REGULATING THE OIL AND GAS INDUSTRY IN TRINIDAD AND TOBAGO: FACTORS TO CONSIDER

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What is Regulation?

- The government function of controlling or directing those activities of enterprises, state as well as private sector.

- The OECD (1996) defines regulation broadly as a full range of legal instruments by which governing institutions, at all levels, impose obligations or constraints on private sector behaviour.

- Regulation can be divided into two main forms, **economic and social**.
Economic Regulation

- Economic regulation is concerned with the regulation of:
  - prices, profits, revenue, output, service delivery or market entry by firms (Guasch & Hahn: 1997).

- The rationale for economic regulation stems from market failure.
Such conditions include the presence of:

- natural monopolies,
- public goods,
- externalities and
- a skewed distribution of income.

In such circumstances, the state is required to intervene with corrective measures.
Social Regulation

- Social regulation focuses on issues such as:
  - environmental and safety standards,
  - the treatment of workers and
  - Elimination of discriminatory practices against minorities.

- The purpose of all regulation is to prevent undesirable behaviour, actions and activities while at the same time enabling and facilitating desirable ones.
The Ministry of Energy and Energy Affairs determines regulatory policies governing production, transmission, distribution and supply of natural gas.

A license granted by the minister under the Petroleum Act and Regulations is required to distribute natural gas.

Currently, natural gas is distributed by NGC to customers and measures are taken to break down the gas pressure at the customer’s plant gate.

The operations of NGC are not subject to public service regulations.
The petroleum industry in Trinidad and Tobago is principally governed by:

- The Petroleum Act (1969),
- The Petroleum Regulations (1970) made there under and
Under the Act, the Minister of Energy and Energy Affairs is responsible for determining the area to be made available for petroleum operations.

The Minister may elect to invite applications for the rights to explore for and produce petroleum from these areas by means of competitive bidding.
# Regulatory Arrangements for the hydrocarbon industry in Latin American countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Type of Regulation</th>
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<tbody>
<tr>
<td>Argentina</td>
<td>National Gas and Electric Regulatory Body (ENARGAS)</td>
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<tr>
<td>Bolivia</td>
<td>Superintendence of Hydrocarbons belonging to the Sectoral Regulation System, which is part of the executive, under the supervision of the Ministry of Finance and Economic Development</td>
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<tr>
<td>Colombia</td>
<td>The Regulatory Commission for Energy and Gas Fuels acts as a unit of the Ministry of Mining and Energy, with administrative, technical and financial autonomy.</td>
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<tr>
<td>Chile</td>
<td>No specialized regulatory body for natural gas industry</td>
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<tr>
<td>Mexico</td>
<td>The Energy Regulation Commission (CRE) is responsible for regulation of the gas sectors; quasi-Autonomous body coming under the Ministry of Energy.</td>
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Some Effects of Regulation

- Regulations have what are called ‘unintended consequences’, or side effects, that may manifest in the form of:

  - inhibited business competitiveness,
  - reduced investment,
  - decreased competition,
  - derailed economic growth,
  - heightened job losses and
  - an increased cost of doing business.
The high risk- and capital-intensive oil and gas industry has long been subject to oversight, regulation, and control.

- health, safety, environmental and security aspects (HSES) of the upstream and manufacturing operations,
- internal and external financial, corporate governance, and
- information-related security and compliance aspects.
Regulation of Oil and Gas

- There are different types of regulation and accompanying legislation.

- For example, the purpose of environmental regulation in the oil and natural gas sector is to establish the framework within which regulatory programs ensure that protection of the environment is given the highest consideration with respect to the development of oil and gas resources.
Reasons to Regulate the Industry

- to facilitate commercial exploration for, and development of, a country’s petroleum resources
- to protect the interest of consumers
- to make provision for market entry
- to protect the interest of the owners of the natural resources
Reasons to Regulate the Industry (cont’d)

- to ensure free competition
- to prevent possible abuse of dominant market positions
- to promote the continuity and quality of the services provided
- to protect the environment
Regulating Oil and Gas

- Large capital investments usually implying long-term financial and commercial arrangements

- Strong vested interests involving both government and private institutions
Regulating Oil and Gas

- All countries make a distinction between production and the transportation and distribution services.

- This means that the well-head price of natural gas (and oil) — also known as the “first-hand price “is determined by the laws of supply and demand.

- In other words the pricing aspect is not subject to regulation.
Regulating Oil and Gas

- The transport and distribution of natural gas in contrast are considered to be public service activities so that they are subject to State regulation.

- Unlike utility regulation, oil and gas legislation has been implemented since the industry’s inception.

- This is due to the fact that government has always had a vested interest in hydrocarbons because of its value to the economy.
Objectives of Oil and Gas Regulation

- To provide an efficient and effective framework to facilitate commercial exploration for, and development of, a country’s petroleum resources.
- To eliminate or minimize risks to public health and safety and the environment and ensure appropriate management of resources.
- To provide clarity and certainty to license holders about the hard and fast requirements of the regulator.
Objectives of Oil and Gas Regulation (cont’d)

- Unlike the case of utility regulation, most active or prospective oil producing countries have traditionally given little attention to how their policies (legislation, regulation, taxation, licensing & contracting) affect the petroleum company's cost.

- Policies have been aimed at increasing exploration and production, government take and at times socio-economic development derived from an emerging national petroleum industry.
Many developing countries have to ensure that their oil and gas legislation and agreements guarantee that the petroleum company is obligated:

- to procure with preference from the national market,
- to set up business development programmes,
- to train nationals,
- to employ a gradually increasing percentage of nationals at gradually higher levels of employment.
Way Forward

- As the petroleum industry has expanded exploration and production in all continents, so too has attention on the impact of its activities.

- Growing recognition that industry must operate within the scope of social, cultural, economic and physical factors at the local level, while remaining in the global context.
Industry has recognized that future access to petroleum resources depends on:

- finding methods of exploiting resources in an environmentally sustainable manner and

- in cooperation, rather than in conflict, with regulatory bodies.
Thank you.