Feature Address By

Senator, the Honourable Larry Howai

Minister of Finance and the Economy

at the

Trinidad and Tobago Energy Conference

On The Topic:

"State of the Trinidad and Tobago Economy"

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9:25 A.M. – 9:45 A.M.

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Thank you 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.

It is indeed a pleasure to be invited once again to share some remarks with you on the state of the Trinidad and Tobago Economy.

Let me first thank and congratulate the Energy Chamber and the various organizations and sponsors of this most important two-day conference for convening this meeting of some of the best minds in and out of the industry, who represent Government, industry and academia.

My presentation today will focus on the performance of the local economy in the context of global challenges in the energy industry and Government's response to these headwinds along with the fiscal measures that have led to the resurgence in exploration over the last three years.

Economic Overview

International Economy

When last we met we were faced with less headwinds and challenges in the international energy markets. These new developments have a direct impact on the Economy of Trinidad and Tobago.

On the international front, the International Monetary Fund (IMF) recently forecasted global growth for 2015, in the vicinity of 3.8 percent. This forecast is driven by anticipated growth among emerging market economies; and mixed results among developed economies. However the situation is very dynamic and I think the sentiment was best captured by the statement made at the recently concluded Davos meeting that 2015 will be a 'sink or swim' year. Nothing underlines this more than yesterday's Greek election.

Recent reports indicate that the United States, the world's largest economy expanded at an annualized rate of 3.9 percent during the third quarter of 2014. Buoyed by increased consumer and industry spending, this outcome marked the continued recovery of the US economy and contributed to the strongest 6-month growth recorded in the last decade.

Similarly, during the third quarter of 2014, the UK economy grew by 0.7 percent (annualized to 2.8 percent), whilst the Euro-area marginally expanded by 0.2 percent.

However, Japan, the world’s third largest economy contracted at an annualized rate of 1.6 percent – its second straight quarterly decline.

For the more notable emerging economies, among the BRICs nations, India experienced an annualized expansion of 5.3 percent during the third quarter of 2014, whilst the Brazilian economy grew at an annualized rate of 0.3 percent. The world’s second largest economy, China, also grew during the same period - registering a growth rate of 7.3 percent. It is noteworthy that recent estimates have indicated that China is now saving $200 billion a year as a result of lower oil prices and this may give further boost to that economy.

In general, though ,the outlook for the global economy is being challenged by downside risks arising from the disappointing economic results in the European Union, with only marginal growth at best amidst fears of deflation;

the continued slowdown in China from the double digit growth rates achieved in the recent past; a Japanese economy in recession; geo-political tensions in eastern Europe and the Middle East; and the ongoing threat of a further global spread of Ebola, and of course the recent turbulence in the price of oil.

Regarding this latter matter of the price of oil, it is clear that there has been a structural shift as a result of new technology. The challenges posed by geopolitics have always been there and will continue. It appears though, that prices may have overshot their equilibrium position and will show some gradual increases in coming months, particularly given the fact that current prices are insufficient to boost future investment in the industry. The timing of price recovery however, remains uncertain.

Regional Economy

Looking at the Caribbean region, it must be noted that Trinidad and Tobago's trading relationship with the rest of the Caribbean is an important contributor to the success of our manufacturing and financial sectors. As such, these sectors are exposed to the risk of negative shifts in market demand arising from declines in the economic performance of our Caribbean neighbors. Should the local economy slow next year as a result of the fall in energy prices and lower government revenues, this could present challenges for our manufacturing sector and our budget measures for next year will have to pay close attention to the factors that would help our manufacturers to become more globally competitive.

According to IMF estimates, tourism dependent economies in the region were expected to expand overall by 1.1 percent in 2014 and 1.7 percent in 2015. These expansions are slightly larger than their 0.9 percent expansion recorded in 2013, but still fall below expectations given the increased visitor arrivals from the United States and the United Kingdom whose economies continue to improve. Ongoing challenges to future growth are primarily in the areas of poor international competitiveness and weakening fiscal positions.

The region's commodity export-based economies are expected to perform more strongly than their tourism based counterparts. GDP growth in 2014 was estimated to average 2.7 percent and was originally expected to strengthen to 3.0 percent in 2015. Lower commodity prices and difficulties in achieving sustained growth in non-commodity sectors will impact our original projections for 2015.

Our overall projection for the region next year will be for a lower level of growth and continuing fiscal challenges especially for the tourism dependent countries.

Local Economy

On the domestic front, last year Trinidad and Tobago's real GDP continued its recovery path, with the Central Statistical Office in September 2014 projecting an estimated growth rate of 1.9 percent in 2014. By December 2014 however, the Central Bank of Trinidad and Tobago estimated real growth for calendar 2014 at 0.5 percent, due to a weaker than expected performance in the energy sector.

In recent years the non-energy sector has exhibited vibrant growth, the Central Statistical Office estimated real economic growth of 2.5 percent for the sector in 2014. The Central Bank has also estimated that non-energy growth in 2014 would have strengthened to 3.0 percent.

In contrast to the non-energy sector, growth in our energy sector has under-performed in recent years. Notably, this sector typically accounts for over 80 percent of domestic exports, almost half of government earnings, and approximately 40 percent of national income.

The Central Statistical Office had orginally projected growth of 1.0 percent for this sector in 2014. Based on more recent data, the Central Bank has however estimated that the energy sector contracted by just over 2 percent in 2014, due to continued disruptions to natural gas supply and LNG production; on account of upgrade and maintenance work in both upstream and downstream facilities.

These will outweigh the stabilization in crude production that has been achieved. The Bank expects natural gas production to recover in 2015 in support of economic growth.

The quarterly unemployment rate in Trinidad and Tobago has remained below 5.0 percent since the first quarter 2011, and reached a low of 3.8 percent during the fourth quarter of 2013. According to the latest available data, the unemployment rate has further declined to an all-time low of 3.1 percent in the first quarter of calendar 2014. This may be an indication that the economy has hit full capacity which can challenge future growth assumptions and inflation.

With respect to prices, Trinidad and Tobago has managed to keep the inflation rate within single digits since August 2012. However, an expected increase in the US policy interest rate, and a recent rise in the general price level, has prompted the Central Bank of Trinidad and Tobago to recently announce its second consecutive increase in the repo rate, which now stands at 3.25 percent. Our expectation is for continued rate increases in the next year as the US begins to roll back on the Quantitative easing strategy of the last four year.

Net Public Sector Debt as a percentage of GDP remains at moderate levels, and is expected to increase to about 45 percent of GDP in 2015, which is still within the frame of similar rated economies. External debt as a percentage of GDP rose to 10.0 percent in 2014 from 7.3 percent in 2013 and is expected to increase moderately to 11 percent in 2015, still well within manageable parameters.

The Balance of Payments registered a surplus of US$318.2 million during the first six months of calendar 2014, a notable improvement on the US$195 million surplus recorded during the similar 2013 period. This surplus reflects the positive expansion in the capital and financial account which recorded a surplus of US$166.4 million, a marked turnaround on the deficit of US$770.4 million which was recorded in the first half of 2013. In contrast, the current account registered a reduced surplus of US$151.8 million when compared to one year earlier, reflecting a reduced merchandise trade balance on account of lower hydrocarbon production, and greater net investment income outflows.

Trinidad and Tobago's Official foreign reserves rose from US$8.9 billion in 2009 to a record high of US$11.6 billion as at December 31, 2014, representing over 13 months of import cover. In addition, the Net Asset Value of the Heritage and Stabilization Fund totaled US$5.5 billion as at September 30, 2014.

In December 2014 Standard and Poor's reaffirmed Trinidad and Tobago's credit rating as "A", with a stable outlook for the economy. The continued affirmation of Trinidad and

Tobago's ratings was once again supported by the country's favorable net asset position, low external vulnerability, stable political system, prudent macroeconomic policies, and favourable debt profile.

Resurgence in domestic oil and gas exploration

Ladies and gentlemen on coming into office, this Government recognized that the development of the upstream energy sector had suffered from years of neglect which had contributed to declining reserves as confirmed by several oil and gas audits. To address this problem, we have sought to develop a working partnership with the energy industry and have progressively upgraded the oil and gas tax regime over the last 4 years.

Investment spending is now taking place in a transparent regulatory framework, including a simplified competitive bidding process.

We have made appropriate changes to the fiscal regime for oil and gas to be internationally competitive in attracting foreign capital investment, which has led to a resurgence in the domestic energy sector.

Some of these fiscal measures include:

- A reduction of the Petroleum Profits Tax of 35 percent in respect of profits for deep water blocks, bringing the tax rate in Trinidad and Tobago in line with competing jurisdictions.
- A revision of the Supplemental Petroleum Tax regime by the introduction of base rates and a sliding scale mechanism for both marine and land operations.
- The implementation of sustainability incentives for mature marine and small marine oil fields. These incentives provide for a reduction of 20 percent on Supplemental Petroleum Tax rates for mature and small marine oil fields.
- The implementation of an investment tax credit of 20 percent in respect of the Supplemental Petroleum Tax for mature land and marine oil fields.

With these improvements of our energy tax regime, much more in-depth seismic data and an aggressive marketing programme we've managed to conclude our most successful deep-water bid round in 2013 when there were twelve (12) bids for five of the blocks on offer.

The results of Government's changes to the fiscal regime are indeed impressive:

- Investment has been expanding. This includes the recently announced US$2.1 billion Juniper Project, the main component of which will be the fabrication of the Juniper Platform in the LABIDCO Industrial Estate with the creation of 300 jobs thereby initiating the revitalization of economic activity in the south-west peninsula.
- Twelve (12) production sharing contracts have been signed over the last four (4) years. Under the new

model the Government has included various options for the marketing of its share of the natural gas.

- Five (5) new discoveries of natural gas or oil in the last two (2) years have been made, including:
    i. Trinity in the East Galeota block with 27.0 million barrels of oil;
    ii. Petrotrin in Trinmar's cluster 6 with 48.0 million barrels of oil;
    iii. bpTT in its Savonette-4 well with 1.0 trillion cubic feet of natural gas;
    iv. Trinity in its TGAL 1 well with 26.0 million barrels; and
    v. REPSOL in its Teak Bravo North well with 40.0 million barrels of oil.
- In addition a further 2 deep water production sharing contracts are about to be signed and 3 on-shore

licences are about to be issued, the first in many decades.

- Drilling activitity which is reflective of greater activity in the upstream sector is increasing. In 2010, the number of rig days was 1,132 and in 2013 rig days totaled 2,485.

At least 53 exploration wells will be drilled over the next 8 years based on:

1) the exciting new seismic data coming to hand,

2) the incentives now in place and

3) the contractual obligation of the companies.

We are witnessing a marked increase in drilling activity, a significant increase in foreign and domestic direct investment, discoveries of new reserves of oil and natural gas and the stabilization of oil production. We expect that, starting in 2017, we shall see improved results arising out of the audits of our oil and gas reserves.

The proposed US$850.0 million Mitsubishi-Massy Methanol to Di-Methyl Ether plant is in an advanced stage of technical conceptualization. The plant will produce methanol from natural gas and, thereafter, go further downstream to di-methyl ether which can be used as a replacement for both propane and diesel.

These investment decisions are areas where we can exert some level of control. The hard truth is that we, Trinidad and Tobago, operate in a globalized energy industry, and we are a small player in the grand scheme of things. This being the case, we have neither direct control over the price of oil, gas and petrochemicals on the global market, nor indirect control of the geopolitical maneuverings that have resulted in the recent free fall of the price of oil and more recently gas and petrochemicals.

Where do we go from here? As you are aware, we have commenced preparation of a Gas Master Plan. This will be a key input into the development of an insightful and decisive approach to the continued development and expansion of our energy sector.

Decline in Crude Oil Prices

The price of a barrel of West Texas Intermediate Crude has fallen by more than 50 percent over the past seven months, and in the order of 25 percent over the past 30 days. The prices for natural gas and other petrochemical products have also begun to follow this declining trend.

This trajectory in oil prices has been brought about by a convergence of several factors affecting the supply/demand balance in the oil markets, as the world witnesses a major structural change in the configuration of the international petroleum market.

Primary among these factors are the impact of the significant increase in the production of oil and gas in the United States, concomitant with the lower demand for oil arising from the slowdown in global economic growth. The downward pressure on prices climaxed on November 27th 2014 with the decision by OPEC to maintain its production quotas, rather than reduce it.

OPEC's approach to dealing with the oversupply of oil has been a case of 'the devil takes the hindmost'. Their decision to maintain production quotas has resulted in a free fall of oil prices designed to squeeze out high cost producers, more so the shale oil producers in the US. This strategy on the part of OPEC has sent ripples throughout the global economy impacting both oil and non-oil producers.

A major implication of this scenario is that oil prices are expected to remain below the budgeted level in the current fiscal year. The 2015 budget was based on a reference price of US$80 per barrel for oil and a net back reference price of US$2.75 per mmbtu for natural gas.

The Ministry of Finance and the Economy is keenly aware of the significance of recent global developments and their macroeconomic implications for Trinidad and Tobago. The Ministry is continuously evaluating the impact of falling oil prices, and its implication for government's revenue projections.

The Ministry of Finance and the Economy has considered several scenarios for oil and gas prices and has revised its budget revenue assumptions. We have decided to use more conservative assumptions of an average of US$45 per barrel of oil and US$2.25 per mmbtu for gas to adjust our national budget. Even this, though may not be enough and we need to be prepared to recalibrate our fiscal position as time goes by, based on the evolving fiscal situation. As at this morning oil was trading at $44.

Even so, the Ministry of Finance and the Economy remains confident that the nation's financial buffers are strong enough to address the immediate concerns of the recent decline in oil prices.

It is noteworthy that our fiscal deficit for 2014 was $2.6 billion, $3.7 billion or 55 percent less than the budgeted $6.3 billion.

Ladies and gentlemen, most would be aware that one person's crisis is another's opportunity. In like manner, the falling oil prices, though negative for oil producing countries, have positive impacts on oil importing countries and may provide a boost to their economic growth. Depending on the period of time we experience low and falling energy prices, this could mean greater demand for our non-energy exports such as tourism and manufactured products to the CARICOM region, the United States of

America, and the United Kingdom, traditionally our main export markets.

Closing

In closing, I have given an overview of our current economic challenges and some of Government's response to these challenges. We shall continue to manage the economic affairs of Trinidad and Tobago with the most relevant up-to-date information, steady hands and with calm composure to mitigate the impact on our citizenry of our declining energy revenues. As such, the Ministry of Finance and the Economy will continue to monitor global developments and calibrate remedial fiscal measures to ensure an appropriate response to changes in the market for oil and gas.

There are many risks and serious challenges but we have much going for us, including strong financial buffers and a history and experience in managing challenges. We therefore look to the future with confidence.

I thank you for your kind attention and hope you have a productive and successful next two days.