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What is the Future of Trinidad and Tobago's Oil and Gas Sector?

Inter-American Dialogue's Latin American Energy Advisor

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Q and A: What is the Future of Trinidad and Tobago's Oil and Gas Sector?

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According to an audit by Ryder Scott released in August, Trinidad and Tobago's proven gas reserves have fallen for a fourth straight year. While officials have said that the country needs to boost exploration and open up new markets, lower prices and reduced demand from the United States pose additional challenges to attracting new investment, according to analysts. What is the medium- to long-term future of Trinidad and Tobago's oil and gas sector? How can it attract new investment and fund E&P activities in the current business environment? How might scarce supplies affect the country's manufacturing sector, which has been criticized by other Caribbean countries for benefiting from lower domestic energy costs?

A: Anthony T. Bryan, senior associate in the Center for Strategic and International Studies Americas Program and associate at the Association of Caribbean Energy Specialists (ACES):

"Gas is not running out in Trinidad and Tobago. It is estimated that the total resource base is about 53 trillion cubic feet (TCF) of the 3 P's (proven, probable, possible) and exploration resources. The major problems are that new gas is not being found quickly enough to replace the gas that is being used for domestic energy, and the exploration momentum needs to be accelerated so that the country can add to its existing reserves of oil and gas. The challenges are to increase the demand for natural gas, to transfer exploration resources to reserves and to increase the rate of exploration in available areas. Medium- to long-term projections for the sector are not bleak. First, there are short- and long-term strategies to encourage FDI in exploration of new acreage, including boosting output from mature and small oilfields both on land and offshore by offering new tax incentives and encouraging an aggressive exploratory drilling program (particularly deep horizon drilling) to identify new reserves. Second, there is renewed emphasis on local participation in small and marginal fields and development of non-traditional sources of oil and gas in order to increase national oil production. Third, the policy of the new government is that the priority for natural gas is to satisfy power generation needs, and domestic demand for the manufacturing sector and the downstream processing (methanol to polypropylene, methanol to petrochemicals, DRI plant). By December 2011, the country will be generating 100 percent of its power from natural gas, making it even more competitive in the Caribbean context. Fourth, LNG is widely regarded as the global fuel of the future, and in view of potential competition from the export of shale derived natural

gas from the United States, producers such as Atlantic LNG in Trinidad have diversified the market. In 2007, North America purchased 68 percent of Trinidad and Tobago's LNG. Today the figure is 23 percent with the rest going to Asia, South America, Spain, and other parts of Europe."

A: Anton Edmunds, president and CEO of The Edmunds Group:

"The medium and long-term future of the oil and gas sector in Trinidad and Tobago is quite cloudy for a country that still remembers the painful 1970s boom-and-bust cycle linked to energy resource and related revenue management. The fact that the country has not had new drilling recently, some argue, shows a lack of clarity related to the industry by policymakers. Inactivity combined with weak demand by traditional buyers and the fact that the country is a mature producer may hint at a serious problem for the Caribbean's leading economy. As to the opening up of new markets, this may be hard considering the distance to those with demand, new producer competitors and the use of new technologies to both power economies and access previously untapped resources. Ultimately a national agenda that recognizes lean times for the industry must be developed, with current and new investors, both within and outside the oil and gas industry, graciously embraced and offered more competitive terms than in the past. The impact of declines in tax revenues associated with the industry, and the resulting socio-economic impact on a population used to price controls through the use of subsidies, is critical. With less than 10 percent of the population directly employed by the industry, yet accounting for as much as 40 percent of GDP, revenue decreases will be felt nationwide. Loss of a competitive edge by the manufacturing industry may be minimal in the short term, as regional competitors have for the most part remained small and confined themselves to national markets. That said, it should be noted that the industry has itself been shedding jobs for a while and further cuts to offset increases in energy costs, should this be contemplated, would further strain economic growth and tear at a social fabric already showing strain. Unmet plans to develop the country as a hemispheric hub for financial services, unfulfilled promises to build out tourism and declining investment in agriculture combined with government's obligations to make whole investors who lost out when conglomerates failed, does not paint a pretty picture of the future of Trinidad and Tobago."

A: V. Ismet Ugursal, professor of mechanical engineering at Dalhousie University:

"In a recent article titled 'Energy use and changing energy policies of Trinidad and Tobago,' I showed that Trinidad and Tobago has been using its energy resources with low efficiency, thus not receiving all the benefits. I also pointed out that the government is establishing policies to improve energy efficiency and promote energy conservation and management, and noted that this is a timely and laudable development. The importance and magnitude of the energy problem in Trinidad and Tobago will only increase as the gas reserves further shrink in size. Perhaps new reserves will be discovered, but these will most likely be less accessible, more expensive and require large investments for both exploration and exploitation. Thus, at this point in the history of the country, the most urgent initiative regarding energy must be to increase the efficiency by which energy is used. The efficiency of energy use in all sectors of the economy of Trinidad and Tobago requires substantial improvement. Since the vast majority of energy consumption is by

the industrial sector dominated by oil and gas industries, the primary focus must be on this sector. Modernizing and increasing energy efficiency will make Trinidad and Tobago industry more competitive and profitable, resulting in growth and attracting new investment. Trinidad and Tobago has much to do to catch up with the rest of the industrialized world in energy efficiency, but as demonstrated by the recent policy tools announced by the government, it has the vision and the will to do this. Now it is time to implement these policies."

The Energy Advisor welcomes responses to this Q&A. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.