising growth projections downward even in the face of progress in the policy response to the crisis and national adjustment reform. This remains the source of large downside risks to the global economy as a whole. Large emerging market economies are expected to grow, but will not rebound to the high rates achieved in 2010-2011. Fears persist that stagnant growth in advanced economies will place a further constraint on the highly externalized emerging nations and that we may be on the cusp of a long-term downshift in emerging market growth rates if this situation is not addressed.

While the 'fiscal cliff' issue in the United States has been avoided, uncertainty surrounding the debt ceiling as well as the threat of excessive fiscal consolidation can place a damper on the fledgling return to the growth path witnessed in 2011-2012. The United Nations published its World Economic Situations & Prospects report for 2013 in December which also indicated that growth in the world economy has weakened considerably in 2012 and may be on the brink of another downturn. The current pace of growth will be insufficient to meaningfully address the jobs crisis facing many economies, and policy action is required.

The Latin American and Caribbean region however, is estimated to have grown by 3.1 percent in 2012 according to the Economic Commission for Latin America and the Caribbean, and is expected to grow by 3.8 percent in 2013. This is mainly due to the recovery of the resource rich economies in the region, such as Guyana and Suriname and rising commodity prices. The countries without access to rich pools of natural resources have not fared as well. Some countries in the region therefore continues to maintain some degree of resilience despite being largely dependent on global economic trends while others continue to remain vulnerable to wider global downside risks.

Ladies and gentlemen, these are conditions within which we in Trinidad and Tobago must plan and execute policy. The local economy has shown resilience during the financial crisis, and the subsequent fragile global economic recovery. Government has focused in the short term on growth stimulation to bolster local economic activity following a period of negative or negligible growth during the period 2009 – 2011, CSO data suggests growth of just over 1 percent in 2012.

The turnaround has been mainly due to improved performance in the non-energy sector with growth being reflected in the Services sector mainly in Finance, Insurance and Real Estate services, Electricity and Water as well in Personal Services.

Manufacturing declined however, mainly due to the slowdown in assembly type operations as well as in Textiles, Garments and Footwear. On the other hand, there was a moderate gain in Food, Beverages and Tobacco and a relatively robust increase in Wood and other related products.

The challenges facing the Manufacturing sector have reflected the difficulties being experienced by our CARICOM neighbors who have seen declines in earnings from the Tourism industry stemming from the global financial crisis and the effects of the CL Financial meltdown which has continued to have negative ripple effects on their economies.

For Trinidad & Tobago, preliminary data for the first half of 2012 showed that the Current Account surplus increased and this improvement is projected to have continued to the end of the year.

Consequently, the economic and financial buffers of the country remain strong and resilient. Foreign exchange reserves remain healthy and the Heritage and Stabilization Fund continues to grow, ending the year at US$4.7Bn.

Unemployment remains reasonably controlled at just over 5% notwithstanding the marginal increase in the labor force by 0.3% early in 2012 and the increase in the participation rate which is estimated to have grown marginally from 61.7% to 61.8%.

The year on year growth in Private Sector credit at the end of October 2012 was good, measuring 7.1% and inflation has showed signs of improving.

At the end of the year, both Standard & Poor's and Moody's reaffirmed the country's international credit ratings.

While the performance has been good, it is imperative that the Government of Trinidad and Tobago remains focused on stimulating a sustainable economic growth momentum, which is an essential component of Government's fiscal framework over the medium term. This framework also focuses on:

1. Achieving a balanced budget by 2016;
2. Restraining the rate of growth of transfers and subsidies by using a more targeted approach;

3. Attracting investment; and
4. Adopting more value driven approaches for the use of our energy revenues which include considerations for local content, current and new markets and economic diversification.

Trinidad and Tobago's low debt-to-GDP levels, strong foreign reserves position, and well-capitalized banking system has provided the Government some fiscal space within which to operate. Government therefore took the deliberate policy decision to operate with a deficit budget this year. This is designed to provide the needed stimulus after successive periods of sluggish economic activity, with fiscal consolidation over the medium-term. It is my firm view that an attempt to achieve a balanced budget in a shorter time frame would risk de-stabilizing the incipient economic recovery that is projected to have occurred in 2012. However, across the advanced economies, the process of repairing public and private balance sheets has already begun, and this debt reduction focus is restraining the global economic recovery. Therein is the challenge - fiscal policy has to strike the most optimal balance between supporting the fragile economic recovery and rebuilding fiscal space over the long term via fiscal consolidation.

In order for Government's growth stimulation initiatives to be successful, an enabling environment for the private sector is critical. Government, as the enabler of growth will continue to remain committed to providing a sound macroeconomic, legal and regulatory framework that is conducive to business development; and support the private sector with improvements in infrastructure and accessibility to finance. These enablers facilitate the private sector as one of the engines of growth in the economy so that it can make a meaningful impact on the structural characteristics of the economy. Some priority areas therefore include:

1. Improving the ease with which stakeholders in the energy and non-energy sectors can conduct their business,
2. Ensuring that Trinidad and Tobago remains an attractive investment destination, and
3. Strengthening business activity in traditional and non-traditional markets.

My colleague, Minister Bharath, has confirmed that his goal this year is to reduce the number of days it takes to establish a business here from 43 days to 3 days and the number of days it takes to clear a shipment from 19 days to

3 days also. As a consequence certain legislative amendments were passed in the Lower House last night.

While seeking to establish an enabling environment to support growth, competitiveness and innovation, Government has committed $7.5 billion or 4.5 percent of this country's GDP to the Public Sector Investment Programme ("PSIP) this year. The PSIP is intended to provide the avenue within which the Government will accelerate public infrastructure, and enable us to translate our vision into distinct, identifiable investment projects necessary to fill our infrastructure gap, and stimulate the economy in this fiscal year and beyond.

To complement the Public Sector Investment Programme is the thrust towards Public Private Partnerships aimed at redefining the way in which public services are delivered and managed, and strengthening the role of the private sector in local development. As you are aware, Public Private Partnerships have become an attractive option to improve project delivery by tapping the expertise and efficiency of the private sector, and mobilizing private capital to work in partnership with Government to speed up the delivery of infrastructure and services. Last year, the Government implemented an institutional mechanism to manage the Public Private Partnerships mechanism, and is now engaging in consultations with major national stakeholders, including the Chambers of Commerce, and the Energy Chamber to ensure effective participation in the programme.

As the mainstay of the local economy, the energy sector contributes more than 40 percent of GDP, and approximately 70 percent of foreign exchange earnings. It has driven modernization and has underpinned our nation's prosperity and standard of living and it will continue to do so for the foreseeable future. However, the domestic energy sector continues to face several challenges, both from the local and global environment and this has affected its growth and level of competitiveness. Some of these challenges include:

1. Declining crude oil production;
2. The maturity of several producing fields;
3. Exploration activities yielding increasing quantities of dry natural gas and less condensate;
4. A stagnant to declining level of resources and low level of investment in exploitation activity over the period 2005-2010.

5. Upstream and downstream contracts coming due for renewal.
6. The increasing cost associated with new finds
7. The revolutionary growth of oil and gas exploration in shale which has attracted, and continues to attract substantial investment by oil and gas companies in the United States of America, China and other countries, thereby reducing the potential investment pool to conventional oil and gas projects; and
8. Discoveries of vast resources of oil and gas in East Africa and Brazil, and the opening of new basins, which will lead to a shift in the balance between exporting and importing countries, thereby creating a more competitive marketplace.

To address these challenges, we shall have to redefine the way we do business. Some of the issues we have to address include:

- The current design of our business model and the role which our state enterprises play in the energy sector.
- The creation of a swing producer to smooth the delivery challenge in the gas sector.
- The range of activities in which our state enterprises should be involved; for example, how proactive should our equity investment strategy in both the upstream and downstream sectors be?
- The internationalization of the investment strategy of our state enterprises, transforming them into global players.

- The fiscal regime that we employ to attract investment.

The energy sector will undoubtedly retain the highest potential to induce growth in our economy for a long time. In order to ensure that this potential is realized, we need to adopt policies and measures that will assure that Trinidad and Tobago remains a preferred destination for investment. It is in this context that we have proposed several initiatives in the National Budget 2013 to attract and retain investment in the local energy sector. These initiatives will:

1. Facilitate increased investment by companies in the maturing basins, and assist in further development of fields in which there is associated gas.

2. Enhance the economics of field development of small pools,

3. Spur development of inactive fields, not yet in production;

4. Ultimately, increase the competitiveness of the fiscal regime; and

5. Encourage operators to explore and develop fields in deeper horizons in both land and shallow water areas.

We expect that these incentives which were approved in the Lower House last night will spur an increase in foreign investment and provide an environment in which investing firms can derive competitive levels of returns. Already we have seen the results of this as the feedback we have from the various energy companies was expected to be in the region of US$3 billion. I was especially pleased to hear that BP alone expects to invest US$6 billion in our upstream sector in the next 5 years.

Our long term goals are to expand the reserve base to develop a number of manufacturing companies further down the gas value chain that would give us greater value added for each molecule of gas utilized and which would generate more employment for each dollar invested.

Our reserve base is pivotal if we are to generate downstream activity, and a poorly executed 2006 Competitive Bid round where eight blocks were offered and only one, bid was received, unfortunately constrained our base of production. Nevertheless, our strategy to attract investment has been adjusted by allowing greater access to block data, by aggressively promoting our energy sector internationally and by increasing the cost recovery ceiling. The result of these changes was evident in our recent successful deep-water bid round in 2012, with twelve offers being received on five of the six blocks on offer. To further capitalize on the approach spearheaded in the 2012 Bid Round, the Ministry of Energy & Energy Industries is about to embark on another Bid Round for Shallow/Average and Deepwater Blocks in 2013 and is currently in the process of block nomination. The investments generated from these bids could also lead to a smoothing of production in downstream energy sector, as uncertainty about natural gas reserves especially, also placed a constraint on FDI potential into the sector in recent years. We are confident that the potential for expansion of our reserve base resulting from this successful bid round will send the signal to investors that there is still much to be gained from operating in the Trinidad & Tobago downstream energy sector.

Furthermore, the fiscal incentives open up our economy to ideas and processes that are on the technological frontier of deep-water production. This increases the space for locals to participate in cutting-edge engineering and business undertakings. The regime is also intended to increase the long term capacity of the energy sector by allowing production from reserves previously considered uneconomic to exploit. These factors will combine to ensure the smoothing of volatility normally associated with energy economies, keeping our revenue flows secure while the push for economic transformation in the non-energy sector continues.

Ladies and Gentlemen, other opportunities for growth exist within the scope of the energy sector as well. The midstream sector, which I have not really touched on, also faces several challenges, not least of which is the age of its infrastructure. There is urgent need for new investment and aggressive maintenance programmes, which, even if they are not part of new incentives in the upcoming Budget later this year, will certainly be part of our deliberations leading up to the Budget.

Finally, the downstream industry sector on which most of our prosperity of the last decade has been built, will require significant rethinking. I have enumerated the challenges we face here and some of our goals but have not really addressed the initiatives to move the sector forward. This is partially because the initial building of robust upstream activity which is critical if we are to address our reserves position which has been a major inhibitor for new investment in the sector. Given the gestation period for these investments, it is important that we created this focus now. It is unfortunate that this activity was not undertaken ten years ago.

However, by adjusting our approach, we expect to see some success as with the proposed Mitsubishi/Neal and Massy/TDC new DME plant which we expect to see break ground early next year.

As with upstream activity, the Ministry of Energy and Energy Affairs has begun to engage in vigorous marketing to identify new possibilities in this area.

Finally, the debate on Compressed Natural Gas ("CNG") as a fuel for motor vehicles has been a long one, and its speed of implementation is not as initially expected. The transition to CNG by motorists and fleet owners have been constrained by several factors such as an inadequate refueling experience, the requirement for frequent refueling and the substantial disincentive from the fuel subsidies.

We have developed a business plan for the more aggressive roll out of a CNG programme over the next five years. Furthermore, it must be understood that in order to facilitate this change, the fuel subsidy must be continually and gradually reduced. This type of institutional inefficiency has served to incentivize waste and inefficiency, and it must be understood that if we are to hinge our national prosperity on events other than energy windfalls, our behaviors must change. CNG convertibility is part of this thrust.

Ladies and Gentlemen, in closing there are many challenges facing our energy sector but the important message is that we are alive to them and proactively evaluating the options. We are fortunate that we have the human capital to meet these challenges head on. Our past successes indicate that we have the capacity and resilience to execute new strategies that would create future success in the new dynamic global energy environment that is emerging.

It is clear that we have to do things differently. We have to become disciplined and focused once again but I have no doubt that we can do it.

I thank you.