

Industry Trend Analysis - Uptick In Investment Suggests A Brighter Future Ahead

Trinidad & Tobago - Oil & Gas - 10 Feb 2014

BMI View: A recent stream of new investment into T&T's struggling hydrocarbon sector supports our modestly more optimistic stance toward the country's long-term oil and gas production potential. Indeed, while we stress that significant risks remain given a challenging below-ground picture, steps by the government to incentivise greater upstream activity imply potential for a brighter future for the oil and gas sector.

Efforts by the government of Trinidad and Tobago (T&T) to reinvigorate the country's struggling oil and gas sector may be starting to pay off. In recent years, in an effort to garner investment, the government has taken aggressive steps to incentivise greater hydrocarbon exploration, including more attractive licensing terms and greater tax incentives. For example, the tax rate on deepwater was severely reduced (from 50% to 35%), and in the 2013/14 budget there were incentives to develop mature and new fields, including improved capital allowances to make various projects more economically viable (see table below for full details).

2013/14 BUDGET INCENTIVES

Investment	Tax Credit Up to 20% on CapEx (unchanged from previous) Unused tax credits can be rolled forward for one year
Capital Allowance	100% of cost to be written off in year incurred
Development	Intangible & tangible expenditure 50% in year 1 30% in year 2 20% in year 3
Workovers & Qualifying Sidetracks	100% deduction of all costs incurred

Note: Effective January 2014. Source: Ministry of Energy, BMI

Challenges remain, not least that in order to reverse declining liquids output and bolster sluggish natural gas growth, there will have to be considerable exploration of the country's more technically more difficult (and thus more expensive to develop) deepwater acreage. That said, it appears that the recent stream of incentives offered by the T&T government may have been sufficient to begin offsetting the risks associated with greater deepwater exploration. As such, we believe that the risks to our forecasts that crude and other liquids will see average growth of 1.2% year-on-year and natural gas will expand by an average of 1.7% y-o-y lie increasingly to the upside.

Ready To Dive Deep

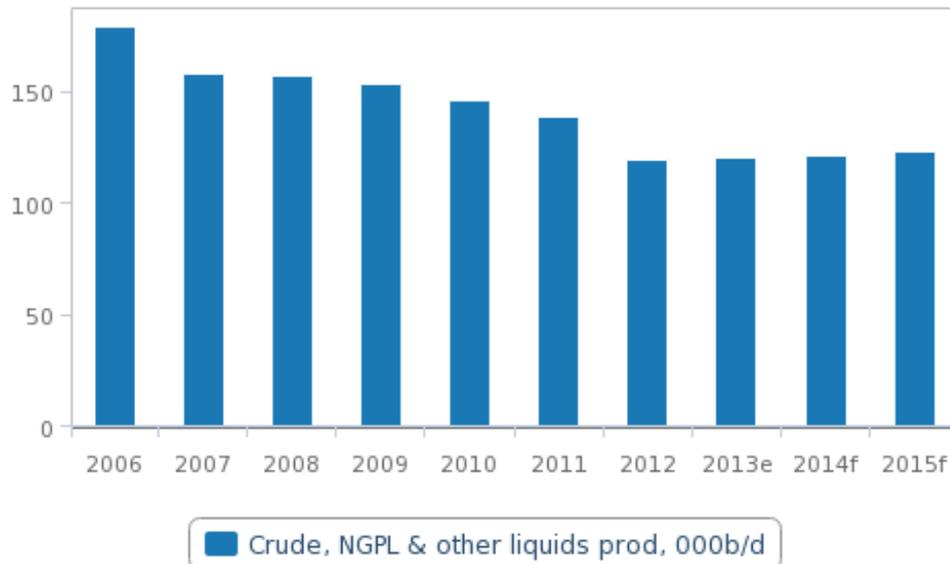
First, we note that **BHP Billiton** has recently indicated its intention to commit up to US\$1bn to exploration in T&T's deepwater acreage, including US\$500mn for the first phase of exploration, and a further US\$500mn for additional, optional phases should the initial results prove promising. This follows from the signing of production sharing contracts between the energy giant and the T&T Ministry of Energy for five blocks in June 2013, including four that had been awarded during the 2012 Deepwater bid round (blocks 5, 6, 28 and 29). We see the significant uptick in interest from the firm as being driven by the more business-friendly terms on offer. Indeed, the president of BHP's petroleum and potash unit has stated that the company has been watching the deepwater play for some time, but whereas previously the "fiscal terms weren't very consistent with our ability to make money...the terms now are satisfactory". If the company is successful in its efforts, that could not only bolster the country's hydrocarbon output, but also spur greater interest in T&T's deepwater acreage.

Onshore Getting In On The Act

Second, there is potential for greater investment on the horizon, with the country having just successfully completed its 2013 onshore licensing round, awarding three blocks. Australian junior **Range Resources** took the 37,760 acre St. Mary's block. Meanwhile, **Primera Oil & Gas**, a subsidiary of Canadian independent **Touchstone Exploration** won the 44,731 acre Ortoire Block and local firm **Lease Operators** took the large 73,000 Rio Claro block. The first onshore round to take place since the 1990s, it was especially aimed at increasing oil production and reserves. Indeed, since 2006, crude and other liquids output has plummeted in the country, from around 178,200b/d to a low of 119,000 in 2012 on the back of the mature field depletion and little additional exploration. While we believe the greatest potential gains in liquids production may come from future deepwater exploration, greater focus on the country's onshore potential should also help to aid output.

Sharp Fall, Ready For the Rebound

T&T - Crude, NGLs And Other Liquids,



e/f = estimate/forecast. EIA/BMI

Overall we see the results as quite promising for T&T. While the winners did not include any major IOCs or NOCs, we note that there was a fairly high level of interest in the country's acreage. Indeed, according to local news sources, the Energy Ministry had received 11 bids by six companies for the blocks (four for both St. Mary's and Ortoire, three for Rio Claro). The winners of the round will now be issued E&P licenses, and enter into joint operating contracts with the state-owned **Petrotrin**, which will have a 20% stake in each block. All told, T&T Energy Minister Kevin Ramnarine has indicated that these firms will drill at least 12 wells under the work contracts.

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