Government of the Republic of Trinidad and Tobago

MINISTRY OF FINANCE

Statement

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Minister of Finance

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Adjustment to Fuel Prices

Madame Speaker, I am authorised by the Cabinet to make this statement on fuel prices.

At the time that the 2022 Budget Estimates were finalised in September 2021, the price of oil was just over US$70 per barrel. This price subsequently dropped to $65 per barrel at the end of November 2021.

Accordingly, using forecasts from international agencies such as the World Bank, IMF, the credit rating agencies, the USEIA, and data from the MEEI, the 2022 Budget was based on an estimated oil price of $65 per barrel and an estimated natural gas netback price of US$3.75 per MMBTU. It is to be noted that a netback price is not an actual price in the gas market and is calculated by deducting from the estimated LNG export price, the costs associated with producing and shipping LNG.

However, global concerns arose in the first quarter of calendar 2022 about disruptions in the supply of oil arising from the war in Ukraine and the associated international sanctions on Russia. It is noteworthy that Russia normally produces 11% (10.5 million barrels per day) of world oil production.

In addition to the fallout from the war, there were climatic and global economic factors that pre-dated the conflict in the Ukraine. As a result of the combination of these factors, Brent oil prices averaged US$97 per barrel in February 2022 and US$106 per barrel in March 2022, increasing by over 60% from US$65 per barrel at the end of December 2021.

It should also be noted that oil and gas production levels, although increasing, are somewhat below the levels estimated by the MEEI in

September 2021, for the calculation of revenue from petroleum in the 2022 Budget.

Any increases in revenue from petroleum as a result of higher than expected oil and gas prices, therefore, will be offset by shortfalls in oil and gas production. However, at this time, all things being equal, it is expected that the net effect of increased oil and gas prices and reduced production in fiscal 2022 will be positive.

By contrast, the situation is not favourable on the expenditure side. One of the adverse effects of the current low levels of oil production and high oil prices is an increase in the fuel subsidy, which must be paid out of tax revenue. The prices of motor fuels, i.e. premium gasoline, super gasoline, diesel and kerosene are all affected by the price of oil, and the price of cooking gas (LPG) is affected by the price of natural gas. At current commodity prices, contrary to persistent misinformation from some quarters, all of these fuels are still heavily subsidised, even as we have already reduced the levels somewhat, at an earlier time. The highest subsidy levels are on LPG and kerosene at this time but there remains substantial subsidy on fuels used in transportation.

By way of example, if unsubsidized, the retail prices of premium gasoline should vary from $6.18 per litre at an oil price of US$80 per barrel to $7.58 per litre at an oil price of US$100 per barrel. Similarly, using the same range of oil prices, the unsubsidised prices of super gasoline vary from $6.09 per litre to $7.46 per litre. Unsubsidised diesel prices vary from $5.35 per litre at an oil price of US$80 per barrel to $6.58 per litre at an oil price of US$100 per barrel

The current retail prices of motor fuels in Trinidad and Tobago per litre are as follows

Premium Gasoline	Super Gasoline	Kerosene	Diesel
$5.75	$4.97	$1.50	$3.41

However, to keep fuel prices at these levels requires a substantial amount of government subsidy. This to be obtained from general tax revenues or loans.

It should also be noted that motorists in Trinidad and Tobago consumed in excess of 1 billion litres of fuel in 2019, and more in prior years, before the arrival of the Covid-19 virus, dropping to 950 million litres in 2020 and 2021. However, as the economy continues to open up, it is expected that fuel consumption will once again cross 1 billion litres per year.

Accordingly, the fuel subsidy liability for the Government, i.e. the money that must be found from general tax revenues to subsidize the 1 billion litres of fuel consumed annually in Trinidad and Tobago varies from **$922 million** at an oil price of US$80 per barrel to **$1.94 billion** at an oil price of US$100 per barrel.

The Ministry of Finance has been reviewing this situation for the last two months, as oil prices began to accelerate with the conflict in Ukraine. In order to determine a reasonable estimate of the price of oil going forward in 2022, the Ministry of Finance has looked at a number of published forecasts made by reputable international agencies, including the US Energy Information Administration (USEIA), International Energy Agency (IEA), IMF, World Bank and the Credit Rating Agencies among others. Among these, the USEIA is considered to be one of the most reliable and its March 2022 short term energy outlook, the USEIA raised its calendar year 2022 Brent spot price forecast, up from its February outlook by more than US$22 per barrel, to US$105 per barrel.

In its latest outlook, the USEIA highlighted that Brent crude oil spot prices averaged US$97 per barrel in February 2022, which the organization outlined was an US$11 per barrel increase from January. The USEIA noted that daily spot prices for Brent closed at almost US$124 per barrel in the first week of March as the further invasion of Ukraine by Russia and subsequent sanctions on Russia, and other actions, created “significant” market uncertainties about the potential for oil supply disruptions.

Based on all useable, available information and advice, therefore, the Ministry of Finance is of the view that it is reasonable to estimate that oil prices will average **US$95** per barrel in fiscal 2022.

At US$95 per barrel, the total fuel subsidy cost to be paid will be $**2,122,350,212 ($2.12B),** with a direct Government subsidy liability of **$1,686,668,041 ($1.69B) .**

It should be noted that the direct cost to Government of this **$2.12B** fuel subsidy will be reduced by the application of the Petroleum Production Levy, which is a levy payable under section 9(1) of the Petroleum Production and Subsidy Act by producers of oil in Trinidad and Tobago. This Act was enacted in 1974, when world oil prices first began to escalate, and requires oil companies operating in Trinidad and Tobago to contribute to the subsidization of the prices at the pump for motor fuels in the event of high oil prices. At an oil price of **US$95 per barrel**, the levy collected from the oil companies would be **$435,682,170** making the actual fuel subsidy liability that the Government has to pay from its general tax revenues in fiscal 2022 a total of **$1,686,668,041 ($1.69B)**

This level of fuel subsidy is unbudgeted and unsustainable. The expected fuel subsidy liability for Government in fiscal 2022, after taking account of the petroleum production levy, at the budgeted oil price of **US$65** per barrel was $**216,632,514.** However**,** the unexpected rapid increase in oil prices has created an additional unbudgeted fuel subsidy expense in 2022 for the Government of **$1,470,035,527 ($1.47B),** if no adjustments are made.

In the 2022 Budget Statement, the Government signalled that the liberalisation of fuel prices was planned for 2022 utilising a process whereby the Ministry of Energy and Energy Industries would post the market-based wholesale prices of premium gasoline, super gasoline and diesel on the first day of each month, with, however, a continued subsidy on diesel. We also said at that time in October 2021 that LPG will remain under the subsidy mechanism for the time being. This process of liberalisation of fuel prices was scheduled to commence in February to March 2022. However, in October 2021, it was not expected, anywhere, that oil prices would increase by over 60% in 5 months.

Members should also note that unlike in Trinidad and Tobago, the prices of gasoline with various octane levels in other countries are close to each other, and in Europe, diesel is almost the same price as gasoline. In Italy for example, because motor fuels are viewed as a source of tax revenue, and thus fairly highly taxed, the cost of diesel at the pump on April 4, 2022 was **EUR1.83/litre** or the equivalent of **TT$13.67/litre**, or 4 times the price of this fuel in Trinidad and Tobago, while gasoline retailed at virtually the same price. Indeed, Trinidad and Tobago is one of the few countries in the world with artificial differentials between the price of premium gas, super gas and diesel.

Further, within the Caribbean, the price of fuel is far higher than in Trinidad and Tobago. In Barbados, for example, the price of gasoline was raised on April 3, 2022 to **US$2.07/litre** or **TT$14.07/litre** and the price of diesel in Barbados was raised to **US$1.72/litre** or **TT$10.32/litre**, completely invalidating recent advice from the OWTU that we should follow Barbados in its approach to the price of fuel. Clearly, it was not appreciated that in addition to pricing fuel at levels **that are more than twice** those in Trinidad and Tobago, Barbados had little choice but to adjust the price of fuel upwards when the price of oil increased again. This they immediately did.

In Jamaica, the price of gasoline on April 4, 2022 was **US$1.53/litre** or **TT$10.40/litre** and members should note that the average price of gasoline in the world on April 4, 2022 was **US$1.36/litre** or **TT$9.25/litre**

There are many competing demands for scarce resources in Trinidad and Tobago at this time, and the Government is of the view that it is not productive, equitable or prudent to spend an unbudgeted **$1.69 billion** or **$1.47B** more than planned, subsidizing fuel in 2022. This money could be far better utilised in the social services sector, in the health sector, in our capital development programme, on VAT refunds and on clearing off unpaid bills owed to contractors and suppliers of goods and services, just to name a few areas.

However, the Government is cognisant of the effect of an increase in the price of fuel on consumers, notwithstanding the fact that a fuel subsidy is a regressive measure. Accordingly, the Government is of the view that the liability for any fuel price adjustment should be shared more or less equally, i.e. the public should be asked to pay half the cost of the increased market prices of fuel, while the Government absorbs the other half of the increased cost.

Therefore, at its regular meeting yesterday, the Cabinet decided that there should be a partial adjustment of the prices of motor fuels, not to the full market prices, but sufficient to allow an equal distribution of the cost.

The adjusted prices for motor fuels will therefore be as follows:

The prices of premium gasoline and super gasoline will be adjusted by $1.00 per litre to **$6.75** and **$5.97** per litre respectively, while the price of diesel will be adjusted by 50 cents per litre to **$3.91** per litre. It should be noted that the adjustment to the price of diesel at 50 cents per litre is half of the increase in the price of gasoline, in recognition of the fact that diesel fuel is widely used in public transportation and in the transportation of goods

The cost of LPG will remain fixed at **$21.00** for a 20 lb cylinder of cooking gas for domestic customers, which is less than 25% of the true market price and the Ministry of Energy and Energy Industries has been tasked to look at an appropriate price of LPG for commercial customers.

The price of kerosene will be adjusted to **$3.50** per litre which is little over half the true market price.

It must be emphasised that these price adjustments will still require a Government subsidy of approximately **$840 million** in 2022, or half of the total cost of the true market prices of fuel, thus sharing the burden of adjustment more or less equally with the population.

It should also be noted that at these prices, fuel prices in Trinidad and Tobago will still be **less than half** the fuel prices in Barbados and **less than two-thirds** of the fuel prices in Jamaica. Further, in the Eastern Caribbean, the current price of gasoline is **TT$8.30** per litre

The Cabinet has also agreed that the price increases will take effect on Tuesday **April 19, 2022**

Before I close, Madame Speaker, I wish to point out that we in Trinidad and Tobago consume far more fuel per capita than other countries in the Caribbean. For example, using 2018 data, the average consumption of gasoline per capita in Jamaica is of the order of 175 litres per year, whereas in Trinidad and Tobago we consume 445 litres per year in gasoline, more than twice as much per person than in Jamaica.
Similarly, Barbados consumes 343 litres per capita per year in gasoline, 102 litres per capita less than Trinidad and Tobago, while Guyana only consumes 139 litres per capita per year in gasoline, less than one third of the Trinidad and Tobago consumption per capita. There is no doubt, therefore, that the heavily subsidized prices of fuel in Trinidad and Tobago are a contributory factor to this pattern of high fuel consumption.

As the price of oil escalates, therefore, we must strive to change our approach to fuel consumption.

Accordingly, I wish to report that the Cabinet also agreed yesterday that in order to encourage motorists to conserve fuel, and to alleviate the effect of the increased prices of fuel on our citizens, the Ministry of Finance has been authorized to make, in or around the middle of May 2022, the necessary arrangements to allow for the **waiver of taxes and customs duty on suitably sized imported hybrid motor cars, both new and used**. These tax concessions will be designed to cater for typical car owners and will not be available for owners or importers of high-end luxury hybrid cars.

For example, a typical hybrid car that will fall into this new category of tax exemption would have an engine size not exceeding 1600 cc, an electric motor generating 45 kW, a total power output in the vicinity of 78 kW and would not be more than 3 years old. Further details of the exempt category of vehicles will be announced in due course.

It would also be remiss of me, Madame Speaker, not to address a fallacy that has been promoted and repeated in the public domain regarding the effect of the Point a Pierre Refinery on fuel prices and on the fuel subsidy.

In this context, it is necessary to remind commentators that in 2014, when the Refinery was in **full operation**, the fuel subsidy liability to the Government in that year was **$7 billion dollars**. That is what it cost taxpayers of this country to maintain fuel prices at subsidized levels in 2014. $7 billion dollars! Over a three year period this country spent $16 billion on fuel subsidy whilst the then government flatly refused to make any adjustments to this travesty simply because to do so would have been to expose the then government to the anticipated criticism for taking any action like this. Madam Speaker there was never a worse example of putting office and party before and above the national interest.

Further, before its closure, the daily throughput of crude oil through the Refinery was of the order of 140,000 barrel per day, while Petrotrin's production from all its fields was barely 40,000 barrels a day. This meant that every day that the Refinery operated, it was required to purchase 100,000 barrels of imported oil at world market prices, which at today's prices would require foreign exchange of **US$10 million per day** to purchase oil.

Moreover, it is matter of public record, as reported by the broad-based Team appointed in 2017 to Review the Operations of Petrotrin and make Recommendations for its Restructuring, that between 2012 and 2016, the Refinery lost up to **US$15** on each barrel of oil that it processed, with consistently negative refinery margins. Using an average loss of US$8 per barrel of oil processed during this period, this meant that the Refinery lost over **U$1 million per day** in its operations. If the Refinery were still operating, therefore, not only would there be a huge billion-dollar fuel subsidy liability to contend with, but there would be leakage of

US$1 million in foreign exchange per day and a requirement for Petrotrin to find **US$10 million** a day to purchase oil. This is what we evaded by the closure of the refining business through the restructuring of Petrotrin. These are undisputable facts Madam Speaker.

Instead, Heritage Petroleum is now selling its oil at premium prices and earning valuable foreign exchange. I trust these facts correct the misconceptions being propagated in the public domain about this issue by self-interested or deliberately misinformed individuals.

I thank you Madame Speaker.