

**11.00 a.m.:** *Meeting resumed in the J. Hamilton Maurice Room.*

**OFFICIALS OF THE MINISTRY OF ENERGY  
AND ENERGY INDUSTRIES**

Mr. Selwyn Lashley	Permanent Secretary
Ms. Heidi Wong	Deputy Permanent Secretary
Mr. Richard Jeremy	Chief Technical Officer (Ag.)
Ms. Louise Poy Wing	Senior State Counsel
Mr. Ivor Superville	Senior Energy Analyst (Ag.)
Mr. Monty Beharry	Director, Minerals (Ag.)
Mr. Frank Look Kin	Advisor
Mr. Leroy Mayers	Advisor

**Mr. Chairman:** Good morning, everyone, I would like to welcome the Ministry of Energy and Energy Industries. This is the Parliament's Committee on Energy Affairs. I think it is the first time the Parliament has had a Committee of this nature, set up in this way, and the mandate of this Committee is to examine all matters relating to the energy sector. The members of the Committee, myself as Chairman, Colm Imbert, and I would ask members on my right to introduce themselves.

*[Members of the Committee introduce themselves]*

**Mr. Chairman:** And we have Ms. Samuel and Ms. Skerrette providing Secretariat support. Could I ask now for the Permanent Secretary in the Ministry of Energy and Energy Industries to introduce your team and yourself?

**Mr. Lashley:** Thank you, Chair, and good morning to everyone. It is a pleasure to be part of the inaugural meeting of this Committee. As you know, the energy sector is a pivotal part of the economy of Trinidad and Tobago, so it is really a pleasure for us to appear this morning to provide information, as requested by the

Committee, to yourselves and, of course, to the general public in terms of it being televised, et cetera. I am Selwyn Lashley, the Permanent Secretary at the Ministry of Energy and Energy Industries, and I will ask the other members of my team to introduce themselves, starting on the left.

*[Officials of the Ministry of Energy and Energy Industries introduce themselves]*

**Mr. Chairman:** Okay, thank you. Is everybody hearing everybody, by the way? Okay? All right, let me just give you a brief overview. I did indicate the mandate is to examine all matters relating to the energy sector, but I can give you some greater details. The first objective is to determine the Ministry of Energy and Energy Industries current and upcoming strategies and incentives to promote new production in the energy industry; secondly, to examine current efforts being taken to improve the supply of natural gas; thirdly, to investigate areas of prospective oil exploration in Trinidad and Tobago, and that would include gas exploration as well; fourthly, to gain an appreciation of the status of drilling activity in Trinidad and Tobago, and, also, to assess current and forthcoming initiatives and incentives to tackle the development of small and marginal gas fields, and I would add to that, deep-water fields as well.

Now, members have specific questions, I would let you know. This will not be our only meeting; we are going to start today but we will be asking the Ministry of Energy and Energy Industries to come back, because we have a very long shopping list, which I suspect would take at least three meetings, including this one. So I would open the floor now to questions from members. Sen. Small, do you want to go first?

**Mr. Small:** Thank you, Chairman, I appreciate that. Good morning, members of the representatives of the Ministry of Energy and Energy Industries. Thank you

for taking the time out of your, what I know, very busy schedules to join us here this morning. Mr. Chair, with your permission, I want to run quickly to—we, the Committee, submitted several questions and the Ministry prepared several responses, and the first issue I would like to be able to elicit a response, I want to rush to page 8 of the Ministry's response, and it speaks to the initiatives regarding the availability of natural gas, supply of natural gas in the country, and I would like to be clear and to be guided by the Ministry, because there is a newspaper report today in the *Express* by, I think it is Aleem Khan, which essentially is saying natural gas is at the lowest level in 10 years and that it does not seem that the outlook looks positive. My understanding, Mr. Permanent Secretary, is that, just as you outlined here, that certainly by the middle, or to the end of 2017, there is very likely to be more than enough gas supply, all of the existing customers and potentially new customers. I would like to be guided on whether or not my summation of that is correct or otherwise.

**Mr. Lashley:** Thank you for the question, and, certainly, the issue of the availability of natural gas has been an issue that we have been treating with at the Ministry over the last couple of years. Just to give a little history, the shortage, or non-alignment of supply and demand, was something that crept into the landscape as far back as 2010, and what has happened is because of a mismatch of activity on the upstream end, in terms of what was required to provide adequate gas for the needs of the downstream consumers, we have been in a situation where we have had to manage the supply and demand. Now, the initiatives that have been put in place, as you outlined with our submission, have been arrived at through collaboration with the upstream suppliers, and, certainly, we have had discussions with the downstreamers as well. There has been a lot of effort devoted towards scheduling of activities to ensure that periods of curtailment or apparent shortages

will be minimized, but the situation is, currently, that there are activities on the way, as you have indicated that, towards the latter part of this year and into next year, that is when those activities will manifest themselves in additional production which then would be able to address the needs of the consumers downstream. In the interim, we continue to manage the situation in terms of scheduling, maintenance—so, for instance, at this time there is not a shortage because one of the plants is off for maintenance activities, and this scheduling and managing that situation is the mode we are in right now. But you are quite right, towards the latter part of this year and into next year, there is production expected from some of the initiatives, and the operations that are currently in train by several of the upstream suppliers.

**Mr. Small:** Mr. Lashley—Mr.Chair, if you would permit me—in your response you noted that the Ministry conducted discussions with the upstream and the downstream, am I to assume that also you conducted discussions with the National Gas Company also in arriving at these numbers?

**Mr. Lashley:** Yes, indeed. The National Gas Company is critical. In fact, they play a very critical role, being the company that is the aggregator of gas, the transport to the supplier, and, of course, the purchaser and seller, upstream and downstream, and, certainly, the National Gas Company is a critical player in those discussions. In fact, on a daily basis we get reports coming in from all the upstreamers and the National Gas Company to ensure that we manage the situation in the best way possible.

**Mr. Small:** Thank you, Mr. Chair. I just have one additional question on the same track and I will pass on to someone after. Mr. Permanent Secretary, thank you for your response; I want you make a statement, I want you to guide me on whether or not my statement is going in the right direction. Would it be fair to say

then that the Ministry, after consultations with the upstream, the downstream, and, of course, our key player in the sector, the National Gas Company, is of the view that, let us say by the middle of 2017, the issues that are currently being faced by companies regarding curtailments, there is a high likelihood that those issues would have gone away and perhaps may even be in a surplus position? Is that an unfair or a correct statement? Could you guide me, Mr. Permanent Secretary?

**Mr. Lashley:** Well, I would not want to be the one to pre-empt ongoing discussions and to, let us say, forecast the results of current activities, because, as you know, activities would be programmed to produce particular results. In fact, one of the issues that has contributed, in part, to the situation we are in now is a lack of success on a particular initiative by one of the companies, but, of course, one of several suppliers. So we are managing the situation. I am hopeful that, in the time frame that you indicated, in fact the situation would be much improved, and, in fact, you went further to say, oversupplied; I would not be as bold as you, but, certainly, managing and balancing the supply, a demand situation is the objective.

**Mr. Small:** Thank you very much.

**Mrs. Gopee-Scoon:** Could you not be a little bit more specific, because I think it is public knowledge that the Juniper fields are supposed to come into market—when? In 2017? Yes. And are there any other prospects? I am just talking about those that are public knowledge that you can give a little more detail on.

**Mr. Lashley:** Certainly, the Juniper project does in fact provide, or will provide a significant additional amount of gas into the system, along with other initiatives that are earmarked to also contribute to the supply picture. What I was careful to say though is that—I mean, as an engineer by training initially, I am always mindful that in the execution of projects, you know, there can be delays in part

because of unforeseen circumstances, but, certainly, all indications are that the gas supply picture is going to be significantly better; it will improve. The upstream companies are committed to work, and they are conducting work right now, which in fact will contribute to improving the supply.

**Mr. Chairman:** Minister Khan?

**Mr. Khan:** Mr. Lashley, with regard to the first question on what are the current strategies and incentives in place to promote new production in the energy sector, I want to deal with the taxation aspect of this. Bearing in mind the principle of taxing, depleting finite reserves in a country, which is mineral taxation, the governing principal of that is that in a wasting asset the State must extract maximum economic rent because the resource are not renewable. So it is in that context I see some very, very lenient measures that were implemented, what year was that implemented?—2013 or 2014, all these allowances and—

**Mr. Chairman:** What the Minister is specifically referring to is early write-off of exploration and development expenditure.

**Mr. Khan:**—early write-off of exploration and development expenditure. 2014?

**Ms. Wong:** 2014, Chair.

**Mr. Khan:** Yeah. But it did not really attract new investment in the sector because in 2014 the oil prices was still reasonably high?

**Ms. Wong:** What would happen, once the incentives are in place there would be a period in which they will take effect from, and normally what—the Juniper field, which is one of the projects that is earmarked to produce additional gas, this project will benefit from these incentives that have been put in, in 2014. The list that was provided in the response is a series of incentives that have been enacted from over 2011 to 2014. There are various incentives here that we have put in to simplify the tax regime and also to get a greater benefit for the country.

**Mr. Khan:** No, but from 2011 onwards, during the 2011 to 2014 period, oil prices averaged \$80, close to \$100. I want to know if these measures did in fact bear fruit as it reflects to increased activity, because these write-offs are very, very affable to the operating companies. I mean, you are writing off 100 per cent of your capital cost in year one, and not even only on exploration drilling. I mean, it pumped up to 140 per cent for tax purposes for 8,000 foot land wells and 12,000 foot shallow marine wells, heavy oil is the same thing, capital allowances; it is just, you know, so what I want to know, if you do not have a ramp up of activities to justify that reduction you are just picking the Government's pocket.

**Ms. Wong:** What I would like to say, the activity, while we may not get the increased revenue immediately, what you would see is an increase in the activity, and one of the indicators is the number of rig days over the period of time which has shown an increase. There was a table, page 19—you would recognize that there was a total increase in the number of rig days from 1,628 in 2011 to 2,010 in 2012, and 2,092, so there was increase in activity, and most of it was spurred because of the changes in the tax regime. What we are mindful of is that with the increased activity we are hoping to get increase in the production of oil and gas, and that will be hopefully down the line.

**Mr. Khan:** But you did not get—even though you got some increase in activity you did not get increase in production, because production—and oil produces most of its oil in the first year because it is a 50 per cent exponential decline for solution gas drivers. So what I am saying is that, at a cursory analysis, these tax breaks that were given to the companies, it affected the Ministry of Finance figures, obviously, negatively, and operationally at the Ministry of Energy and Energy Industries, at the production level we did not see the benefit. So, could you respond to that?

**Mr. Lashley:** Let me respond, and you are quite right, Minister Khan. The fact is,

there are several factors at play, in terms of the maturity of the assets in Trinidad and Tobago and the attendant decline rate in terms of production, we are always in a cycle where unless there is activity—in order just to maintain levels, let alone increase, you need to have a certain level of activity to support and to ensure that production levels are maintained. So that is one of the things which we will have to—I understand your question, and what we can do is interrogate the information to try to do a correlation, if we can, with respect to introduction of the incentive and incremental production, perhaps, as opposed to the absolute production levels. But, certainly, as DPS Wong was indicating, one of the indicators, and, in fact, the increased level of drilling activity has in fact corresponded to a decrease in the decline rate in terms of oil production. Certainly, these measures were introduced following consultation and collaboration with the industry and, in fact, doing an analysis of the external environment as well, to ensure that, in addition to us extracting, as you quite rightly indicate, the maximum benefit from a declining resource, we also need to be competitive in terms of the competition for capital. So, certainly, there is a balance that we have to maintain. Several of these measures as well, I would want to point out, there are sunset provisions in terms of the applications. So, certainly, it was something offered for a period of time to incentivize and stimulate, and I am quite mindful, as you pointed out, that the Ministry of Finance is certainly very mindful of the impact on the revenues to the country and, of course, the Treasury.

**11.20 a.m.**

**Mr. Khan:** So you had sunset clauses to this legislation?

**Mr. Lashley:** Yes, several of the provisions, I think, go until 2017, so there was a window where operators could access that provision and the incentive. In fact, what we witness is an increase in activity.

**Mr. Khan:** But again, my core point is at the time these incentives were offered to the industry there was no fiscal basis to do it, because oil prices were on or about—now, if you say you wanted to offer this same package, there may have been a justification. So that is the basic point I am making.

**Mr. Chairman:** I will recognize Mr. Small in a short while; but I think we need to be very clear on what we are being told. Let us deal with some of them specifically. With respect to the Petroleum Profits Tax—this is on page 2 of your document—you state that with respect to exploration, “100 % of the exploration expenditure may be allowed in the year the expenditure was incurred” and this is applicable from January 2014 and will expire in December 2017. What occurred before this? What was the equivalent write-off provision prior to this?

**Mr. Superville:** Prior to this the provision was an initial allowance of, I think, about 10 per cent in the first year and also a first year allowance of about 30 per cent.

**Mr. Chairman:** And then what happened after that?

**Mr. Superville:** So that was the initial, that is what they had there before, and then we have the new provision being introduced.

**Mr. Chairman:** No, no, no; I have a specific question. What I am seeing here is as of January 01, 2014, 100 per cent of exploration expenditure can be written off in the first year, but what happened before that is what I want to know.

**Mr. Superville:** Like I said, before this provision was introduced, the allowances or the capital was written off over a longer period.

**Mr. Chairman:** That is what I am trying to find out, because you said 10 per cent initially and when I said what happened after that I meant what happened to the other 90 per cent; was it over two years, five years, 10 years. What was it?

**Mr. Superville:** A five-year period.

**Mr. Chairman:** Well the exploration expenditure previously was written off over a five-year period, and that was changed to a one-year period?

**Mr. Superville:** One-year period, correct.

**Mr. Chairman:** Okay. What was the reason for that drastic change from five years to one year?

**Ms. Wong:** Minister, there were committees that were set up to review the fiscal regime, and at the point in time the competitive nature of our sector was being considered. When we reviewed the fiscal as compared to several other countries, it was found that we needed to improve our competitiveness. This was one of the areas we felt that we needed to increase the incentives to the upstream investor, mindful of the situation that we have with the depleting resources, that we needed to increase and boost activity as quickly as possible. So it was given as an incentive to the upstream to bring on board earlier and quicker work within the industry.

**Mr. Chairman:** I fully understand that, but that is not what I am looking at. You went from a situation where you could write-off the exploration expenditure over five years, to a situation where it could be written off over one year. So you went from zero to 100 in one go. Is there any other country that does this, that you can write off 100 per cent of exploration expenditure in the first year?

**Mr. Superville:** This type of arrangement is very common in mature provinces. If my memory serves me right, the UK has a similar arrangement with respect to capital allowances.

**Mr. Chairman:** We need some more information on this. What it has done, I will tell you what has happened. Because the oil companies can now write off 100 per cent of exploration expenditure, you have some of the bigger companies writing off more than their expenditure. So that the tax coming to the Government is zero.

Did you realize that that would be the effect of this, that you would have a situation where profits would be low so that when they write off 100 per cent of the exploration expenditure in the first year, the effect of that was that they would pay no taxes to the Government? Did you know that or did you figure that out or did you suspect that when you did this?

**Mr. Lashley:** Minister, perhaps I could just set the scene. At the time these incentives were introduced, one of the principal concerns would have been ensuring that our reserve base—because annual audits would show that in fact based on our depletion rate of gas and of course the declining oil rate, the indication is clear that there needed to be some sort of incentive for increased exploration.

**Mr. Chairman:** Mr. PS, I know that. We all know that, that there needed to be incentives. The question I am asking is why this incentive where you go from a five-year write-off to a one-year write-off, and the effect of that now is because of the size of the investment they are paying no taxes. Did you anticipate that this would happen when you did this?

**Ms. Wong:** Minister, when we did the analysis in fact, we recognized there would be reduced—there is a report in fact and it indicated where we showed that there would have been reduced revenues, but the pricing environment in which the review was done is completely different from what pertains today, so the answer to that is no, there was no recognition.

**Mr. Chairman:** Now my next question: Why not? Why did you not anticipate that prices could collapse and have a sliding scale or a two-tiered regime where if prices remain at a certain level you write off 100, but if prices drop to where they are now, you might write off 50 per cent and 50 per cent? Why did you not think of that?

**Ms. Wong:** Minister, I do not think the pricing environment that we have today anyone anticipated that it would happen. I think what we need to be mindful of is that we need to be proactive as there are changes in the environment that we need to look at.

**Mr. Chairman:** So you agree now we should revisit this? Well I am getting no tax, so I certainly am going to revisit it. [*Laughter*] Minister Khan, Mr. Small was before you. Before that I just want you to answer this. You agree now that because the volatility of oil prices has manifested itself, the extreme volatility, that when you are doing things like this, you need to have some kind of escape clause to get out of where we are now, where they are writing off all the investment and no tax, because the price of oil is so low? Do you agree?

**Mr. Lashley:** Yes, I absolutely understand.

**Mr. Small:** Thank you, Mr. Chair. You asked a couple of my questions, but that is fine, and I promise only two questions, so forgive me. But I am going down the same road, Mr. Chairman, because you have asked what happened and why. I am asking a completely different question: What was the effect? So I am going down the same road as the hon. Chairman. What is the effect? We understand the effect on production, which I think is insignificant or none. What was the financial effect in terms of—did it mean that these incentives that were afforded these companies essentially went straight to their bottom line? Is there something from the BIR that the Ministry can work with to help the Government understand what was the effect of these incentives on the bottom line of these companies? And if there was a negative impact towards the BIR and the other State's source of revenue, that is where I would like to go. Perhaps that may not be something we could talk about in this session, but I believe it is something that might be useful for the Committee to come up for your consideration, Mr. Chairman.

**Mr. Chairman:** I actually have the information, but we could talk about that at the next session. The result was zero. We went from US \$1 billion in revenue from a particular company, to zero. That is the effect of this.

**Mr. Small:** Permit me one other thing, Mr. Chairman, and I will not trouble the Ministry staff anymore. I have a question around the rig days. I take note of the comments, the responses provided by the Ministry team that the incentive yielded increases in rig days. When I look at page 19, I look at the rig days' numbers, it is interesting. I see rig days have increased, but when I look at it in 2015, of the rig days, 65 per cent of those rig days were done by Petrotrin, including lease operators and farm out. In 2014 it was 72 per cent, the previous year it was 63 per cent, the previous year it was 79 per cent. So that if the effect of the incentives was only to incentivize Petrotrin, and the other—it is a very small group of other companies who are doing any other work.

This is why I am saying I am really concerned—if we want to champion or to explain the rationale for the incentive that it was intended to deliver rig days, I am not sure if this is the result that we were hoping to achieve, and if this is the result that actually came out, then it needs significant revisiting, because Petrotrin has its own special challenges. These numbers do not impress me in any way.

**Mr. Lashley:** Just to address the concern actually raised by Sen. Small. Again, I think in order to correlate the impact of an incentive, some analysis has to be done specifically, and, in fact, that work is work that is ongoing, both in the context of the Ministry. I just want to go back. These incentives were not unilaterally developed by the Ministry of Energy and Energy Industries. The Ministry of Finance, the Board of Inland Revenue, certainly other state players, because of particularly the impact that these incentives, it was anticipated, would have on the bottom line and on their taxes, et cetera, and certainly as well collaboration with

the industry and, of course, looking at what the external environment, the global environment that we are operating in, that has changed and certainly I am in full agreement. That is something which should be the subject of some substantial review, and looking forward in terms of crafting some sort of fiscal system incentives or structure, architecture that would work for us in this time.

**Mr. Chairman:** Before I allow Sen. Small to continue, Mr. Khan, you wanted to get in something?

**Mr. Khan:** I have some other aspects of it. I want to support Minister Imbert in the context of the exploration capital is so high and just to offer to write off that in year one, to me does not make sense, but it has happened already, we will relook at it.

If you go to “b”, “Development: Workover/qualifying side-tracks”—you could easily justify 100 per cent of that write-off in the year in which it was done, because the capital cost in these development and side-tracks and work overs are low. So it can assist the company in boosting their production and at the same time provide the incentivization. What is dangerous about this legislation, you go down to page 3, under 3b: “Losses can be carried forward indefinitely”. So Mr. Imbert is not finished yet, because if they pay no taxes for 2016, but they still have write-offs, they could carry it forward to 2017, 2018 and 2019, because an exploration programme is extremely high capital. So apart from offering it to write off in year one instead of year five, if the write-off carries you to significant losses, you can write off just enough to pay zero taxes and carry forward the write-offs to subsequent years. This thing really needs relooking at.

**Mr. Chairman:** Before Mr. Small jumps in, I just want to get some clarification on a statement made about rig days. I think Ms. Wong had said if we look at rig days for 2011 we would see 1,628 and then in 2015, 2,045. Correct? Total? At

page 19. So I am seeing that the total rig days, 1,628, 2011; 2,045 in 2015. But the incentive here for exploration expenditure only kicked in, in 2014, so we really need to start looking from 2014 going up. What I am seeing is 1,587 rig days in 2014 and 2,045 in 2015.

Would you say that that increase from 2014 to 2015 is a direct result of this incentive? Could anybody on the Ministry's side say, in the back, in the front?

**Mr. Lashley:** Actually, Chair, I would want to be cautious as I indicated. What we would need to do is to do a thorough interrogation to determine and to see if we can correlate the timing and the introduction of the incentive and the actual programmes that would be instituted by the respective companies.

**Mr. Chairman:** Because what I am seeing is in 2013 it was 2,092. It was actually higher than it was in 2015. That may be that the price of oil was high in 2013 so that motivated the companies to explore. Then it started to drop in 2014, so it dropped off, then the incentives kicked in so it came back up, but I think we need to be very scientific and we need to be data driven in dealing with these issues.

**Mr. Small:** Thank you, Mr. Chairman. I must seek your indulgence. The Ministry presented data on page 16 regarding the footage drilled and it categorizes it by land and marine and total, but there is a further categorization that I would like to request, with your permission, Mr. Chairman. I believe that for us to understand the differentiation between development drilling and exploration drilling—because the Committee is well aware that development drilling really speaks to maintenance of current production levels, and exploration drilling is really where you are looking to try to find, to increase the resource base. I ask that deliberately, because I think that the Ministry continues to say that one of the drivers is to try to find new resources and to understand where we can monetize and find new places where we can bring up additional oil and gas.

From these pure numbers in front of me it looks good. Footage drill is increasing, but where is that footage drill increasing? If it is purely or mostly in development drilling, then the other aspect of the Ministry's portfolio of trying to grow the resource base, perhaps there is a challenge there, and this is where the Committee can be of assistance to the Ministry. So this is a data request from me, not necessarily a question, but I think that for us to understand just the break out, what is really happening with development as opposed to exploration drilling—I know it is tied to the bidding rounds, but I think it is also important for us to understand what has happened. The history is important for us to plan for the future. Thank you, Mr. Chairman.

**Mr. Lashley:** That information can be supplied to the Committee certainly.

**Mr. Chairman:** I would like to ask a question. Any other members want to ask questions before I go in?

**Mrs. Gopee-Scoon:** It is a little bit different to what we were speaking of. I noticed something in the social media, this week actually, about a private consultation on tar sands. I wanted to get the Ministry's view of it, especially with regard to the modern thinking on the environmental side of it.

**Mr. Lashley:** Well, certainly, as a natural resource, tar sands is one of the resources that is available for consideration for exploitation in Trinidad and Tobago, but you are quite right, the exploitation of tar sands, the particular methods, the technologies that are applied would have to be examined carefully in the context of the impact that exploitation of these resources can have on the environment, on stakeholders, on land use. Certainly that is something which is the subject actually right now of some examination in academia, and the Ministry is supporting research in terms of not just identification, but characterization of a lot of the tar sands resource base, its spatial location, its quality and, in addition to

that, the technologies that can be utilized to exploit these resources, if and when we decide to do so, mindful of course of the impact that certain technologies can have on the environment and the use of limited land space in Trinidad and Tobago.

**Mrs. Gopee-Scoon:** So there is research ongoing?

**Mr. Lashley:** Yes, there is ongoing research.

**Maj. Gen. Dillon:** Thank you, Chair. I want to go back to the statement made by Minister Khan with respect to losses being carried forward indefinitely. Two questions, one: what is the rationale for losses being carried forward, and two, what type of losses can be carried forward indefinitely?

**Mr. Lashley:** Ms. Wong was part of the fiscal review committee so I will ask her to answer that one.

**Ms. Wong:** When we indicated the losses carried forward, it is part of the Corporation Tax Act and the Petroleum Tax Act under—I cannot recall the section, but it is part of the tax incentive that is given to companies under the E&P tax regime, and under the basic tax law provisions for companies, where they are afforded—it would be all costs that can be carried forward.

**Mr. Chairman:** I would like you to go to page 3 of your document. In terms of capital allowances I see you are making a statement that qualifying exploration and development expenditure can be written off over three consecutive years, 50 per cent in year one, 30 per cent in year two, 20 per cent in year three, effective January 2014. But on page 2, you said 100 per cent of exploration expenditure may be allowed in the first year. So is there some other type of exploration expenditure that you are referring to here?

**Mr. Superville:** Chair, the exploration expenditure in respect of 100 per cent, the company could choose to do that. The company has an option of either doing it that way, taking 100 per cent, or writing it off over the 50, 30, 20. So they have to

elect either to write off 100 per cent or to write it off over three years, 50, 30, 20. So it is an election.

**Mr. Chairman:** What company would do that? If you could write off the whole thing in year one and carry forward the loss, what company would do that?

**Mr. Superville:** Chair, it depends on the planning of that particular—the tax plan of the company. They have to make a decision what is best for them.

**Mr. Chairman:** So you are saying there is a dual regime in place where you can write off the 100 per cent if you wish or write it off over three years if you wish?

**Mr. Superville:** You have that option.

**Mr. Chairman:** That is currently in place right now?

**Mr. Superville:** That is in place.

**Mr. Chairman:** What was the thinking behind that?

**Mr. Superville:** Again, the incentive more or less based on what we spoke about before is to stimulate the sector. We have to recognize that our sector now is very mature, very, very mature, and the issue is how do you attract investment into the country.

**Mr. Chairman:** I understand that, and therefore I can understand why, and I think everybody here understands why, you went to the 100 per cent. But that argument does not hold if you are telling them they could also do it over three years. How would that incentivize anybody? If they can do it all in one year, how do you incentivize them by telling them you could also do it in three years if you want?

**Ms. Wong:** Minister, if you recall, there was a difference in the tax regime prior to 2014 and what was introduced in 2014.

**Mr. Chairman:** Yes.

**Ms. Wong:** The capital allowances that would have been written off, there would have been an accumulation which would have been carried forward under the old

regime. That exploration expenditure is the one that is referred to in “b”. So where before you would have had to write it off in five years, you now have the option of that being included in this.

**Mr. Chairman:** So this is for prior; so there is a difference?

**Ms. Wong:** Yes, there is a difference.

**Mr. Chairman:** The second issue I want to address is on page 4, Item 2, where you talk about a discount on SPT rates, supplementary petroleum tax rates. You say there is a discount of 20 per cent. So assuming that SPT—is 35 per cent the highest rate of SPT now?

**Mr. Superville:** I believe it is 33 per cent.

**Mr. Chairman:** Because you told us SPT rates were harmonized for land and deep water from 35 to 18. So you are saying it is 33 per cent?

**Mr. Superville:** 33 per cent.

**Mr. Chairman:** Okay, fine. It says for new field development 33 to 25, it says marine 42 to 33, land, 35 to 18. I will take your word for it that it is 33. So the 20 per cent discount will take that down to 27, somewhere around there?

An argument has been presented to the Ministry of Finance by small operators that with the current price of oil, from the time oil goes from \$49 to \$51, the SPT immediately kicks in, and because these rates and this threshold were determined when oil was, say, \$25, so you had \$25 oil, and then if it went to \$50 that was a windfall, so the SPT then kicked in to deal with a windfall. That this is no longer relevant with respect to oil prices in the \$40, \$50 range because as soon as it crosses \$50, you are hitting them with 33 per cent SPT right away, which makes it unprofitable to produce oil at \$51. What is your answer to that?

**Mr. Lashley:** Just to go back, Minister, to my full agreement with you in terms of—

**Mr. Chairman:** I posed a question to you, I did not ask you to agree, but go ahead. [*Laughter*]

**Mr. Lashley:** Certainly, I think it is apparent to all that there is a need to revisit the incentive package or the fiscal architecture, in light of the change of environment. So certainly what was previously structured as an incentive, in the current environment certainly it does not present any at all.

Further to that, I think in terms of strategizing, given the outlook for oil prices over the short to medium term, I think it is incumbent on the Government to address this matter. I think the way we have addressed it in the past is through a tax review committee, and certainly I would strongly recommend that that is something that should be afforded a high priority.

**Mr. Chairman:** But dealing with this specific issue of the fact that if our oil is \$49, you are paying a certain level of taxes, and as soon as it hits \$51 SPT is coming at you, which may make it unprofitable to produce at \$51. What is your answer to that?

**Mr. Lashley:** What I think the answer is, we need to ensure that any sort of structure we put in place—a step change always influence behaviour sometimes in ways that we did not intend. So we need to probably look at ways where there are changes anticipated, there is some sort of—I would suggest formula that takes you gradually into that particular realm. Certainly our objective is as a windfall manifests itself, our position, I am sure it will be shared by the Ministry of Finance, is that needs to come.

**Mr. Chairman:** The point I am making is when oil was \$25 and then there is a war in the Middle East or something happen, and it jumps to \$50 in a month, that is a windfall. But if oil is averaging \$49 and just kind of goes over to \$51, \$52, that is not a windfall, but SPT is a windfall tax. I am asking you if the Ministry has

looked at this at all.

**Ms. Wong:** Minister, yes, through the several tax committees that we have had over the years the SPT regime has gone through several substantial changes. In 2010, we had a multitiered system that ranged from about \$15, \$11 straight on to about \$49, where there were subsequent increases, as you increased every \$10 or \$5 there was a percentage increase.

What we sought to do over the last five years was simplify the SPT regime, and every simplification that was made meant that there would have been less and substantial reduced revenues to Ministry of Finance. So that had to be managed in a particular way. As the review came about, certain incentives in fact were put in place, but it is a constant review that is done annually with respect to the fiscal regime and its incentives that are offered. So in this environment another review can be—

**11.50 a.m.**

**Mr. Chairman:** I hear you, but do you think annually is a sufficient period with this kind of volatile environment? Should you be reviewing taxes on an annual basis?

**Ms. Wong:** At one time there was a policy directive to do it every two or three years, but I think it is something that needs to be done constantly as the environment is changing. Yes.

**Mr. Chairman:** Okay. But do you buy the argument that the rate at which SPT kicks in—the price at which SPT kicks in should be looked at? Because what has been adjusted is the rate—

**Ms. Wong:** What has been adjusted—

**Mr. Chairman:**—they changed the rates, but you have not changed the threshold. Do you buy that argument that you should look at the threshold of \$50?

**Ms. Wong:** That is another—we have changed the threshold, in fact, the earlier ones ended at \$50 and we had changed the threshold up to about \$200 with the expectation that you would have had another type of pricing environment, and as the environment changes, I think, a review has to be done on the—

**Mr. Chairman:** On the price?

**Ms. Wong:**—on the price and on the structure itself as well.

**Mr. Chairman:** Okay. All right. Well I do not have any more questions on that today.

**Mr. Small:** Thank you, Mr. Chair. I have a data request and one short question. At the Ministry's document at page 5, at the very bottom speaks to the work analysis, and there is a statement that rolls over to page 6 where it says:

“The current strategies and incentives compare favourably with those offered by new and emerging hydrocarbon producers.”

Through the Chairman I would like to ask, could the Committee, please, be provided with a copy of the analysis and data to support this statement? I think that it is always good to understand what—because the statement is there and it says very clearly what the Ministry's position is, but I think it would be informative for the members of this Committee to understand, to see what the Ministry saw. Perhaps we may look at the same thing and see something very different.

Mr. Chairman, I have one short question again and it has to do: given the current situation where we are in terms of optimizing our resources, the Ministry should be aware that there are several smaller gas pools that are available and then, of course, there is one big gas pool in the north coast that, for some reason, has not been able to figure out what to do with that big gas pool. It is under contract. But I think in a situation where we have been experiencing gas curtailments for a

couple of years because of a whole range of issues, we have actually gas that is available. It is proven, it is under contract and for several reasons they are not being produced. And the core reason, in my respectful view, is that the companies have not decided when they want to produce it or how to produce it. And I have a challenge with that because that is our resource. I understand that it is under contract, but I am not enamoured of the position where a company can sit on resources and decide to produce it when it is convenient for them. I have a huge challenge with that and I would like to understand, from the Ministry, is there any way that the Ministry has looked at this and has said, we need to find a way to incentivize, take away or whatever? I have a simple view. If you tell companies these resources you are sitting on, you are not dealing with it and it is in the Government's interest that we get those resources back out to people who may be interested, let them make a case for what they are going to do with it. Let them make that case. And I think that this is something the Ministry should consider and I would like to get some feedback from the Permanent Secretary and any other member of this team on this thought process.

**Mr. Lashley:** The only feedback I can give at this time, Sen. Small, is that the matter is being actively looked at right now. Now, and you are quite right, the resource base is the subject of several licenses and production-sharing contracts and there are contractual arrangements in the downstream for gas supply. Certainly we need to be mindful of the measures we introduce in terms of what would be the best way to—I mean, you mentioned incentivize. It may not even be incentivizing, it may be ensuring that there is alignment of opportunities that make commercial sense. Yes? So certainly all of these things are being looked at, but I would not want to pre-empt any sort of plan that would come out of our review and a strategy adopted to address the issue there that you have just identified.

**Mr. Small:** For just—

**Mr. Chairman:** No. No. We have a new entrant. [*Laughter*]

**Mr. Solomon:** Thank you, Chairman. I just wanted to understand, for the listening public as well, is that you are saying that we have some natural gas supply that is going to increase by the middle of 2017. What did we do right in order to create this supply coming in 2017? I understand that it takes some time before we make decisions that we are going to reap the benefits as a result of the investments. Could you articulate for us what was done to create this supply that we expect in 2017 and when was it done?

**Mr. Lashley:** Yeah. I mentioned earlier some of the incentives, and I think the DPS Wong pointed out one of those in terms of the Juniper Gas project that is earmarked to bring supply on in a particular time frame. That particular project certainly, like any other operator, would of course have the benefit of accessing the incentives that have been provided over the time frame 2014/2017. So certainly that is one example. But I think at the end of the day the increase in supply is guided in part by the contractual commitments as well, in terms of commitments to supply to existing contracts. And certainly going further after that, any sort of opportunities for even supplying for, you know, wedges of gas where there may be some operators who, because of their lack of success, it provides an opportunity for another supplier to step in and supply. So those are some of the things which would have created this opportunity and the increase in gas supply.

**Mr. Solomon:** Through the Chair, I am also just wondering, and I know a lot of the people, a lot of the citizens of our country are concerned about the forecast for jobs in the energy sector. I do not know if you can help us and enlighten us in that regard? Thanks.

**Mr. Chairman:** Well, what I would ask is, that is a question we are going to put

to you in writing. Because after this session we are going to send you more questions and that will be one of them. I do not think it would be fair for them to speak off the cuff, unless you want to, PS?

**Mr. Lashley:** I was just about to share the interest in terms of the impact. Certainly a lot of it is a manifestation of the current economic environment, but certainly that is information we need to compile and then we can supply.

**Mr. Chairman:** I continue, based on that question.

**Mr. Lashley:** Sure.

**Mr. Chairman:** I just want to give you one final question because we are going to wrap up at 12, but I think we will have you for at least three sessions. And what will happen after every meeting like this we will send you written questions for further answers.

In your document you spoke on page 5, I believe?—yes. Page 5 you spoke about a consultation. Was this not supposed to take place in December or January?

**Mr. Lashley:** Yes, Chair. You are correct. Initially the plan was to engage in some consultations with key stakeholders in order to inform the development of strategy going forward. Those plans have, in fact, moved into this year, but certainly the intention is still there to have consultations.

**Mr. Chairman:** Yes. If you do not set a definite time frame for these consultations they will never happen, you know. So does the Ministry have a definite date or month for this consultation?

**Mr. Lashley:** Yeah. The consultations are being planned for this quarter.

**Mr. Chairman:** Before the end of March?

**Mr. Lashley:** Before the end of March and into April. What has happened is in terms of defining the structure of it, it was the subject of discussion within the Government, in terms of how do we structure the consultations, you know, to have

the maximum effect in terms of getting key information to feed into the policy. So certainly that is what we are looking at—

**Mr. Chairman:** It is not something that—

**Mr. Lashley:**—to be effective.

**Mr. Chairman:**—anybody should drag their feet on. It is very, very important and I personally remember at the energy conference one of the speakers, I think it was the President of BHP, had made the point that this Government had promised consultation and urged us to get on with it. So that we will be writing you. We want an answer as to when this consultation will take place. Okay?

**Mr. Lashley:** Noted. And we will respond, Chair.

**Mr. Chairman:** And I want to wrap up now, but if anybody else wants to ask any questions? Okay. Well thank you very much. And as I said, we will be seeing you again. I can assure you the questions will be harder on the next occasion. Okay.

**Mr. Lashley:** We are here to respond, Chair, to all the questions.

**Mr. Chairman:** We ease you up. We “soften yuh up” for the first meeting. Okay. But what I would say though is that it is not appropriate to say, “you think, maybe, might”. Be prepared for all sorts of questions. I mean, you are not psychic, but be prepared to come with information to answer questions, specifically if you can, because that is what we want from you. Okay?

**Mr. Lashley:** Certainly, Chair, and we are here to support the Committee.

**Mr. Chairman:** Thank you very much. Okay. All right.

**Mr. Lashley:** Thank you.

**11.59 a.m.:** *Meeting adjourned.*