

Statement by Minister

Tuesday, July 06, 2010

SENATE

Tuesday, July 06, 2010

The Senate met at 1.30 p.m.

PRAYERS

[MR. PRESIDENT *in the Chair*]

STATEMENT BY MINISTER

Mr. President: I now invite the Leader of Government Business in the Senate, Sen. The Hon. Subhas Panday, to make a statement.

Congratulations

The Minister in the Ministry of National Security (Sen. The Hon. Subhas Panday): Thank you very much, Mr. President. On behalf of the Government I wish to welcome all Senators to this honourable Senate for this sitting of the Tenth Parliament of Trinidad and Tobago.

As far as you are concerned, Mr. President, we want to welcome you to this honourable Senate and to say that you are more fortunate than us, because with one appointment you would be holding two positions. It has been brought to our attention that today we welcome you and in two weeks' time you would be elevated, though for a short period, as President of Trinidad and Tobago. We wish you well and we congratulate you. [*Desk thumping*]

We also take this opportunity to extend our best wishes to Senators of the Front Bench and Senators of the Upper Bench, and in particular Sen. Penelope Beckles-Robinson, the Chief Whip of the Opposition. We all have known her for a very long period, both within the House and outside of this House. I knew her as a very competent lawyer and a very hard working person. If one looks at her history and looks at mine, they reflect each other. She commenced her public life as an alderman in the Arima Borough Council, then she was a Senator for four years, at which time she gained a lot of experience. She sat on a number of committees, then in 2000 she returned to active politics when she was elected the Member for Arima and was appointed the Minister of Social Services and subsequently the Minister of Public Utilities.

Mr. President, Mrs. Beckles-Robinson, has shown character, she is very meek and humble, but yet she is decisive and cutting when it comes to that. I am certain that with her experience and her temperament, we are certain that we will see a level of contribution coming from her, and with her guidance, from the Senators

*Congratulations**Tuesday, July 06, 2010*

[SEN. THE HON. S. PANDAY]

of the Front Bench. As to the Back Bench, we wish to welcome the return of Sen. Basharat Ali, my namesake, Sen. Subhas Ramkhelawan, Sen. Corinne Baptiste-Mc Knight and Sen. Helen Drayton.

Sirs and ladies, we have looked at your contributions—when we were in the other place and we wanted some sort of assistance and guidance—and they were very exciting and they were very informative. As to Sen. Helen Drayton, when I read her contributions I thought at one time she was Undine Giuseppi, correcting the grammar and correcting the punctuation. So we want to say that we enjoyed your contributions and we will work together, with all of us.

As to our new Senators, Prof. Harold Ramkissoon, Prof. Dr. Wheeler and Senior Counsel Mr. Prescott, Sen. James Armstrong and Dr. Rolph Balgobin, we welcome you to this Senate, we know about you, we have read about you and we are certain that your contributions will be of the normal high standard. As my Minister said, we may disagree, however, at the end of the day we are all in this together for the benefit of Trinidad and Tobago.

Thank you, Mr. President. [*Desk thumping*]

Sen. Penelope Beckles-Robinson: Thank you very much, Mr. President. I would like to join with my colleague, Sen. The Hon. Subhas Panday, Minister in the Ministry of National Security in congratulating you on your appointment as President of the Senate, and in so doing acknowledge that you have been an attorney-at-law for 37 years; served in the Hamel-Smith Company, in those chambers and I know you have had tremendous experience in the area of banking and finance, as well as assisting in parliamentary committees as it relates to company law, as well as the Law Association of Trinidad and Tobago. I was very interested in realizing that you have also been an editor of magazines relating to business and finance. So on behalf of the Opposition I would like to welcome you and we look forward to your term in office as President of the Senate.

On behalf of the Opposition I would also like to congratulate Sen. The Hon. Subhas Panday on his assumption as Chief Whip for the Government in the Senate, and as he had indicated, there are certain similarities, he started off in local government, like myself he has been a lawyer for 25 years, and something else I learnt today, I was not aware that he had served as vice-president of the Criminal Bar Association and also as the advisor to the Cane Farmers Association.

He brings to this Senate 14 years experience as a Member of Parliament, and therefore on behalf of my colleagues I wish to congratulate him and also to congratulate the newly appointed Vice-President of the Senate as well, Sen.

Congratulations

Tuesday, July 06, 2010

Lyndira Oudit, notwithstanding the fact she has not had the same number of years experience, but I have had the opportunity to serve with her on several committees and I know that for that period she has served she would have gathered quite a lot of experience serving on very important committees of the Parliament.

To my colleagues on the Independent Bench, I would like to welcome—I know that there are five new Independent Senators, bringing with them years of experience in law, finance, banking, engineering and architecture. I would like to welcome them and also the four Senators who you are returning to this honourable Senate. I had the very good experience of serving in the Senate between '92 to '95 with the very distinguished Senators such as Prof. Spence, Prof. Kenny, Prof. St. Cyr, Dr. Eastlyn Mc Kenzie, Martin Daly SC, and at that time former President of the Senate, Danny Montano was a Member of the Opposition, so I had the good fortune of having to learn very quickly with such distinguished Senators. Having regard to the existing appointed Independent Senators, who themselves have distinguished themselves in their respective careers, I look forward to a very interesting time, a time of continuing to learn, and most important to serve the people of Trinidad and Tobago. So once again I would like to say welcome and congratulations to all of the Senators; Government, Opposition and Independent who have been appointed.

Thank you. [*Desk thumping*]

Sen. Basharat Ali: Mr. President, I would like to join with my colleagues in welcoming you again to the Senate as our new President and to give you the assurance once again that this Bench would respect your wishes and we look forward to getting good advice from you.

As I have mentioned before, we value our independence and are very pleased to hear from the Senator, the Hon. Subhas Panday, that they read our contributions from the previous Parliaments. It is a compliment to us and we thank you for saying so, and we hope we will continue to be in that position now that you are on the other side of the Senate. I do not know whether it is the right side or the wrong side [*Laughs*] but that you would look to what we say and take heed of what we say, because we as nine people here speak out each on the basis of what he or she feels is a correct position on any of these matters and we hope that our voices will be heard. I welcome you to this Senate. I know that you have had a long spell in the other place.

I notice we have one granduand from this Bench to the Government Bench, and she is waving to me and she has had a long stint on this Bench and I think it would probably serve her in good stead as hon. Minister of this Parliament.

Congratulations
[SEN. ALI]

Tuesday, July 06, 2010

The Vice-President is one who seemed to have liked us in the last Parliament. She often came to our table in the tea room, so we expect to continue to have that fine relationship with her, albeit now she might be pounding the gavel with us a few times. My Senators, as has been said, have a range of talents and experience and we are looking forward to making a very firm contribution to this Tenth Parliament from day one. Today is really the first working day and we have a motion which we may wish to join in a debate if it comes to that.

1.45 p.m.

From the Members of the Opposition Bench here, the only person I really know well is the Leader of the Opposition, Sen. Penelope Beckles-Robinson, and of course, my good friend, Mr. Fitzgerald Hinds, who sat with me on the Public Accounts Committee in the Eighth Parliament. So, I welcome them too, to this honourable Senate and hope that we will have very fruitful, very objective sessions, which will all redound to the benefit of our country.

Thank you. [*Desk thumping*]

PAPERS LAID

1. Consolidated financial statements of Trinidad and Tobago Mortgage Finance Company Limited for the year ended December 31, 2009. [*The Minister in the Ministry of National Security (Sen. The Hon. Subhas Panday)*]
2. Annual audited financial statements of the Education Facilities Company Limited for the financial year ended September 30, 2009. [*Sen. The Hon. S. Panday*]
3. Annual audited financial statements of the Trinidad and Tobago Free Zones Company Limited for the financial year ended December 31, 2009. [*Sen. The Hon. S. Panday*]
4. Annual audited financial statements of the National Enterprises Limited for the financial year ended March 31, 2003. [*Sen. The Hon. S. Panday*]
5. Annual audited financial statements of the National Enterprises Limited for the financial year ended March 31, 2004. [*Sen. The Hon. S. Panday*]
6. Annual audited financial statements of the National Enterprises Limited for the financial year ended March 31, 2005. [*Sen. The Hon. S. Panday*]
7. Annual audited financial statements of the National Enterprises Limited for the financial year ended March 31, 2006. [*Sen. The Hon. S. Panday*]

Papers Laid

Tuesday, July 06, 2010

8. Annual audited financial statements of the Government Human Resource Services Limited for the financial year ended September 30, 2009. [*Sen. The Hon. S. Panday*]
9. Annual audited financial statements of the Palo Seco Agricultural Enterprises Limited for the financial year ended September 30, 2008. [*Sen. The Hon. S. Panday*]
10. Annual audited financial statements of the Community Improvement Services Limited for the financial year ended September 30, 2009. [*Sen. The Hon. S. Panday*]
11. Annual audited financial statements of the Rural Development Company of Trinidad and Tobago Limited for the financial year ended September 30, 2009. [*Sen. The Hon. S. Panday*]
12. Report of the Auditor General of the Republic of Trinidad and Tobago on the Public Accounts of the Republic of Trinidad and Tobago for the financial year ended September 30, 2009. [*Sen. The Hon. S. Panday*]
13. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Chaguanas Borough Corporation for the year ended September 30, 2006. [*Sen. The Hon. S. Panday*]
14. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Chaguanas Borough Corporation for the year ended September 30, 2007. [*Sen. The Hon. S. Panday*]
15. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Mayor's Fund of the Chaguanas Borough Corporation for the year ended September 30, 2008. [*Sen. The Hon. S. Panday*]
16. Report of the Auditor General of the Republic of Trinidad and Tobago on the financial statements of the Chairman's Fund of the Mayaro/Rio Claro Regional Corporation for the year ended September 30, 2006. [*Sen. The Hon. S. Panday*]
17. Administrative report of the Trinidad and Tobago Bureau of Standards (and its Subsidiary, Premier Quality Services Limited) for the fiscal year 2008 to 2009. [*Sen. The Hon. S. Panday*]
18. Administrative report of the Trinidad and Tobago Entertainment Company Limited for the fiscal year 2008 to 2009. [*Sen. The Hon. S. Panday*]

Papers Laid

Tuesday, July 06, 2010

19. Administrative report of the Betting Levy Board for the financial year July 01, 2008 to June 30, 2009. [*Sen. The Hon. S. Panday*]
20. Administrative report of the Business Development Company Limited and its subsidiary (the Caribbean Leasing Company Limited) for the year ended September 30, 2008. [*Sen. The Hon. S. Panday*]
21. Administrative report of the Arima Borough Corporation for the period October 2007 to September 2008. [*Sen. The Hon. S. Panday*]
22. Administrative report of the Government Human Resource Services Company Limited (GHRM) for the period December 2006 to September 2007. [*The Minister of Public Administration (Sen. The Hon. Rudrawatee Nan Ramgoolam)*]
23. Administrative report of the Government Human Resource Services Company Limited (GHRM) for the period October 2007 to September 2008. [*Sen. The Hon. R. N. Ramgoolam*]
24. Legislative proposal to provide for public procurement and disposal of public property. [*The Attorney General (Sen. The Hon. Anand Ramlogan)*]
25. Legislative proposal to repeal and replace the Central Tenders Board Act. [*Sen. The Hon. A. Ramlogan*]
26. Financial statements of the First Citizens Trustee Services Limited for the year ended 30 September, 2009. [*Sen. The Hon. S. Panday*]
27. Annual report of the First Citizens Asset Management Limited 2009. [*Sen. The Hon. S. Panday*]
28. Report of Taurus Services Limited review of operations 2008 to 2009 and business plan 2009 to 2010. [*Sen. The Hon. S. Panday*]
29. Report of the Statutory Authorities' Service Commission for the period October 2008 to September 2009. [*Sen. The Hon. R. N. Ramgoolam*]
30. Audited financial statements of National Commission For Self-Help Limited for the financial year ended September 30, 2008. [*Sen. The Hon. S. Panday*]

**ELECTIONS AND BOUNDARIES COMMISSION
(LOCAL GOVERNMENT AND TOBAGO HOUSE OF ASSEMBLY)
(VALIDATION OF THE NINTH REPORT OF
THE ELECTIONS AND BOUNDARIES COMMISSION) (NO. 2) BILL**

Bill to validate the Ninth Report of the Elections and Boundaries Commission on the boundaries of the electoral districts in the electoral area for Tobago under

the Elections and Boundaries Commission (Local Government and Tobago House of Assembly) Act, Chap. 25:50 [*The Minister of Local Government*]; read the first time.

STATE OF THE ECONOMY

The Minister of Planning, Economic and Social Restructuring and Gender Affairs (Sen. The Hon. Mary King): Mr. President, I beg to move the following Motion on the Order Paper, standing in my name:

Be it resolved that this House take note of the State of the Economy at this time.

Mr. President, the Trinidad and Tobago economy is petroleum based—is plantation—and in particular, it depends on the revenues collected mainly from the energy sector and spent by government. The plantation boom bust phenomenon demonstrates that the economic activity of the non-energy sector collapses as do taxes collected from it with a drop in any resource rent.

In the last commodity boom, Chile was able to save much of its windfall earnings from copper, which it used to support the economy during the bust, that is, it got involved in counter-cyclical spending. Our last government, on the other hand, utilized pro-cyclical spending in which TT \$300 million was spent over seven years, with little savings into the Heritage and Stabilisation Fund; savings of \$19 billion and a debt approaching 50 per cent of our GDP.

The ensuing non-energy deficit drove liquidity in the local market, and despite the Central Bank's open market operation activities and warnings to the then government, our inflation rocketed to 15 per cent, with a devastating impact on real estate and food prices. The situation is even worse since much of the spending was on unproductive assets, on buildings which utilized foreign contractors and basic labour, resulting therefore, in a re-export of foreign exchange earnings of this country. Though the country would have been unable to provide the expertise in the quantity needed to build these assets as quickly as possible where they prioritized, over time the spending would have been somewhat counter-cyclical and the money spent would have encouraged other internal economic activity. However, this People's Partnership Government would have spent much of this money on restructuring the economy on productive assets. So let us look at the actual economic state.

At present, there is much discussion on the state of this economy. Many of the commentators appear to contradict each other simply because there are two aspects. The state of this economy is at least a two-part issue. The snapshot of the

State of the Economy
[SEN. THE HON. M. KING]

Tuesday, July 06, 2010

traditional economic parameters, their recent history and what these would normally suggest about the economy, is one part.

The second part is the non-deterministic dynamics of the economy which referred to its various drivers. What really makes it go? Given what we know and what we expect of these drivers in the future, and how we actually expect them to drive the economy, what is the projected trajectory for these economic parameters? So we are going to look at it in these two parts. So let us look at a snapshot of the economy and its recent history. We look at the usual parameters: GDP, employment, inflation, our fiscal operations, our exchange rate, debt and borrowing, and our balance of payments.

So, if we look at the GDP and our economic growth, the economy grew steadily since 1993 to 2008, and then it contracted for the first time by some 3.2 per cent of GDP in 2009. This represents the first actual annual decline since 1993, and it reflects the depressed performances in both the energy sector and the non-energy sector. There was lower oil production and we all know we are now past peak oil, and there was little exploration activity, while natural gas and its products showed modest growth.

The major contributor to this depressed performance was the global collapse in both demand and price for energy and energy products. This collapse in both price and demand was the economic reaction to rapid increases in global demand for oil, and just could not be supported by the global production. So this actually resulted in demand destruction for energy in many of the developed countries, and then the financial crisis accelerated this global collapse. So locally, the contraction in the local economy, or our offshore sector, was followed by both the collapse of government income; the reduction in concomitant local onshore, and regional demand also saw a decline in manufacturing, in construction, and distribution. When you look at the structure of our economy, this is the classic response of a plantation economy to any price reduction in its resource.

So, economic growth of 0.8 per cent has actually resumed in the fourth quarter of 2009 after four consecutive quarters of decline.

2.00 p.m.

If we use the classic definition, it suggests that we were, indeed, in a recession. The fourth quarter growth was due almost entirely to the slightly improved performance in the energy sector, whilst we all know the onshore sector has actually remained quite depressed, particularly in construction, in manufacturing and in distribution activities.

We also know that the global economy began a stuttering recovery at the end of 2009 and with increasing demand from the markets of China and India, oil and petrochemicals prices began to increase and this has reflected in a slight improvement in the performance of our offshore sector.

So we need to look at another statistic: the employment. In response to the downturn of our economy in 2009, the labour market also showed signs of decline. Preliminary figures that we have, show that the unemployment rate in the fourth quarter of 2009 was at 5.2 per cent, as compared with 5.8 per cent in the third quarter. Taking seasonal factors into consideration, the unemployment rate of 5.2 per cent in the fourth quarter in 2009, compared very unfavourably with the figure of 3.9 per cent in the same quarter in 2008.

Looking at where the job losses occurred, these were primarily in the onshore sector in construction and in distribution. It is worth noting here that the employment figure includes the URP, it includes CEPEP, it includes OJT, and that is some 10 per cent of the work force which has been able to be maintained by government transfers. The Central Bank, however, is now predicting a further increase in unemployment.

Inflation rate, that is headline inflation, dropped from a high of just under 15 per cent in December 2009, to some 1.3 per cent year on year basis, December 2009. This is the lowest it has been for over 40 years. Food inflation for the same period dropped from about 30 per cent to virtually zero by the end of 2009; food inflation was zero in 2009. Looking at the key contributory factors during the boom, to this high headline inflation rate, were actually higher prices for imported food and, again, general mark up inflation, due to high liquidity in the system and high liquidity due to inordinately high government spending in the local markets, reduced global commodity prices, lower domestic demand and some improvement in local food production, have led to a lowering somewhat in inflation. However, since the beginning of this year, headline inflation has risen steadily, reaching 7.3 in April and jumped to 9.6 in May, driven, they tell us, by higher food prices because of the drought and imported food.

We must remember that core inflation, that is inflation which does not include food, has stayed very stable at around 4 per cent; in May it actually rose a bit to 4.3 per cent. It is interesting to note that though the liquidity is still very high in the local market, an apparently deliberate attempt by the public to reduce the demand and the private sector not to invest, have kept core inflation at bay. People are just not spending and businesses are just not borrowing.

This brings to mind the Ramsey Phenomenon which states that reduced private sector activity for any reason and the concept of profit maximization could, indeed, encourage price increases in goods which are inelastic, and a good which is very inelastic right here is food. So when the economy contracts, business decides that there are things which are inelastic and, therefore, those prices would be pushed up.

Let us look at our fiscal operations. The Central Bank report tells us that total government revenue declined by 33 per cent during the fiscal year 2008/2009 from the year before, primarily again because of the collapse of energy and energy product prices internationally. This decline was due both to the reduction in income from the offshore, and some 44 per cent reduction in the income from the offshore, together with a drop of 18 per cent in tax collections from the onshore. The expenditure, however, in 2008/2009 increased by some 2 per cent over that of 2007/2008. This resulted in a deficit in 2008/2009 of TT \$7 billion, which is equivalent to 5.3 per cent of our gross domestic product (GDP), after six years of surpluses where we had average growth of 4.2 per cent, we had this decline. Though the government expected that its revenue would not recover, it budgeted an expenditure of \$44.3 billion, with expected revenues of \$36.6 billion in 2009/2010, therefore, they brought about a planned deficit of \$7.7 billion.

After the first six months of this year 2009/2010, the revised revenue for the year grew to \$39.9 billion and its expenditure also rose to \$46.8 billion giving us a deficit of \$6.9 billion. If we look at what has happened for these six months: October 2009—April 2010, the revenue has actually been \$22.2 billion, \$23.2 billion in expenditure and the deficit to date is \$0.6 billion.

The increase in revenue to the government has come about because of the global increase in oil prices that have surpassed our budgeted estimation, which has resulted in a deposit of \$650 million into the Heritage and Stabilisation Fund, although we will still be borrowing \$6.9 billion.

Let us look at the exchange rate which is a very important factor in our economic scenario. The real effective exchange rate is defined as a comparison of our exchange rate and the cost of living index with those of our normal trading partners. The real effective exchange rate (REER) increased significantly between January 2008—May 2009, which indicated that our REER actually appreciated in this period; though the nominal exchange rate has been held steady by the Central Bank and the banks at roughly 6.3 to the US. It is also important to note that the REER, before this period from 2006, steadily increased, one parameter that indicates the strength of the economic snapshot. There were calls actually during

that period 2008/2009, to also allow the nominal rate of the TT dollar to appreciate. If this had been done at that time, this would have reduced the nonenergy sector deficit, would have reduced the market liquidity and impacted positively on the reduction of our inflation rate.

However, we know the policy of many Central Banks, especially in developing countries, is to severely manage the nominal rate of exchange and in so doing they may tie the nominal rate to a major international currency. In our case it is tied to the US dollar.

Since May 2009, the real effective exchange rate has shown some oscillatory decline, again demonstrating the collapse of the global economy and the impact of the consumer price indices and the exchange rates of our trading partners. Given the healthy boom times reserves in this country, and even today, there was little fear that the country would have been unable to meet the demands of foreign exchange, now that our reserves stand at 12 months import cover, which is US \$8.9 billion, and our imports have actually been reduced, \$7 billion of imports in 2009, compared with \$9.6 billion imports in 2008. So we are not quite a basket case. Let us look at the debt situation.

At March 2010, our total public debt, which does not include open market operations or Treasury bills, stood at TT \$68.3 billion, that is 42.2 per cent of our GDP; the open market operations stood at \$14.2 billion and Treasury notes at TT \$5 billion. We also have contingent liabilities of \$19.8 billion, these are government guarantees. That is over and above the 47.2 per cent debt of GDP. There is also some local debt without government guarantee for Petrotrin, NGC, the National Gas Company, First Citizens Bank (FCB), the Trinidad and Tobago Mortgage Finance Company and the Telecommunications Services of Trinidad and Tobago (TSTT), to the tune of \$3.5 billion, and we have a foreign debt due to Petrotrin, National Gas and TSTT of another \$9 billion; so count that up.

To date, the international and regional rating agencies give this country a good credit rating for loans, which indicate that our debt commitments can be effectively serviced by the current economy, if it stays as is; but given the global thinking in some quarters, particularly in North America, that deficit spending is still necessary to move the developed world out of the recession, we in Trinidad and Tobago may still have some scope for borrowing for increasing debt, preferably to fund productive enterprises. We must note that business worldwide is facilitated by debt. Though government is not considered a business, although we would like to treat it and act like a business, debt can also fund its investment, so long as it is going into productive endeavours.

Let us look at the external accounts; that is a balance of payment situation. The external account contracted significantly in 2009. Exports were estimated at \$9.17 billion, compared with \$18.69 billion in 2008, so there is a drop right away of 50 per cent. Our imports have been \$6.97 billion compared with \$9.6 billion in 2008, so we have another drop in imports. If we look at the official reserves at the end of May 2010, they were US \$8.9 billion, which is slightly up from what it was in 2009, when it was \$8.65 billion, but it was down from a high of \$9.4 in 2008. So we have, as I said, 12.2 months of import cover.

In light of the global recession and the concomitant drop in our energy exports, there was a balance of payment, a deficit of \$712 million in 2009, compared with surpluses of \$1.5 billion in 2007 and, of course, a very high surplus of \$2.4 billion in 2008. Our Heritage and Stabilization Fund stands at \$3.15 billion.

2.15 p.m.

So my comment on the snapshot of the economy as at May 2010 indicates an economy that is flat, but with healthy financial reserves, though the balance of payments are now negative, we have robust government spending and reduced income earning deficit borrowings. All in all, we are in an environment of severely reduced income from the offshore energy sector. We should also note that for the budget each year 2009/2010 expenditure, transfers and subsidies totalled \$18.2 billion, some 41 per cent of total government expenditure.

We also see that we have an inflation rate, which is again beginning to creep up and this we know is mainly due to food prices. However, although liquidity is still high, there is no growth in consumer spending and there is no growth in private sector investments. These parameters have caused some commentators to claim that the economy is well, strong and well managed but if you have had \$300 billion accruing to the government coffers over the last seven years and a heritage stabilisation savings of \$19 billion, maintaining those economic parameters in the boom years were surely not a difficult thing to do.

Our concern, though, is that the management of the economy was pro-cyclical, with little care to what if, when, when the bust would come; nothing like that occurred to the Government at that time. Capital spending also was generally a non-productive asset and that is why we are where we are today.

So, looking forward, if we want to look at the dynamics—I would like to look at the dynamics of our economy so that we understand where we are and what we have to do—they deal with the possible impact of the economic drivers, the

economic drivers on the economic snapshots. In other words, what can we expect to happen in the future?

When we look at the drivers of our economy, they are oil price and local production, gas price, onshore manufacturing, offshore foreign investment and local investment and confidence of the consumer and the private sector. Those will drive this economy, if we can properly manage them because we cannot really impact the oil price.

The energy sector has provided some 58 per cent of government revenue in 2007/2008 and, therefore, the other sector delivered 42 per cent of government's income. We know that the performance of the onshore sector depends on government spending. We have seen the government's income from energy drop from 32.4 per cent in 2007/2008 to 18.9 per cent in 2009/2010. However, when we look at government spending over these three years, it has remained virtually constant. First year, 2007, \$44.7 billion; 2008, \$45.6 billion and 2009, \$46.8 billion. In 2008/2009, we did that by the use of loans.

In so doing, Government was able also to maintain—virtually constant—its subsidies and its transfers in the above three years. Those subsidies went \$20 billion in 2007, \$21.4 billion in 2008 and \$18 billion in 2009, averaging 43 per cent of all government spending.

So the dynamic here is that if our Government is to maintain this spending level in the short term, then it will have to continue borrowing, incurring further risk of default counterbalanced against productive investment; otherwise, it could consider cutting or optimizing its spending or increasing its taxes if its income does not rebound.

Let us just look at its income—petroleum prices. In our petroleum-based plantation economy, the income driver of our government's resources comes from energy, the prices of petrochemicals, the prices of gas, the prices of oil and the production levels of those resources.

We know there is a glut of natural gas in the global market, particularly from US shield gas, Qatar's massive increase in LNG production capacity, Australia and others; all have LNG coming on stream. Natural gas price, therefore, is expected to remain very low for some time in the future. We normally take heed of what the international players are saying in this area and the recent US International Energy Agency in its medium-term Oil and Gas Market Report, 2010, says that the most daunting question faced by the gas industry is the duration of this glut, indicating

State of the Economy
[SEN. THE HON. M. KING]

Tuesday, July 06, 2010

that this situation is not likely to change before the year 2015. This is our main income stream and it would appear that Government's income, therefore, is not set to increase in any large measure.

The price of oil is now US \$70 per barrel and some commentators expect it to rise to around US \$80 by the end of this year if the global recession continues to ease and OPEC constrains its production level. However, our local oil production is dropping. We are past peak oil and some see the global economy as poised for a double-dip recession, given what is happening in the Eurozone and the financial problems they are having there.

There are concerns among the G20 about continuing deficit spending. So the dynamic here is that our oil income would not increase and could possibly decrease. At present, some petroleum blocks are being put out for bids by the Government. If any of these provide new proved reserves, production cannot commence for at least five years, given the production rate of drilling and exploration. There is some hope that the existing land fields may give up some more of their resources with the use of the new technologies. All of this, especially the giving out of the petroleum blocks under the new conditions, is really about three to five years too late.

In order to increase government revenue, one could suggest that maybe we should continue with the smelter, but anyone who has held, examined and researched and was present when we heard the state-invited guests at the then government-sponsored symposium on the smelter project cannot help but deduce that the project is uneconomic; not to mention the environmental and health risks.

For example, aluminium smelting needs cheap stranded gas that cannot be used for anything else. That is normally why you have smelting taking place. We are given the example of Norway having a smelter. Norway exports its gas as a commodity and smelts using its stranded hydroelectric power. It does not use its gas. We in Trinidad and Tobago, in general, need to use the remaining gas efficiently and to get as high a price as possible in the context of our local energy security.

Onshore manufacturing is one of our other drivers. The Caricom, which is our major market for this country's export manufacturing, is in real dire economic straits; some of them are actually at the IMF. Hence, without that market, it is unrealistic to expect that onshore manufacturing will pick up in the short-to-medium term. When you look at our manufacturing sector in general, we have not become globally competitive.

The local private investment is the other driver which we talked about. The Governor of the Central Bank has confirmed that there is still high liquidity in the market, yet we find and he finds that the private sector is not investing in the production of goods and services and local consumers are not borrowing to purchase anything. Also, construction and distribution we know are down.

Normally high liquidity in the market would drive consumer spending and private sector investment and then we get the inflation roll, but this is not happening since the consumer and the private sector are acutely aware of what is taking place in the world and the impact of this on demand for our exports and its possible negative impact on our economic parameters. So there is little public confidence in our immediate economic future. People are not spending, possibly saving what little they have and as the Governor of the Central Bank has told us repeatedly, the economy is flat, tending downwards as signalled also by our negative balance of payments.

Foreign investment, which has been a major driver of our economy for many years, has been in the offshore sector in exploration production and another downstream processing plant and, given the reducing production and the present limit on the natural gas reserves, the Government has been attempting to attract new foreign investment to explore in the medium and deep water blocks.

The last Government has indicated an increase in the incentives to big oil in its recent production-sharing bids since they had no real response to a previous bid rounds; but if we look at the present global situation, the IMF is actually predicting that there will be little flow of capital into the developing world and, further, if any petroleum is to be found, it will be in very deep water which will be both risky and very expensive and, therefore, we would be expected to give more concessions; we would have to offer higher incentives, more concessions to big oil and few of them have actually got the resources to operate under deep water conditions. We cannot forget the failure of BP in its last deep well exploration drive, the Ibis Well, where they had no gas. Of course, we have to be aware of what happens in deep water drilling when you look at the environmental disaster which is happening for the last how many days in the Gulf of Mexico.

So governments in the past have been telling us about attracting foreign investments and have also been trying to attract foreign investment for the onshore sector. We have tried over many years duty-free export processing zones which have failed dismally. We have tried, and we are talking about attracting foreign investment into Tamana Park. Any student of foreign financial investment would see that there is nothing, unlike in the energy sector, in Tamana Park, to

State of the Economy
[SEN. THE HON. M. KING]

Tuesday, July 06, 2010

encourage this kind of investment locally. Many also refer to Ireland and its ability to attract foreign investment, but we must remember that that was a special case when the European Union was a massive market and companies from North America, et cetera, flooded into Ireland with their foreign exchange just to get into the EU market. We now have analysts, particularly Prof. Michael Porter, telling us Ireland made a mistake because it depended generally on foreign investment as opposed to the use of more of its own local capital.

We could conclude then, based on the present economic parameters, that our country's economy is not a basket case at present. Some would tell you that it is actually strong. However, this State may be poised for rapid degeneration given the global recession and given the impact of the Eurozone problems and the recovery of the global economy and we must remember that this is now exacerbated by the conflict among the developed nations as to when they are going to rein in their deficit spending.

2.30 p.m.

The immediate economic detractors for us are the global glut in natural gas and its continuing low price; our poor Caricom market; the stagnant local market, with respect to consumer spending and private sector investment; and the difficulty that this Government will find to reduce spending, yet we have to meet the increasing demands of our society, in the context of not increasing taxation too much. The need to spend large sums of money now, to complete mainly unproductive and unnecessary buildings with massive cost overruns, puts a short-term drain on our current economic resources. We also have to remember that the IMF has recently recommended to some Latin American countries, that they must increase their taxation of the rich, in order to support their economic development.

An immediate opportunity, therefore, is to improve the efficiency with which we use our natural gas resources locally, say by requiring, replace or upgrade of the old process plants and power generation systems and the institution of market-based energy pricing and gas supply conditions for local use. For example, take our pay supply conditions for energy products, our services are not market based and they incorrectly isolate the provider from market risks. As public and private sector, we have to be all in this together; public and private sector working together for the win-win situation.

In concluding, the ability of any government to meet the demands of its population depends on the government's ability to collect revenue, based on the actual and potential economic efforts of the population. More than half of our

Government's revenue comes from natural resource rents that have now been drastically reduced, causing a similar reduction in government receipts from the energy sector. Hence, the Government's ability to meet the demands of the population, given its present taxation structure and reduction in its resource rents which have been very severely reduced and the short-term hope is that petroleum prices rebound.

I would like to look at possibly a longer-term solution. The longer-term solution is to restructure our onshore economy. Economic restructuring includes an onshore increase in economic activity, which will improve the ability of the Government to meet the population's demands. This Government recognizes that the best it can do immediately with the plantation economy, based on depleting resources, is to practise counter-cyclical spending, to level off the valleys and the peaks in the earnings from the sector.

At present, with current minimum savings, this People's Partnership Government will most likely have to resort to some borrowing in the short term, but taking care not to go above the limit that we have put on the GDP constraint. The medium and long-term aim, therefore, is to restructure this economy, as has been done in some countries. It was actually done in Texas. It was once an oil state in which the onshore or the non-oil sector provides in the first instance, a separate stream of income and the concomitant employment of the 96 per cent of the population onshore. We know that energy provides 4 per cent of the employment and the rest provides 96 per cent. That 96 per cent have been made to work in extra other streams of income, so that we can depend less on the energy sector. This, today, can only be done by creating a knowledge-based economy if we are to be globally competitive and a knowledge-based economy really just means the application of knowledge to our natural advantages—we have natural advantages besides our energy, agriculture, fisheries, tourism and culture—to the reconstruction of our current businesses, so that we take advantage of the new technologies in creating this knowledge. We create intellectual property for driving innovation and entrepreneurship, particularly in renewable energy, given our depleting petroleum resource.

The PNM Government in the past—although Point Lisas in those days in the late 1970s could have been considered innovative—they have failed miserably to translate this innovation into activities of the local private sector. The last government, with its head in the sand, continued to talk about capital intensive industrialization based on natural gas, smelter and steel plants; a continuation of the plantation model.

State of the Economy
[SEN. THE HON. M. KING]

Tuesday, July 06, 2010

Though the restructuring of our economy is a longer-term project, another associated opportunity to boost our economic activity may be to begin in certain cases, to continue the construction of the infrastructure required to support the knowledge-based economy. We are talking here about telecommunications; the associated digital communication systems; electricity and a smart grid, which is automated transmission and metering systems; realistic transportation; more effective health ports; crime control; and a more advanced research and development system. To finance these projects would require an optimally integrated programme of loans and the redirection of subsidises and transfers. Market rates can be imposed in place of transfers and subsidies to the utilities. These are ways that Government can improve the efficiency and management of money. The upcoming budget debate would obviously detail the actions that this Government will take to finance the way forward. The current plantation economy has got to be replaced and this People's Partnership Government has given a commitment to do so. Vision 2020 may have indicated a vision, a wish list, but this Government instead will strategically manage the restructuring of this economy.

I beg to move.

Question proposed.

Sen. Dr. Lester Henry: Mr. President, let me start by wishing everyone a good afternoon; the Government, my fellow Opposition Senators and the Independent Bench.

Let me congratulate the hon. Senator for giving a relatively reasonable summary, statistically, of the state of the economy. Whereas the numbers that the hon. Senator quoted seem to be relatively fair and accurate for the most part, where I would tend to differ is in the interpretation of the numbers. I am puzzled to some extent by the motivation behind this Motion. This is so because, to a large extent, virtually all of the information contained in this Motion has been in the public domain and is readily available. I am not sure what exactly we are supposed to make of this. I would get back to that later.

To some extent, I would like to focus on a couple of areas which, I think, it is worthy to remind Senators in this honourable Senate and this is what really drives economic growth and the status of the economy, in terms of our levels of unemployment and the unprecedented levels of employment that we have had, especially in the last six to eight years.

The hon. Senator made mention and couched the Motion of the plantation economy school. One of the things I would like to remind the Senator here is,

whereas the plantation economy school found one widespread appeal among Caribbean economists, the Lloyd Bests, the Kari Levitts and their associated colleagues, one of the criticisms that particular approach has been unable to shake is that it lacked concrete solutions to any of our problems. Until you grapple with that element of it, it is a very dangerous precedent to take it as a given.

I want to focus on two particular areas, the issue of unemployment and secondly, the issue of economic growth. Like I have said, I would not get into a debate over the numbers. The numbers are there. They are put out by the same institutions that all of us look to, the Central Bank, the CSO and so on, and we have no reason to doubt those calculations; we never had, under any government, past or present. But let us deal with the reality and the interpretation of these numbers. For example, over the past six to eight years, we have seen unprecedentedly low levels of unemployment, reaching as low as 4.7 per cent. This was almost unthinkable throughout the Caribbean, just a few years back. Let us be real, this was in fact the perennial and intractable problem that many economists from the 1960s, 1970s and onwards thought that Caribbean economies could never achieve anything of that level. There was this presumption, even in the old, under the previous oil boom, that unemployment in this country really fell below double digits throughout the entire Caribbean. In fact, it is one of the motivating factors why people like Sir Arthur Lewis, the great Nobel prize winning economist talked about economic development with unlimited supplies of labour. They talked about the unemployment problem. It was through dynamic and innovative policies that we were able to bring down that unemployment; something that we should all be proud of as Trinidadians and Tobagonians. I do not have to remind you which government did it.

In spite of the global recession, we have been able to keep unemployment losses at a relative minimum. The Senator said that unemployment did go up after the onset of the recession. We acknowledge that, but if you compare our situation with the OECD countries, the grouping of so-called developed countries, we rank right there among the best. If you look at Ireland, currently there is 13 per cent unemployment and negative growth was 7 per cent in 2009. I think you can see that we are much better. If you look at the United States, there is 10 per cent, roughly, unemployment. By certain alternative measures, the unemployment figures in the US could be high as 18 per cent or 19 per cent, after you take our seasonal adjustments. You can go across the OECD countries such as France. In fact, the entire Euro zone's unemployment is in the vicinity of around 10 per cent.

State of the Economy
[SEN. DR. HENRY]

Tuesday, July 06, 2010

2.45 p.m.

Whereas we were faced with a significant fall in commodity prices and so on, as was outlined in the Motion, we were able to keep our levels of unemployment fairly close to their historical lows. That is not something to be ashamed of or to take very slightly. [*Desk thumping*]

So, the so-called developed countries are the ones that are in deep trouble. Given the way we seem to think about them, in terms of their ability to find solutions to problems and so on, it is amazing that we do not give ourselves the right amount of credit where it is due.

Now, on the other hand, we must be concerned about any rise in the level of unemployment, because of the obvious consequences that it could have for the economy. Now, this present Government that has expressed such concerns is proposing to raise the minimum wage to \$20. That was the campaign promise. Now, how do you square this with trying to create additional employment?

As a member of the Minimum Wage Board in the previous government, we studied this situation. We interviewed stakeholders on both sides—the employers and the employees and so on—and we came up with a recommended minimum wage. You have to keep in mind that the minimum wage generally acts as a symbol; an indicator in the market. Most employers tend to pay something above the minimum wage. Any existing minimum wage tends to be just that, a minimum. Most employers actually pay something somewhere above it. In Economics this is called "efficiency wage theory". So, you would pay above the average rate so that you will attract better quality workers and this will stop people shirking or loafing on the job. So, they usually pay something that is above.

Most of the people we consulted freely admitted this was the case. So if you promise a minimum wage of \$20, you are really sending a signal to the market that people will have to pay \$23 to \$25 an hour. What I am saying is that you should be careful in terms of what are the consequences and the impact it could have on the level of employment when you carry out such a policy. I am speaking in the context that you will carry out your policy; your campaign promise. Have you considered the job losses and so on?

In terms of managing an economy, what we are seeing today, despite our obvious problems as outlined in terms of revenue shortfalls and so on, our economy has been doing fairly well. The hon. Senator even admitted to this. If we go around the malls and so on, we see the sign "help wanted" all over the place. I

made a study of this. I travelled around and I looked for the sign "help wanted". It is my job. I consider it my full-time business.

I had the experience of being in Guyana last November, and I caught the President of Guyana on an earlier morning show. He made the comment that Trinidad and Tobago had been in a recession for the past three quarters or so, but you can hardly tell that any such thing is going on, because you have seen virtually no impact on the majority of the citizens. How did that happen? Is it by guess? It was prudent economic policy that was responsible for this.

When the crisis hit back in late 2008, rather than the Government panicking and cutting left, right and centre, as advocated by many people on the Government side now, spending was maintained especially on the social programmes and the job creation programmes. I fail to see how we can classify such as unproductive, given that this is something that all governments do around the world. It is no different. The alternative would have been to cut spending on programmes, create social hardships and create more unemployment. What would have been the situation then? The government of the day would have then exposed itself to even more criticism. Now, if this is the approach that the Government intends to take, then I wish them well.

Let me move now to the issue of economic growth. Very crucial and very important to learn and to remember is what drives economic growth after you get past the fancy dragon and so on, you have to come down to the nitty-gritty of what are your policies, given our economy and not what is happening in Texas or what is happening in Singapore.

What has led to our state of being? As the Senator pointed out, we had nearly 15 years of positive growth per capita income. This was doubled in the four-year period during 2004—2008. This is a magnificent accomplishment in any society. That is not something that you take lightly. If you go around the world and see economies that have achieved—whether they are energy based or not—and where they have doubled per capita income in such a short period of time, we can see manifestations of this in terms of our spending and so on—consumer behaviour and consumption pattern—but let me remind this honourable Senate what drove that development.

Firstly, the hon. Senator mentioned the Point Lisas Industrial Estate and that was the innovation of Dr. Eric Williams back in the 1970s under his administration; a very important development. This has become the bread basket or, if you prefer, the energy basket of the economy. Where would this economy be without it?

State of the Economy
[SEN. DR. HENRY]

Tuesday, July 06, 2010

Secondly, the innovative incentive scheme set up by Mr. George Chambers in the 1980s where the manufacturing sector went on to become the envy of the Caribbean. We can feel proud when we travel through the island, because we can see grocery shelves with stuff labelled made in Trinidad and Tobago.

In fact, just on the radio this morning, I was listening to the president of the Chamber of Commerce boasting about this particular development back in the 1980s and the impact it had on the manufacturing sector. [*Desk thumping*] If you listen to the radio, you can check it. Now, these are concrete policy changes that have had an impact on the economy.

The third pillar that was innovative, in terms of bringing us where we are today, is in the early 1990s the decision by the then Patrick Manning government to monetize national gas and to go into LNG production and so on. That has brought unprecedented revenues and capital inflows into the country. Again, a concrete and real economy change. [*Desk thumping*] These are the issues.

What we have been hearing so far from the other side is a lot of talk that you can hear all around the place at conferences and so on. Some of the most concrete steps that we have seen are: “We will set up committees.” That is the extent of the contribution so far. In fact, I heard that several committees have been proposed to study this and without saying concretely and in a very affirmative way, how we are going to generate revenue and what are the concrete proposals, instead of just saying: “Well, we are going to transform the economy.” We need more substance. [*Desk thumping*]

Again, apart from the obvious statistical data which I do not want to bore you with—as I said, I generally agree with the hon. Senator on the numbers. We have no argument there, but let us look at the anecdotal evidence of what has happened in this country over the past six to eight years. You cannot ignore it.

We have seen the proliferation—apart from the low unemployment and so on and the fact that people are working, you can hardly get people to cut your grass and do menial tasks again, because labour demand is so high. Even in the face of a recession, we are still encountering problems like that.

We have seen the proliferation of high-end lifestyles—the high-end restaurants, the bars, the shopping malls, the shopping outlets like the PriceSmarts and so on and also cellphones. These are important symbols of improvements in consumer welfare that we cannot ignore. We have the Movie Townes, the Ruby Tuesdays and so on. Many of you may say that only certain people go there, but I certainly go, and I see many other persons who represent all walks of the society.

So, where does the income come from? That income was generated by the same problems I have outlined before.

In fact, just eight to 10 years ago, people were skeptical about the Movie Towne project because people said: “No Trini is going to pay \$35 to see one movie when we are accustomed paying \$5 to see a double movie or \$10.” Where did the income come from?

People are becoming better off. They have become very high end in their taste and so on, and this shows something about the vibrancy of our economy. In fact, even the traffic jams that we see on the roads can be interpreted as a sign of our prosperity, because it takes a lot of money to buy a car. They are not cheap, even in today's world. Ordinary citizens are readily purchasing bottled water from the grocery, which is a very high sign of affluence. A Blackberry has now become the latest "Me too".

3.00 p.m.

In case you do not know, when you tell anyone, “I have a Blackberry”, now they are saying “Me too”. [*Laughter*] In fact, a friend of mine told me the piper who washes his car whipped out his Blackberry and he was quite amazed. [*Laughter*] So of course I am not saying that we do not have pockets of poverty across the country and we need to work at eliminating those pockets of poverty and dealing with matters that would lead to a more fair distribution of income that still remains a challenge in our country.

However, we should not try to paint a picture that we are in some kind of dire straits, and somehow there has been no major progress over the past eight to 10 years. Nothing could be further from the truth. Let us acknowledge what we have and give ourselves credit, not just because of representing one side or the other but as Trinidad and Tobago citizens in our combined efforts. But we must be fair and give the appropriate credit to the innovators and the people who made the hard policy-decisions to take us from where we were to where we are now. [*Desk thumping*]

I will quickly touch on a few other issues in terms of our national debt which this honourable Senate mentioned. Even if we take the figure as somewhere near 50 per cent or even 60 per cent or thereabout in terms of our debt to GDP ratio, as the hon. Senator pointed out, that is still not as bad as most of the OECD countries that I referred to. I can pull out all the economic statistics one after the other and

State of the Economy
[SEN. DR. HENRY]

Tuesday, July 06, 2010

show the comparison with the so-called developed countries, and you would see that our indicators are on par or better than most: Japan, Italy and those places have debt to GDP ratios over 100 per cent. In fact, the last figure I saw, Italy 170 per cent. [Interruption] Many of them, and we do not generally refer to Japan as a basket case or somehow a country where squandermania took place and so on.

What I am saying is that be careful and be generous in terms of how we assess ourselves. Inflation quickly is one; of course one of our main concerns is economic indicator we have that is trending in the wrong direction at a global level, and inflation is coming down. In fact, the concern is more with deflation in the international community rather than inflation. As we know and was mentioned by the hon. Senator, the fact that food price inflation, domestic food prices due to the drought, the extensive dry season and so on contributed significantly to that increase in recent inflation that we saw. Also we must keep in mind that not everything is as a result of mismanagement or bad human beings holding some sinister motive. Inflation such as this is something that happens just about anywhere. How could you in any country where there is a drought, natural disaster, hurricane and prices go up, we would expect—now of course that does not keep us from pursuing long-term solutions in terms of increasing supply and creating buffers and so on, that does not rule out that particular concern.

Now, on the issue of reserves: Our reserves are in the vicinity of \$8.9 billion—I think was the number quoted, that is not small money by our standards, it is quite healthy and it should be appreciated. The newly formed Government should be quite happy that they walked into a situation with such high levels of reserves. Do not look at a gift horse in the mouth and slap it, you might want to ride that horse sometime later.

The final point is in terms of investor confidence. We know that during election time, especially in an election year, investor confidence tends to be eroded because of uncertainty over the outcome of an election, so I would want to argue that we have seen some of that at work in the last few months, hopefully, with the correct policy positions that could be restored if you have the wherewithal to do so. And if you continue to talk about the dire straits, and the terrible economic situation that we are in, I cannot see how that could be good or inspiring to the private sector. So I wish the Government side would basically tell us how you are going to govern in terms of managing the economy in concrete terms, solid proposals for revenue generation and so on, instead of trying to say, well, things are bad, we cannot deliver on our promises or something to that effect. It does us no good. The general public does not want to hear that. People

want solutions and not cries of wolf. The PNM may have fallen on May 24, 2010, but I can assure the public and this honourable Senate that we did not take the economy with us [*Desk thumping*] and you have a good track to run on, please understand that.

Thank you. [*Desk thumping*]

Sen. Subhas Ramkhelawan: Thank you, Mr. President, for giving me the opportunity to join in this rather anaemic Motion and debate. I say anaemic because very often when we speak about the state of the economy there is some liveliness, but it sounds as though the economy is in a state. I find that we have gone about this particular Motion in a way that really does not connect with the ordinary citizen and enjoins the ordinary citizen to say, yes, I understand what is going on here and whether it makes sense or not.

I know that the other two speakers have been engaged in, on previous occasions, lecturing and so on, but it is time that we get the people of this country into the conversation of the state of the economy and that the economy is in a state. Then from there we can discuss with our citizens what we need to do and what we can do about it.

But before I go there, Mr. President, let me first congratulate you on your elevation to this honourable position and let me congratulate Senators on the Government side, some fresh faces, and I hope that they remain fresh as you go along and as you make these tremendous sacrifices in managing the country. I congratulate them on their tremendous success at the election and I wish them well. I wish my colleague on the other side, the Vice-President, all the best in her new endeavours and I echo the view that she will join us every now and again at our table when we may actually be bad talking the Government or saying not so nice things and she would have to swallow it up, as we sometimes do on the Independent Bench. [*Laughter*]

Mr. President, this is a very serious discussion that we are having here and it impinges on the life of every single one of our citizens from rich to poor. We have heard in the election hustings just recently, and probably ongoing, we have heard some promises that have been made which are going to be very difficult to deliver on, and if they are delivered they are going to put the economy in a further state of disrepair. Let me say that when we look back, some very good things have been done for our economy, and we have reached a point of reflection in the economy where serious decisions have to be made. There is no gainsaying that the driver of the economy is oil and gas, more so gas and less so oil now. When you take the

number of barrels of equivalent oil what we find and what is clear to see is that 85 per cent of our energy input of the 700,000 odd barrels equivalent; 85 per cent of that is gas and the remaining 15 per cent is oil. So what we need to concentrate on very clearly is what is the future of gas and how gas is going to help to grow, develop and/or transform the economy as we go forward.

Now my learned colleague, Sen. The Hon. Mary King, has already painted the picture and the snapshot of the economy. I therefore need not add anything to the very clear and detailed statistics that she has been able to put on the Table today. Therefore, I want to coin and to phrase my contribution today on three areas:

1. The fiscal situation;
2. The monetary situation; and
3. How do we get from here to growth, development and transformation.

Growth, development and transformation must be taken in phases, so Sen. The Hon. King has spoken about the long term. Most famous economists have already said that in their long term we are all dead. So let us try and fill in the blank spaces, the short to medium and medium to long, because in knowledged society it is about long-term transformation, it does not happen in two years, it does not happen in three years, it does not happen in five years and it does not even happen in 10 years.

What are we going to do as a nation to ensure that in the next five years—which I believe still is the term for any Government—we are in a better place, that our economy is in a better place in five years' time and within these five years' time? Because if that is not the case you can talk from here to wherever, you would be out of power and then a new set of people would come and talk about the long term, the next 20 years, all the great things they are going to do in the next 20 years. No, let us see what you are going to do in five years and let us have that discussion.

Let us bring this down to the lowest common denominator. A man earning a net income of \$37,000 is spending \$44,000. That is the case of the nation right now. On the fiscal side we are earning \$37 billion and we are spending \$44 billion. We can translate that however we want when we talk about 5.3 per cent of GDP and so on, bring it to the fiscal side and on the fiscal side what you have is I am spending \$7 billion more than I am earning. We know that man who is earning \$37,000 and spending \$44,000; he does not have much room to manoeuvre.

3.15 p.m.

That man is going to find himself borrowing to the hilt in a very short period of time if he continues to spend more than he is earning, and that is what is happening with the Government today. They are going to get a Bligh because they can blame the previous administration for putting us in the position that we are in today. Whether good or bad, that is only one element of what the previous administration would have done, but let us stay with the fiscal situation and say that we have done it in 2008. We have spent more than we earn—\$37 billion earnings and \$44 billion expenditure—and we are doing it again in this 2009/2010 year. We are going forward and I wait with bated breath, the deliberations of the hon. Minister of Finance when he comes to the House, and possibly to this honourable Senate, to tell us what he is going to do, whether it is the year ahead or the subsequent year to close that gap.

So this man, who is earning \$37,000 and spending \$44,000, has very limited choices. First, he can continue to borrow, and continuing to borrow is simply going closer and closer to the edge of a precipice, and when you fall, you fall with a very loud thud. A la-Greece, a la-UK, a la-Italy, a la-Portugal, a la-Spain, and now the words start with austerity. What austerity means really is start living within your means, but here is where this man is somewhat handcuffed. This man has said that he wants to continue expending at the same level. This Government has said on the political hustings: "No, no, we are going to look for ways to cut expenditure." None has been named. What has been named is:

- (1) We are going to enhance the benefits of workers of CEPEP and URP;
- (2) We are going to enhance the benefits of our senior citizens who will be recipients of enhanced pensions as we go along.

Now, that level of expenditure has not been quantified. We have heard some very strange numbers coming out in terms of quantification, but I await the hon. Minister. I will await him to see what those numbers translate into, to see what is the extent and impact in terms of going forward because I am less concerned where we have been. Many have spoken about that. I am more concerned with how and where we are going to go forward. If you want to close the gap, this man with \$37,000 and expenditure of \$44,000, first choice, cut expenditure. Sounds simple enough, sounds clear enough. We do not need to be rocket scientists to know that that might actually close the gap, but if he does not want to close the gap by expenditure, increase revenues. Increasing revenues would mean probably finding a second job, doing something different in order to add.

In the case of the Government, the increasing revenues in the short term can only take a very limited set of forks in the short term. In the short term, Government can only increase revenues by raising taxes or cutting subsidies. There is no other unless I missed something in my learnings of economics and so on. Those are the things that you can do—increase revenues. How do you increase revenues? You increase taxes. I seem to have heard the Government say, "No new taxes." I think I heard that. Increasing revenues and increasing expenditure, but no new taxes. If I take that simple framework, the gap is going to widen—choices then. Well, cut subsidies as we have just mentioned. Where are the main areas of subsidies? Welfare, transportation. Let us look at transportation. I think when you run the numbers you would see that there is probably over a billion dollars in subsidy for gas. It is not as simple as that on the fiscal side. You cut the subsidy, you raise transportation cost, what does that do to your economy? Fiscal is one side of the equation and this is a very complex equation. So I do not know when we talk about the economy being in a state or the state of economy, where is the wiggle room in order to close this gap.

Okay! I think the Government has several choices, some I have named already. Increase borrowing which will take you to the edge of a precipice if you are not going to be able to close the gap by increasing revenue at a rate that is higher than increasing expenditure. There are choices for increasing borrowing, external debt or internal debt. In this case, we are in a fortunate position that there is a significant amount of liquidity in the system, surplus funds in the system where the government can actually go and borrow for five years—if that be the case—at 5 per cent or less in the local market. There is more than \$1 billion in liquidity sitting there, and there could be much more because the deposit reserves in the banking system stand about 17 per cent. When you consider that there is about \$75 odd billion dollars in deposits, there is another \$10 billion, \$12 billion that can be borrowed in the local system. There is no shortage of liquidity when you look at those things. But then the man who is earning \$37,000 and spending \$44,000, he can do something else. He can draw down on his savings. He could borrow and he could draw down on his savings.

We do have some savings, Mr. President. We have savings of something in the order of close to TT \$20 million, or as the hon. Senator said, US \$3.15 billion in the Heritage and Stabilisation Fund. Therefore, if in the short term it is necessary, we may have to draw down on our savings to create a soft landing in order to go forward.

As you would know, Mr. President, the Heritage and Stabilisation Fund is so structured in accordance with legislation, that one can draw up to 25 per cent of

what is vested in the fund in any one year. So you can fully deplete your fund in four years' time, except that if you are going to draw down on your savings, you must have a game plan that this is only for soft landing purposes and not getting to the edge of the precipice. You are doing this in the interim, knowing full well that you have a plan of action which is going to either increase your revenues, cut your expenditure and balance your budget.

Now, to the credit of the previous administration, whether we say that that administration engaged in profligate spending, tall buildings; or whether we say the administration engaged in projects which were non-revenue generating; the point is that that administration from the year 2002 when they took office, to 2007, for five years had a balance or surplus in the budget. Therefore, for two years, had a deficit. We will look to see what this current administration will do over the next five years in terms of a balanced budget or in terms of deficit financing as we go along.

So on the fiscal side in the short term, we are going to either have to borrow locally or externally, and I think that the Government has access to local borrowers. But, I would say, when you look back over the past 10 years at about the cheapest rates that the Government or the administration will be able to borrow at—because as we know in the banking system locally, short term rates have come down in the past eight years or so from a high of 9 per cent or 10 per cent—these are deposit rates—down to a level of 1 to 2 per cent. So, government borrowings for the longer term have come correspondingly down to the level of about 5 or 6 per cent as the case may be, even for money as far out as 15 years.

So there are choices on the fiscal side, and those choices have consequences. With those consequences, let me say very clearly, that all of us will be looking at what the Government does in the short term on the fiscal side, but also while it is doing that, what the strategic intent and direction is in order to take us out of this hole that we find ourselves in on the fiscal side.

On the monetary side, I have made some mention already about the cost of funding, and I would like to also raise the matter because the hon. Senator has spoken to what is seemingly a lack of confidence in the system in terms of investment confidence in investing and going forward, even though rates are at a very low level. But what we have found in the system—deposit rates—a man going to the bank, who was getting 6 or 7 per cent a year ago, now getting 1 or 2 per cent in money market funds, and getting .75 per cent on bank deposits. That rate has fallen quickly, but you know what? The lending rate of the banking system has not come down correspondingly.

So whereas the prime lending rate of the banks would have been 11 per cent or 11½ per cent a year ago, one year later, the lending would be in the order of 9 per cent. A reduction of about 2 per cent if my arithmetic works out right, but the deposit rates on the other side have come down from 8 per cent, down to .75 per cent, a drop of about 7 per cent on the funding side and 2 per cent on the lending side. Something is wrong with that equation. Are the banks gouging the borrowers?

3.30 p.m.

I am not saying that is the case, Mr. President, I am asking a question. Are they taking advantage of a situation that has occurred only for their benefit, without a proper consideration of the economy? Are they making super profits at a time of adversity? I am sure economists would ask that question and I am not an economist. I am sure the question ought to be asked in the right quarters.

Why is the Governor of the Central Bank boasting about a repo rate of 5 per cent when that is a nonsensical rate? As you know, the repo rate is a policy rate which establishes certain levels or sends certain messages, probably now through moral suasion, as to what lending rates should be and what borrowing rates should be. The banks can borrow from each other at rates of 2 per cent or 1 per cent and the repo rate is 5 per cent. I think there are people, if they do the evaluation and the studies, who ought to be saying that the repo rate of the Central Bank should be 3 per cent or 2 per cent or even less, and the message should go, because that establishes what lending rates ought to be in the system, that the policy rate should drop to reflect the realities in our financial and banking systems. If that is not the case, then something is wrong; somebody is not saying what they should be saying in the ears of the bankers. It is a time, probably, for greater moral suasion. That is the monetary side.

When you talk about investor confidence, the fact is that investor confidence is low. The fact is that the level of credit to the private sector, that is, the private sector borrowing to invest, has fallen considerably from one year ago. Equally surprising is that the consumer, the individual borrower, the retail borrower, that has also fallen, because there is a lacuna in confidence, certainly from the business sector. From the business sector, it does not really matter where the cost of borrowing is to invest—it does not really matter. Being an old banker myself, I know that it does not really matter what rate I raise deposits at from the system. What really matters is the spread, what I can lend at. Therefore, these bankers are experiencing a greater and greater spread; they are borrowing lower and the rate of borrowing is falling at a faster rate than the rate of lending. They are making a

greater spread on every dollar lent. So it is not the little man only who loses out; it is the business sector that is finding that the cost of borrowing is actually higher than it should be.

Mr. President, we have spoken about the decline in credit that is taking place in the business sector, the private sector and the consumer sector. All of us know, at least, those who would have done elementary economics, that the other side of the wealth of a country is about private sector investment, consumer expenditure and government expenditure. I think the formula used to be, when I studied it, C , consumption, I , investment, plus G , government expenditure, plus X minus M , which is exports minus imports. So what we see in the areas that ought to promote economic and GDP growth and the wealth of the nation, which is the other side, the investment side, two of the three engines are failing: The consumer, which makes up, by the way, some 60 per cent of this economy, credit is falling, expenditure is falling by the consumer. The private sector has measured some credit growth, and that is borrowing to invest, that is falling. The only remaining horse limping is the Government. Government is trying to kick-start this economy, just as it is happening all over the world where the presumption is that if government continues to spend to keep the economy going, at some point in time, that is going to feed into the private sector and into the consumer.

I do not think that we could take that bet willy-nilly. If we are going to take that bet, we have to take the position that we know what we are going to do this year, what we are going to do next year, what we are going to do the following year to encourage, to foment and to generate economic growth, economic development and economic transformation.

This is where I want to turn to the third part of my contribution. I spoke to the fiscal side. I think I spoke to the monetary side and I want to turn now to the question of how we move to achieving these laudable objectives of economic growth, development and transformation. We have spoken to the three drivers: government, the consumer and the private sector. I want to break this part of the conversation into short, medium and long term.

Mr. President, we cannot escape that we are a gas economy. We must not duck from the issue; we must not hide from the issue; we must not run from the issue, but we must now seek, in the short to medium term, to play to our strength, and our strength is gas.

In the last administration we have spoken about those initiatives and drivers which I would like to call "the magnificent seven", which would be used to diversify the economy. Those are in terms of the diversification: One, the

State of the Economy
[SEN. RAMKHELAWAN]

Tuesday, July 06, 2010

entertainment industry. In the last government report on Vision 2020, the Progress Report, it was said that the Government had entered into a relationship with about 30 entertainers, with a view to transforming the industry and getting into arrangements with them. I do not know for what. I do not know what these persons are going to do to transform the economy. When they talked about it, they talked about these areas achieving diversification, such that they become 10 per cent of the economy, but no word of by when. Remember in the long run, we are all dead; so if it is 30 years from now, I guarantee you, I will not be around to benefit from it. I see some young faces here, but they would not be so young in 30 years' time. [*Laughter*]

The film industry is the second area of magnificent endeavour of the magnificent seven. Fish and fish processing, third area; the food and beverage industry, the fourth area; maritime merchant marine industry, the fifth area; print and packaging, the sixth area and the yachting industry, the seventh area. When you look at the amount of funds that have been invested in these areas, you do not invest \$10,000 and expect to get back \$10 million. Of course, if you invest in the Lotto, there is a possibility, however remote, that by investing even less than \$10,000 you can come up with \$10 million. But we are a nation; we are about planning; we are about developing; we are about execution of plans and, therefore, we cannot hit and hope. Even when you take these seven areas, laudable as they might be, you are talking about a long term. Remember I said that in the long term, we are all dead. Therefore, we need to have in place a horse, whether that horse is limping, we have to nurture it to make sure that it can run for us in terms of achieving economic growth. The one horse that has driven this economy is the energy horse.

The question of investment policy, short, medium, long, driven by government and the private sector or private/public sector participation, those three "Ps" we like to talk about, what are we going to do? What we have done in terms of investment policy, as far as gas is concerned, so far, has been reasonably well structured. We have taken, as the hon. Senator said, stranded gas, and we have been able to monetize that gas; we have partnered. I hope that when we go forward in the next stages of our economy, that we do not fool ourselves into thinking that we are partners when in most cases we are peons in the process. That is where the argument has gone on about offshore economy and or onshore and so on. Offshore meaning that somebody brings capital, somebody extracts our gas, somebody converts our gas, somebody sells our gas to another party and then we get a little "cacada" from it; well, maybe a big "cacada" for a little while.

The point is that the only thing we get from this would be taxes, but we do not get a sustainable process of revenue onshore; it is all offshore; financing offshore, production markets, all offshore. As we come to this horse of the gas economy, we need to look at it in several phases. I would say that we are actually at ground zero in terms of monetization. We are still at the plantation stage of the economy, where we take our sugar and we sell it raw to the developed world and they refine our sugar and sell it back to us at much higher margins.

I also am a student of the plantation economy, though not being an economist. What we need to do in order to drive the benefits and to have a higher retention of our benefits within the onshore economy, we need to take it to the next stage.

Mr. President, as we talk about gas, it is clear that there are some areas that we cannot redirect in this economy.

3.45 p.m.

We have boasted in the monetization of gas; that we find gas offshore; we transport it onshore; we convert it into liquid form, LNG, and we sell it because we are taking stranded gas and bringing it into a transportable form where it could actually be sold. But, Mr. President, that accounts for 60 per cent of the overall gas output in this country and when we convert natural gas into LNG, taking this stranded gas to monetize it, in effect, we are getting less money for our natural gas by processing and shipping.

When we hear, as we all do, that Henry Hub today was \$4.57 mmbtu, when we take our gas, convert it into LNG and ship it, the net benefit is about 50 per cent of what Henry Hub is because you have to pay for shipping and the LNG plant processing. So we are getting much less, about half of what Henry Hub prices are. That is the classic case of plantation economy. So I like the term and I hope the hon. Senator does not mind if I borrow it now and again.

What can we do in the short to medium term to ensure that we have a higher level of retention in the economy? The answer is fairly simple and straightforward. I think that the last administration was trying to set the tone for going to the next level. Some say that we have started about eight or ten years late; I say better late than never. Maybe the new administration, having been handed the baton a little late in the race, still has to make up time. They can only make excuses another two or three months. They can blame the last administration for another two to three months, hopefully, and let us get on with the business.

Here we are at ground zero where we have now converted our gas to a monetizable stage. But do you know what the better proposition is? We cannot get anything more out of that LNG. That has gone at a discounted price because the main beneficiaries of that conversion and shipping we have no investment in that. We have a small investment in one of the LNG plants, about 11 per cent through NGC, and in Plant 4 another 11 per cent; but we have a "chirrip" of what is happening in that offshore economy. It is like a man seeing the feast that is going on the table, but is only allowed to feed off the crumbs that fall off the edges. That is only an analogy and it may be overstating the case, but that is when we look at it.

We have spoken about this before. Energy country: we are well placed on the map selling our commodities. We are the largest exporter of methanol in the world. We are the largest exporter of ammonia in the world, but has it come onshore? Ask anyone sitting in this Chamber or in the country and they will tell you: "Well, I cannot buy a share in a methanol company here. I cannot buy a share in an ammonia company, so what is my ownership? That is why I usually take offence to this question of the oil dividend. To have a dividend you have ownership; not indirectly, but indirectly. That is one of the reasons why the capital markets in this country can never go forward. If 50 per cent of your economy is energy and there is not one energy stock on your stock market, you cannot go forward. So we have achieved economic growth, but we are not achieving economic development and bringing that development onshore.

Mr. President, let me not bore you and go on with this story to the second phase, phase 1. I like to call it tier 1. We are really at ground zero right now. We have taken gas and converted it to methanol and ammonia, but the vast bulk has gone in LNG, dead to this country, never to be seen any more or to feed into the economy. But we still have some saving graces in methanol and ammonia. As you know, Mr. President, methanol can be converted to propylene, to polypropylene, which is plastics. It can generate a plastic industry overall.

There are people who have come to this country to say: If we are going to do plastics, we can do it for you on a fully integrated basis. Give us more gas, we are going to set up a methanol company, convert it to propylene and polypropylene; but the fact is that we already have methanol, 9.9999, four decimal places. We are exporting.

I fully understand that if an institution comes to this country—

Mr. President: Hon. Senators, the speaking time of the hon. Senator has expired.

Motion made, That the hon. Senator's speaking time be extended by 15 minutes. [*Sen. B. Ali*]

Question put and agreed to.

Sen. S. Ramkhelawan: Thank you, Mr. President. I did not realize I was so verbose. I thought I would have been able to complete my contribution in less than 45 minutes, but since I am waxing warm, allow me to continue and I thank the hon. Senators in so allowing me.

We already have a feedstock that can be converted onshore in a very quick space of time, within two and a half years to five years; methanol to polypropylene, plastics. There is, in my view, no need for us to tie up any more of our gas reserves not in abundant supply at this point in time. We need to redirect.

I am not saying that any government intervention to cause anybody to have to redirect, but good business sense where we know that, if we have to put down a polypropylene plant of an end user production in plastics whether automobile parts, plastic film, anything in plastics, our partners who have come to invest need a return and I have absolutely no objection to that. As you know, I am of capitalistic tendencies. If a man invests his money, let him make a return. That is how it should be and that is how it must be.

They would have medium-term contracts, some of which would expire in three, four and five years' time, and we should as a nation be able to acquire those new contracts for the production of plastics and polypropylene. It is not the case that people come to invest and you can immediately redirect. The good fortune for us is that, in terms of putting down a plant or financing such plants, the gestation time would be three or four years.

I suggest to the Government that it makes sense that you go to the next tier and you put in place measures to ensure that we bring that offshore economy onshore. The same is true for ammonia. I just use this as one example where you have tier 1, ammonia; tier 2, intermediate products; tier 3, end products. Bring them onshore.

There is another reason why I raise this question and I bring it as an example. Fifteen and 20 years ago, the argument was made to us that we did not have sufficient capital to invest in any of those enterprises and that was probably true. But I say to you, Mr. President, if a polypropylene plant with all its ancillary features were to cost US \$600 million and 70 per cent of that was through project financing and debt and the remaining 30 per cent was equity, then, if my

arithmetic is right, you need, in equity, to invest in a plant like that, \$180 million. If you give a partner who brings the know-how 51 per cent of that, then all you need in terms of investment is about US \$90 million.

I can tell you that is joke; not from my pocket, but in terms of the system. There is this surfeit of funds looking for a place to invest in viable opportunities. That is why people are not investing. There are no viable opportunities; meaning that if they invest, they can get a reasonable return. That is why the partnership between private and public sector is very important and why the spin-off effect would be the development of your capital market here and when you start to produce end user products, it would not any longer be about specialist ships coming here to fill their holes with methanol to go back. It will be about containerization. It will be about a whole series of plastic products; about diversifying into various areas, but being able to sell output.

I want to turn to another part of the policy investment, which is facilitation of trade. For the past 15 years or more, we have talked about being a very good location for distribution and logistics into Latin and North America, but for the past 10 years we have not had any significant increase in trade agreements with potential partners and export markets that we are looking at. We have remained stuck on Caricom and it cannot absorb any more of the production capacity of Trinidad and Tobago. It does not have the absorptive capacity. There is not the population; there is not the development of that market.

4.00 p.m.

Your next closest market is in fact Latin America. We only have five trade agreements with Latin America, of the 34 countries, and that is for trade only in goods, on a very limited basis. Why is that? Talk is cheap, very cheap. What we need to do is walk the talk. If this Government is serious about walking the talk, within five years, they should have three trade agreements in goods and services with Latin America. Short of that, they have failed. In terms of the flow process, if you are going to produce, you have to have access and you have to start with access and work back to production. I have given an example of what needs to be done in the short to medium term. Work with your strengths.

Knowledge economy, right. In 20 or 30 years, when I become a geriatric, if I am still here, with respect to the knowledge economy, I would look on and say: "yes, fine." That is not going to happen in our lifetime. Maybe you are a bit younger man than me, Mr. President, but it is not going to happen in our lifetime. It is good old talk. We could have a good old talk about that, when we are by a

rum shop drinking, but we cannot have that same old talk happening over and over and over again in this honourable Senate. It is too much to take and to accept. Talk to me about the short to medium term and come up with projects that are bankable. Other than that, old talk. We could do it in the lounge, but not here.

I want to wind up my conversation with this man who is earning \$37,000 and spending \$44,000. Be careful. Be vigilant, because you are going to be bankrupt if you are not. Cut your expenditure, or find ways to increase revenue. With respect to finding ways to increase revenues, there are a number of ways. I have spoken to one, which could widen out. You can make it into an investment policy that works. Minimize your borrowing. It is a recipe for going over the precipice, because when you get to that point and you start to talk about austerity, you are talking about another 10 years to come out of the hole to start walking again.

The PIIGS have found that out—Portugal, Italy, Ireland, Greece and Spain. That is only one, because the developed world is finding itself going right—the other members of the developed world—into that trap; the debt trap. Do not find yourself in the debt trap, if even you have to change direction, if you have to slow the rate at which you deliver on some promises in the welfare area. Put your resources to productive use and purpose.

I have tried to inject some life into this rather anaemic state of the economy, because it was rather theoretical and boring. I do not mind boring, if it could work. I mind when we start this old talk, there is no connect between the talk and the walk and it is taking us from myth to reality.

I think I will stop here and allow the debate to go on in, hopefully, continued dynamic terms. I thank you, Mr. President.

The Parliamentary Secretary in the Ministry of Energy and Energy Affairs (Sen. Kevin Ramnarine): Mr. President, first of all, I would like to express my sincere gratitude to the hon. Prime Minister for the confidence that she has expressed in me in my appointment to the Senate. I hope that my time here will be valuable to the country and I hope that we could foster, in the next five years, a high level of debate. From what I have seen, we have already gone down that road. I hope not to disappoint Sen. Ramkhelawan. I hope to inject some life into this anaemic debate, as he called it.

I think this Motion—one of the previous speakers was questioning what was the point of this debate—is an extremely serious matter that should be engaging the attention of this Parliament. Before I start, I want to talk a bit about the global context in which we currently find ourselves. I do not want to dwell too much on

State of the Economy
[SEN. K. RAMNARINE]

Tuesday, July 06, 2010

the academic dimensions of that discussion. It is well known that the world economy, in 2008, after almost one decade of very robust growth driven mainly by China and India, hit a snag in 2008. We all know what happened with Lehman Brothers and the credit crisis in the United States. Around that time, Trinidad and Tobago was going along with the world economy. We were also experiencing pretty robust growth rates. That came to an end in 2008, for the United States and Trinidad and Tobago. The World Bank figures for world economic growth in 2009, show that the world economy shrunk by about 2 per cent in 2009. It was the first time the world economy actually shrunk, in terms of GDP since the Second World War. However, there was not all bad news coming from the World Bank. They estimate that this year, the world economy will grow by around 3 per cent. They, however, caveat that assumption, referring, of course, to what Sen. Ramkhelawan talked about, the PIIGS—Portugal, Italy, Ireland, Greece and Spain—and the debt crisis in Europe. That, in a nutshell, is the global scenario in which we find ourselves.

Trinidad and Tobago is not immune in that global context. I remember two years ago, when this situation started, there were noises coming from the then government that the country will not be affected by the global economic meltdown. We were hearing talks coming from the previous government that the sky would not fall. I do not know if you remember those comments. The previous Prime Minister of the country even said that it was just a blip. It turned out to be the most significant blip since the great depression. We are not immune from the tides of the global economy. In fact, no country in the world is now immune from the tides of the global economy.

Colleagues in this Senate would know that Trinidad and Tobago's economy has long been connected to the global economy for almost 200 years. What happens in London affects the farmer in Barrackpore. In my contribution, I want to bring this debate back to the people of Trinidad and Tobago. What happens in New York affects the geologist working on the East Coast of Trinidad.

The global recession sent the prices of oil and natural gas, ammonia and methanol plummeting from the highs they had reached around the third quarter of 2008. These prices have, of course, since then, experienced some slight recovery. When the price of our main commodity falls, of course, it affects our revenue stream. We must note that the prices of ammonia, methanol, oil and natural gas are all positively correlated. When oil falls, the price of all these other commodities fall. Our economy, as Sen. Ramkhelawan and Sen. The Hon. Mary King pointed out earlier, is still heavily dependent on the energy sector. Through the course of this contribution, we would talk a bit about diversification.

The economy, as we have heard earlier, is mainly a gas-based economy now. We heard some figures about barrels of oil equivalent, but the figures are actually quite startling. This economy produces seven times more natural gas than oil on an equivalency basis and that statistic, based on my research, is unique in the world. No country has such a skewed production profile of oil and natural gas. At present, we produce around 105,000 barrels of oil per day. On an equivalency basis, we produce around 700,000 barrels of natural gas. The conversion is a very simple conversion; 6,000 cubic feet of natural gas is equal to one barrel of oil. For intents and purposes, this economy is a gas-based economy.

I keep hearing a lot of talk about who is responsible for Point Lisas and that credit should be given to the former Prime Minister and the father of the nation, Dr. Eric Williams, but I would like to invite Sen. Dr. Henry to look into the records and history of the South Trinidad Chamber of Industry and Commerce. They too should be given some credit for the establishment of the Point Lisas Industrial Estate and Plipdeco, back in the 1960s and 1970s.

There is a lot of talk that we should not dwell too much on the past and that we should look into the future, but we need to understand why the man who is making \$37,000 per year and living at a level of \$44,000 a year has reached to that point. The International Monetary Fund, in its 2009 article for consultation on this country, noted:

“The magnitude of the recent fiscal expansion has been excessive. It has not only contributed to high inflation and risk of Dutch Disease, but it also implied large non-energy deficits that cannot be sustained in the longer term.”

That is the IMF, that is not me speaking, some 15 months ago; not very long ago.

If you want to go further back into the IMF article for consultation reports, you can go back to 2003. All the reports are public information, which is available on the IMF website. As far back as 2003, the International Monetary Fund was cautioning the government about the pattern of expenditure that they saw taking shape in Trinidad and Tobago. The questions we must ask ourselves—it is important for us to understand how we have reached here. It is important for us to understand the epistemic forces that brought us to this point, because we cannot navigate the man who is now earning \$37,000 per year, as Sen. Ramkhelawan pointed out; out of the problem that he is in, unless we understand how we arrive at this point. We must ask ourselves the questions: What did we do with the rent collected from the gas boom of the last decade? How efficiently were these rents

State of the Economy
[SEN. K. RAMNARINE]

Tuesday, July 06, 2010

employed? The third question we must ask is: Was our capital employed in a manner that has created a sustainable and diversified economy? Those are the questions we must ask ourselves in July 2010, after we have experienced a boom and \$300 billion over the last seven years.

Mr. President, all is not lost and the economy is not a basket case, as somebody on the other side described the economy. The economy is not in the position that the Trinidad and Tobago economy was in 1986. I suspect, however, if we had two or three more years of PNM administration, we may have in 2012, found the economy in a position similar to 1986. Thanks to the former Prime Minister of the country, we had a general election and we now have a new Government with fresh ideas and new ways of thinking. We must all thank the former Prime Minister of the country for giving us the opportunity to sit on this side of the Parliament.

The good news is that investors are interested in this country and are buoyed by the change in Government that brings new thinking and a removal of old fossilized ideas and decaying structures. I want to quote senior Republic Bank economist, Dr. Ronald Ramkissoon, who was quoted in the *Business Express* of yesterday as saying that a new government means new ideas. He also stated that he appreciated the People's Partnership drive towards diversification outside of the energy sector. There is confidence in the economy. The economy is not in the position it was in 1986 and we still have a lot of potential in Trinidad and Tobago.

I cannot stress the importance of understanding the economic history of the last 37 years. I am 38 years old. In 1973, when the first oil boom began, I was one year old. I think the hon. Attorney General was born in 1973. We have 37 years of history and 37 years of data to look back at. In that 37-year period, we have had two resource booms. The first was 1973—1982, which was driven mainly by the price of oil that escalated dramatically in 1973. As you would recall, I was one year old at the time, so I had to read this in the history books.

4.15 p.m.

In 1973, there was the Arab oil embargo that caused the quadrupling of oil prices suddenly, and ushered in what was then called the oil boom; a period in the economic history of this country that lasted from 1973 to 1982. It is well documented by economic historians that we had a lot of inefficient expenditure.

In the late 1990s, up until about 2007/2008, there was what we called the gas-driven boom, which had to do with the expansion of the natural gas industry in Trinidad and, in particular, the establishment of an LNG industry in this country.

Again, I want to touch on LNG, because there is the thinking that this country somehow magically fell from the sky in 1956, and the country did not fall from the sky in 1956. I must put on the record that the first shipment of LNG took place in 1999 under a UNC administration. Train 1 was built during the UNC administration and the discovery of the prolific Angostura Field off the East Coast was discovered during the period 1995—2001. So, the PNM cannot take all the credit for economic and industrial development in this country. That was something we heard on the platform in the last general election.

Mr. President, the downside to resource-based development is well documented, and is prevalent in economic literature that has been put out over the last 30 years by the World Bank, the IMF and by our own economists here at the University of the West Indies. If you were to peruse what those institutions have written, the prescriptions for managing an economy in a time of super abundance of revenue is all there. So, it is really a mystery to me that we made the same mistake twice. It is said that the definition of madness is doing the same thing over and over and expecting a different result.

Mr. President, I now turn to the nature of the Trinidad and Tobago economy. I think Sen. Mary King dealt with the body of the economy, if we are to use the analogy of the human body, but what I want to touch a bit on is the heart or the cardiology of the national economy. If we are to understand the state of our economy, we need to appreciate that, of course, the economy is a gas-based economy. As I said before, natural gas production is seven times oil production on an equivalency basis.

We need to understand that Trinidad and Tobago generates 99 per cent of its electricity from gas fired power plants. No other country in the world has that very high percentage of power generation coming from one source. The energy sector accounts for 41 per cent of GDP, and there are some economists who believe that is a conservative estimate, and I am going to explain why that could be a conservative figure, but it could be higher than that. It also accounts for 90 per cent of foreign exchange earned by this country. We can go on and on with the statistics. It also accounts for just 4 per cent of the labour force. So, it is not a very labour intensive industry. That is the heart of Trinidad and Tobago's economy.

We have been talking about the plantation economy—Lloyd Best and Kari Levitt and so on—and what is the offshore economy and what is the onshore economy. The rents from the energy sector are collected by the Government who then spend those rents on services. So, therefore, the energy sector is linked to the services sector in Trinidad and Tobago.

Mr. President, the last budget that was presented to this Parliament was based on two main assumptions: the price of natural gas and the price of oil. The last budget was based on a natural gas price of \$2.75 per mmbtu. That is one of the units that is used to price natural gas. The price is arrived at by considering the natural gas market in Trinidad and Tobago but, as Sen. Ramkhelawan pointed out that market is 60 per cent export and 40 per cent domestic.

So, there is a price of natural gas sold to NGC and there is a price of natural gas based on LNG export. The price of natural gas based on LNG export is linked to a marker called the Henry Hub index in the United States of America. My research shows that for us to realize \$2.75 per mmbtu, the Henry Hub price has to be somewhere in the region of \$5.30 per mmbtu.

When I did the research for my contribution today, the Henry Hub price has averaged around \$4.76 for the last nine months—the period October 01, 2009 to June 30, 2010. So, based on that assumption alone, we begin to dissect where the deficit in the budget is coming from.

The other assumption that the last budget was based on is the price of oil at \$55 per barrel. While the price has averaged around \$77.46 in the last nine months, we must remember—this is one of the things that always peeved me about previous budget presentations. Ministers of Finance in the past administration would come and tell us the price of oil the budget would be based on, but they never told us what oil production they anticipated. So, it makes no sense to tell us what the price of the orange is if we do not know how many oranges we are going to sell.

We know that oil production in this country has been on the decline. Oil production in this country has fallen by 27 per cent in the last four years from 2006—2010. As I said, we are now producing around 105,000 barrels of oil per day. That compares to 147,000 barrels of oil per day in 2006. So, there has been a decline in oil production. The nature of the oil industry is such that if we do not invest in oil production and invest in things like work overs and so on and do remedial work on oil wells, there is a natural decline curve that sets in.

So, based on the price of natural gas and the falling production of oil, we have arrived at a position where in 2010 we expect a deficit of somewhere in the region of \$7.7 billion. There was also a similar deficit in terms of size in the year 2009. So, we can begin to dissect and understand why we are arriving at these deficits.

Mr. President, if we examine the Review of the Economy which is a report that is published by the Ministry of Finance each year, we begin to see that economic deceleration of this economy began as far back as 2007. So, our

problems with the energy sector, as the engine of growth did not start in 2009. When one goes back to the Review of the Economy, one would see that it really started in 2007. Why is that? Economic growth from Economics 101 is the change in GDP, and GDP is the value of goods and services produced by an economy, but I do not want to get too academic.

In the year 2006, the Review of the Economy told us that this economy grew by 13.5 per cent. That is an amazing growth rate. When you begin to dissect again what is behind that 13.5 per cent, that is underpinned by a 21.8 per cent growth in the energy sector in the year 2006. So, you begin to ask yourself: What has happened in 2006 that was so extraordinary?

Well, 2006 was the first year that we had a full year production from Train 4 at Atlantic LNG. This was the largest train in the world at the time. So, therefore, the value of goods and services produced by this economy increased significantly in that year, as a result of Train 4 and another plant at Point Lisas called the M5000 plant. Following Train 4 and the M5000 plant, foreign direct investment and construction of new plants in Trinidad and Tobago began to fall. In the year 2007, the growth rate for the economy fell sharply to 1.7 per cent after the commissioning of those two plants.

It is also important to understand that high oil prices means very little if production of that commodity is in decline. Mr. President, what I am talking about here is, obviously, not rocket science. As Sen. Ramkhelawan pointed out, we are simply now earning \$37,000 per year, using the analogy of a man, and our expectations are now \$44,000 per year. I thought I would shed some light as to how we have reached to this point.

I have spoken a lot about the energy sector and its relationship to GDP and to foreign exchange earnings and so on. Again, there was a call by Sen. Ramkhelawan—sorry to refer to him so often—to bring this to a more human side. So, there is a human dimension to the energy industry. I once had the pleasure of working in the great City of San Fernando for four years. I can tell you that there is rhythm to the south land. I speak here of places like San Fernando, Penal, Point Fortin, Marabella, Palo Seco, Santa Flora and La Brea. That rhythm is inextricably linked to the fortunes and level of activity in the energy sector.

When there is activity in that sector, you can sense it in San Fernando. You see people wearing coveralls travelling to work—young men and young women; you see a visible increase in the amount of activity in the restaurants. Those of us

who know South will know that when the energy sector is booming, on a Friday evening you cannot get a place to park your vehicle at Jenny's Wok. You have to park far and walk. You see it in the roti shops; you see it in the tyre shops; you see it in the machine shops; and you see it in the restaurants that are packed and so be it. You see in those villages between San Fernando and Point Fortin, places like Roussillac where workers are on their way to Atlantic LNG or to the oilfields in Parry Lands and Guapo would stop to have breakfast on a morning. The energy sector is not just about cold GDP statistics and foreign exchange. There is a human dimension to it.

The slowdown in activity in the sector has had a direct impact on the services sector in San Fernando. I want to talk a bit about the energy services sector, because we need to talk about diversification and how do we diversify the economy with respect to playing to our strengths. In the energy services sector, there are about 450 energy services sector companies in this country. Some of them range from very small operations to very significant operations like Damus, Welfab and Trinidad Oilfield Supplies and so on. Those companies are owned by citizens of Trinidad and Tobago and the persons who work for them are citizens of Trinidad and Tobago. That sector—anybody who lives in San Fernando can tell you—is feeling the pinch of a slowdown in activity in the energy sector in Trinidad and Tobago.

At present, there is only one drilling rig operating offshore in this country. That is a Transocean rig doing some drilling for BP. There is a direct relation between the amount of drilling going on, especially exploration drilling, and the fortunes of the energy services sector in Trinidad and Tobago.

I want to talk a bit about diversification. The point was made that we have to play it to our strengths. We have an energy services sector in this country. I pointed out that there are about 450 such firms that are owned by Trinidadians. That energy services sector could follow what we call the "North Sea Model". As you know, the North Sea is one of the harshest oil and gas environments in the world. The North Sea model is British energy services companies operating in the North Sea and they have now gone global. In Trinidad and Tobago, we have one such company, the Wood Group, that does quite a lot of work in Guayaguayare.

A possibility for diversification of this economy and to earn more revenue is to promote the export of energy services in Trinidad and Tobago. In that regard, the private sector has not waited for the Government. The private sector has gone ahead and taken its own initiative. Next week, there is going to be a trade mission to Africa with a number of energy services firms. We already have companies in

Trinidad like Tucker Energy Services working in Canada and Brazil and so on. I think Damus is working in Suriname. There are energy services companies in Trinidad working as far as Africa. I could call some of the names of the companies, but I would leave it there.

So, when there is a decline in activity in the oil and gas companies like BP and BG and so on, it is felt by our local services companies in the south. Mr. President, for far too long we have been talking about diversification.

Mr. President: Senators, shall we take the tea break now? This session will now be suspended and will resume at 5.00 p.m. Thank you.

4.30 p.m.: *Sitting suspended.*

5.00 p.m.: *Sitting resumed.*

Sen. K. Ramnarine: Thank you very much, Mr. President. Before the break we were talking about diversification and we were talking about energy services so I would continue along that point, just to add that we have been commercially producing hydrocarbons in this country for 100 years. In the United Kingdom, the North Sea was discovered in the 1960s, yet the United Kingdom has exported energy services all over the world, so there is no reason why we cannot do the same in Trinidad and Tobago.

Again, on the theme of talking about diversification and playing to our strengths, the oil and gas industry globally is one of the largest consumers of software in the world and there is no reason why Trinidad and Tobago cannot become a supplier of software and IT services to the oil and gas companies in Trinidad and eventually export those services to the world. So diversification should take place in the context of what we are already strong in.

Continuing along the theme of diversification, the natural gas industry as was pointed out earlier, 60 per cent of our gas is exported. Very little of that gas goes to—what they call—the light manufacturing sector in Trinidad. There are some companies along the East-West Corridor that use natural gas and there are some hotels that use it. We could greatly reduce the cost that the manufacturing sector has to experience by increasing the amount of natural gas that they could use in their operations.

I am talking here about using gas fired air conditioning systems and so on. The economy, of course, is long overdue for diversification. I like to use cricket analogies a lot when I explain things because it helps West Indian people understand better. The Trinidad and Tobago economy is like the West Indies team. At a time, not right now, when there was only one batsman that we could

State of the Economy
[SEN. K. RAMNARINE]

Tuesday, July 06, 2010

rely on—you all remember who that batsman was and when those days were. Once that batsman failed to make runs or he was out early and so on, it meant that the entire team would collapse. In a sense that little analogy is at the core of the whole diversification issue. We simply need more batsmen on the team who could score runs at times when the main batsman cannot make those runs.

Mr. President, instead of having a more diversified economy, we actually have one that has become more dependent on oil and gas over the years. I would not bore the Senate with statistics, but in 1974 to 1978, energy-based total exports were 93 per cent. In the years 2004 to 2008, quite recently, that figure was 87.3 per cent. So we really have not diversified our economy that much in the last 37 years. When we speak about economic development in this Parliament we must take into consideration what exactly that means.

The United Nations Human Development Index for 2009 ranks Trinidad and Tobago at 64th position. Ahead of us is St. Kitts/Nevis, a country as far as I know with no oil and gas. Ahead of us is Antigua/Barbuda at 47th position, and of course the country in the English-speaking Caribbean, I think, with the highest ranking on that Index is Barbados at 37th position. These are all Caricom member states that share similar history to Trinidad and Tobago. That is the paradox for Trinidad and Tobago and that is why we must not only measure progress in terms of gross domestic product. We must therefore link economic growth to a better standard of living for all citizens.

Given our assessment of our situation, what then is the way forward? I have pointed to some strategies that we could pursue for diversification, export and energy services, linking the manufacturing sector to the energy sector, thus using the energy sector to leverage competitive advantage in the manufacturing sector. With respect to the energy sector the strategy is a very simple strategy and it is one that we would talk about as we continue along the life of this Parliament. That strategy is to maximize existing reserves of oil and gas, and the other strategy is to find the reserves of oil and gas through aggressive exploration, increasing the amount of exploration taking place in this country. By maximizing existing reserves anybody who is familiar with the south land and the industry would know that there is still a tremendous amount of oil in the ground, both on land and offshore. What is required to lift that oil is capital and investment. We believe that with the correct incentives we could increase the oil production on both land and what they call the near shore acreages in South Trinidad.

Mr. President, if we look at the manifesto of the People's Partnership—I do not know if Senators on the other side had a chance to go on the Internet and

download it and give it a rigorous read. If we look at the manifesto of the People's Partnership, it espouses a philosophy for economic transformation that while being simple is very profound. I will not dwell on all the manifesto recommendations at this point in time as time does not permit, but I just want to touch on a few of these manifesto policies. The first has to do with creating an enabling environment that makes it easier and cheaper to do business in Trinidad and Tobago. The manifesto recognizes the need to cut down or simplify processes and procedures that increase the cost of doing business in this country. That, of course, has a direct impact on the cost of the final product or service. That, of course, has a direct impact too on productivity.

A study by the World Bank called the “doing business project” ranked 183 countries according to the ease of doing business and this country placed 81st on that ranking. It is no surprise that Singapore, which is always held up as a model for other countries to follow, was ranked number one. So one of the things that we have to do as the People's Partnership Government is make it easier for people to do business in Trinidad and Tobago, and that means our own Trinidad and Tobago businessmen.

Our economy in the context of economic development can best be described as an investment driven economy. I heard Sen. The Hon. Mary King talking earlier about Michael Porter, the next stage then has to be what is called a transformation to an innovation driven economy where research and development is linked to wealth creation.

Mr. President, as I wind up my contribution, as we move along into the next five years, the future of the country is bright. The clouds that were hanging over the world economy are beginning to clear. We are a nation that is blessed with mineral resources, and most importantly with bright and talented people who are innovative and creative and who are willing to contribute to the development of this country. Hope has returned to Trinidad and Tobago as a new government has assumed office with the backing and the blessing of the people of Trinidad and Tobago. We will not disappoint our people. We will manage their economic affairs with prudence and fiscal responsibility. We will not allow our economy to become a one-batsman economy. We would create more batsmen in Trinidad and Tobago who could score more runs. We would not disappoint the people, especially the young people, who in their hundreds of thousands went to the polls and voted for a better Trinidad and Tobago.

Mr. President, I thank you.

Sen. Shamfa Cudjoe: Thank you, Mr. President. It is not news that the recent international financial crisis has morphed into a global recession, which has brought national, regional and international financial systems and economies to their knees. From rich to poor, developed to developing, from super power to the small and vulnerable, this global catastrophe spared no one and it was absolutely impossible to escape this severe economic downturn unscathed.

The world looked on as the economies of powerful countries like the US, China, Canada and India were imperilled and debilitated by the financial turmoil. We in the Caribbean cringed as our Caricom brothers and sisters grappled with issues such as double digit unemployment levels, contracting global demand, declining exports, restricted access to capital flows, limited access to aid for development, plummeting remittances and foreign direct investments, and the slow destabilization of our economies which are so vulnerable to external shocks.

Unfortunately, most of the countries in the region were already running fiscal deficits even before the crisis. Some had high debt burdens, averaging about 90 per cent of the GDP, while others were running well in excess of 100 per cent of the GDP. Many of these countries, namely Jamaica and Antigua/Barbuda have sought support from the International Monetary Fund.

Needless to say, Trinidad and Tobago did not feel the full brunt of the economic turmoil, not even half the severity as that experienced by our neighbours in the region. Thanks to the prudent and responsible stewardship of the People's National Movement administration, [*Desk thumping*] our economy was in a better position to withstand the negative effects of the economic crisis. The crisis came at a time when our economy was performing remarkably well and growing from strength to strength with each stride. This is a direct result of the PNM and its policies to use the opportunities during the period of high oil and gas prices to strengthen our macroeconomic fundamentals.

Trinidad and Tobago has earned its reputation as one of the strongest and most dynamic economies, not just in the Caribbean but in the Latin American region. Our country has also earned the reputation as an excellent investment site for international business and has one of the highest growth rate per capita incomes in the Latin American region. The strength and resilience of our economy, of which we ought to be proud, came about as a result of the sound economic planning and policy development initiated and executed by the PNM administration. So though we did not escape the economic crisis unscathed, the situation could have been worse, but thanks to the PNM we remain robust, we remain one of the strongest economies in the region and we remain a force to be reckoned with.

An economic downturn, low time or a trough is a natural phase in the cycle of an economy. This is not new and it sure is not rocket science. Even the novice economist or student taking remedial economics can attest to this. What matters in times like these is not the whining, ranting and raving as that being showcased by the People's Partnership, but taking necessary actions and implementing strategic policies geared at mitigating the impact of the crisis on the economy and serving the people effectively.

Allow me to remind the honourable Senate that even against the backdrop of a severe and unprecedented global economic downturn, the PNM administration still managed to minimize negative effects of the crisis, while at the same time maximized on national welfare. The PNM government continued its effort to invest in highly educated workforce, maintain impressive levels of employment, sustain high levels of public investment, promote innovation and entrepreneurship and brand Trinidad and Tobago as a regional financial centre, a top performer in regional/international trade and an icon for regional/economic development.

Mr. President, in the context of the current economic landscape, of volatile energy and commodity prices, also considering the urgency of expanding the non-energy sector, the previous administration directed aggressive efforts towards economic development and export diversification, geared specifically at enhancing the services and manufacturing sectors. This has increased our level of competitiveness and enhanced our business environment, thus making our country more attractive foreign investors.

5.15 p.m.

Mr. President, some of these accomplishments occurred against the backdrop of an unfavourable international economic climate. I have been following the debates based on the state of the economy in the media, in the newspaper, even among the people on the street, and what startles me about the People's Partnership, is its high level of pessimism in addressing the state of the economy. The People's Partnership seems so surprised by the current slowdown in the international economy, and the pace at which the country is recovering from the global economic crisis. Some even try to make the public feel that the situation is particular to only Trinidad and Tobago. It makes me wonder in which country do these people reside; what newspaper do they read? It seems like somebody stayed glued to ESPN and the Lifetime Movie Network while the 7 o'clock news was being aired.

Mr. President, the concern of economic instability is a very serious one. By simply promulgating that the economy is in a more dire position than it actually is, we

State of the Economy
[SEN. CUDJOE]

Tuesday, July 06, 2010

scare consumers, causing consumers not to spend, we hinder development in the business community causing businesses not to borrow, and we run investors from our shores. I also wish to inform this honourable Senate, that the information on economic indicators and reports on the state of the economy were readily available to all, even prior to the general election. Therefore, it should be no surprise to any responsible citizen as to the state of the economy. I trust that the reputable economists and scholars within the People's Partnership would have conducted the necessary research to accurately and responsibly contribute to the economic development debate, and more importantly, to lead the country's economic recovery process at this time.

What is even more critical is the Government's intention and proposed strategies for economic advancement, and the protection of the country from future economic storms. What are the plans for economic diversification? How do you intend to raise government revenues, especially since you promise no new taxes? What is your plan to improve productivity? What is your policy on international trade? What is your plan for industrial development? What are your policies on increasing research and development, and promoting intellectual property and other avenues to advance our economy? I think the question I should have asked is: Do you even have a plan?

As a Tobagonian, I can proudly say that Tobago has made considerable strides over the past nine years, and this negative talk about the state of the economy cannot and must not be used as an excuse to reduce Tobago's budgetary allocation or as an alibi to bring numerous collaborative projects between the central government and the Tobago House of Assembly to a screeching halt. Tobago development momentum must not and should never ever be compromised.

Further, it is critical that this honourable Senate understand that Tobago, under the People's National Movement, did not only benefit from budgetary allocations, but from mutually agreed upon projects and programmes supported and funded by the central government. Some of these projects include: the construction of the natural gas pipeline from bhp Billiton Field to COVE in Tobago; adequate funding to ensure the completion of the Vanguard Hotel; the construction of the UTT Campus at Friendship Estate; continuance of the subsidies on the air bridge to ensure fares are maintained at the present price; continuance of the subsidy on the sea bridge to ensure that both passenger and cargo fares are maintained at the current price; continuance of the subsidy on fuel to ensure that prices at the pump are maintained at the current prices; continuance of the portfolio of social programs that benefit Tobagonians. These are just to name a few.

Mr. President, I must reveal that it is so disheartening, that to date, the hon. Prime Minister has not responded to a request from the Chief Secretary to discuss the government's continued commitment to funding the delivery of these programmes and projects that are so detrimental to Tobago's economic advancement. It is in this context that I remind the Members of this honourable House, that the state the economy was in two weeks before the election when the unreasonable promises were being made, is the same state the economy was in two weeks after election, when the blaming and complaining started. As reasonable citizens and diligent politicians, I trust that the People's Partnership did its research and was well aware of the state of the economy.

On May 24, the people of Trinidad and my very own Tobagonians, reached out to the People's Partnership, not because the party saturated the media, not because they mastered the art of playing the blame game, but because the party promise continued, an even better development for the people of Trinidad, and the people of Tobago. These promises spoke to immediate and progressive change, a brand new day, timely delivery, and that performance beat "ol' talk" attitude. So this brings us to one place, delivering the promise.

Mr. President, I come from the bowels of the people of Bethel Village, Tobago. I can tell you that the people on the ground are ready for delivery. We are fired up and ready for the action. Our children need their laptops, our grandparents have already started making plans for their \$3,000 pension cheques, and the young people are anticipating that \$20 minimum wage. [*Desk thumping*] Tobagonians are awaiting the subsidies for affordable air and sea bridge transportation.

Let me share this with you. I remember one time when Tobago only had the slow ferry. When you go to Port of Spain on a Monday morning, you could know the difference between a young lady that came off the boat that was from Tobago and one that was from Trinidad. The young lady or the person from Tobago, would have looked a little ruffled and smelt like boat fuel. Now we have the luxury of riding on the fast ferry at an affordable price. [*Desk thumping*] So now when you go to Port of Spain on a week day, you would not know who is from Trinidad, who is from Tobago, who is from London or New York. So it is in this light, Mr. President, that we call on the People's Partnership not to disappoint us so soon. Please, do not disappoint us so soon. If you know you cannot deliver, I advise you to use your media time wisely. Level with the people, and when you have the time, apologize, if you please. I am sure they will understand. [*Desk thumping*]

So while we take note of the state of the economy with which we have been familiar for so long, I wish to close with a statement made by the hon. Minister of

Tobago Development in an interview on Tobago Channel 5. She said:

"Trinidad and Tobago has the necessary finances and resources to effectively run the country and serve the people. All it takes is good governance to make this happen."

On that note, I challenge members of the People's Partnership to adapt the mindset of the hon. Minister. Practice good governance, promote prudent planning, deliver what was promised, and live by your three mottos, serve the people, serve the people, serve the people.

Thank you, Mr. President. [*Desk thumping*]

Sen. Basharat Ali: Thank you, Mr. President. I intend to be short, and I am prompted to do so after hearing the hon. Parliamentary Secretary say that he was 38 years old and the hon. Attorney General was 37 years. I added both of those together and I can still give each of them a year. So more than that, I happen to have my profile in front of me and I saw that in the year 1973, the Government of Trinidad and Tobago—my job was chemical engineering specialist—"highlights included advice on 1974 budget first tax reference prices on the crude oil production on East Coast and Soldado". So that is how long I have been in this business of oil and gas, and that is why I intend to be short today. I am not going to get into the hassle or the battle of the economics and the state of the economy. That is not my field. I am not a financial person. I am not an economist. As you see, I am a chemical engineer. But I have a beef which I have been having for a long time now and it relates to the Heritage and Stabilisation Fund Act.

Mr. President, I feel very strongly that that Act is flawed and it does not promote saving, particularly, one section in that Act which goes to the question of how you arrive at prices. If we look at section 13(3) of that Act, says:

"For the purposes of this section the estimated petroleum revenues, other than royalties, shall be calculated on the basis of a unit price for petroleum derived from an eleven-year moving average for prices at which crude oil and natural gas were disposed of in a current financial year, such eleven years being five years immediately prior to that current financial year together with the prices projected for the disposal of such crude oil and natural gas for the five years immediately following the current financial year."

So you are taking as your yardstick for measurement of estimated revenues from petroleum which is royalty, tax and supplemental tax, and using that as your

basis for calculation. In fact, it has never been used as the basis for calculation because one would expect that when you are doing your budget, at that time of the year—when you are making all your arrangements—that is the number which should appear in the budget statement as your number on which you base your budget.

So, Mr. President, I chose in fact to ask a question in January of this year because I wanted to test that formula. I should also say that there were a lot of objections to that 13-year moving average as a yardstick. Nothing could be done about it, because when that Bill came to this House, it was a money Bill. So we had no option of doing any amendments to it, and it has remained there and nothing has happened since 2007. That Act has been running for a while, and there are various means that have been used to get around that 13-year moving average. So in January of this year, I filed a question asking for that information for the very same reason: what were the prices and the volumes to be used for calculation in the HSF. I also asked what was the revenue to be got from it. That is part of the question.

The second part of the question is related to the first quarter, and that is what I wanted to test. How did they arrive at the first quarter which was October to December 2009, which is why I asked the question in general? I received the answer two months after in March 2010 and this is the reply I got on that particular occasion. The then Minister in the Ministry of Finance said:

"The 11-year moving average price for crude oil and natural gas computed at the time of the preparation of the estimates of petroleum revenues for the financial years October 2009 to September 2010 was US \$70.94 per barrel"—that is crude oil—"and US \$7.63 per mcf Henry Hub."

That was his statement.

He went on to say:

"However, it has been the practice of the Ministry of Finance to treat the 11-year moving average price as a ceiling price, above which the actual budget planning price used in the determination of petroleum revenues should not be set. Therefore, the budgeted planning price used by the Ministry of Finance for crude oil and natural gas for the period October 2009 to September 2010 is US \$55 per barrel and US 2.75 per mcf..."

5.30 p.m.

That was the number quoted by my friend across there; but there is no basis for that. This is just what the Ministry does. If they followed the law, they would have been using that 11-year moving average number and you would not have been collecting anything again for this year. It is this planning number they are using. They are doing it now, because in a few weeks time the powers that be on that side would be looking at the target numbers, the planning numbers. Really, this Act should be corrected; it should be amended. I feel strongly about it and I have said so before. I have said it more than once, that it does not work. So I am bringing it to the attention of this House now, because we still have time to make the amendment.

I cannot understand how they ever got in this 11-year moving average at all; it just does not make sense and it has been set so high now, because the final five years are usually higher than the earlier five years. So if you apply that, you never will get anything into the Heritage and Stabilisation Fund. That is why I raised this question and I am pleading with the Members of Government to take the step to correct it before the budget 2010/2011 is presented. I think a lot of people would be happy and pleased if we do that.

Mr. President, the HSF also suffers because not all savings or revenues from the crude oil production go into the pool there, into the calculation. There are only two numbers that are used in it for calculation. In the working out of revenue there are three numbers: One says, income tax, which is oil companies; the second one is royalty on oil and gas, which is plain enough, and the third line really says profit share from the production sharing contracts. Last year that number was \$1 billion. In the 2009 public accounts, if you go back to it, you will see a figure of \$1 billion and for this year they have reduced it to \$900 million. Really, production sharing contracts is a big figure and that should be the source of savings. If we are looking at heritage savings, that is what should be saved, because they say it is your share of profit from crude oil that the Government earns.

For example, I have taken this little excerpt from the public accounts 2009 under one of the notes on production sharing contracts, and it says:

"Under the provisions of the PSC the Government is entitled to a share of the production of natural gas and crude oil from the operation of the contractors. The moneys received are placed in the deposit account. From this share of production, the Ministry of Energy and Energy Industries is responsible for meeting the respective contractors' tax and similar financial obligations to the Government. Total payments made to the Board of Inland Revenue in respect of the financial year 2009 is \$2,539 million..."—rounded off.

Out of that appears \$1 billion in the account as share from profits. Evidently the difference between that \$2.5 billion and the \$1 billion—according to that contract, the share of tax which the contractor would incur, has to be paid out of the Government's share; so if he says 70/30 then part of it is going out of there. That is why \$1 billion is not accounted for as part of the HSF, which should be used to decide whether or not you save. I feel that is another amendment that should come in, when looking at the amended Act. Those two items, in my opinion, are quite critical.

I am of the view that there is lack of transparency in all the numbers that we get. One Humming Bird Gold reporter said that we had total transparency in our revenue streams, but three lines in the budget tell you those numbers, nothing else. Many of us do not know what the split is between royalty on gas and royalty on oil. I do not know the split between royalties or between taxes collected on oil and taxes collected on gas. In fact, the Ministry said that was a very difficult thing to do. The Ministry in replying to my question said:

"It should be noted that due to the complexity and difficulty associated with disaggregating the petroleum revenues as separate income streams for crude oil and natural gas, petroleum companies present their data as a single estimated revenue figure for both products."

So you never know what the split is; we do not; I do not, and evidently the Ministry people hardly know too. That is the kind of transparency we lack.

Some people have the nerve to say that we are so very transparent that we do not need to go into the EITI, the Extractive Industries Transparency Initiative. I am on record as supporting membership in the EITI and I say so again today. I believe the Government's manifesto says that it would be implemented immediately. You have my support and I do not agree with anybody who says that the whole process is transparent. Let there be transparency. We as a developing country with 100 years of oil behind us should have systems in place and should be a model for the younger countries to whom we provide technical assistance. The countries of Africa, for example, that are just getting into the oil business, we provide assistance to them; there is Ghana and some others like that. We should be a model.

Similarly, and I have asked this question even in the EITI debate, why should Norway have applied for membership in the EITI? They have applied and are now going through the rigours of that evaluation, the audit. They have spent one year already into the audit. Sure enough, even with a very sophisticated country like

State of the Economy
[SEN. ALI]

Tuesday, July 06, 2010

Norway that is well into the oil industry, they found some discrepancies which they had to sit and work out with Deloitte, who were the chosen auditors for that process. They are now going into their second year; 2009 accounts is what they are looking at and at the end of that, if everybody is satisfied, then they become a compliant EITI country and for five years they would be free, when they have to have another one. I think Norway as a country was setting an example. They do not have to borrow any money from anybody. They are so rich, as some may know, that all their petroleum funds go into pension schemes and they pay all their people according to that; so they do not have to go and borrow money.

Our previous government said, "Well, we have good ratings, etc, so we do not need it," and they just let the whole thing lapse; so we have to start from scratch again. We have to reapply; they said that they were not going to reapply for membership to the EITI. I am saying today that if you decide to do it, I would support you. I will support the Government as they have said in their manifesto that they were going to do it. So those are two items: the EITI and the HSF, which need to be fixed.

The other thing I wanted to raise and I think it is very pertinent is what my friend, Sen. Ramkhelawan, said that there was no quick fix to the situation where we were in terms of development. We are not going to get into a next phase of knowledge based industries or looking even at all those sophisticated third and fourth generation renewable energy resources. We are not going to get into that for a while, so we had better look at preserving the industries we have now; they are still quite young plants and the returns from them are fairly good, particularly the downstream ammonia and methanol; they are doing very well. Nobody could complain about them. Maybe we are complaining about LNG because of the numbers that have to be backed out, but those are doing very well.

The question I am raising here is what our reserves are and what are we doing about the reserves. I thought we may have had another Ryder Scott review at the end of 2009. I am not too sure whether the honourable Parliament Secretary can help me, but I cannot trace any figures on that. The last figure we have for proven reserves would be at the end of 2008, which is effective January 01, 2009. Just to look at the numbers again. I would just say it and not spend too much time on it. On January 01, 2009, proven reserves of this country would have been 15.4 trillion cubic feet, probable 8.5, possible 6.3; a total of 30.2. Proven reserves to production ratio for that year would have been 10.27. That is the reserves over the production; the production, as we all know, 1.5 trillion cubic feet of natural gas each year. Really, that is essentially saying that we are at 10.3 years. On

January 01, 2010, if we had no other audits and if we did not have any additions to the proven reserves, the proven reserves would have fallen to 13.9 TCF and then we would have ended up with 9.27 years. There is a case then of making sure that we get those reserves.

The Ryder Scott people who did that review the last time, this was what they said in their closing remarks:

"Target at least 100 per cent proven reserve replacement each year."

We are not doing that; all we are doing is drawing down on the reserves. One of these days because of the depletion we may find that we are bumping up and down. It is expensive to do, but I believe we must do it, because that is what is supporting all our plants, whether it is LNG. There have been some criticism of LNG; I do not think we have much choice at this stage, but to do the LNG and projects like the ammonia projects, all making first class products, and the price is still good; methanol is selling at \$350 a tonne today; ammonia is selling at about the same thing; urea is selling at about the same thing and, the new kid on the block which is making UAN—UAN is selling at \$185 a short tonne; that is very good for a product with 32 per cent nitrogen in it. We still have the means of revenue from that part of the business and we need to preserve it and we need to make sure that while we have the time that we go and do the work to build up our reserves again, to check it out.

5.45 p.m.

I know we have a competitive bid for seven shallow blocks, which went out in April, and which closes in August of this year. I believe there are a few complications because there are a few matters to be corrected with respect to the law because they had looked at additional ways of handling those bids. I believe that there are some minor amendments to be made to the legislation, which should be done before those bids close. My view, if they have not done it as yet, is that they should extend the time.

The other part of the bidding process relates to the Deep Atlantic area and that is a huge area on the East Coast, on the Continental Shelf. There was one bid in that area, in a previous round, and the company which put in the bid has since withdrawn.

We face more than one problem there. My view is that the deep water needs to be reviewed on the basis that what has happened in the Gulf of Mexico is an indictment on all those companies. That has happened and from April 20 to now

State of the Economy
[SEN. ALI]

Tuesday, July 06, 2010

they have not found a solution. The environmental effects are terrible and our twin-island State should be more concerned before we bid.

There are two things: there will be reluctance for new bids for that so-called Atlantic deep; and, secondly, the competition from the other side. Brazil has such huge reserves that anybody with money will want to spend it there. Anybody in our field, all those companies, like the European companies, BP and BG, Repsol, Statoil, are now concentrating on Brazilian ventures.

For more than one reason, we should not go out for that Trinidad deep area at this stage of the game. This is my feeling on it. We will see where the bids for the shallow area come to life, but that may not be as good. I think it is time to hold for the deep area, and as some countries have done, they are very reluctant to hold. Norway has banned all drilling of new licences until they find out exactly what has happened in that well in the Gulf of Mexico.

The United States has a moratorium for six months that was blocked by law. They said they would come back on it. There are so many answers that are required, if only for the safety and security of our country. We ourselves must wait for the answers to that one, to see what measures will be taken to make sure that does not happen anywhere else. They are totally unprepared at 5,000 feet of water; totally unprepared to solve the problem and depending on robots to fix things. They cannot send human beings down there.

Those are the things I am looking at. I have heard nothing today about what will happen, but with budget coming up and with that bid still in the air for August, some decisions need to be made by the Government and I hope they move quickly and prudently.

With that, I thank you very much.

ADJOURNMENT

The Minister in the Ministry of National Security (Sen. The Hon. Subhas Panday): Mr. President, I beg to move that the Senate do now adjourn to Tuesday, July 13, 2010 at 1.30 p.m. On that day, we expect to debate a Bill to amend the Firearms Act, Chap. 16:01 and, having regard to the tight nature of our schedule, I would like to indicate to this honourable Senate that one aspect of the amendment would be the increase in penalties for offences under this Act and also the amendment to section 22(B) of the said Act, which deals with the appointment and membership of the Firearms Appeal Board. Time permitting, we hope to continue this debate.

Thank you very much.

Adjournment

Tuesday, July 06, 2010

Mr. President: Before I put the question, I thank hon. Senators for their contributions this afternoon, particularly those Senators who made maiden contributions—Sen. Dr. Lester Henry, Sen. Kevin Ramnarine and Sen. Shamfa Cudjoe.

I congratulate you on your maiden speeches; thank you for your contributions and we look forward to a lively debate.

Question put and agreed to.

Senate adjourned accordingly.

Adjourned at 5.51 p.m.