

**“Creating a Culture of Transparency:
Revenue Reporting 2014”**

2014 June 5 - 6

**Impact of Subsidies on the
Refining and Marketing
Business in Trinidad and
Tobago**

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AGENDA

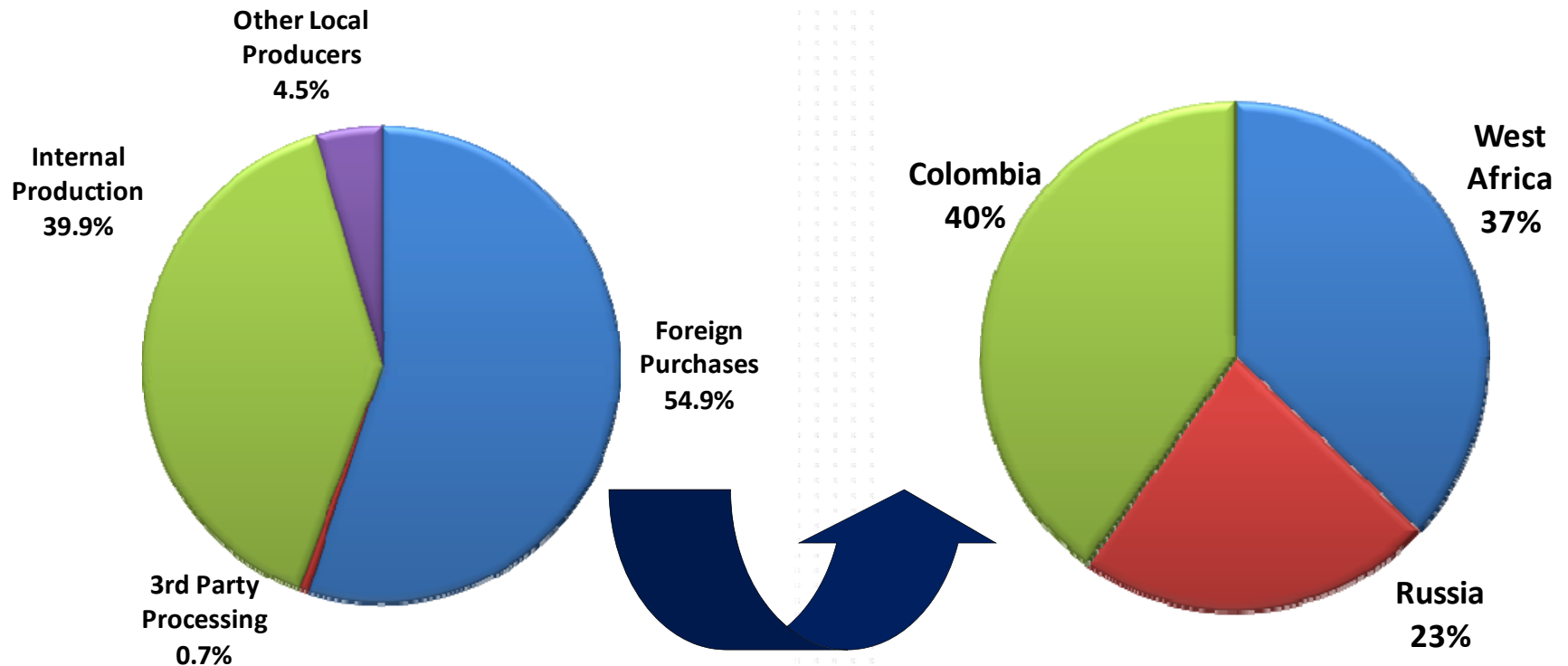
- ❖ **Overview of Petrotrin's Refining and Marketing Operations**
- ❖ **Current Trends in the Global Refining Industry**
- ❖ **Petroleum Subsidies from the Refiner's Perspective**

Overview of Petrotrin's Refining and Marketing Operations

The Pointe-a-Pierre Refinery

- 168,000 barrels per day (BPD) full conversion capability
- Capable of processing a variety of crude oils
 - Refinery processes a mix of crude oils with an average API gravity of about 28°
 - Utilizes locally produced and imported crude oil
- Main refined petroleum products include:
 - LPG
 - Motor Gasoline
 - Jet Fuel
 - Diesel
 - Fuel Oil

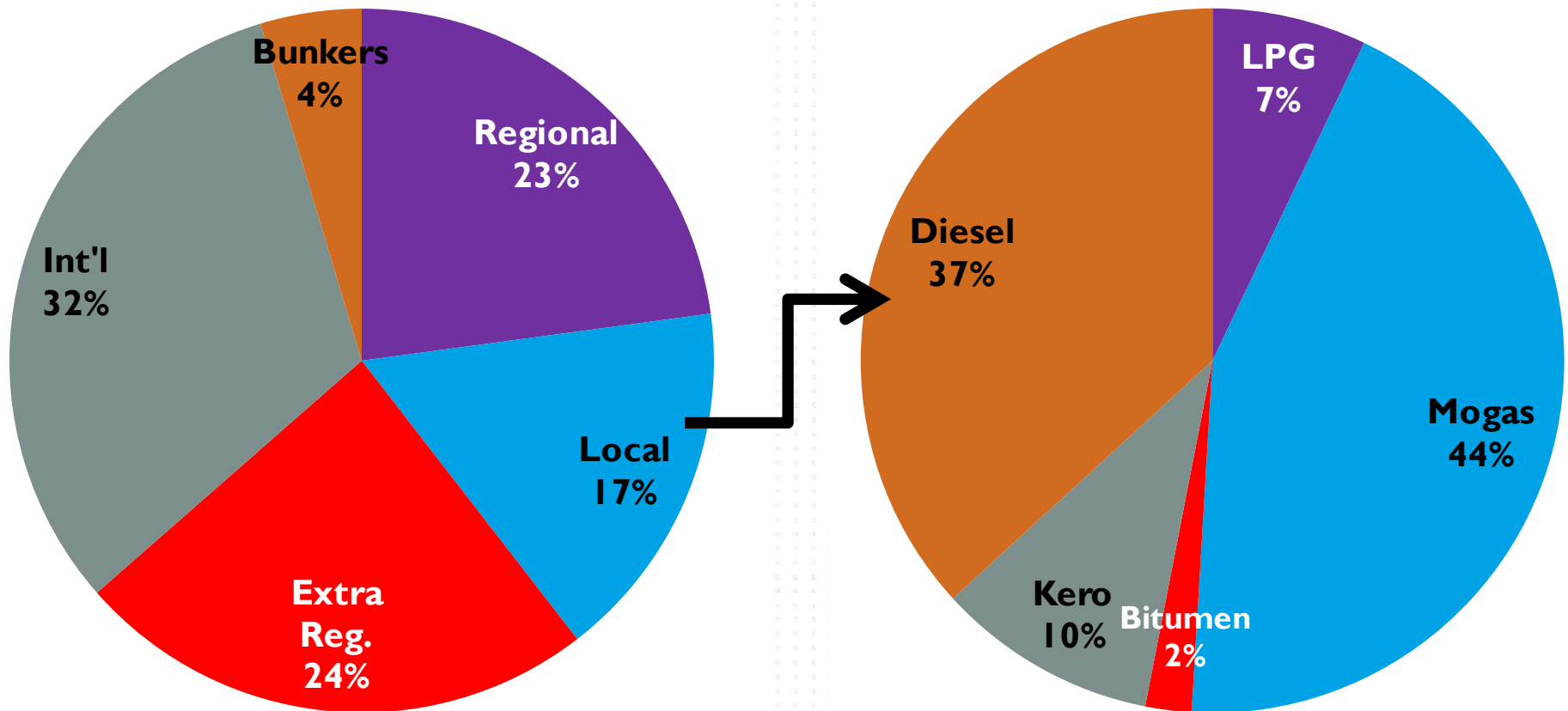
FY2012/2013 Crude Oil Supply



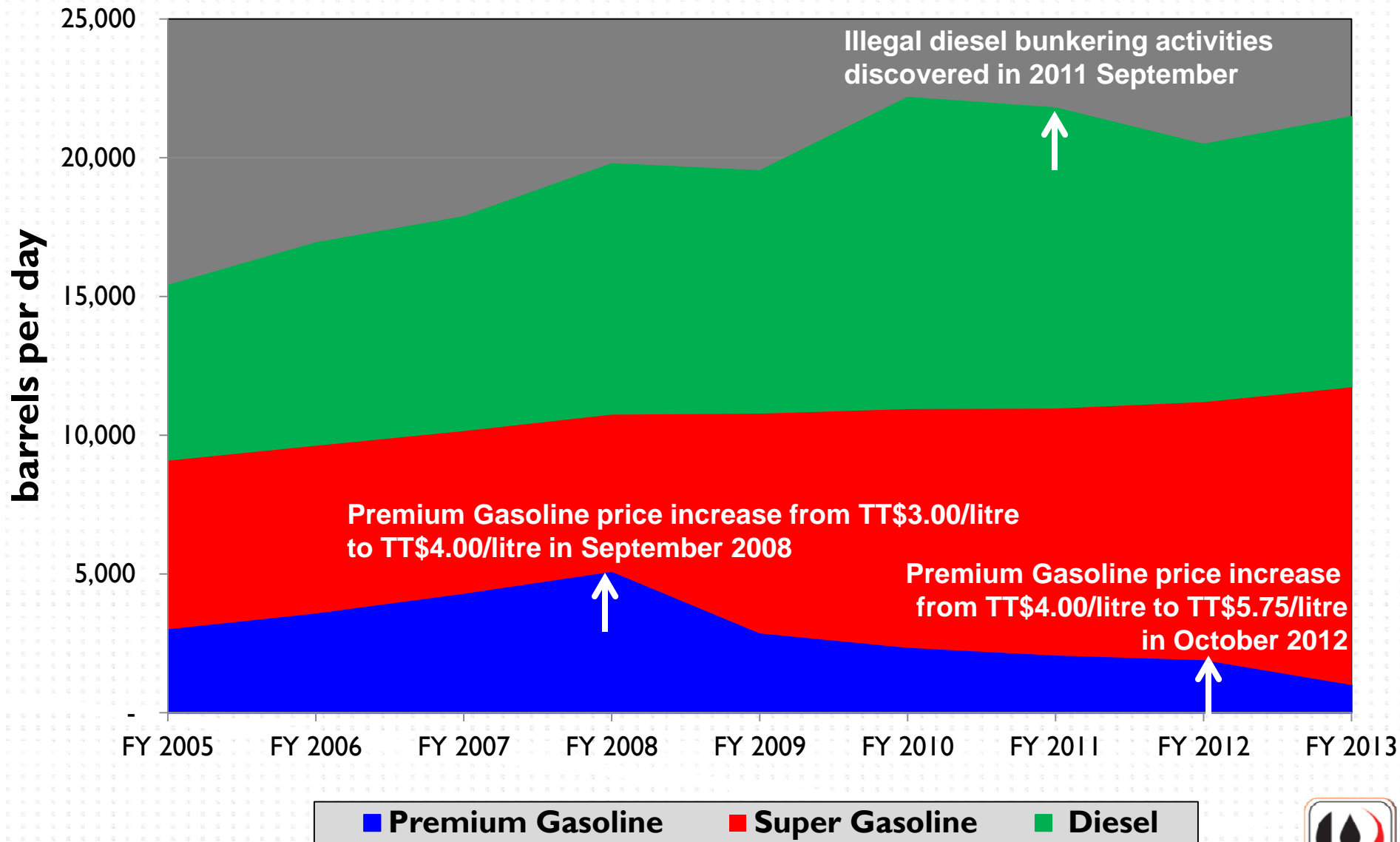
Sales & Marketing

- Products enter five (5) market channels:
 - Local
 - Regional
 - Extra-Regional
 - International
 - Bunkers (fuel oil and gasoil)
- Sole provider of refined products in Trinidad and Tobago (except lube oils)
- Continued long-standing relationships in the other markets with state oil companies, the majors, and oil trading companies

Typical Product Sales



Subsidized Volumes of Gasoline and Diesel



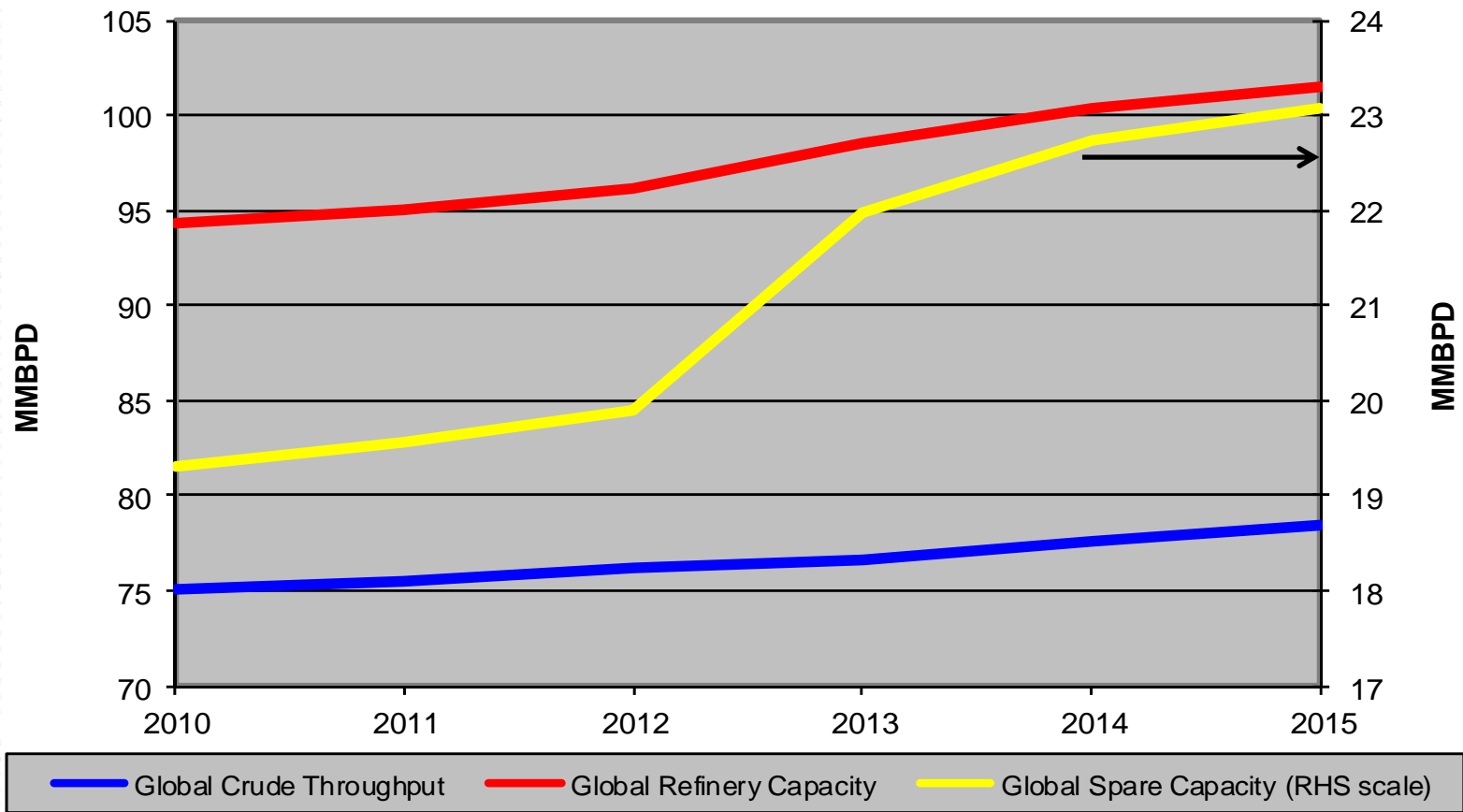
Source: Ministry of Energy and Energy Affairs



Current Trends in the Global Refining Industry

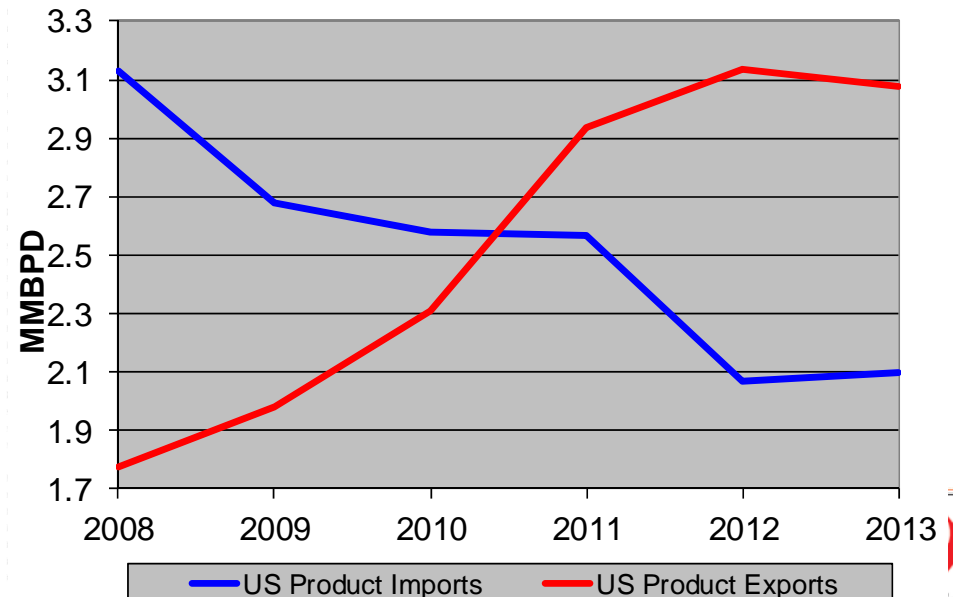
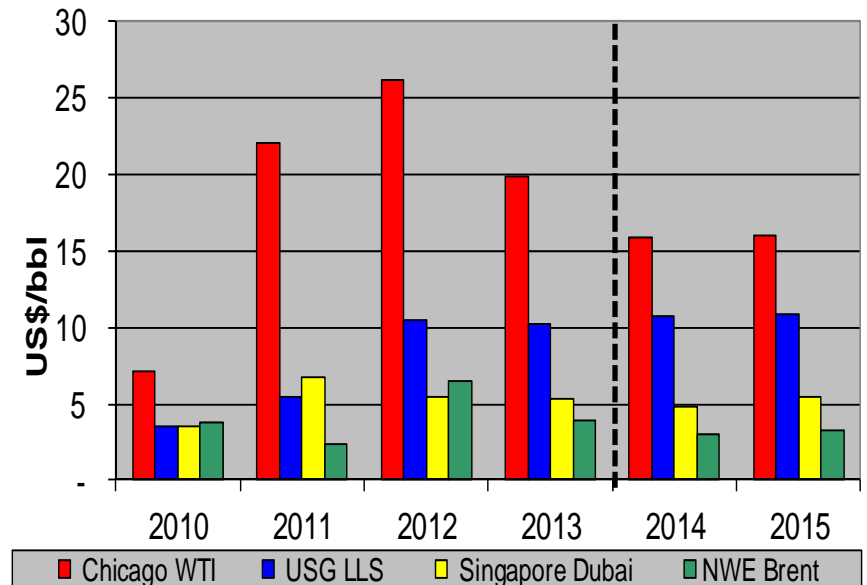
Pressure on Global Refining Margins

- Worldwide oversupply of refining capacity; placing a cap on refining margin



Pressure on Global Refining Margins

- Shale oil and gas revolution in the US
 - Significant increases in US oil production
 - Prohibition on oil exports leading to regional oversupply and discounted crude in the US
 - Relatively cheap natural gas for refinery fuel and hydrogen production
 - US refiners have a significant cost advantage – ramped up utilisation rates transforming US from a net importer to net exporter of refined products at very competitive pricing
 - Net effect is a reduction in refining margins not only for Petrotrin but most non-US refiners.



Petroleum Subsidies from the Refiner's Perspective

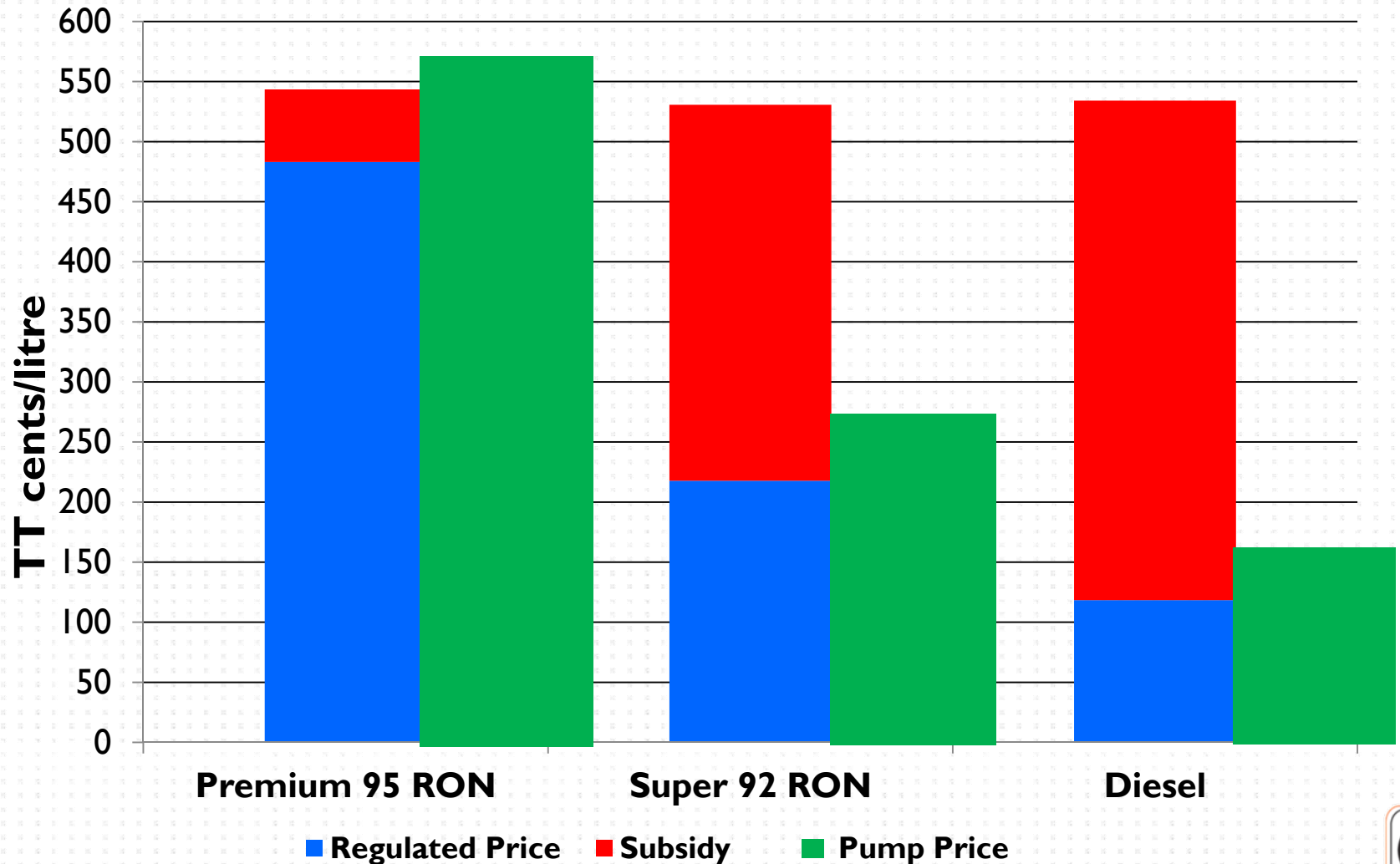
Petroleum Subsidy

$$\text{Subsidy} = \text{Reference Price} - \text{Regulated Price}$$

Where:

- The **Reference Price** is the sum of the following:
 - The Ex Refinery Price is set by the Ministry of Energy and Energy Affairs, and tracks International Prices
 - Excise Duty
 - Filling and Handling Cost.
 - Wholesaler Margin.
- The **Regulated Price** is the price (excluding VAT), which the Wholesaler must sell to the Retailer.

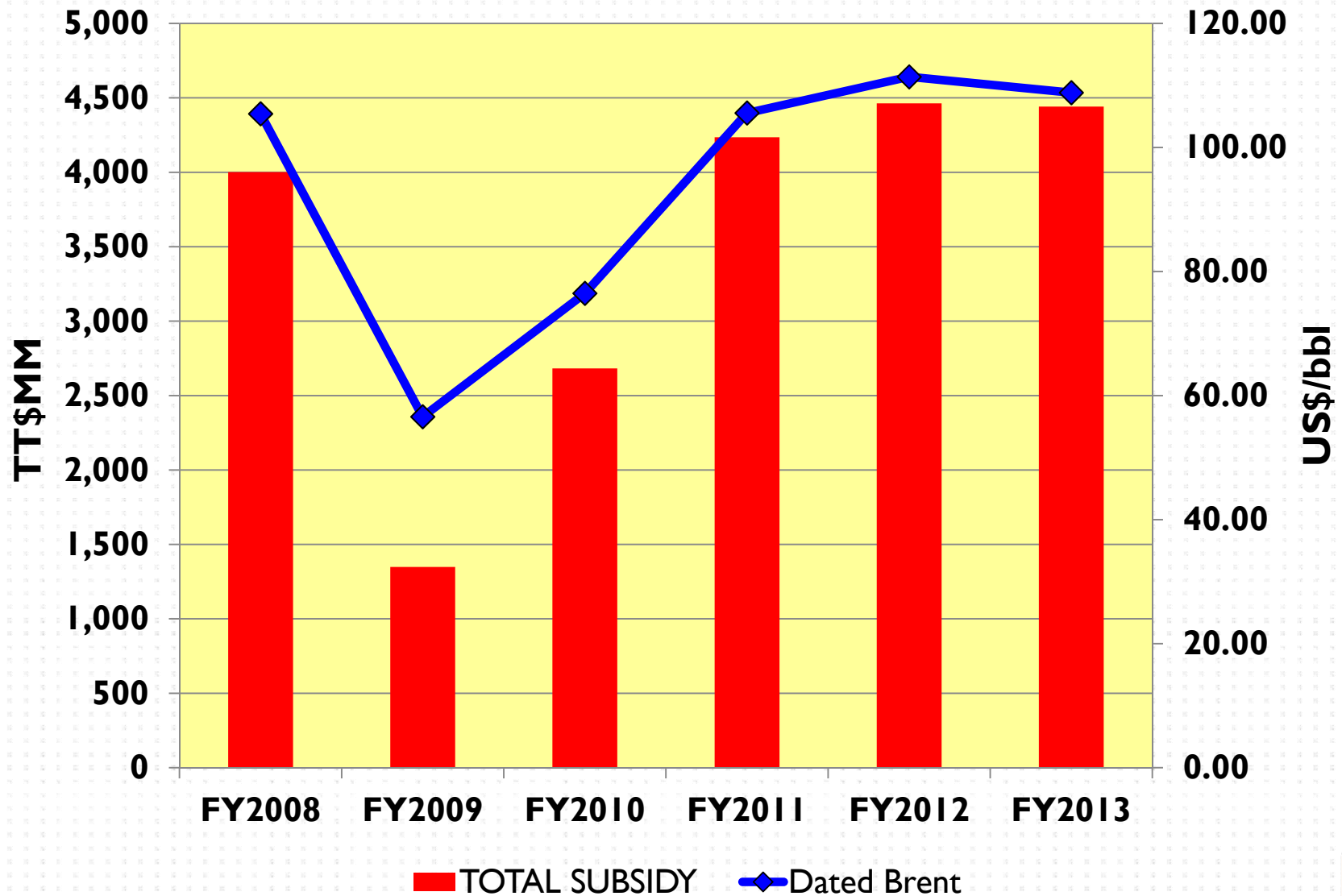
Subsidy for Premium Gasoline (95 RON), Super Gasoline (92 RON) and Diesel



Fiscal Year 2013



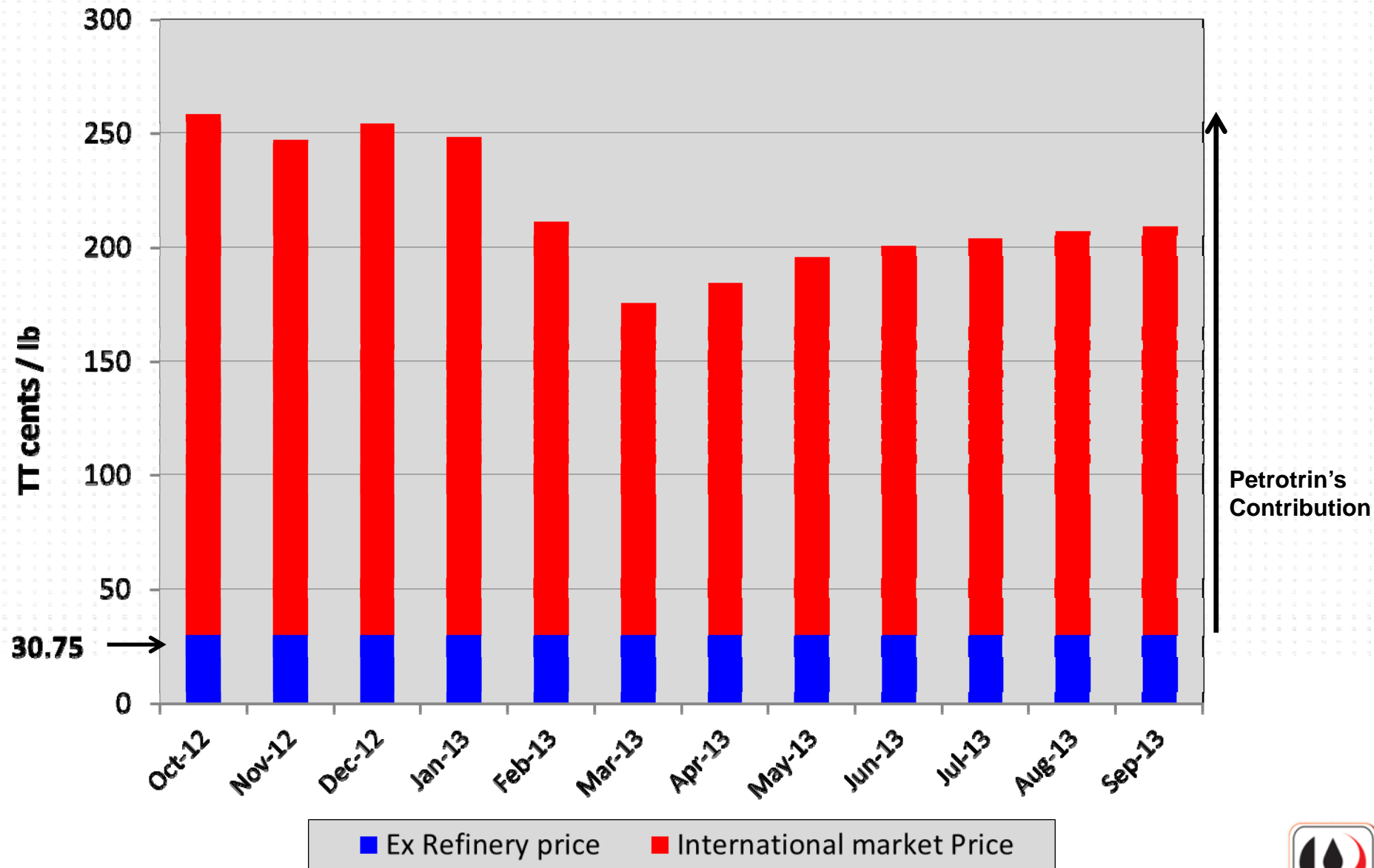
Subsidy varies with international oil prices and local demand



LPG Subsidy

- The LPG subsidy is absorbed by:
 - 1) Government
 - 2) Petrotrin
- By Regulation, the following elements are fixed by the Government:
 - Petrotrin sells LPG to the Wholesaler at Ex Refinery price of TT cents 30.75 / lb
 - The Wholesaler Margin is fixed at TT cents 31.00 / lb
 - The Wholesaler sells to the Filling Plant at TT cents 6.304 / lb
- Government Subsidy = $(30.75 + 31.00) - 6.304$
= TT cents 55.45 / lb

Petrotrin's Contribution to the LPG Subsidy



Contributors to the LPG Subsidy

- Approximate domestic demand for LPG = 2,000 bpd
- Government = TT\$77.9 Million/year
- Petrotrin = TT\$205.8 Million/year

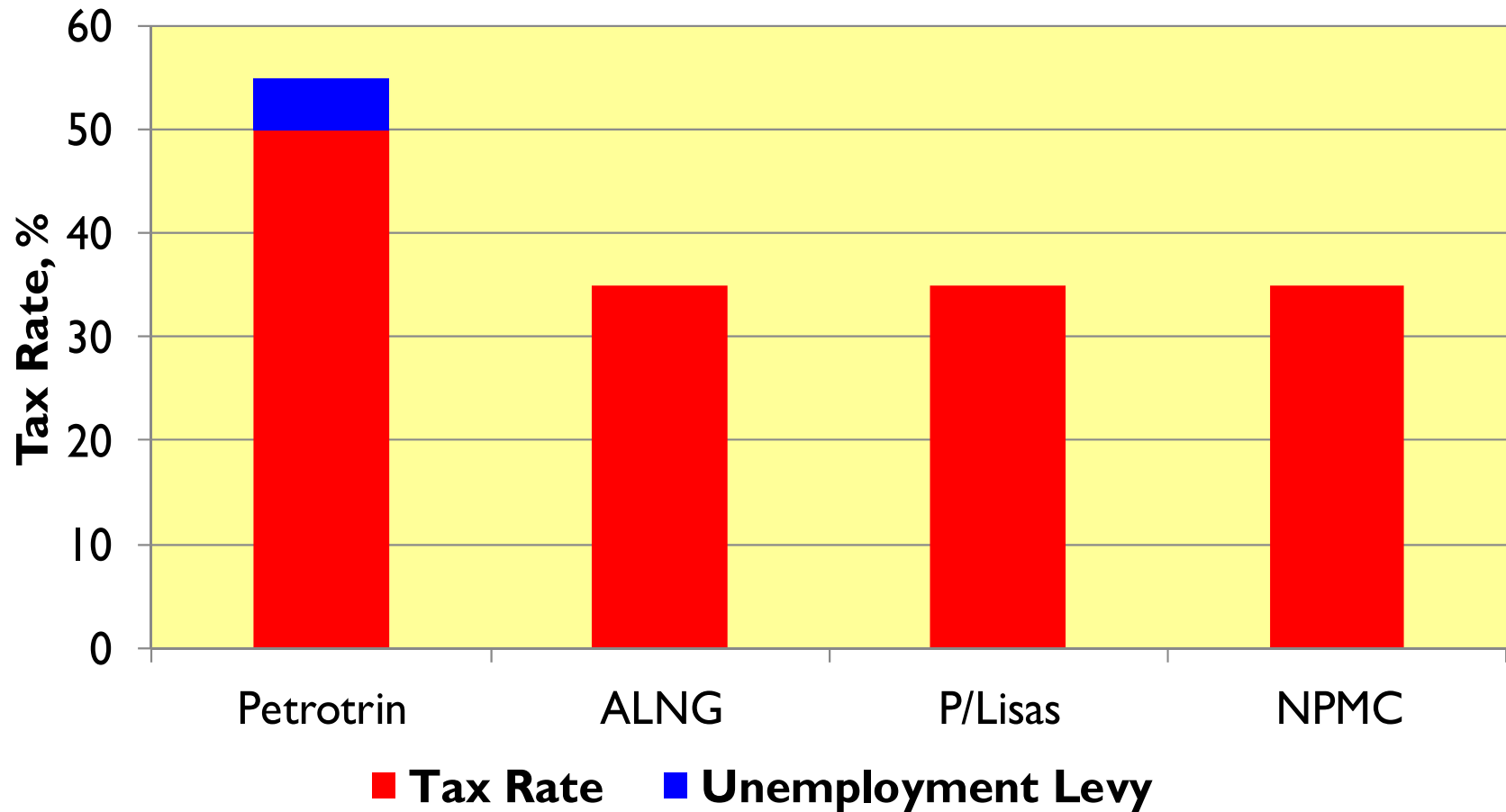
Subsidized price versus International market price for LPG cylinder



- Fixed Consumer Price for LPG = TT\$ 1.05 / lb
- Subsidized price that Consumer pays for 20 lb LPG cylinder = TT\$ 21.00

- International Market Price for LPG = TT\$ 1.77 / lb
- Market price that Consumer would have had to pay for 20 lb LPG cylinder = TT\$ 35.45

Refining taxation higher than others



Petroleum subsidies negatively impact Petrotrin's cash flow position

- Petrotrin supplies LPG to the local market at lower than market prices, foregoing ~ TT\$200 Million annually
- Wholesalers unable to fulfill their contractual payment obligation to Refiner:
 - Receipt of subsidy by Wholesaler from Government lags sale of products
- On the other hand, R&M business:
 - pays market value for its feedstock, including purchases from its Upstream business
 - higher cash outlay at higher prices
 - must fulfill payments for feedstock since they are governed by strict commercial terms
- Market fundamentals project weak refining margins for non-US refiners



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Thank you