PETROTRIN'S CURRENT FINANCIAL SITUATION--THE IMPACT OF A PROTRACTED STRIKE—THE ROAD AHEAD.

Good evening fellow citizens.

Please permit me to begin this short address by extending to each and every one of you a bright, productive, safe and prosperous 2017.

Early in December it was my initial intention to do the usual end of year wide-ranging address but given the simmering but very real threat of major disturbance emanating from the operations of Petrotrin, I knew whatever the outcome, I would have been required to address the nation on this particular challenge, which is of interest not only to the workers and union at Petrotrin but to each and every citizen of Trinidad and Tobago.

It is about time that you, each and every taxpayer, each citizen, you the shareholders of this company, get a clear picture of what is happening at Petrotrin and what these developments mean to our already very difficult national circumstances.

Petrotrin is a wholly state-owned integrated company involved in exploration, production and refining of crude petroleum. Petrotrin is the country's major oil producer, currently accounting for more than one-half of the country's total oil production of about 72,000 bpd and runs the country's only refinery, which produces a range of products (gasoline, diesel, jet fuel and fuel oil) for the domestic market and for export to the region and internationally. Traditionally, the Company has been a net earner of foreign exchange, approximately $250 million per year in 2015 and 2016. It is also an important contributor to government tax revenues and a guarantor of the country's energy security.

For many years, high international oil prices masked a range of fundamental weaknesses in Petrotrin's operations. Among the main structural problems were a steady decline in domestic oil production, from 64,000 bpd in 2006 to 42,000 bpd in 2016, low productivity, escalating manpower costs and steadily increasing operational and capital costs, due to inadequate controls, questionable management practices, ageing assets and infrastructure.

Petrotrin now has more than 5,000 employees, with an annual wage bill of $1.9 billion, which is close to 50 per cent of its total annual operating costs. This payroll ratio is exceptionally high even compared with that of other state-owned oil companies.

These negative factors were compounded after 2007 by a significant increase in Petrotrin's debt burden, largely due to two external loans, namely a US$ 750 million loan contracted in 2007 and a US$ 850 million loan, contracted in 2009, used largely to support refinery upgrade projects, which were exposed to some significant mismanagement and experienced sizable cost escalation.

A dramatic slump in crude oil prices, combined with an ongoing decline in refinery margins and declining local oil production led to a more than 50 per cent decrease in the Company's revenues, from TT$37 billion in 2012 to TT$16 billion in 2016. Further, the decline in local oil production increased the requirement for significant importation of foreign crude oil to service the Point-a-Pierre refinery. This expense, coupled with high debt servicing costs, and high operating expenditures (notwithstanding the drop in oil production) resulted in the Company registering an after tax loss of TT$ 819 million in FY 2015 and a projected loss of about TT $ 600 million in FY 2016. Because of acute cash flow problems, caused by its drastically reduced revenue,

Petrotrin asked for and received government guarantees in 2016, for short term loans up to a maximum of US$230 million in order to carry on its operations and meet its basic financial obligations. Cash flow difficulties have also led to Petrotrin's large arrears of payments of royalties and taxes, which are of the order of $1.2 billion, (net of outstanding fuel subsidies). In other words, when you net off the money owed by the State to Petrotrin at this time for the fuel subsidy against the royalties and taxes belonging to the state but withheld by Petrotrin, the company currently owes the Treasury $1.2 billion in unpaid taxes!

Additionally, because of an unfavourable oil price outlook and the Company's high debt service burden, which includes a balloon payment in 2019 of US$850 million or TT$5.8 billion, Moody's Investors Service downgraded Petrotrin's credit rating in March 2016 from Ba1 to Ba3.

Further, in April 2016 another ratings agency, Standard and Poor's (S&P), affirmed Petrotrin's "BB" ratings, in the expectation that the Government would continue to provide the required budgetary support to Petrotrin, as needed. In other words Petrotrin, in its current form, is somewhat of a ward of the national treasury, heavily dependent on the taxpayer who is already struggling to make ends meet.

Standard and Poors (S&P) warned, however, that Petrotrin could face up to a two-notch downgrade if the Company's liquidity weakened because of an increase in its deficit; or if, in S&P's view, Government's support for Petrotrin had fallen from 'very high' to "high". This is not solely a Petrotrin problem, it is also a situation which is ever present in all discussions of the national borrowings and debt servicing and the downgrade could easily stretch beyond Petrotrin onto the operations of the Ministry of Finance.

With respect to wage negotiations for new collective agreements for its various bargaining units, these negotiations began in 2013 between the OWTU and Petrotrin, for the period 2011 to 2014/2015. The offer from the company at the time was zero-zero-zero percent increase in salaries and wages for the 2011 to 2014/2015 period.

Incidentally, this was the time of high oil prices and when other employees on the state payroll were being offered increases of 14 per cent. The OWTU did not accept the offer of a zero percent increase, but Petrotrin maintained its position of zero from 2013 throughout to the time of the General Elections of September 2015.

Since no agreement could be reached, the negotiations moved from bilateral discussions to conciliation at the Ministry of Labour and then in 2014, the 2011-2014/2015 collective agreement was sent to the Industrial Court for a determination, where it is still under Court management.

Following this, on December 5, 2016, Petrotrin and the OWTU also started negotiations 2014 to 2017/2018 period. Petrotrin once again offered an increase of zero percent for the 2014 to 2017/2018 period. However, this offer, unlike the previous offer of zero percent made in 2013 under the previous Government, was not guided by the Corporation Sole. Further, shortly after negotiations commenced, the Union reported a breakdown in bilateral discussions, and the matter quickly progressed to formal conciliation and then to the serving of strike notice by the OWTU. It should be noted that whereas in late December the Union moved determinedly towards strike action on Petrotrin for its second offer of a zero percent increase for the 2014 to 2017/2018 period, it did not do so in 2013, when it was faced with a Government sanctioned offer of zero percent for the 2011 to 2014/2015 period.

The OWTU originally proposed a 10 per cent increase for the period 2011 to 2014/2015 period and a similar increase for the 2014 to 2017/2018 period. Petrotrin has advised that the Union's proposal for the period 2011 to 2014/2015, would have increased the annual wage bill by $165 million, in addition to creating a back-pay liability of over $600 million up to the end of 2016. The additional cost for the 2014 to 2017/2018 period, if a further 10% was given for this period, would be another $180 million per year, on top of the additional $165 million annual cost for the previous period, and another $200 million in backpay in 2017.

Over the past few years, Petrotrin's revenue stream has not been able to support its current cost structure. Accordingly, given the outlook of oil prices these kinds of increases would have contributed to continuing sizable losses, to be financed through increased borrowing by the Company. It is worth noting that Petrotrin's debt is currently at TT$ 13.2 billion, and that high debt service charges are among the main causes of the Company's weak financial state. It is also to be noted that any such borrowing to meet these needs would of necessity have to be secured by guarantees by the taxpayer base and such liabilities would become part and parcel of the national debt with all the attendant negative consequences.

In the absence of Petrotrin's ability to borrow on its own merit, the wage increases that the OWTU had asked for would have had to be financed either by Government transfers or by government-guaranteed debt. Either option would carry serious pitfalls for the entire country.

It is to be recalled that the Central Government is in the process of implementing a fiscal consolidation plan, geared to reducing its current fiscal imbalance, caused in part, by the sharp drop in energy prices. This programme is underpinned by the US$1 billion bond issue, recently sourced in international markets. Providing current transfers to Petrotrin or guaranteeing Petrotrin's long term debt would certainly jeopardize the country's sovereign debt rating, which is up for review within the next few months.

It is noteworthy that Petrotrin had told us in the event of a strike, it would ensure that arrangements were in place to maintain continuous supplies of fuel to local consumers, and we were confident that this would have been achieved. But a strike would also have forced suspension of its export business and in this context, it should be noted that 75 percent of the Company's sales receipts comes from exports to regional and international markets.

With the need to suspend export sales, in the event of a strike, Petrotrin's gross receipts would have declined by three-quarters and its foreign exchange earnings would have dried up. Petrotrin had estimated that, without Government intervention by way of an application to the Industrial Court under the Industrial Relations Act for a stop order in the national interest, the planned strike would have caused a net income loss of close to TT$500 million during the potential 90-day period of the strike.

It is difficult to accurately predict what would have been the impact of a three-month strike at Petrotrin and the hugely negative effect such action would have had on the economy at large. It would have been significant, far more than the estimated $500 million loss by Petrotrin alone.

As you know, the Union served formal strike notice on Petrotrin on Wednesday January 4, 2017, and the strike was scheduled to start on Monday January 9, 2017.

However, after many long hours of negotiations, and careful and in-depth deliberation and examination by the Government, over the weekend, Petrotrin was given directions by the Corporation Sole on Monday morning to offer the OWTU an interim increase of 5% in salaries and wages for the 2011 to 2014/2015 period, to be paid immediately at the next payment cycle.

This interim offer of 5% was authorized ON CONDITION that the Union withdrew its strike notice for the 2014 to 2017/2018 period, and deferred consideration of the collective agreement for the 2014 to 2017/2018 period to a later date, and return to the negotiating table, in good faith, with a view to finalizing by February 28, 2017, the terms of the 2011 to 2014/2015 collective agreement.

Most importantly, all payment of backpay for the 2011 to 2014/2015 period was to be deferred until targets are achieved. These include improved productivity, increased oil production and the Company's return to profitability.

The benchmarks that would trigger the timing of the backpay payments are also to be negotiated by the parties by the end of February 2017

The OWTU accepted this offer and the strike was called off. The current dispute over wage increases for the 2014-2017/2018 was also referred to the Industrial Court by agreement.

It is estimated that this interim increase of 5% will immediately increase Petrotrin's wage bill by $81 million per year, and the backpay liability arising from the interim offer would be in excess of $300 million.

In order not to unduly burden the national Treasury, the Company has been directed by the Government that it must take firm and immediate steps to reduce its annual operational expenditure in order to meet the increased wage costs of $81 million per year. This assignment will be carefully monitored by the Corporation Sole to see that the Company achieves its cost-cutting targets.

Prior to the flare up as experienced in the last three weeks, you would recall that in my last address to you, I flagged the Petrotrin challenge and said to you that it was the Government's intention to engage the OWTU on the issue of the future of the company. We are at that stage now even as it has been precipitated by wage demand issues.

In the intervening period, prior to the labour dispute, some preliminary contacts were had and the Government agreed to receive from the Union any and all of its thoughts with respect to the improvement of conditions and performance at the company. One such response, the first, was submitted to the Government last Friday and will be given the due considerations it deserves.

This Cabinet operates a sub-Committee on Energy. It is populated by a wide cross section of some of the nation's best intellect and experience, current and retired, distilled from the hydrocarbon industry, supported by world class experts from the international community. The decision making of the Cabinet is being guided by this effort and the discussions are on their way to the Parliament for the involvement of the Standing Committee on Energy. This approach also includes the report of the gas masterplan which has been the subject of extensive review by the Government.

The unique and particular situation at Petrotrin, especially its debt problem, has been under specific report to the sub-Committee and former Finance Minister Wendell Mottley and financial experts have been tasked with advising the Cabinet on the way forward. A report of their work is on its way to the Cabinet for consideration.

Notwithstanding any other consideration the one thing which is clear is that you the taxpayers, you the shareholders cannot continue to turn a blind eye or be uninterested in the challenges at Petrotrin, a company which is so central to our fortunes and which poses such threats as described. The current situation cannot be left to limp along unattended.

It is the intention of this Government to take the best advice, consult as widely as we have to but in the end take all necessary steps to respond to the challenges and to position the company to realise its fullest potential so that it can deliver on the promise not only of good jobs for those who are fortunate enough to be employed there but to the wider national community which depends on the company's success and have to be protected from any chronic misadventures which may be spawned there.

These are difficult times but these are also times of great opportunities.

Even though the company is an integrated operation the weight of our capital spending, as we all know monies often not well spent, has been on refinery operations at the expense of oil and gas production, whether on land or off- shore.

Because of financial constraints at both the level of the state and the company, rectifying this imbalance now can only be effected by imports of external and domestic capital as well as new technology into oil and gas production at Petrotrin.

Survival depends on such a successful import demanding the cooperation of all the company's stake holders. In this approach there will be opportunities for local equity investment and employee stock ownership in a future profitably restructured company.

The question is, are we up to the task of grasping these exciting possibilities or will we be stuck in the past of failed confrontations and finger pointing. Time is not on our side. We must act with decisiveness and clarity if we are to give ourselves the best chance to succeed.

It is the Government's duty to do right for all the people of our nation. In our journey of progress we have often times detoured to our detriment. We are called upon then to face up to our realities. Petrotrin is probably as good a place to start. Even if we have other ideas, the pressing challenges surrounding this major state enterprise demand immediate action whether it is strengthened management, improved accountability, restructuring of its shape and business model, geared towards increased production, better productivity and sustained profitability.

The Government will act as is necessary and I appeal to all involved to see our circumstance as a national prerogative requiring reason and maturity. We can rise to the occasion as we prescribe our own bitter medicine which must be so distilled to take us to a place of economic good health, peace and social justice.

Let me end by reaffirming my commitment that this Government will do all that has to be done to keep our country out of the grip of the lender of last resort, the IMF.

Failure to fix the Petrotrin problem and similar problems leave us vulnerable. We have the resolve and we have the opportunity. Let us go brave and do it, for the benefit of all our people. We have averted a major disruption which would have considerably worsened our situation and for that, on your behalf, I must thank all who were directly involved and their advisers.

However, let us not for one minute believe that we have dealt with or have solved the problem. Comforting as it is, as we exhaled, it is not even the beginning of the end. If I may quote the well-known Churchillian statement "It is the end of the beginning." Let us make this a time of change, change for the better, with boundless faith in our destiny.

Petrotrin is an integral and a major part of our destiny. Let us resolve to do what has to be done to fix it so that when I address you again in the not too distant future the picture would be brighter and the numbers will be more comforting.

Thank you and good night.