EXCERPT OF THE VERBATIM NOTES OF THE ELEVENTH MEETING OF THE JOINT SELECT COMMITTEE ON ENERGY AFFAIRS, HELD IN THE J. HAMILTON MAURICE ROOM (IN PUBLIC), OFFICE OF THE PARLIAMENT, TOWER D, THE PORT OF SPAIN INTERNATIONAL WATERFRONT CENTRE, #1A WRIGHTSON ROAD, PORT OF SPAIN, ON WEDNESDAY, FEBRUARY 21, 2018 AT 2.12 P.M.

PRESENT

Mr. Colm Imbert	Chairman
Mr. Stuart Young	Member
Mr. David Lee	Member
Mr. Gerald Ramdeen	Member
Mrs. Paula Gopee-Scoon	Member
Miss Candice Skerrette	Secretary
Miss Khisha Peterkin	Assistant Secretary
Miss Aaneesa Baksh	Graduate Research Assistant

ABSENT

Maj. Gen. Edmund Dillon	Member
Mr. David Small	Member
Mr. Kazim Hosein	Member

OFFICIALS OF PETROTRIN

Mr. Wilfred Espinet	Chairman
Mr. Reynold Ajodhasingh	Deputy Chairman
Mr. Anthony Chan Tack	Director
Mr. Nigel Edwards	Director
Mr. Fitzroy Harewood	President
Mr. Stephen Awah	Vice-President Exploration and Production

Mr. Astor Harris	Vice-President, Refining and Marketing
Mr. Neil Derrick	Vice-President, Human Resource and Corporate Services
Mr. Andre Hosein	Senior Manager, Law and Land Management (Ag.)
Mrs. Sharon Morris-Cummings	Corporate Secretary

OFFICIALS OF THE MINISTRY OF ENERGY AND ENERGY INDUSTRIES

Mr. Selwyn Lashley	Permanent Secretary
Ms. Penelope Bradshaw-Niles	Deputy Permanent Secretary

Mr. Chairman: Okay, good afternoon Petrotrin. Thank you for coming once again for yet another session with the Energy Affairs Standing Committee of the Parliament and you will be before us again. Just want to let you know. Today will not be the last day that we will have the pleasure of your company.

Today we have myself as Chairman; Mr. Young, Vice-Chairman of the Committee; Mr. Ramdeen, member; Mr. David Lee, member. The other members of the Committee are unavoidably absent.

What I would ask members, do we want to deal with the responses with respect to the letters of January 26th and February 7th, in particular the January 26th letter first, or shall we go straight into the presentation? Straight in? So you do not want to worry about that right now? Good. So, we have agreed, we will go straight into your presentation.

Petrotrin, could you please introduce the members of your team for the listening public?

[*Introductions made*]

Mr. Lashley: From the Ministry of Energy, Selwyn Lashley, Permanent

Secretary.

Mr. Chairman: Are you not a Director of Petrotrin as well?

Mr. Lashley: At this forum, Sir, I am here in my capacity as Permanent Secretary of the Ministry of Energy.

Mr. Chairman: Okay.

[*Introductions continued*]

All right, so not all members of the board, Mr. Espinet, are present?

Mr. Espinet: We have Linda Rajpaul who has asked to be excused as she is not well, Chairman.

Mr. Chairman: And Mr. Nancis? He is not here either?

Mr. Espinet: No.

Mr. Chairman: And Mr. Harding?

Mr. Espinet: No, they were not members of the—they have not been present as a part of the team.

Mr. Chairman: Okay, I am just trying to clear it up.

Mr. Espinet: This is, in fact—[*Interruption*]

Mr. Chairman: So the team, the Petrotrin team, the only person that is missing is the lady that you referred to.

Mr. Espinet: Yes, Linda Rajpaul.

Mr. Chairman: Okay, fine. That is fine. Great. All right, well you can go straight into your presentation.

Mr. Edwards: Mr. Chairman, we have done a presentation on your request from the last meeting. We entitled it: A Way Forward, because it is intended to highlight some of the issues, both some of the issues that we found and the way we are treating with them moving forward. So it is not just by way of introduction. It is not a deep dive into the operational issues at Petrotrin. It is very much an overview of the company, its performance and the things that we need to see happen.

Mr. Chairman: Sure.

Mr. Edwards: The first section of it, we just lay some context and give you some background. This board was installed at the company since September of 2017. So we have been in place– I think the official date of the letter was September04, 2017. And so, for the first three months or so we spent some time trying to get some dimension around what we are looking at.

And so some of the first action that we took was to review the operations of the company. We did that by looking at two separate parts. Firstly, the upstream activities, which relate to the exploration and production side of the business and the downstream, looking at the refining and marketing. That is important, because when we look at the rest of the presentation, most of the analysis that we do will be on the basis of these two business components.

On the upstream side of the business, just by way of background, Petrotrin produces about 43,000 barrels of oil per day and 130 million standard cubic square feet of gas per day. And the company has proven reserves of 140million barrels of oil equivalent. The refinery is rated to a refined 175,000 barrels of oil per day. We have looked at the last—[*Interruption*]

Mr. Chairman: Could you just repeat that number?

Mr. Edwards: 175,000 barrels per day.

Mr. Chairman: Okay.

Mr. Edwards: But having looked at the last five years, on average, we have produced 124,000 barrels per day through the refinery, and that is approximately 71 per cent throughput.

As we move forward, so we have looked at both sides of the business and a couple critical decision points as we look forward. On the upstream side of the business, we have to take a look at our strategic approach especially as it relates to optimizing the production. You would notice that optimizing is underlined, not necessarily maximizing. I think up till now we have been looking at maximizing oil production. We are trying to shift focus to optimizing production, especially given that some of the fields are mature, and that results in the lifting cost in some instances, being well in excess of the industry averages and in some instances, the lifting cost, the cost of producing a barrel of oil, is higher than what we could sell it for.

So optimizing production is critically important moving forward on the E&P side of the business. On the refining and marketing side of the business, ultra-low sulphur diesel, we are at a critical decision point with respect to ultra-low sulphur diesel and that would address some much tighter regulatory requirements that would be enforced as early as 2020. That is important because it requires a significant new investment and the company has already invested a significant sum in ultra-low sulphur diesel. So the next period of time this will be a critical decision point for us.

In addition to that, we have just looked at some of the upcoming cash demands and just laid them out. The first is in respect of the refinery. On an annual basis, the refinery is required to do what is known in the industry as turnarounds or inspections. In many instances, these turnarounds are either due or overdue and in order for us to move forward safely we have to address these to reduce the risk of safety incidents in the refinery.

2.20 p.m.

Secondly, I just spoke about the ultra-low sulphur diesel, which we have projected to complete by 2021 and our estimates, based on what we have now, suggest that this will cost somewhere in the region of US $300 million to move to completion by this timeframe.

We have a bond maturing in August of 2019 of US $850 million and finally, the abandonment expenditure that is required to keep us in line with global environmental standards.

This is not an exhaustive list, but these represent some of the most critical upcoming cash demands facing the company.

We have gone about looking at the way forward with respect to Petrotrin with one objective in mind, and the objective is simply to secure the economic viability of Petrotrin. We have defined the economic viability very simply as being able to produce sustainable, positive free cash flows and so I just wanted for the avoidance of doubt to describe what we define as free cash flows.

So we have started with the operating performance of the company, so the free cash flows would be all earnings before interest, taxes, depreciation and amortization. So, the cash earnings of the company less royalties which come straight off the top; and less capital expenditure, which is required to keep the business running. The idea here of course, is to ensure that this equates Petrotrin to any business, any of its peers.

The next thing that we did is that we took an approach that is essentially a four-step approach: firstly, we did an asset review and we will see a little bit of the result of that; that is, to review the producing assets of the company within its two business units, the upstream and downstream business units.

The second step was to build what we refer to as a momentum case. That is, to project the future free cash flow of the business for the next five years, and that is based on historical and existing operating conditions, assuming that nothing is changed, and gives us a sense of what if we did nothing, what we would look like over the next five years.

The next step was to build what we refer to as a full potential case. That is, if we project the future cash flows over the same five-year period, but this time, based on us moving closer towards global operational performance requirements that are consistent with standard good practice across the industry and, like I said, that gave us what we refer to as the full potential case.

And then the final step which pretty much we are in right now is to explore the strategic choices that will result in the positive free cash flows for the company.

I just wanted to share some of the observations that we have seen at the company, observations and challenges, over the last five or so months that we have been there.

The first one, is perhaps one that we are most concerned about and that is the significant health, safety and environmental exposures that we have both upstream and downstream which leave all our employees and the wider public at risk. This is a big one that we think that we have to get under control.

Mr. Chairman: Sorry, just one second. Mr. Edwards.

[*Chairman confers with members*]

We have decided we will allow you to finish and then we will ask questions.

Mr. Edwards: Sure, thank you. The second observation was—we worked very closely with two entities, in particular, and one of them was a specialist in benchmarking across this industry. And when we looked at the benchmarks by every single measure that we could measure, this company fell within the bottom of the bottom quartile of the benchmarks.

Mr. Chairman: I think we will have to reverse our decision. What is the benchmark that you are using to come to the conclusion that the company is functioning at the bottom of the fourth quartile of the industry.

Mr. Edwards: And that would be anything from the turnaround expenditure—

Mr. Young: I think Mr. Edwards, the question being asked is you made a comment a short while ago that you used two particular entities, two consultants, whatever. So you need to tell us who they are? And then Sen. Ramdeen's specific question if I understand it, is whenever you are benchmarking you have to benchmark against a certain measurement, a certain level. So can you just give us some more details on that, please?

Mr. Edwards: The two firms that we worked together with– so we worked with McKinsey Strategic Consultants and the specialist benchmarkers are Solomon Associates. Just to make the point that we have used those as inputs into our decisions and observations so what you will see throughout here is not a reproduction necessarily of their work.

We have used their work to advise and to help us to make decisions.

Mr. Young: Which is the right way to do it, if I may interrupt you again. Now McKinsey, I think we are all familiar with because McKinsey is recognized as an international management consultant specialist and in various fields, et cetera. They have specialists that they can come in and do a review and assist you in pinpointing areas. But, Solomon? You said you used Solomon from a benchmarking, I mean, I do not think anyone here on the Committee has been in the industry. Who is Solomon? Where is Solomon an international—and when you say benchmarking—benchmarking against what? Is it that they collect data from all over the world, et cetera, and then you kind of plug into where—

Mr. Edwards: Solomon Associates is a global firm that do exactly as you have discussed. They collect data from, especially in the oil and gas industry, from global players. In our instance, they have benchmarked us using refineries and exploration and production companies both within our region, within Latin

America and also within the Gulf Coast of the US. So when we talk about the benchmarking, they have benchmarked us primarily against the Latin American entities.

Mr. Young: And comparing apples and apples, of course, that is always one of our concerns with benchmarking. So they would have looked at presumably the size of refinery, the throughput—

Mr. Edwards: Exactly, complexity of the refinery, correct. So it is size, complexity, like for like and compared us across the region.

Mr. Espinet: Chairman, just so you can understand it. What has in fact been the focus of the board is to establish, what is it going to require for us to be competitive in the marketplace that we operate in? And so what we wanted to do was to find measurements in terms of how we compare with people who operate in the same environment.

And while you may want to say that it is apples exactly with apples, in the final analysis, it is the same products that we are making, operating in the same marketplace. As you will appreciate, a substantial part of the product that is refined in Trinidad and Tobago has to be exported outside of Trinidad and Tobago as we do not use all of it. And that means, therefore, that the markets that we operate in we have to be competitive in them.

Mr. Young: Understood. I was not trying to pin you down to perfect apples and apples, [*Interruption*] but essentially you will have to fall in the same category.

Mr. Espinet: Yes, and they have taken into consideration that, because they have gone through tier by tier of job activities and what they are doing.

Mr. Young: And you all were satisfied with the product that they produced for you and the benchmarking that they did?

Mr. Espinet: Well, I think that we are as satisfied as one would be with somebody of that reputation. These are the leaders of this particular field of endeavour.

Mr. Young: One quick question, when you went in there as a board, presumably one of the things, I assume you did, and you can confirm whether you did it or not, is you would have done an assessment of the number of reports that would have been produced over the years, for Petrotrin by a number of consultants. Was there a similar benchmarking exercise that had been done within recent time?

Mr. Espinet: Well, in fact and the President could reinforce this. This set of benchmarkers has been in the company on more than one occasion in the past. And I think that essentially they have done a number of specific jobs. What we particularly focused on was the company's activities as they are today in relation to how its competitiveness is in the practices that it is involved in and the use of manpower and the practices of the organization.

Mr. Edwards: If I may, just sensing the line of questioning, if I may just go on to the next few points and then pause—

Mr. Young: You can go ahead—

Mr. Edwards: I will pause and we will come right back to that question.

Mr. Chairman: I would like to put on the record, while you all were talking, I did a little research and it is alleged that Solomon Associates is the leading performance improvement company for the global energy industry. Would you say that is fair, that is true?

Mr. Edwards: That is correct.

Mr. Espinet: Yes.

Mr. Chairman: And that they provide benchmarking solutions across the energy value chain?

Mr. Edwards: Correct.

Mr. Chairman: From upstream to downstream?

Mr. Edwards: Yes.

Mr. Chairman: So you are using the best available expertise to benchmark Petrotrin's performance.

Mr. Espinet: Mr. Chairman, in each case the board took the decision that it was going to take the best in class in anybody that they were dealing with so that we could stand scrutiny in going forward with these projects.

Mr. Chairman: Fine, so based on the fact that you are using the world-leader in benchmarking in the energy sector, they have told you that Petrotrin is functioning within the bottom of the fourth quartile. Now, in layman's language, does that mean the bottom of the bottom?

Mr. Espinet: Yes.

Mr. Edwards: It does.

Mr. Chairman: It is the lowest of low, so Petrotrin is functioning in the lowest of the low in the energy industry.

Mr. Edwards: Correct.

Mr. Chairman: According to Solomon Associates?

Mr. Edwards: According to both McKinsey and Solomon Associates.

Mr. Ramdeen: Mr. Edwards and to the Chairman, just building on what Minister Young has asked about the fact that these benchmark firms that you have employed now, since you have become the new board, have been doing work for Petrotrin previously, did your enquiry discover for how long Petrotrin has been in the fourth quartile of the industry?

Mr. Edwards: Mr. Ramdeen, is it okay for us to come back to responding to that in a few minutes?

Mr. Ramdeen: Sure.

Mr. Chairman: You can move along, sure.

Mr. Edwards: Other observations: We have seen an inability to manage and execute major projects, to deliver results within budget and on time. And I know that has been the subject of conversation in this place before and that has resulted in the past in consistent and significant cost overruns that have been value destructive.

We have seen challenges in implementing improved operating practices that need to be in place in order to have sustained positive value creation. And, finally and this is where I want to get back to the question, we have seen for decades our observation is that there has been a culture of what some of those very reports referred to as a culture of complacency and comfort with the status quo. And just to highlight that, we have just taken a quotation from one of those studies that dates all the way back to 2006 and I will just read a quotation from that:

> There is an urgent need—since 2006 that—There is an urgent need to increase the performance of the refinery and to embrace and to reinforce the required changes throughout Petrotrin's corporate management in order to achieve and maintain a prolonged, positive cash flow. A changed corporate mindset and a reinforcement of management focus are an absolute prerequisite to realize the necessary improvement. Petrotrin will need inspiration motivation and consistent leadership to achieve the required performance and must convince all staff of the sense of urgency to reduce cost and to improve performance.

This 2006 study was done by another firm that pointed out some of the same challenges that we refer to. Whether you looked at throughput, whether you looked at the non-energy operating costs, the benchmarks all indicated that we were in the bottom of the fourth quartile since then.

2.35 p.m.

So to respond to your question, this is not new. We appreciate the fact that this has been ongoing. We appreciate the fact that these conditions have prevailed for a long time, but we also appreciate the fact that something radical has to happen to change, and to bring about that change.

Mr. Chairman: Okay.

Mr. Edwards: In terms of analysing the past, we have looked at the free cash flows of the company over the last five years, and the picture of the company, I suppose, on the one hand is a little bit encouraging in the sense that the free cash flows over the last five years has been positive, US $270 million. The good news is that the exploration and production side of the business has generated $920 million in positive cash flows over that five-year period. The bad news is that the refining and marketing section of the business has depleted cash of $650 million over that same time period.

Mr. Chairman: Just let me come in here, Mr. Edwards.

Mr. Edwards: Sure.

Mr. Chairman: When you use the five-year period as your reference, I assume that is up to the end of 2017. Am I correct?

Mr. Edwards: September 2017, correct.

Mr. Chairman: That would not include some bad years in terms of oil prices, and so on?

Mr. Edwards: Yes, but to make a couple of points, so certainly on the refining side, the refinery is a margin business, so it is—

Mr. Chairman: No, I am talking about the exploration and production.

Mr. Edwards: Absolutely. So even in some bad years of the exploration and production, I suppose the point you are making is that had the prices been better the positive—

Mr. Chairman: Would have been better.

Mr. Edwards: Exactly.

Mr. Chairman: Okay. All right.

Mr. Ramdeen: All of these figures that are here are in US?

Mr. Edwards: US dollars, correct. So we have seen some improvements on the R&M side, and in particular over the last two years, 2016 and 2017, the refining and marketing side of the business has generated roughly $40 million per year of positive free cash flows. But having said that, even that is the result of what we consider to be unsustainably low maintenance capex, and of course that backs into some of the same issues that we spoke about a little earlier, the turnaround issues not being dealt with and the exposure.

Mr. Young: Which is the point I wanted to make, Mr. Edwards. So for the public looking on, is it not accurate then to say that—I mean, we are dealing with cash flows so they need to understand the cash flows. This is the intake and outflow of cash flow for Petrotrin, and in particular R&M. What is R&M?

Mr. Edwards: Refining and marketing.

Mr. Young: Right. And you are saying that the reason it may have shown certainly a lower amount of deficit—if that is the right term to use—is because they were not spending the money on asset integrity, which is what we had started off by discussing that you all came in and met, and that of course is an accounting measurement, that cash flow, all right. But you all have a concern, as we all do in the country, about the amount of turnaround, or a lack of turnaround that has taken place—my understanding is–for quite some time now.

Mr. Espinet: Some of the issues that would come out of that lack of spend is going to be the asset integrity that has been challenging the company, and that has been part of the discussion that has been going on.

Mr. Young: Penny wise pound foolish.

Mr. Espinet: Now, there is also—I do not know if anybody kind of picked up on it, but in the free cash flow we have been talking about, we are talking free cash flow, and earlier on in defining it, it does not include your interest charges or your repayment of that. Okay.

Mr. Young: Does it include—Petrotrin uses this terminology of free cash flow, from the Government side, and in particular the Chairman who is the Minister of Finance—

Mr. Espinet: Just the royalties.

Mr. Young: It includes payment of royalties?

Mr. Espinet: Royalties.

Mr. Young: So it does include the payment of royalties in there?

Mr. Espinet: That is right.

Mr. Chairman: Let me just clarify that, because in your presentation you have defined free cash flow as earnings before interest, taxes, depreciation, amortization, less royalties, less capital expenditure.

Mr. Edwards: Correct. So free cash flows take account of the fact that we have already paid royalties, not taxation but royalties.

Mr. Chairman: So you are saying that you have been told, or the information presented to you as a board is that over the last five years, the company generated free cash flow in the exploration and production section after paying royalties?

Mr. Edwards: So after the royalties that they have paid, so this deals with actual cash flows, actual free cash flows.

Mr. Young: Okay. So it is the actual royalties that you have paid?

Mr. Edwards: Correct.

Mr. Young: Because there is quite a large sum that has not been paid.

Mr. Edwards: There is some—

Mr. Espinet: I think we have to—please, let us not try to take this and apply it to current situations. I will explain that. This reflects a period of activity and a period of time that we have the results of, and this goes up to September. The situation with the current payment of royalties would include from September to the last quarter would be what is reflected as being royalties that are outstanding, and there may be some overlap from the previous period, but this has nothing to do with what you paid, particularly—thing. This is after the payment of royalties—we are looking into a statistical issue here and you are looking at an accounting issue, which are two separate things.

Mr. Chairman: Right, but I think what we are grappling with, I as Minister of Finance, I have information given to me by the public servants which tell me that the debt owed by Petrotrin to the Treasury is approaching $3 billion, which is made up of many things. It is made up of petroleum profits tax, of royalties, of supplementary petroleum tax, and other taxes, but there is a substantial arrears of royalties inside there. So that I could say, speaking for myself, and I got the impression other members as well, are a little confused that your definition of free cash flow assumes payment of royalties, but you owe the Treasury royalties, so you did not pay them.

Mr. Edwards: Yeah.

Mr. Ramdeen:—what you have actually paid.

Mr. Edwards: Yeah, exactly. So, Minister, I think the only point you are making—sorry—Chairman, the only point you are making is that if Petrotrin had paid all of the royalties that were due to the Treasury, that $270 million of positive free cash flow would be even lower, and we accept that. So this reflects the actual payments that have been made over this period of time.

Mr. Chairman: So that definition of free cash flow, and I am not casting any aspersions at the current board, is a Petrotrin definition. In other words, you have this cash flow after you paid the royalties that you chose to pay.

Mr. Edwards: Well, I understand why you would say it that way, so not—

Mr. Chairman: Not the royalties that were due and payable.

Mr. Edwards: Not all that were due, correct.

Mr. Chairman: But it is what you paid, is what you had left—

Mr. Chairman: Correct.

Mr. Chairman:—but you did not pay all of the royalties, so this is a Petrotrin definition of free cash flow, a unique definition.

Mr. Edwards: I would accept that as a definition.

Mr. Chairman: Okay.

Mr. Ramdeen: Mr. Edwards, the difficulty with adopting that approach is that it does not give us a reality check of actually what is happening with respect to Petrotrin, which is what we want, and the public of Trinidad and Tobago needs to understand.

Mr. Edwards: And the way forward is not—so what we have to do now, what we need to do—so we have given you the history, in the next couple of slides I am going to take you to the next five years and the way forward, and to be very clear that we have included all of the payments that are due to the State, and everybody else as part of the free cash flow. I could not come here and create numbers that did not exist, so I could only give you history based on the history that is real and that we experienced.

Mr. Chairman: I understand, but I think it is necessary for the public to understand, because there are all different types of members of the public listening to us now, and some members of the public might say, oh, Petrotrin generated positive cash flow of $920 million in exploration and production, therefore Petrotrin has money and, you know, then there would be all sorts of consequences. But I think the public needs to know as a fact, factually, that these numbers do not take into account taxes and royalties that were not paid by Petrotrin to the State. So that if you took into account those liabilities, the free cash flow would be less.

Mr. Edwards: Correct.

Mr. Chairman: And I think the public needs to know that. Okay. Mr. Young is saying the comrades need to know this, that these numbers do not take into account the debt owed by Petrotrin to the State with respect to arrears of royalties and taxes, which, as I said, the last number I got, it was over $2 billion closing in on $3 billion.

Mr. Edwards: Okay. All right. Thank you, Chairman. So if I were to look forward, like I said, on the E&P side, the upstream side of the business, exploration and production side of the business, we built out what I had referred to as the momentum case. We looked at some opportunities and then came up with a full potential. On the upstream side of the business, if we assume that there was no significant operational change within the next five years then the projected free cash flows of this business would be negative $55million.

Mr. Young: When you say, no significant operational changes, that means keeping exploration and production as is, so it is mature fields we are dealing with, no new drilling of areas, no investment in capex upstream.

Mr. Edwards: Correct.

Mr. Young: Okay.

2.50 p.m.

Mr. Chairman: Could you clarify that this number of minus $55 million assumes that you would pay your taxes and your royalties.

Mr. Edwards: It does; assumes that we are paying royalties, so this is before the payment of taxes.

Mr. Chairman: So it assumes that the company is not paying supplementary petroleum tax. Could I just get clarity on that? It assumes you are not paying supplementary petroleum tax.

Mr. Edwards: Correct, and there is a specific reason for us stopping the free cash flows at that point. It simply allows us to compare ourselves with companies globally without any of the anomalies of taxation regimes in different countries. That is what that does. So essentially, if you were looking at any company—and it is not uncommon to look at free cash flows in this way in any industry, whether this industry, if you are looking at manufacturing, it is not uncommon. The idea is to compare yourselves across industries, to be able to compare yourselves across geography, and this says in order for you to be able to pay taxes and to be able to service your debt and to be able to service or the providers of capital, you need to be providing positive free cash flows.

So the idea is to get to the stage where you have not negative, not only break even, but where you have positive free cash flows. It is the only way you would be able to pay your taxes and service the providers of your capital, whether debt or equity

Mr. Chairman: So you are assuming that royalty is an inescapable expense?

Mr. Edwards: Correct, it is extractive.

Mr. Chairman: SPT is not?

Mr. Young: Well, SPT, I mean, Mr. Chair, I was just thinking that through. Am

I not correct there are two types of taxes that you would be subjected to? Tax on profit, so Petrotrin has to be profitable to pay your income tax from profit, but then also with the SPT as well it would have to be over $50 a barrel. So was it that in the projections here and when this was done they were using a projected cost of less? But I did not interrupt because you were saying that this is also done in manufacturing, et cetera, et cetera. So I figured you all just backed out all taxes, SPT is a tax specific, barrels of oil over $50 is when it kicks in.

Mr. Edwards: Right, and the whole point of doing free cash flows to this level is to remove any anomalies in taxation structures, so it is exactly for that reason.

Mr. Chairman: Mr. Edwards, supplemental petroleum tax when the oil price reaches a certain level, or when a factor reaches a certain point is commonplace in the oil industry?

Mr. Edwards: It is.

Mr. Chairman: All over the world.

Mr. Edwards: It is, but at different levels. So there are different levels of tax for different structures.

Mr. Chairman: I accept that, but a supplementary petroleum tax, which is really a windfall tax when oil prices are high, that is standard throughout the world in oil-producing regions. So why is Petrotrin not using the world standard for the energy sector in terms of your free cash flow?

Mr. Edwards: This actually is a methodology that is applied across industry. It is not specific to the energy industry. So we should be able to compare the cash flows generated by Petrotrin as an oil and gas company with the cash flows generated by an entity that is craft that is producing food, for example, both of which have very different taxation structures, but we try to normalize the free cash flows outside of the tax regime for the industry.

Mr. Chairman: You do understand that oil taxation is unique—

Mr. Edwards: Understood.

Mr. Chairman:—and that there are different types of taxes? And a supplementary petroleum tax is a volume-based tax which bears no relationship to profitability, and a petroleum profits tax is a profits-based tax, and volume-based taxes are commonplace throughout the world. So I am a little confused as to why Petrotrin would not use the energy standard for its free cash flow and use a manufacturing standard instead.

Mr. Edwards: Well, it is not so much a manufacturing standard, it is just using a global standard for a free cash flow.

Mr. Chairman: But for companies that are not in the energy sector.

Mr. Edwards: For companies, period.

Mr. Young: I was just going to interrupt. I mean, I am not an accountant, but I think what you have been trying to get across to us is understand there are a number of different measurement tools when looking at businesses you use for accounting and projections. Free cash flow is one.

Mr. Edwards: Correct.

Mr. Young: And in the formula of analysing free cash flow, you back out taxes.

Mr. Edwards: For any industry, including oil and gas.

Mr. Espinet: I think, Chairman, that as an investor one looks at it in that—purely as an investor, not as an industry but an investor. But I just want to make two points that I think may be valid. I do not have the exact information here, but McKinsey did identify a projected cost of a price of a barrel of oil in their exercise.

Mr. Edwards: They based it on between $56 and $60 in different years.

Mr. Espinet: So there is a price at which they based their projections, and I think that that is part of the predicament you are faced with. It is certainly less than what is existing in the last two or three months. Because I think that it was being $56 and $60, but they must have had a number.

Mr. Edwards: So they have done it year by year.

Mr. Chairman: Can I ask therefore, is the assumed price for your projections below $50?

Mr. Edwards: No, it starts at $56 in years one, two and three and goes up to $60 by five.

Mr. Chairman: So it is above the threshold for the application of the supplementary petroleum tax?

Mr. Edwards: Correct.

Mr. Chairman: And would you agree that royalty being a percentage of price and volume is identical to SPT being a percentage of price and volume?

Mr. Edwards: Yes.

Mr. Chairman: Therefore, why would you include royalty because it is based on volume, and not include SPT which is also based on volume?

Mr. Edwards: Chairman, it is only a standard way of looking at it. We can get the consultants to include SPT—

Mr. Chairman: I think you should for the benefit of the public because SPT is real. Other companies are paying SPT at this time and that is a tremendous benefit for the country. I am not aware that Petrotrin is paying SPT. They may be, but as far as I know they are not. So it should be factored into the calculations, okay, thanks.

Mr. Edwards: So certainly, based on the definition, we will start off at minus $55 million in free cash flows. But if we look at some of the opportunities to improve that, we can move towards positive free cash flows in this area by improving production up time and increasing the workover activity in this side of the business. We have to make some better and high grade well choices, and to improve the capital expenditure discipline, ensuring that when we invest in a particular well that there is a minimum return on investment per well, and be very disciplined about doing that.

Mr. Chairman: Mr. Edwards, I hate to stop you when you are full flight, but looking at these words, "capex return discipline", I get the impression that capex return discipline is not really present at Petrotrin.

Mr. Edwards: Again, this is something that was explored, I think, maybe at the last or maybe the previous meeting, where we looked at some spend, I think in that instance a $1.2 billion spend that we have not seen a return on. This is some of the history that we went back to. So some of the capital discipline, capex discipline, in fact is not there.

Mr. Chairman: Would it be fair to say that a lot of money has been spent by Petrotrin and the returns have not justified the expenditure? Would it be fair to say that?

Mr. Edwards: I think it would be fair to say that.

Mr. Chairman: Could that be partly or wholly due to a lack of capex return discipline?

Mr. Edwards: I think that is a fair conclusion.

Mr. Chairman: Could you put that into layman's language, what is capex return discipline?

Mr. Edwards: Capital expenditure is spending on either infrastructure, plant to ensure the future viability of the company.

Mr. Chairman: So capex return discipline would be an effort, a regime with an intention to ensure that the money that you spend on upgrading your infrastructure and your equipment produces a positive return.

Mr. Edwards: Exactly. So capital expenditure discipline says if I spend $100 I need to know how I am going get back a minimum of$110 in exchange for that.

Mr. Ramdeen: Just to build on what the Minister of Finance just asked you. What really stands out when you look at one, two, three, four and five things that you flagged as opportunities under the heading of "Opportunity", in any business—

Mr. Edwards: Standard operating practice.

Mr. Ramdeen: These are standing operating practices.

Mr. Edwards: Agreed.

Mr. Ramdeen: These are the fundamental pillars upon which any business that wants to be profitable and efficient would have as part of their operations.

Mr. Edwards: Agreed.

Mr. Ramdeen: So basically what we are saying is that Petrotrin has been operating for a significant period of time, to use layman language so that people would understand, like a runaway train, with absolutely no discipline in terms of their operations.

Mr. Edwards: Mr. Ramdeen, what I can do, I can tell you what we have found. Even if I do not put it in those words—

Mr. Ramdeen: Let us put it the other way, Mr. Edwards, so that people will understand. Improve production up time, capital expenditure discipline, maintenance expenses to best in class, implement activity reduction, reduced overtime and bring drilling costs in line with market. The flip side of what you are saying here by presenting this to us is that none of these things have been in the existence of Petrotrin over this period of time until your board has looked at it.

The question that the public and the Minister of Finance who is Corporation Sole are going to ask, is simply this, well if this is what has been going on at Petrotrin, why has it been going on for so long and has anyone been held responsible? Because Petrotrin is an organization that is set up, a billion-dollar organization that is set up to be run by taxpayers' dollars, and at the end of the day, somebody has to be held responsible for these things having taken place. If no one has been held responsible, then somebody has a serious dereliction of duty in terms of what transpired or what has been transpiring at Petrotrin.

You have been there only for five months. So those really are the questions that the public, and I expect the Minister of Finance, would really want answers to. I am happy to understand that this is the way forward, but at the end of the day we cannot just cut loose from what has transpired in the past and say let us move forward, without at some point in time somebody being held accountable for this state of affairs.

Mr. Espinet: I wonder if I might just interject, Chairman. Mr. Ramdeen, I want you to know that this is not unique to Petrotrin. Sometimes I am somewhat surprised when I hear the kind of response that you have come up with, because I am sure that this permeates through almost every single state enterprise. There is a problem, and it has been a disconnect where people do not see that there is a commercial activity here at all. They see it as an extension of the State, and therefore they live with it in that it will be saved with whatever is done, it will exist. That is the predicament that the board finds itself in now: How do we change that mindset, how do we get people on board to change their habits, their work habits, their systems?

I mean, I am flabbergasted at times when you listen and you hear that you may have 14 per cent absenteeism in an enterprise. That does not happen anywhere else in the world. Three per cent is considered to be exorbitant. I was listening on television when somebody said that 20 per cent of the police force did not turn up on Carnival day, and that is absenteeism. Sorry to cross—

Mr. Chairman: Mr. Espinet, I think we need to return to the subject at hand. Mr. Ramdeen asked a specific question. Would anybody be held accountable for all of this?

Mr. Espinet: Chairman, it is not the purview of the board to interfere with somebody who went before, certainly. We are focused on where do we take this operation so that we can make it viable.

Mr. Ramdeen: I do not know, Mr. Chairman, if that might be the mindset of the present board that has come into operation five months ago, but to say that you divorce yourselves from what may have taken place and has cost Petrotrin and the taxpayers of Trinidad and Tobago significant losses, I do not think that one can simply say that you are not responsible for it and we are not going to hold anybody accountable.

Mr. Edwards: Mr. Ramdeen, that is not what I heard the Chairman say. Just to be clear, what we are focused on and what will happen is that these things will be implemented. As a consequence of that there will have to be some radical change in—what you will not see is the accustomed or status quo that we went back to in that comment.

Mr. Chairman: Let me just intervene here. I think, Mr. Ramdeen, the board has answered you. You may not be satisfied with their answer.

Mr. Ramdeen: I am fine with the answer.

Mr. Chairman: You are okay with the answer? Okay, good; that is that. Could we move on now please.

Mr. Edwards: When we implement these changes, we have given it an 18-

month period, because obviously some of these things—and Mr. Ramdeen, by the way, some of these things we accept it will not be easy. We are not saying that it will be easy to implement some of these things, because these are practices that have been in place for decades. So we have given it an 18-month transition window, and once that is implemented within the next 18 months, over the coming five years, this will result in cumulative free cash flows of positive $1.2 billion over the next five years. So it is a fairly dramatic shift from the minus $55 million projected business as usual process, to when we implement these what we will be able to generate.

Mr. Chairman: But this is what you are calling a full potential case?

Mr. Edwards: A full potential case, correct.

Mr. Chairman: So there are options then? I am looking in the presentation and I am seeing other options.

Mr. Edwards: So certainly on the E&P side, the full potential assumes that you are able to do all of these five and to do them well. If for whatever reason there is resistance to any one of these, so reducing non-energy costs, for instance, if there is resistance there, you may not be able to get to the full $1.2 billion but certainly even if you implement some of these you will get to positive free cash flows.

Mr. Ramdeen: Mr. Edwards, and to the Chairman, that $1.2 billion and your plan, full potential case over the next 18 months, this is assuming that you are able to implement all of these?

Mr. Edwards: That is correct.

Mr. Ramdeen: Has any analysis been done with respect to what is realistic in terms of achieving these—

Mr. Chairman: Well, Mr. Ramdeen, if they are going to present the same presentation I have, they have do nothing option, and then they have a partial option.

Mr. Edwards: Chairman, you may have a different presentation.

Mr. Young: The next slide over.

Mr. Edwards: The next slide over is refining and marketing. So I will come to that.

Mr. Chairman: My apologies. So you are saying that on the exploration side you have this plan, and if you do it you could achieve the free cash flow—the Petrotrin free cash flow of $1.2 billion?

Mr. Edwards: Correct.

Mr. Chairman: Unique Petrotrin free cash flow.

Mr. Edwards: Which by the way, Chairman, if you generate $1.2 billion, it certainly allows you to pay your SPT and other taxes.

3.05 p.m.

Mr. Chairman: Part of it.

Mr. Espinet: But perhaps in, I do not know if Sen. Ramdeen's question is whether or not we have done any sensitivity analysis on each element that we have talked about. And Sen. Ramdeen, the objective of the board is to implement all of them at that level. So, there is no intent to put it at a different to level and work out sensitivities at this stage.

Mr. Ramdeen: But, Mr. Chair, there must be, this is your best case scenario having regard to your projected plan.

Mr. Espinet: No. But best case being achievable best case.

Mr. Ramdeen: Achievable best case.

Mr. Espinet: Achievable best case.

Mr. Edwards: A realistic best case.

Mr. Espinet: Okay. That is a realistic best case, and that is what we are using as where we want to go.

Mr. Edwards: All right. So on the R&M side on the downstream side of the business, we have done essentially the same thing. The momentum case of this side of the business, and if you remember the momentum case is what would happen over the next five years if you assume there are no significant operational changes. In this case, R&M, the best case over the next five years is for projected free cash flows of minus $923 million. Given that, that assumes that when we do projects such as ultra-low sulphur diesel, that assumes that everything happens on time and within budget. Because we know that has not been the experience, and we adjust for what is likely to be the experience, the sort of realistic five-year projection will take closer to $1.4 billion negative cash flows. If we spend on some of those projects and they go over budget as in—

Mr. Chairman: Mr. Edwards, can I just interrupt. So, if you are very successful with your improvement of exploration and production and generate $1.2 billion in cash flow, that will all be wiped out by negative cash flow in the refinery?

Mr. Edwards: If we do nothing.

Mr. Chairman: If you do nothing.

Mr. Edwards: Correct, exactly.

Mr. Chairman: So, if you are able to achieve what you plan to achieve with the production, $1.2billion in positive cash flow, and if you cannot get anything done or do not do anything with in the refinery, minus 1.4.

Mr. Edwards: Correct.

Mr. Chairman: Okay.

Mr. Edwards: Having said that there are some opportunities on the R&M side of the business as well, on the refining side. Firstly, to improve the operational efficiency, again, by focusing on non-energy cost to within, at least, the second quartile when compared to our industry peers.

The second line to bringing about improvement in the refinery throughput, the refinery throughput if you will remember from my earlier slide I said was about 71 per cent. Second quartile performance takes you to above 92 per cent. And so we are saying if we can get to 92 per cent or better, that gives us a fighting chance. To improve the turnaround CapEx, on average cap turnarounds are done on or about four years. The last turnaround activity at this company was six or seven years ago, and that leads to some of the health and safety issues or the risks that we see.

And finally, to optimize the crude and the yield so that we can improve gross refinery margin by about 75 cents a barrel. If we can implement those changes then there will be significant improvements, not in—you would not get a dramatic results as we have in the exploration and production, but at least we will get to a break-even level. And to stress the point that has been made so many times here, a break-even with respect to free cash flow here, means that you are breaking even, before being able to pay taxes or to service the providers of your capital. So that is actually a very important point, but at least it does not get you into much deeper losses than that.

So in terms of some of the next steps or where we are right now, over the last two months in particular we have been focusing our efforts on stakeholder engagement, and we have recognized that partnership is required amongst all of the stakeholders if we are to bring any layer of transformation into viability.

The board has been actively engaging all of the stakeholders with a view to enacting a very collaborative approach towards viability. We have been building, what we refer to it, as a critical collision amongst shareholders. So we have engaged the shareholder, we actively engaged not just the trade union, but also the management and the employees of the company to get their partnership, and have been in active discussions with the financiers just ensuring they are—

Mr. Chairman: Let me just pick up in here, Mr. Edwards. You are saying that if you achieve all of the objectives here, the best that could happen is that you would break even on the refinery?

Mr. Edwards: Refinery. Yes.

Mr. Chairman: And could you then explain what does "improved operational efficiency non-energy cost" mean?

Mr. Edwards: Our operating cost which includes everything from the support systems that go into refining and marketing, so whether that is the—if I were to go back to the benchmarking exercise, Solomon, very carefully benchmarked as with—not even the best in class in some instances, just the average. And some of what they refer to it as the super structure associated with our operations, inflated compared to the cost, and that is everything from contracts for maintenance, the employee and related expenditure, all of the—

Mr. Chairman: So non-energy cost is every cost other than purchasing crude.

Mr. Edwards: Correct.

Mr. Chairman: Energy cost is purchase of crude oil.

Mr. Edwards: Correct. Yes.

Mr. Chairman: And non-energy is everything else.

Mr. Edwards: Everything else.

Mr. Chairman: So that is goods and services and personnel expenditure.

Mr. Edwards: Correct.

Mr. Chairman: So that in order to break even, you must improve efficiency with respect to your expenditure on goods and services and personnel to the second quartile from where it is somewhere down by the bottom of the lowest—

Mr. Edwards: The fourth quartile.

Mr. Chairman: So that is what that means?

Mr. Edwards: That is correct.

Mr. Chairman: And if you are not able to achieve operational efficiency on the non-energy side, you would not break even?

Mr. Edwards: Correct. So again, to Sen. Ramdeen's earlier point, so let us assume that we are able to implement all of these, so to Sen. Ramdeen's earlier point which is, if we applied sensitivity to this, you would not even get to break even. And we do have those sensitivity numbers in detail, but it is not, I do not think it is a necessary level of detail for this.

Mr. Chairman: Okay. And this very difficult proposition of getting to break even with doing all these things, is that because of the debt load associated with the refinery?

Mr. Edwards: Well it includes the debt load. Well, sorry. Let me start before. This is before the cost of financing.

Mr. Chairman: I know. I just want everybody else to know that. I know that. [*Crosstalk*] It has nothing to do with debt servicing.

Mr. Espinet: Chairman, you have to understand that what this is talking about is cash flow. It has not included in it depreciation nor anything to do with the repayment of debt.

Mr. Chairman: I know.

Mr. Edwards: So those are two other—

Mr. Chairman: I want public to know that.

Mr. Espinet:—things that have to be done.

Mr. Chairman: So that this projection, that if you do all of these operational improvements, you would get free cash flow, but you would still have your servicing which will then send you into negative territory.

Mr. Edwards: Correct.

Mr. Chairman: Even with all of these improvements you are making there, you are still in negative territory when you bring into book your debt service payments and your depreciation and so on. Okay? But again, I would ask therefore, is that we need to get an understanding of what that means. Because let us assume you can do this, you can break even, but what kind of burden on the company is your debt service and so on with respect to the refinery? [*Crosstalk*]

Mr. Ramdeen: Mr. Edwards, I have just taken one step ahead and looked through the presentation as to what is to come, and there are two questions that I want to ask, the first probably more important second. There is no part of the presentation where you incorporate the reality of what we speak about in terms of debt financing and the expenditure that needs to be incurred or has to be mandatorily incurred over the next five-year period by Petrotrin. Are you going to give details of that, so that when we take the perfect case which you have outlined as to the next five years in terms of your projection or your board's projection we can match it back against the reality of Petrotrin and then come back to where we really are?

Mr. Espinet: Sen. Ramdeen, the reality is that unless you make the changes, you cannot go forward, that is a reality. In other words, to go projecting down the road is an academic exercise. You would appreciate that if you are in a break-even position, okay?—and let us say that you made no changes either way and you are in a break-even position and you want to add to that the cost of interest and depreciation, et cetera, it only reflects something that is untenable anyway even at its existing position.

Mr. Ramdeen: No. But, Mr. Chair, that obviously is the position that Petrotrin, as we speak now, is in an untenable position. We are in the degrees of how untenable it can get, and in order for the public to understand how untenable the position can be without the changes, I think it is important for us to understand, firstly, this is your best case. If your board is able to implement all of these things this is where Petrotrin can be in five years.

One has to also understand if the board, when you match that, this does not take into consideration certain factors that we have already out lined, though it will be unrealistic for the public to know that your best-case scenario does not take into consideration debt repayment, taxes and royalties that are owed to Petrotrin. So what while it might be a very untenable position on your best-case scenario, the public still needs to know how untenable it is.

Mr. Edwards: Senator, Chairman, essentially what we are describing is a situation where, if nothing happens at this company, over the next five years we are staring at minus US$1.5 billion in free cash flows. So that is the starting position. We are saying and that is even before servicing debt. So that is minus $1.5 billion just from operations.

We are saying, there is a package of changes that can turn that around, and if that happens we can generate positive $1.2 billion over the next five years. And Sen. Ramdeen, the only point that I think you are making is, that $1.2 billion then has to do several things. It has to service your taxes and the providers of your capital, because we do, you know, we have been talking about the providers of capital as if they are only debt holders. But every citizen of Trinidad and Tobago is also a provider of capital, and I would expect that dividends are a requirement or an expectation of this company. So, the point we are making, is that we have to get to the point where, not only is Petrotrin able to pay its taxes, service its debt, but also to be able to pay dividends and to give a return to its shareholders.

The reason we have put five years as a realistic period, it is easy to project into five years with some degree of realism. We know it is going to take some time for us to implement these things, so therefore, 18 months. And so, $1.2 billion we are comforted is enough to service taxes and to service the debt. The how is something that we will come to, and that is something that we are committed to share with other stakeholders within, about 60 days for today.

We have met with our lenders, as we have said, we have told then that within 90 days of meeting with them, which is just about a month ago that we will come to them with some prioritized plans and that is something that we are required to do, otherwise we are not going to be in a position to get the comfort from lenders who are a critical part of Petrotrin's future.

And so, we think that being able to generate positive cash flow is critically important for us to present to them, and the how that cash flow is distributed between the State in the form of taxes and the providers of capital is a detail that we will get to.

Mr. Lee: Thank you, Chair. To Mr. Edwards, I just want to go back a bit, and using the definition of the free cash flows, 2013 to 2017, and I just need your clarification and to help me. The company Petrotrin has been having overall 2013/2017 on that five-year period, a $270 million overall positive cash flow. Fair?

Mr. Edwards: Correct.

3.20 p.m.

Mr. Lee: So the company, using the definition of free cash flow, Petrotrin has not been performing badly in relationship to that definition? Because that is the definition that we are playing around here this afternoon with.

Mr. Edwards: I understand that, but I do want to take cognizance of the Chairman's earlier comment, that if Petrotrin had paid all its royalties—

Mr. Lee: No, no, no, you are carrying me down a road. I do not want to go down that road yet. I just want to stay with what is in front of me; free cash flows. For the five-year period 2013 to 2017 Petrotrin has had a $270 million positive cash flow, fair? Based on this?

Mr. Edwards: That is the fact, yes.

Mr. Lee: Right. And that is based on another assumption on my part that Petrotrin had all these issues that you have outlined here, which Sen. Ramdeen talked about, standard operating procedures of any business to survive. So, under the worse conditions, for the last five years, 2013 to 2017, Petrotrin generated free cash flows, using that definition, of $270 million. What this new board is assuming now, for the next five years, assuming no significant operational changes, the status quo remains as 2013 to 2017, you have now come up with an assumption of negative $55 million in free cash flows. Fair?

Mr. Edwards: Correct.

Mr. Lee: And I am trying to correlate what would cause that negativity and put Petrotrin in this negative light, when under the worse conditions of 2013 to 2017, you had all these negative things going on in Petrotrin, so I am a little bit—

Mr. Edwards: And I understand, so sure—

Mr. Lee: For the public listening, because—

Mr. Edwards: And understand completely where I am coming from. So there are two things that happened over that 2013 to 2017 period. One, is something that we said before, if we had paid all our royalties and taxes when they became due we would not have positive 270. The future is projecting that we will pay the royalties when they become due. So that is point number one.

Mr. Lee: Well Okay, let me just add. Then you are changing your definition of your free cash flows in your assumption of the next five years. Because your 2013—2017 assumption you had a 270 positive cash flow and you are saying, let us maintain status quo, let us not change any assumptions, and now you have come up and you have used a benchmark of oil between $56 to $60. Correct?

Mr. Edwards: Correct.

Mr. Lee: So, I am a little bit—because I have an assumption in my mind where this is going, eh, so help me in.

Mr. Edwards: So, earlier, I said I cannot make up the numbers for the history. So I could not come here and say to you that if we had paid—the past five years this is what our free cash flow would have been. Having said that, going forward as a responsible company, we can only project based on what we, as a responsible corporate citizen ought to be doing, which includes the payment of royalties. So, it is not changing the definition, but I cannot go back and redefine reality. I cannot change the facts over the last five years.

Mr. Lee: All right, let me put it in another way. The general public is listening and I am sure the OWTU is listening, and they are saying that the company in the 2013 to 2017 was not doing too bad, using the definition of free cash flows, $270 million, and they are now listening and saying, for the next five years, using the same assumptions, we are into a negative 55, what is really happening? Are you trying to—and I want to be kind to the Chair and to my other colleagues, and to you, are you saying to the public that some—because I am getting the impression that these numbers are not, these assumptions are not really realistic because it is painting a kind of picture for Petrotrin in a very negative way, so help the public and myself understand.

Mr. Edwards: Sure. So that was the first point, and I still do not think you can get away from that as a reality. The second point is, and I made this point in relation to the maintenance CapEx specifically, over the last two years changing the tone of the refining and marketing free cash flows. The fact is that we have underspent in terms of capital expenditure, in terms of maintenance expenditure, turn-around expenditure, we have significantly underspent. Those things create tremendous risk going forward and cannot be sustained. So projecting forward we have to assume that you spend on maintenance expenditure. We have to assume that we do the turn-arounds that are required at the refinery. Those things were not included in actual expenditure over the last five years, but have to be included over the coming five years. So those changed the picture dramatically.

Mr. Espinet: Mr. Lee, I think that when the price of oil, also during the earlier period, would have yielded a greater benefit to Petrotrin than what is happening today. And that has also impacted, and I think that if somebody looked at it there is a curve with the change of prices as it went down.

Mr. Chairman: I have been listening to the discussion, and I think I can summarize. I have no difficulty if you would correct me. Using the definition here in this presentation that free cash flow is earnings before payment of interest, taxes, accounting for depreciation and amortization, less payment of royalties, less capital expenditure, what you are actually reflecting in your numbers is the actual capital expenditure that took place and the actual royalties that were paid, not what should have paid or spent in either case.

Mr. Edwards: That is correct. Exactly.

Mr. Chairman: So what then—in the company's books they show free cash flow because they did not pay royalties even though the definition of free cash flow assumes the payment of 100 per cent of royalties. So that is where the confusion is coming in. Am I correct?

Mr. Edwards: Absolutely correct, yes.

Mr. Chairman: All right. Well, I am not sure everybody would understand that, because one would assume that for accounting purposes you would show royalties as an expense even though you did not pay it?

Mr. Espinet: Chairman, the problem is here in that you are looking at a presentation and you are trying to tie it into the accounting, and they are two separate directions. You going to try—to try and reconcile them as we go is going to be impossible.

Mr. Young: Mr. Espinet, we have a duty, because we have a public looking on at us, right. We always need to put it in a manner that we in the room and the public can understand. Is not the proper analogy one, for example, you have a thousand dollars to spend for the month; you have a number of expenses, so, example, your rent might be $500; your travel might be $250; your loan may be $300; you have already exceeded the amount. You only have a thousand dollars cash but your expenses are already over the thousand dollars. All free cash flow does is look at how much money you spent out of your thousand for the month. So I decided well, I have to pay my landlord this month. I pay them the $500. I had to travel so I pay the 250, and with the remaining 250, well tough. I "eh" paying George that I owe money to, so now the free cash flow that we reflected in that month would be $250, because that is the free amount of cash that you had at the end of the month. Is that not the analogy?

Mr. Espinet: That is the analogy.

Mr. Edwards: So, Minister, if I could use your example: If I am renting from my uncle for $500 and I decide—

Mr. Young: He is a nice uncle.

Mr. Edwards:—he is a nice uncle, I "won't" pay him. But it is Carnival coming so I need to play, so I will pay everything else including Carnival, and I might have an extra $200 left. It is free cash, but I just have not paid my uncle. So that is the analogy.

Mr. Lee: Can I just understand the term "free cash flow"? Has it to do anything with your credit rating?

Mr. Edwards: Not directly. Free cash flow is simply a way of analyzing a company down to its most common denominator. Every company has to generate cash in order to pay its providers of capital. Therefore, it comes down to the ability of a company to generate cash.

Mr. Espinet: It is a yard stick used by investors, any investor, whether or not it be a loan, a debt capital or equity capital.

Mr. Chairman: So they would looking at your obligations, your liabilities. So you are generating cash flow, but because you are not paying your debts.

Mr. Edwards: Sure.

Mr. Chairman: So, you are not paying your debts so you would have more cash available to you?

Mr. Edwards: Sure.

Mr. Espinet: But in a projection one never assumes that you are not going to do it. I mean, you may have had it in an actual application of funds, but in your assumption, when one looks at free cash flow in a going forward position you do not assume that you are not going to do that.

Mr. Chairman: Correct. So what you are saying is that in the past, payments should have been made towards royalties and so on?

Mr. Edwards: Absolutely.

Mr. Chairman: And capex?

Mr. Edwards: Yes.

Mr. Chairman: But were not?

Mr. Edwards: Correct.

Mr. Chairman: This board intends to pay royalties and to spend money on capital expenditure?

Mr. Edwards: And maintenance expenditure.

Mr. Chairman: And maintenance, hence the reason why your free cash flow, which is now a third definition of free cash flow. This is now the new board of Petrotrin free cash flow which means you pay your royalties and you invest in your plant and equipment, would be less? You are free because you will be doing what you are supposed to do which is to pay royalties and invest in your plant and equipment.

Mr. Edwards: Correct. Yeah. You are absolutely right, Chairman.

Mr. Chairman: Okay, I want to close off at about 10 to four so we have 20 minutes, so can we move on with the presentation, please?

Mr. Edwards: Sure. Mr. Chairman, I think I have covered this slide with respect to the stakeholders. So, it is really just one final consideration. So, also as the board, we have also been engaged in a number of things pointing to the future. In respect of governance, we have been trying to clarify as best we can the role between the shareholder and the board. We have had meetings with the representatives of the shareholder, and continue to update them on where the operations of the company are, but to ensure that there is an arm's-length separation between the shareholder and the board and the operations of the company.

We as a board have committed to the management, to the employees, to the unions, to the stakeholders, that we will continue to create an environment that allows the company to return to viability, and that includes providing the credibility of a set-up board and leadership that would take us there, and to provide the space for the financiers. Structurally, we are presently engaged in formally separating the company into two separate and distinct business units, one for the upstream and one for the downstream. You may know, of course, that the Lashley committee recommended three business units and that included, in the upstream side, a separation between the land and the marine operations. We have made a decision. We will separate between the two main business units. There is nothing that stops us from doing a further separation within the E&P side of the business to one that focuses on marine and one that is on land. But what this does is it allows us to focus on the performance up to the level of the earnings before interest, tax depreciation and the EBITDA give specific people specific accountability for generating EBITDA which will lead to positive free cash flows, and to install a transition team with the business unit heads that have those specific accountabilities for the performance of those operating results, and to ensure that the business units have the resources to fulfil their individual mandates.

Operationally, we have gone a step further and we are encouraging, we are working with and encouraging the management and teams of operations to do a number of things. On the part of the board and requirement of the transition team will be to establish this prioritized plan of action that would return the company to sustainability and that, of course, will feed into what we present to the providers of capital.

Across the business units we are asking the management and the employees to work collectively to identify a set of opportunities for and to implement operational improvements that would be consistent with getting into the first quartile operators. And we have been getting some feedback that some of the employees, managers, are anxious to provide help. So, some feedback is already starting to come through.

Secondly, we are asking to identify some specific activities that are destroying value as they see it now through negative cash flows and to remediate those activities. And finally, to identify opportunities for savings, whether those are through amended business practices, operational practices, or renegotiating with contractors and suppliers. So those are some of the disciplines that we are enforcing and working with the teams to implement, all the way from the governance through to the operational requirement.

So, in summary that is the presentation. If you do not mind I will just ask the Chairman to make some closing comments.

3.35 p.m.

Mr. Chairman: Closing on the presentation, but not close on the meeting.

Mr. Edwards: No, no, on the presentation.

Mr. Espinet: Just to reinforce what Mr. Edwards has been saying, essentially there are two sets of assets that we have identified that there is the possibility of putting them to use that could allow them to be viable. In doing that, that process is going to require substantial changing from the way that it is now being operated. That requires that all the stakeholders participate in those changes.

Naturally, if one looks at it, the investments that are required to take this into the stage that we talk about, of sustainability, is going to be substantial. The financial requirements are substantial and therefore in order to do it, we have to be assured that we have a narrative that is going to be carried to the lenders, or the financiers, whoever is financing, to give them the assurance that it can be repaid. Because, as you will appreciate, no financier of any type, be it loan or equity capital, is going to be interested in chasing after something that is evidently not going to give a return. In fact, if it is that we continue as we are, it is undoubtedly unsustainable and in a very short term.

So we are encouraging the stakeholders that are involved with us to participate in changing work practices, work habits, and to take on board the fact that the existence of Petrotrin in the future will be dependent on its ability to be competitive, and to be competitive, we have to be able to benchmark ourselves in line with what our competitors do. So our intention is going to be to meet with these and to use, as a road map, a guideline, the benchmarking that has been established as to where we have to get in a two-year period. That is going to be the challenge of the board as we go forward.

Mr. Young: Thank you very much. Mr. Espinet, you have a number of stakeholders, I would assume, as I sit here and think about it. One of your stakeholders is the public of Trinidad and Tobago. We are your shareholders. You have your workers who are represented by the unions and the main union being OWTU. Your financiers, bondholders, potential financiers, et cetera; rating agencies—because your rating affects the country's sovereign rating, or your positioning has the potential to affect our sovereign rating. You have begun to engage your stakeholders, et cetera. The efficiencies that you need to achieve—because you keep talking about being competitive and competitive with your competitors, and as I sit here it dawns on me, well, do we really know what it is you do? What is your output? We talk about the refinery. What is the output from the refinery? Where does that go? Who is the purchaser? Because that is one level of competition.

What we have learnt is your input is only a certain amount of production. You said you have 175,000 barrels a day. I think your production is 43,000 and thereabouts. Right? So what makes up—you have told us is about 125,000 barrels that you have throughput a day. Where does that come from? What makes that up? What affects that, et cetera? How have you engaged, if at all, your workers and the union who I assume would be a critical input in assisting in your becoming competitive?

Mr. Espinet: Minister, you named one of the unions that we have, and by far—

Mr. Young: I said the main one, yes.

Mr. Espinet:—they are the most visible and they certainly are the most vocal and—

Mr. Young: My comrades.

Mr. Espinet:—and the most prominent. We do have two other unions, or representatives of certain parts of the employee base, which we have engaged all three of them. And the engagement that we have had so far is to make a presentation similar to what has been made, in fact, exactly as what has been made here, as we have done with the other association—the staff association and the other union, with the intent of, first of all, having a conversation where we could bring to the forefront the predicament that we now find ourselves in. If we can establish where we are, then we are hoping that our conversation could then go into where we want to go and how we are going to get there.

Mr. Young: Is it understood that these forums—and this really is an area for the Minister of Finance. But is it understood that these forums that—do they think that the Government is going to provide a parachute?

Mr. Espinet: My personal position has been, and the board's position has been, that if one looked intelligently at the present status of Trinidad and Tobago and the finances of the Government of Trinidad and Tobago, where we have been reducing our services in a number of areas and the support system has been shrinking, and where there are daily, you know, statements being made about various people who have been delayed in their payment systems, et cetera, our position as a board has been that there is no way that we could expect to get support from the Government.

Mr. Young: Meaning a cheque book support.

Mr. Espinet: Well, meaning financial support. And really if viability is a possibility, then that is what we should be heading to rather than looking at some alternative opportunity.

Mr. Lee: A question, Mr. Espinet. Under "Future Considerations" the slide is still up. Under "Structural Considerations", do you have any time lines for these considerations—structural and operational, for example, the separation into two business units? Do you have any clear timelines? Because I read on the newspapers—I think, today's—that the board was making these adjustments today. So I "doh" know. Just for the viewing public?

Mr. Espinet: Well, Mr. Lee, I think that the newspaper today printed—and I read it as well—that they recognized the departure of the President and that there was, at that stage, no pronouncement made about his replacement and the board has been looking and will, very soon, make a definitive pronouncement on it. But the board has been looking at using this as the opportunity to go into the remodelling exercise that we have been talking about doing and focusing on the individual units. So the whole question as to what do you need as a management thing, that is, within a matter of a week we will be coming up with a very clear defined position on that.

Mr. Lee: Just a follow up. When you say units, would it be units of Petrotrin or would it be separate companies?

Mr. Espinet: Well, you know, Petrotrin has legal commitments now that are not going to be—and we have to be extremely careful. At this stage we are remodelling the way that do—the model that we currently operate—and that is not in any way a restructuring as is termed in financial circles—that has implications from our creditors, especially the financial creditors that are there.

Banks, et cetera, become extremely nervous because that impacts on securitization and all of that kind of issue. So we are mindful of that. And the first attempt is to get the operational structure in place, after which we will be looking at the financial remodelling that is required to go with that. And as, Mr. Edwards pointed out to you, in discussions with our financiers we have indicated to them that in a period of 90 days we would be coming back to them with something more definitive in terms of how we saw that— And you would appreciate that Petrotrin is a very large and complex organization. Doing some of these things is going to take a little bit of time.

Mr. Chairman: May I ask a question off your presentation? Not "of", "off". Why, in the opinion of the board, does Petrotrin exist?

Mr. Espinet: I wanted to tell you what has been discussed at our level, and one of the things is that we have inherited it, and like a lot of things that you inherit you just do not change them. And we inherited it because there was a period, perhaps 70 or 100 years ago, that it functioned. But since then it has become, obviously, not strategically the same entity that it was then. So the question at this stage, the board's focus is that Petrotrin has a number of employees that are there and trying to ensure that the country continues to have a refinery that the employee will be—you know, we will maintain an employee-base that is of good paying, and skilled jobs is part of the process—of our thought processes.

Mr. Chairman: Let me clarify the question. It is not that it should not exist. Of course, it must exist. I am just wondering what your philosophy was in terms of the rationale for Petrotrin.

Mr. Espinet: Well, also, you know, Chairman, there is also—this is a period of serious uncertainty. I do not think anybody could come up with long-term solutions to a lot of things. We are going into the change of regulations that are impacting on us having to spend on the ultra-low sulphur. But if we do not spend on it we are closing down Petrotrin. So therefore we have to get our employees on board with the necessary changes to get to this in order to be able to have a narrative to get our lenders on board.

Before we could even get the investment into ultra-low sulphur, we are going to have to get buy-in from the employees and their representatives into using this competitive road map that has been established by the best in class presenters of it, and saying to them that given that this is where we want to get there in a given period of time, then we could take that and go to the bank and say, "This is what we have. We would like now to be able to borrow money to get the ultra-low sulphur working so that we could continue to operate Petrotrin refinery after 2020."

Mr. Chairman: Let me see if I could crystalize my question. Petrotrin is the custodian of natural resources that belong to the people of Trinidad and Tobago, on land and the sea. Correct? So Petrotrin is the custodian of reserves of oil and gas that exist on land and sea and therefore Petrotrin exists for the purpose of monetizing these resources for the benefit of the population of Trinidad and Tobago. Is that a fair statement I have just made?

Mr. Espinet: It a fair assumption.

Mr. Chairman: Okay. And then what you are doing, you are trying to ensure that the resources that Petrotrin as the custodian on behalf of the people of Trinidad and Tobago are monetized in the most efficient and productive manner taking into account factors: social, economic, geographic factors, while you do that. Is that correct?

Mr. Espinet: Well, Chairman, we, as a board, have been extremely careful not to be entering into the realm of Government of trying to take purely social things into consideration. And that is why, given the fact that we will only retain this refinery if it is it can go into a break-even phase, and that has to be how—it cannot be retained otherwise, because to say that we would go and have an additional $300 million put into the ultra-low sulphur that is only going to further burden the population at large, and our shareholders, which is who we are protecting and representing, we cannot possibly get into that phase. So that we need to get the participants in this process to buy into the fact that, listen, we can do it if it is that we will go down that road of competitiveness.

Mr. Chairman: All right. Let me just clarify something, because Mr. Edwards said something and you have now just said something, and I think the public needs to understand what you are saying. Again, correct me if I am not saying the right thing. Are you saying that if Petrotrin does not complete the Ultra-Low Sulphur Diesel Project, then the refinery becomes uncompetitive and the refinery becomes obsolete? Is that what you are saying?

Mr. Espinet: In 2020, the new regulations in terms of the sulphur content of diesel comes into force, and without it we will not be able to sustain the refinery.

3.50 p.m.

We will have to look for some place, some market to sell it in which is going to be obviously at discounted prices and already, we are not very efficient refiners. So that means and what you are saying is you are going to be losing even more money if you went into that direction.

Mr. Chairman: So what you are saying, if you do not complete and commission that ultra-low sulphur diesel project—

Mr. Espinet: By 2021, you will be out of activity.

Mr. Chairman: By 2021, you can no longer sell your diesel internationally, including regionally?

Mr. Espinet: You may be able to sell it in parts of Africa.

Mr. Chairman: Yes, I know but you may not be able to sell it internationally and regionally at a competitive price.

Mr. Espinet: Yes, that is what I mean. You would not be competitive, you would not be able to sell it within the—

Mr. Chairman: So you would lose even more money?

Mr. Espinet: That is right. Considerably more.

Mr. Chairman: So the current production of the refinery, the diesel that it currently produces, the product would not be commercially viable except in unusual markets?

Mr. Espinet: Well it will not be commercially viable, your term is really right. Viability meaning that you can make a profit out of it and you can sustain your—

Mr. Chairman: So you are saying in order for the refinery to continue, as a going concern—

Mr. Espinet: We have to get the ultra-low.

Mr. Chairman: You have to do the ultra-low sulphur project.

Mr. Espinet: And that is US $300 million.

Mr. Chairman: Right, okay, well that is my last question. You all go ahead.

Mr. Lee: Question to Mr. Espinet, I think at a previous meeting, Mr. Harewood, the outgoing President, had spoken vociferously about having that ultra-sulphur plant come on stream, but from an operational point of view and I want this for the viewing public, could you, Mr. Chairman Espinet, give us, the public, a status of what is happening with A&V Drilling because I read in the papers that their injunction has been lifted? Are they—

Mr. Chairman: Mr. Lee.

Mr. Lee: I do not think that is sub judice.

Mr. Chairman: I did not say that. Do not pre-empt me, please. [*Laughter*] That is not part of the presentation. Right?

Mr. Lee: It says operational.

Mr. Chairman: No, but it is not part of the presentation. Right?

Mr. Espinet: No, it is not.

Mr. Chairman: So can we just finish on the presentation? Yes. Could I ask members, do you have any other—because I have questions on the presentation that I would like to ask at another session, so go ahead.

Mr. Ramdeen: Mr. Edwards, at this time, if you can, this ULSD plant, right, needs US $300 million to complete and we must get that—Petrotrin I mean must get that by 2021 in order to function properly.

Mr. Edwards: It will have to be in production by 2021 in order to preserve a market.

Mr. Ramdeen: Right, so we have to complete it by 2021 and commission it.

Mr. Edwards: Correct.

Mr. Ramdeen: What was the initial cost of that ULSD plant?

Mr. Edwards: You mean what was the initial projection to complete the initial—

Mr. Ramdeen: Correct, without the cost overruns. That is the next question I will ask you. The estimated cost of it.

Mr. Espinet: There were projections.

Mr. Ramdeen: The original projection when it started.

Mr. Edwards: The very first projection was $112 million.

Mr. Ramdeen: 112 US.

Mr. Edwards: Correct.

Mr. Ramdeen: How much money Petrotrin has spent on that thus far as we speak?

Mr. Edwards: $421 million to date.

Mr. Ramdeen: 421 and we need another 300?

Mr. Edwards: Correct.

Mr. Ramdeen: So this project that was critical to the existence of Petrotrin at the time it was started—and it was started when?

Mr. Edwards: 2009.

Mr. Ramdeen: 2009 at US $112 million?

Mr. Edwards: That was the original projection.

Mr. Ramdeen: Has now ballooned to over US $700 million.

Mr. Edwards: Correct.

Mr. Ramdeen: Within the limited period of time that Mr. Espinet has been the Chairman together with this new board that has been installed, these projections that you have made in order to achieve what you intend to achieve in refining and marketing and exploration and production, is it that these things have never been attempted by any previous board of Petrotrin?

Mr. Edwards: I can tell you—so that study that I quoted from 2006, that study outlined some of the same things that we are talking about that are things that ought to be done. I could not tell you based on history whether they were attempted or not but I can tell you that I have not seen any evidence that they were successfully done.

Mr. Ramdeen: And I know you have been there for a short period of time, but is it correct that you—well, let me ask it a different way. Have you at all been able to find out if attempts were made, what were the difficulties in implementing them so that in your approach over the next 18 months or in your attempts to achieve these objectives, you would frontally know exactly what are the problems that you are going to face in implementing them?

Mr. Espinet: Sen. Ramdeen, one of the things that the Lashley committee identified that has created a serious amount of problems for implementation is the constant changing of the guards both in terms of the boards and the management of Petrotrin. So that there was no continuity of management in one instance and then even responsibility shifted from one person to another. It would be likened to a contractor being removed from a job and a second contractor coming in and then you have all the issues that you have with it, who is responsible. So the problem with it is that responsibility seems to have evaporated in the whole process.

Mr. Chairman: All right. Mr. Espinet, I think we are running out of time. I think we will have to have another session with you on some of the unanswered questions with respect to—not that you did not answer them but we need to ventilate them a little more with respect to the points made in the presentation.

So I would just like to say, Mr. Lee, there is a Privy Council decision with respect to A&V oil so it is sub judice, so I do not think this Committee can discuss it. I think we will have to discuss that in camera and then come back because there is a recent Privy Council decision. I think just—I looked at it a week ago and it has prevented Petrotrin, if my recollection is right, from proceeding with termination of the licence, the contract and all that sort of thing. So the matter is a live matter before a court and I would not want us to discuss it until we deal with that, because there is a decision of the highest court on A&V oil. I do not think we can discuss it.

So what I would like to do now is to wrap up, but I would like—I do not know if Mr. Edwards or Mr. Espinet, can you summarize very briefly the way forward for Petrotrin in perhaps a couple of minutes?

Mr. Espinet: As I explain to you, in a couple of minutes, what we are attempting to do is we are attempting to focus on the operational units and to bring those into efficiencies using, as we said, as the basis of the competitive benchmarking that has been brought to us by Solomon Associates. That means that over the next few weeks, we are going to be constantly meeting with the various stakeholders in an effort to get buy-in to it because that is a necessary part of us getting financing into the ultra-low sulphur. Without that ultra-low sulphur, somebody is going to be—if we cannot get buy-in on that, they are going to be effectively saying we do not want to have a refinery.

Mr. Chairman: Thank you very much. And as I said, we will be meeting with you again and we would just go through some of the issues in the presentation in a little more detail and then unfortunately, we may have to meet with you again to deal with some of the matters that were left to be answered on the last occasion when we were talking about things like asset integrity and things like that and overtime and so on. So thank you very much for coming.

Mr. Lee, I just want to tell you that we have to discuss this sub judice matter. We need to understand as a Committee exactly what we can discuss and what we cannot discuss, but certainly from where I sit, it is a live issue and we need to talk about it before we pose questions to Petrotrin in public. I do not have a view on it but except to say that I know it is live and before the court. And therefore, we should not really be talking about it, but we will talk about that in camera.

So thank you very much for coming Petrotrin and thank you very much for your responses. Thank you.

Mr. Espinet: Thank you very much, members.

3.58 p.m.: *Meeting adjourned*.