

Creating the 'compelling vision' for the post "hydro-carbon" economy:

A pathway for charting the next phase of development for

The Trinidad and Tobago Economy

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Thank you to the Executive of the Chamber of Commerce of Trinidad and Tobago for the invitation to speak with you at your AGM.

I will confess that I miss the involvement in the wider discussions of national energy policy and country development. So when Katherine asked me to speak at this conference, I quickly said yes.

I thank the chamber for having the insight to look beyond what could appear as a contradiction, that is, an energy sector businessperson speaking on economic

diversification post hydrocarbon dependency. I actually see no contradiction since I will argue that the next phase of our economic development needs to be deeply rooted in the experience and knowledge derived from the creation of a world class hydrocarbon sector. This experience and the culture that has come with it, exists within our private, public and educational institutions related to energy. We have to learn from what we are great at today to have the best chance of developing something that is great tomorrow.

None of the ideas I will express here are particularly new or particularly different. Much has already been discussed and posited on this topic. The perspective I want to share with you today I think comes from a different vantage point; that is, one shaped by being part

of a economic sector that has performed at a world class level for several decades and my now recent perspectives on the impact of culture and what is truly required to create change and remove inertia in human systems.

Economic diversification has been a concern of wavering urgency for our entire post independence history – and I daresay even before, as the colonial economy navigated the shift from sugar to coffee and then to an oil-based economy. And just as our country struggles with the legacy of colonization, we also struggle with the legacy and culture of being an oil rich country. But more on that later on.

Evolving economic development should not be driven by hysteria of the “end of oil or gas”. Rather such

discussions should be shaped by a sober, objective analysis of the strategic options available to the Trinidad and Tobago economy given the current national resources (both hard and soft) and the 'compelling vision' we have for ourselves as a country – within the region, the hemisphere and the global economy.

The latest figures out of the Central Bank of Trinidad and Tobago show what is well known, namely, that the economy continues to be significantly dependent on the energy sector. The sectorial composition of Gross Domestic Product at current market prices indicates that for 2011, Petroleum accounted for 45.3%. Distribution accounted for 12.4% with Manufacturing 4.6%, Other Services (which includes Hotels) 4.2% and Agriculture – the smallest sectoral contribution at 0.6%. The energy

sector accounted for 57.5% of Government's revenues in the fiscal year 2010/2011. The distribution of employment as measured in June 2011, indicated that the largest sector, the Petroleum and Gas sector (including quarrying) - and the smallest sector, Agriculture - accounted for virtually the same level of employment - 3.2% and 3.5% respectively. Few things more tangibly demonstrate the cultural and economic shifts of our society, post independence, than these figures. Our economy today is very different from 50 years ago and shows we have undergone diversification before, if not holistically at least radically.

There is a prevailing view that this dependency is a bad thing since hydrocarbons are a finite resource and indeed

I am here to speak to you about the "post hydrocarbon"

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economy that will take us beyond oil and gas and into a more diversified economic structure.

I confess that I disagree somewhat with that approach. I disagree with this approach because it distracts from what I consider to be the fundamental rule of success for business, that is, to ruthlessly focus on what you do best. I have seen that work at BP and I believe it still stands as a good guiding principle as we think about moving the local economy along to the next phase.

With that view in mind, I suggest three perspectives that should guide discussion on the diversification of the economy moving forward:

- 1. Make the most of the present by maximizing value and exploring opportunities for economic**

diversification that are based on the energy sector;

2. Learn from the lessons of the past and create new opportunities for the next phase of economic development.

3. Create a shared vision of the future that goes beyond the mere articulation of innovation systems and processes which appeals to the intellect and heart, inspires us to action and pushes us beyond mere concern.

I will deal with each of these separately.

1. Make the most of the present:

I will boldly assert that the energy sector in Trinidad and Tobago is not dead and still has life left in it to move us to

a different economic state. The demand will certainly be there. In BP's recent Energy Outlook published in January, we estimated that despite the developments in renewable energy, fossil fuels are expected to continue to provide around 80% of the world's energy in 2030 and natural gas is expected to be the world's largest growing fuel in the coming decades. Our discussions on diversification therefore cannot and should not be driven by the thought that the economic safety net of oil and gas is about to be pulled from underneath us.

In the local industry 'proof of life' abounds - exploration is continuing with new exploration blocks being awarded over the last 12 months. New developments in seismic and production technologies could extend the boundary of possibilities for hydrocarbon presence and recovery.

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Additionally, there are options for a more regional view in consideration of the development of resources (cross border options with Venezuela and beyond).

The announcement of the Jubilee field by Petrotrin last month is further evidence that the province continues to yield her precious goods slowly. Let us not forget that bpTT is planning to spend close to US \$900 m in capital expenditure this year. This, my friends, is not indicative of a hydrocarbon province teetering at the brink of extinction.

Despite this we are no doubt in the mature phase of hydrocarbon recovery on land and on the continental shelf.

Maturation brings with it several challenges.

The **first** is that the industry now has to deal with the ageing infrastructure. Many key facilities are more than thirty years old and were built at a time when the standards of safety care were not what they are today.

Maintenance action and even upgrade or replacement of vital kit will be disruptive and costly. In the downstream there are also ageing plants and there is a need to make strategic choices on retirement or replacement based on their efficiency and use.

Second, the industry is resorting to smaller and smaller pools of hydrocarbons which are produced therefore at higher unit cost, with less inherent reliability and cover.

Third, there is no doubt a need to find new sources of hydrocarbon soon.

Fourth, the gas industry is facing profit margin pressures. It is well known that the price of natural gas has been trending downwards over the last year – recently reaching to lows not seen in the last 10 years. A low price environment is likely to be a feature of the industry over the near to medium term.

In the result, there will be less value to share between industry and government – ensuring that the industry structure is ‘fit for purpose’ for this new reality is essential.

In this regard, the following should guide value maximisation:

- **The fiscal regime** governing the sector must constantly be reviewed for balance between encouragement of firms to get after every molecule and Trinidad and Tobago's right to earn a fair value.
- **The role of NGC** might need to be re-examined as margins are squeezed. NGC's important role of aggregator (and risk buffer) has served us well in setting up the industry but it is time to consider a different configuration – and distribution of risk along the value chain.
- **Higher and more systematic coordination** among producers, buyers, and government to ensure that

supply is adequate while allowing all producers to do the required work in the necessary time.

The focus should therefore be geared towards driving efficiency and safety in operations, maximising recovery and exploring aggressively on the frontier - with a fair reward distribution between industry and the country coupled with incentives to ensure that the value from every molecule of gas is maximized for the rest of the life of the energy industry.

The value created should then be used in a more disciplined way than in the past to fuel growth elsewhere in the economy.

As I said, I make no apologies for encouraging focus on what we are good at. We can no longer afford the inefficiencies, wastes and leakages that have characterized our utilization of the value created from the energy sector.

2. Learn from the lessons of the past to create new opportunities:

The energy sector can also play a role in the diversification thrust. Our experience from the 100 years of hydrocarbon production has delivered a new source of competitive advantage that we should exploit.

Nothing should distract us from the fact that as a country we are excellent and pioneers at producing oil and gas and bringing it to market. Building on this long tradition

and taking it to the rest of the world is essential.

The technical knowledge in both upstream and LNG production, commercial know-how of the complex LNG contracting model and trading, techniques to lift safety standards in a developing country environment and petrochemical port logistics are all transferable and globally competitive. I can attest to the fact that when I travel – one of the questions I have to answer constantly is - how did Trinidad and Tobago do it?

In that question sits the key to the next step for our economy, specifically, the diversification of the markets in which our local energy players participate. The idea that we should take the experience and the talent to emerging energy players is a critical business development idea for

our next phase of economic development.

To the credit of both the previous and the current government, there was recognition of this need for internationalisation. As a result NGC is reaching out to a number of African countries such as Ghana, Tanzania and Mozambique with success. As a pioneering government entity NGC is a repository of unique knowledge that other governments would love to learn from.

Having said that, NGC alone cannot lead this global strategy. The local private sector must be encouraged to follow their lead with the Export of oil and gas related contractor services. Our local service providers have shown that they can deliver world-class performance in areas such as petroleum engineering, platform fabrication,

drilling services, maintenance and in some areas of safety – amongst others. Adding value locally by delivering business globally must be the driving objective.

I accept that there can be considerable risk involved with a move into new markets. There will be a need to understand a new business landscape, additional financing, possible re-tooling and might even require acquisition of new language skills amongst technical workers. It is here that government has a huge role to play. I would suggest a new Energy Export Development Fund aimed at providing lower cost funding to energy service companies for new ventures into foreign markets. Where possible this should be aligned to the current NGC ventures in external markets – NGC as the lead investment vehicle that brings others with it. Could we

some day take a small interest in one of the world's emerging new hydrocarbon fields and with that, push some of our local service companies into new activity?

In essence, I see the energy sector playing a key role in the transition to the next level – both as value creator and as a source of diversification itself.

Turning now to the non-energy sector.

It is always difficult to be prescriptive so allow me to offer some guiding principles which I think should shape the way we go about developing alternative economic bases to energy. These principles are based on the lessons learnt from our past – from what has worked.

New industrial development should be aligned to the country's resource and market advantages. It should build on the existing infrastructure (both tangible and intangible) and collectively use the policy, business and political knowledge developed during the current economic phase to inform the choices made in the next phase.

- International capital has a role and can be a valid partner in facilitating local development through introducing new technology and capability.
- Government's role is to provide enabling infrastructure, seed investment to kick-start new industries and develop industrial infrastructure. The nature of that role will change over time as new industry develops. The role should evolve from

enabling investment , through to that of increasing local participation in existing new industries and ultimately enabling internationalization by bi-lateral and multi-lateral trade and investment. In that regard, we worryingly lag in the penetration and utilisation of Information Communications Technology amongst our population. This must be urgently addressed if we are to begin to fully release the potential of our population and access the global knowledge and connectivity enabled by the internet. Government can kick start this I believe by backing out of some of the sectors it now arguably plays too heavy a role and carving out positions for mobilization of existing private sector capital and skill in traditional developmental or government arenas...e.g. are roads,

water, prisons, hospitals, and allied areas and not just as a project but full life cycle.

- There must be an alignment of the education system to deliver the skills required for the core sector is an essential part of enhancing local participation. Late development of 'fit for purpose' education delayed greater local skill participation in the energy industry;
- There must be an aggressive attempt to increase the local value chain participation in the core industrial sector. Local private sector was late to make meaningful participation in the energy sector. The mindset must be global in orientation.
- Fair play and stable, sound policy will create an atmosphere to attract investment. Efficient and consistent regulatory standards and processes are

also necessary to ensure that when you attract the investment it can get to work quickly rather than become frustrated and leave.

- We must be systematic in our approach to innovation.

Professor Sankat and others have long advocated a more systematic approach to innovation and the creation of a much tighter system and linkages among, Firms, Education and Research and Development, The Financial system and Government.

- We need to make it a focus like we did with Energy for a long time to ensure that we have debottlenecked and removed all of the impediments to new project implementation and rapid decision making.

This enabling environment must be coupled with an entrepreneurial drive to create efficient and globally competitive business. Last year BP Trinidad and Tobago supported a research group out of the University of Cambridge's Institute of Manufacturing. A key finding was that the global competitiveness of many Trinidadian manufacturing companies is limited. Evidence suggests that there was little incentive to tackle this situation in some cases, where government subsidies and the abundance of cheap energy can mask operational inefficiencies and shortcomings. There is a joint responsibility of both the private and public sector to vigorously improve productivity in our operations.

(Turn Page to – Creation of a Shared vision)

3. Creation of a Shared Vision

In Proverbs it is said, where there is no vision, the people perish. That is as important today as it was in the time of King Solomon, arguably more so. There are a couple of big things I have learnt during my experience first as a business leader of bpTT and now in my current role as a Group Head within BP. Countries and organisations which have a clear, long term view of where they wish to go that is shared and owned by a critical mass of the individuals and/or firms involved show a sense of purpose, aligned action, are prone to less debate and navel gazing and the sound and mood of the place are driven more by solving problems to enable the realization of the vision. In countries or organisations where the vision is not clear and where the conversation is reactive and where fear abounds about the future, you find finger

pointing and blame games, grabs for power and wealth and little ownership of the welfare of the group or state and a dangerously high emphasis on individual achievement.

As I came to this topic and thought about it, one of the big questions for me and one that still remains is why after all the debate and conversation and in spite of the many creative people and options that abound and the quite obvious need for diversification of some kind, we still find ourselves largely still in debate but not really into action.

Some have argued that the problem is rooted in the failure to build and implement an innovation system. I

certainly believe there is a role for a systematic approach

to innovation to drive diversification but my experience has taught me that systems and processes, while vital to sustain and provide answers to complex dilemmas, are never in and of themselves sufficient to cause sustained, lasting shifts in what people believe, what they value and ultimately the actions and decisions they take. This is true in safety, this is true in the character and behaviour of an individual and it is true in the character and behaviour of a nation.

Some on the other hand say that what we have failed to do is articulate a clear plan for the future and we now have aplenty books and volumes filled with well-articulated plans and proposed actions which sit on dusty shelves barely read and certainly not by and large put into

action. So it cannot be that better and more well articulated plans will result in action.

I believe the answer lies in the fact that we have not worked hard enough as a nation on developing a vision that is shared and owned by a critical mass of our leaders regardless of race, political or other persuasions that has powerfully despite our complexities and differences united us under a common purpose and banner as a nation.

So the question is, how DO we go about creating a shared vision that enables action for the future?

I think in order to do that we have to examine some of our common and not common foundations and

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differences. For example we have to acknowledge some of the consequences of being a hydrocarbon rich nation. Not just the typical economic Dutch disease indicators but the deeper underlying value and cultural beliefs that have come with it. For e.g. the things we feel and believe we are entitled to on an individual and national basis, the laissez faire approach to serious matters and despite our bravado the lack of confidence in ourselves.

We have to deal with the issue of race and the deep beliefs and fears in order to understand what our society needs to aspire to at that level in the future. And finally our vision needs to speak not to some future economic reality but to a much deeper commitment to a stated set of universal values and norms that we would wish our

economic and other endeavours to provide for and nurture.

Visions are not superficial statements that are written down on pieces of paper as a quick exercise by a few selected people, even if they are bright, successful individuals. They take time, they take focus, they take some of your best and brightest, they take a lot of widespread engagement and conversation and debate and they require leaders who are prepared to put aside their differences in the present and to examine themselves in a way that when that vision is formed they will be committed to not only seeing it through but to being the role models of it.

In the words of Gandhi they must be prepared to be the change they wish to see. This will require of them changes of behaviour, of language and of approaches. For e.g. at bpTT twelve years ago when the business was floundering, where staff morale was low and where frankly the largest conversation was about the business exiting Trinidad, oil production falling and no future, we commissioned a strategy and vision team to create a new future for the company. That team spent a year and a half in a company of only 300 people and examined not only the business proposition but examined in detail and answered the question, "What did we want to be?" not just what our detailed plans would be. This was not a planning exercise or a business analytical exercise. This was an exercise in creating meaning and purpose that would inspire and align people around a goal that was

larger than any one of them and would yet inspire each of them to dare to put aside differences, remove their fear of the future and spur them to bring their creativity and skill to solving problems and creating new things.

Over a decade later bpTT stands as one of BP's leading businesses in areas such as performance and safety, with talent that is now sought after in leading positions across the BP enterprise, internationally and locally. Such is the power of vision.

It is my belief that Trinidad has to spend the time to create a fresh purpose and meaning that drives us beyond the initial vision of independence that inspired several generations in the past. It must take into account the new realities. This is the role of leaders in public life and the

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private sector now. Without this in my humble opinion the nation will perish.

In closing, to recap:

1. We need to make the best of the present and this involves maximizing the value of every remaining molecule of hydrocarbon in deep partnership between state and private sector on a foundation of mutual advantage.

2. We need to learn the lessons of the past as we create new enterprises and opportunities. While I have not discussed specific ideas I believe many ideas abound so the question remains, why our inaction?

3. Finally, I believe this is answered by the big missing – compelling and shared national vision that is based on foresight, not panic.

This universal vision must be fed by and in turn feed these aforementioned systems and incentives. And it must both reflect and drive our capabilities and create as well as be created by capable and competent leadership.