

ACCOUNTING FOR THE PETRODOLLAR CONFERENCE

Arthur Look Jack Institute of Business UWI

Sources and Uses of Hydrocarbon Wealth

A comparative Analysis
1974-79 and 1999-2004

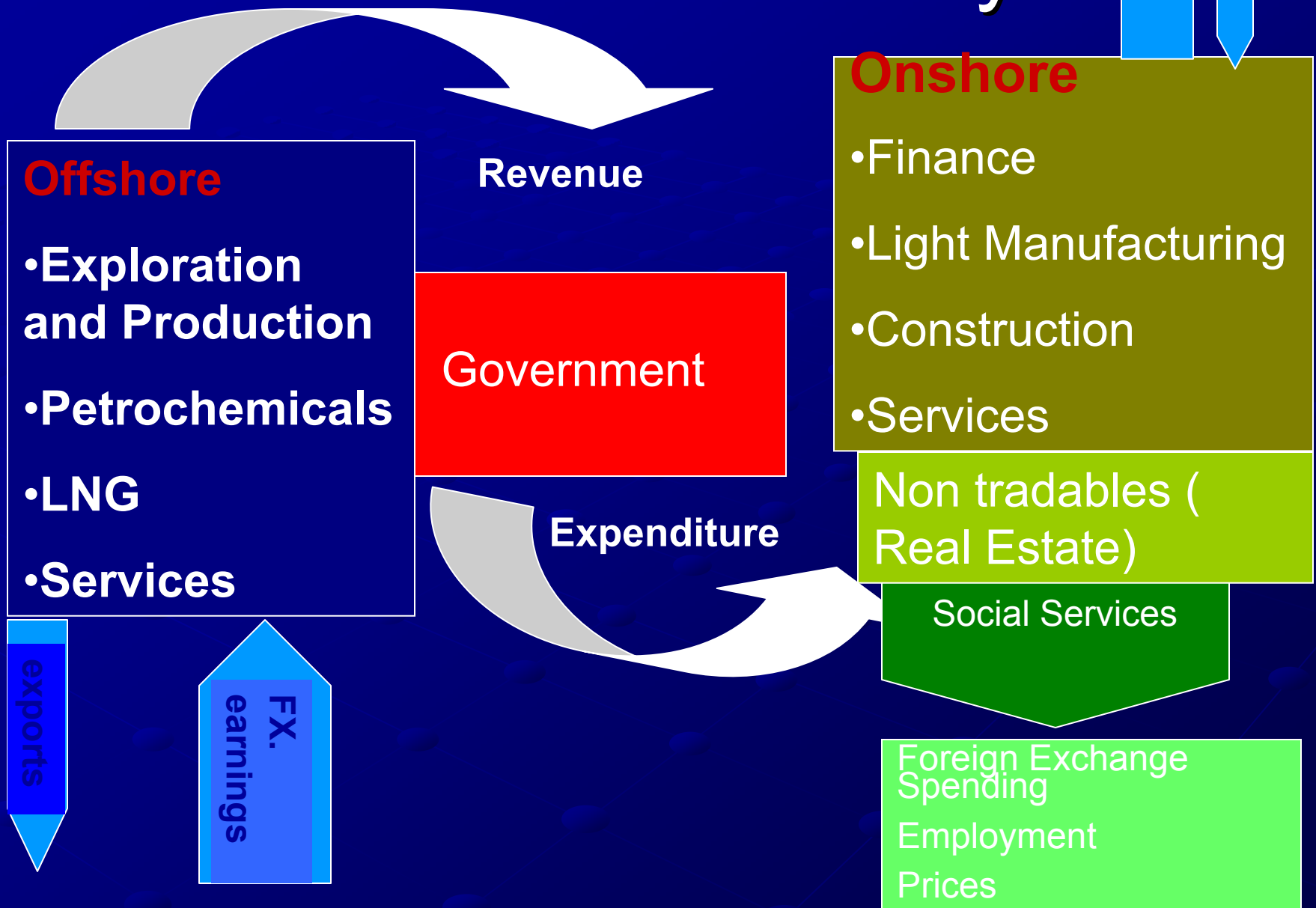
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Presentation Outline

- Simple Economic Model
- Fiscal Operations Revenue Side
- Aggregate Government Expenditure
- Main Expenditure heads
- Other Macro Economic Issues
- Conclusion

Model of Economy



Offshore Economy

- Largely Foreign owned firms
- Production and plant management undertaken by nationals
- Externally propelled firms
- Firms are classic TNC and total institutions.

Offshore Economy

- Offshore injections: Five main channels
 - Payments to labour and supervisory staff
 - Purchases of goods and services
 - Payment to service Companies
 - Dividends to National and regional conglomerates which hold equity

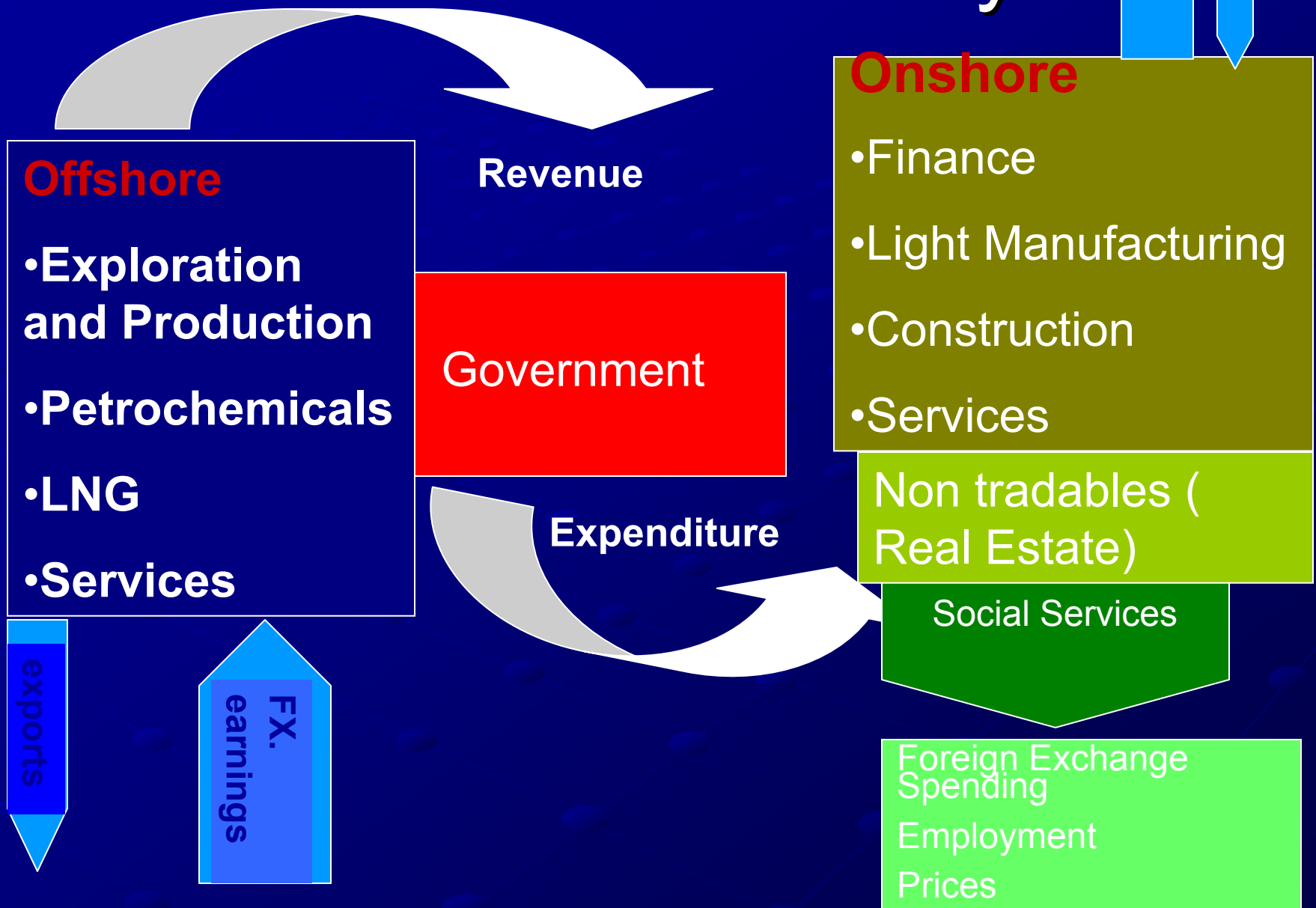
Onshore Economy

- Cradle of nation's economic activity.
- National firms – SMEs
- Engages nearly entire population
- Determines the level of employment

State

- Stands between the offshore engine: and the onshore carriage.
- It raises revenue from taxes of firms in both sectors.
- It spends on both current and capital accounts
- Responsible for planning ad executing effective policies .

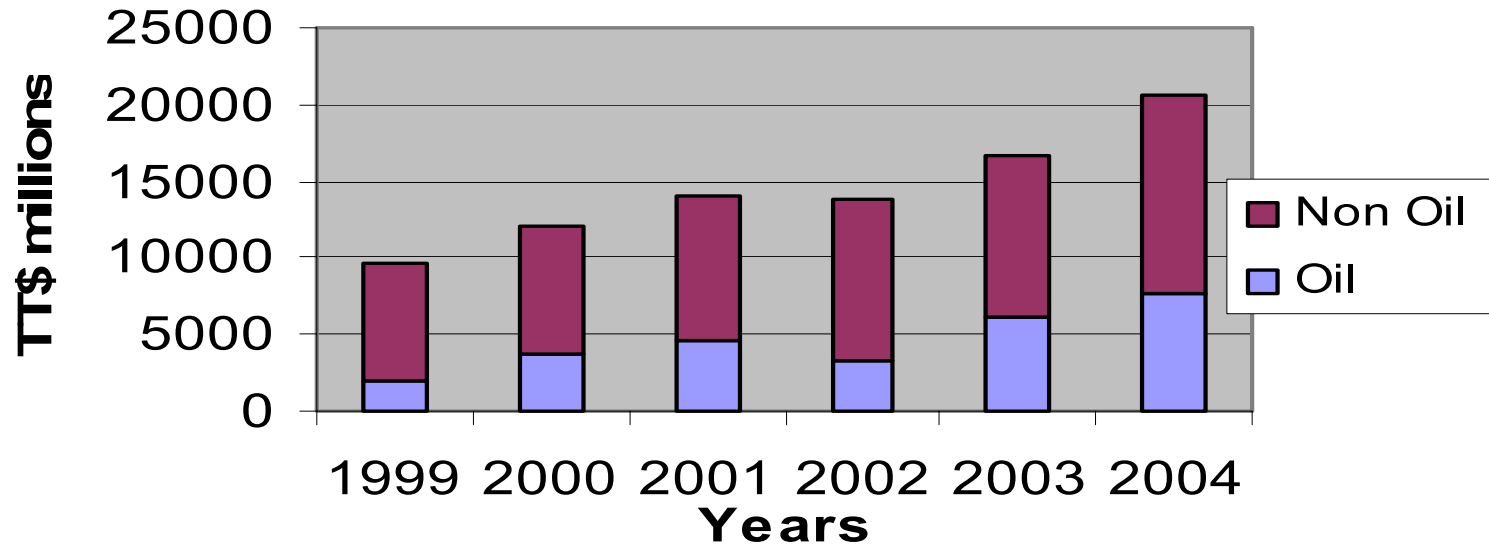
Model of Economy



Periods of Analysis

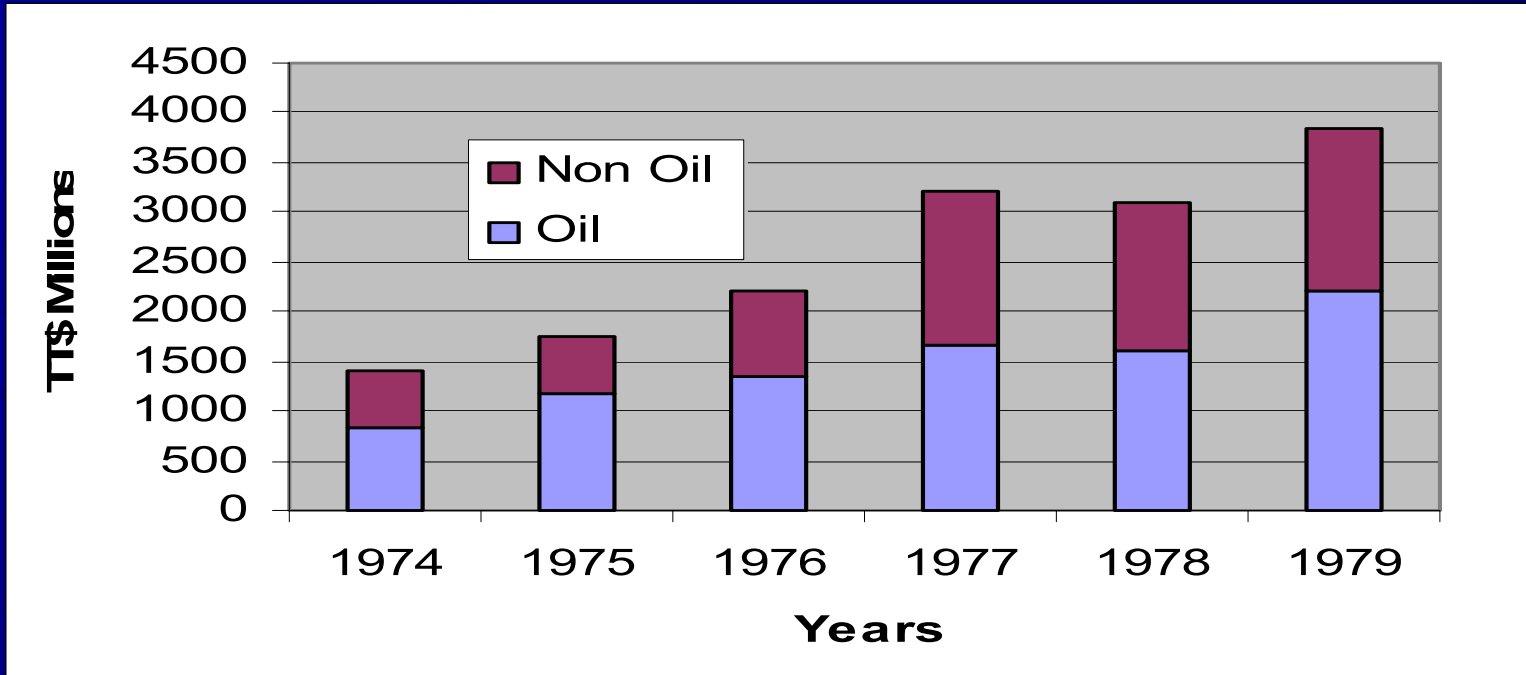
- 1974-79: First five years of oil price inspired boom.
- 1999- 04: First five years of volume induced boom – ALNG

Government Current Revenue 1999-2004



- Ave growth rate 16%/annum compounded, oil growing by 31% and non oil by 11% per annum.
- Cumulative revenue TT \$86 billion; oil share 32% or \$TT 27 billion
- Include 2005 data to September: Cumulative revenue = TT\$ 114b.

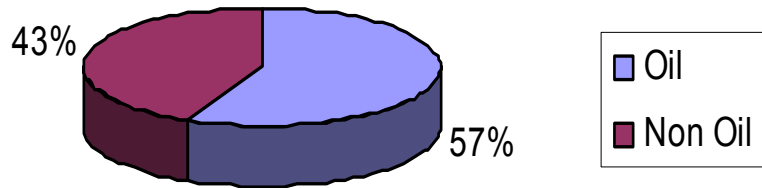
Government Current Revenue 1974-1979



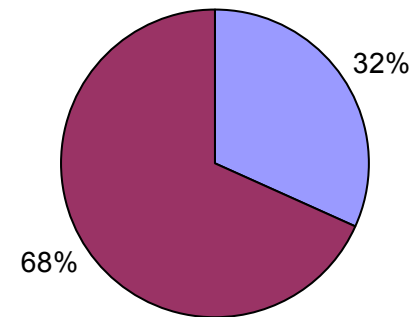
- Ave growth rate 22 %/annum compounded, oil growing by 22 % and non oil by 24% per annum.
- Cumulative revenue TT \$15 billion; oil share 57 % or \$TT 8.8 billion

Oil vs. Non Oil

(1973-79)



Revenue (1999-2004)

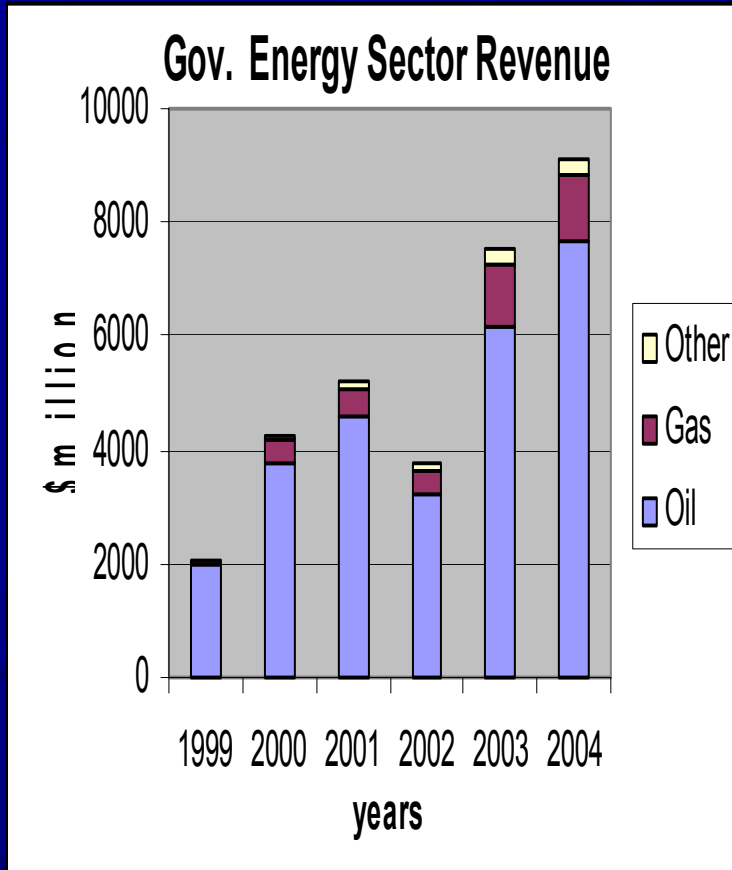


The official data suggests that oil revenues had a significantly larger share of the total Government revenue pie in the seventies than they do today.

What's Missing?

- “Oil Revenue” is narrowly defined to mean taxes and charges from companies under the Petroleum Taxes Act.
- It does not include:
 - Taxes and Dividend Income from NGC.
 - Taxes and dividend income from the petrochemical companies, service companies engaged in the sector..
 - Taxes from Atlantic LNG

Government Revenue

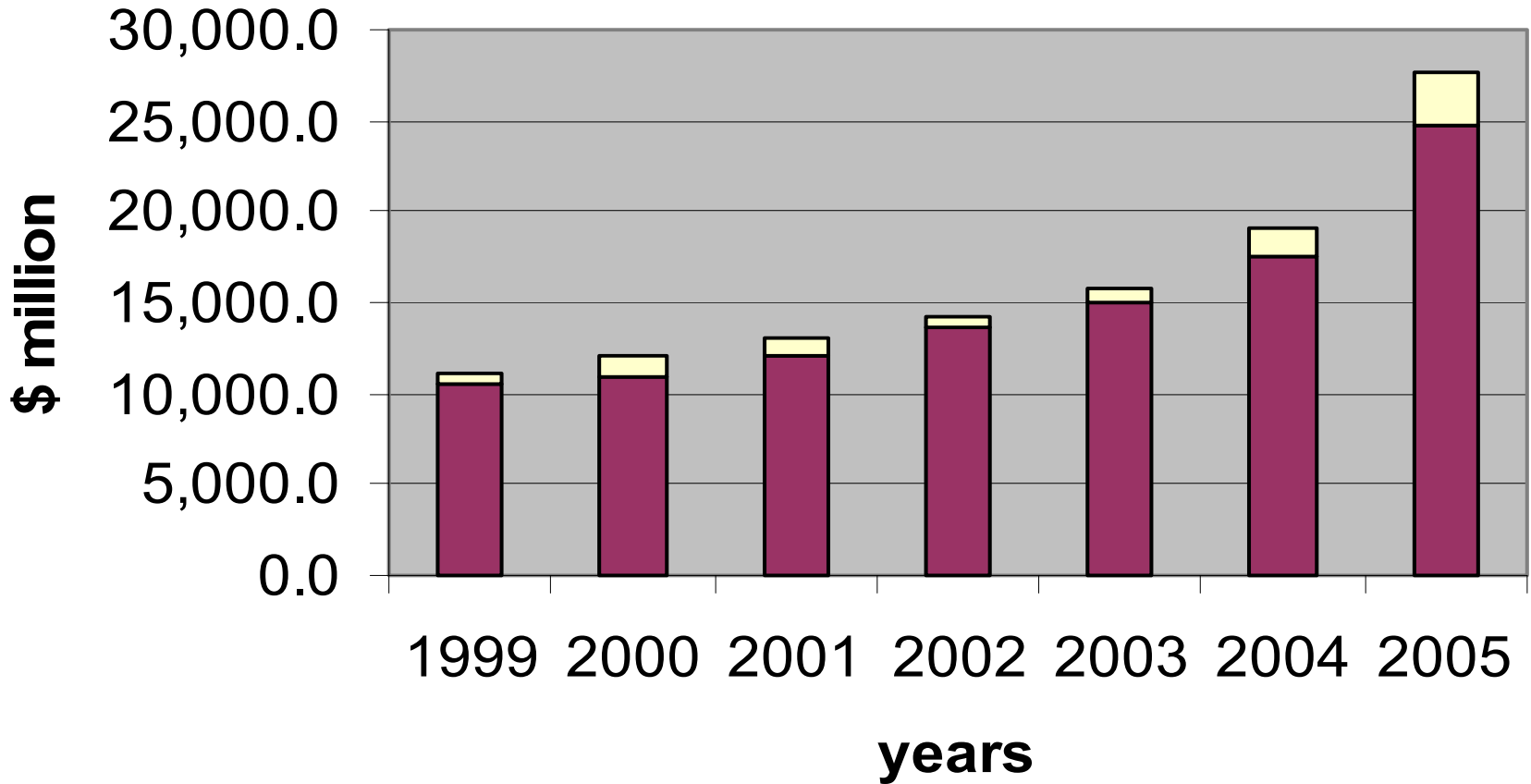


- Revenue is at least 16 % higher than without with estimates of revenue from downstream companies

Expenditure Side.

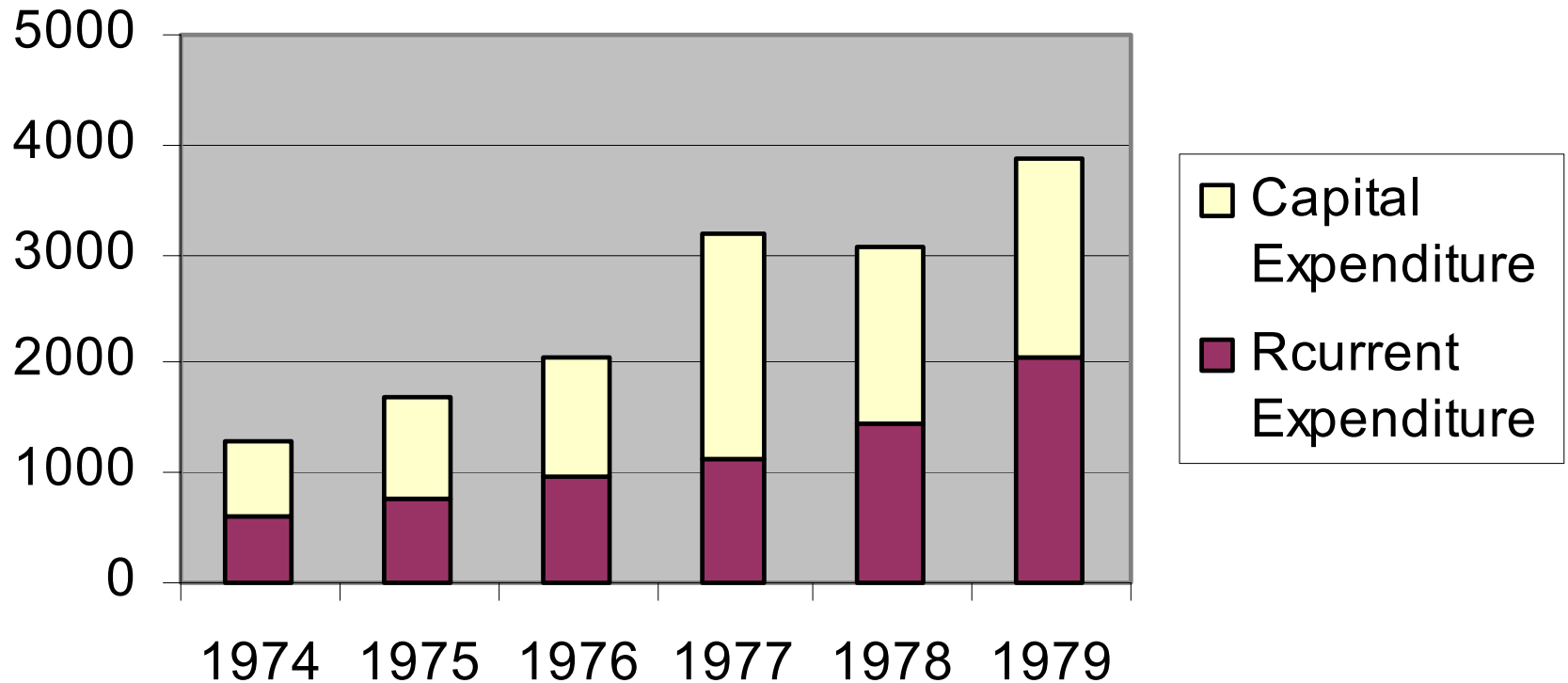
- Government expenditure provides the fuel for the onshore economy.
- In a golden age, expenditure becomes the greatest challenge. –
“ the imperative is to meet legitimate demands for equity while avoiding waste, expanding capacity and promoting transformation towards viability.”

Expenditure Pattern 1999-2005



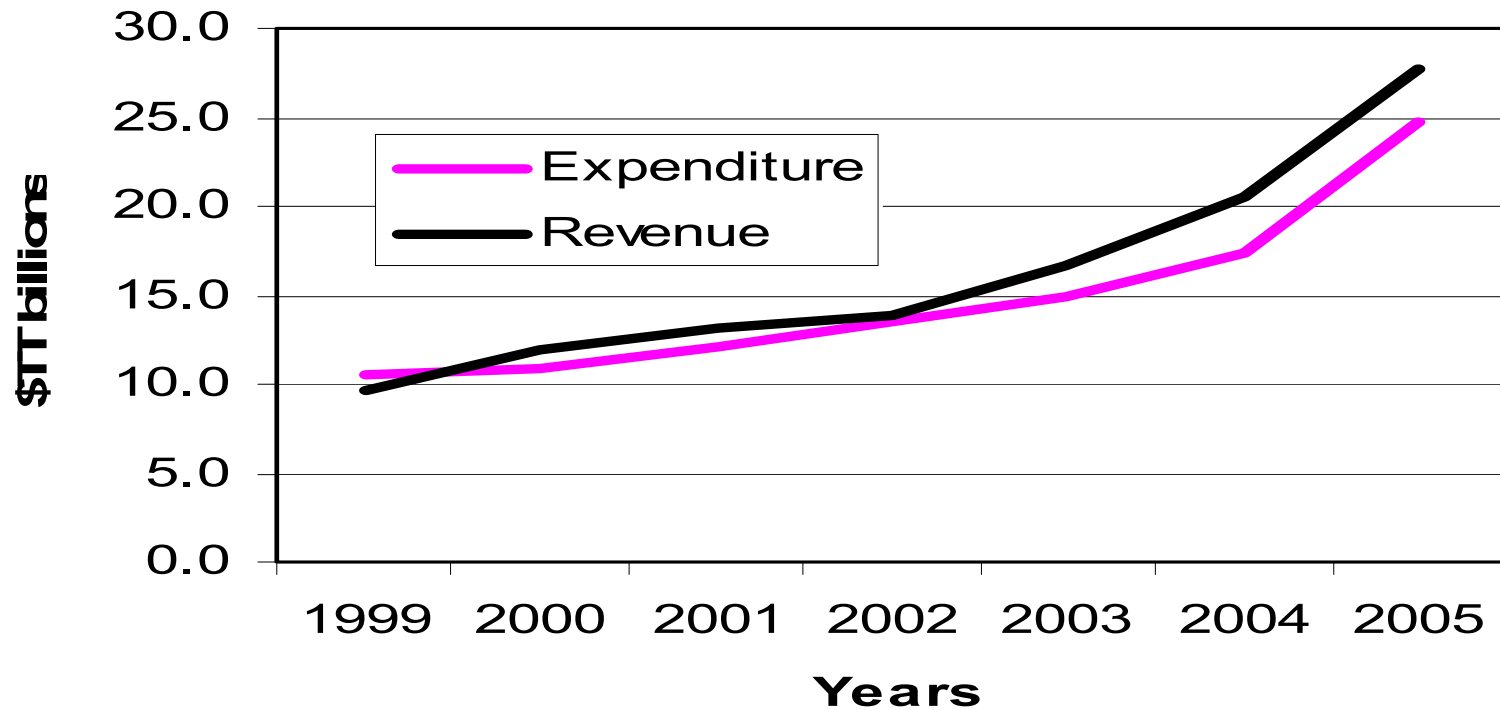
Total recurrent expenditure amounted to \$TT104 billion. Average growth rate 15% per annum compounded. Capital expenditure only 7.6 % of total

Expenditure Pattern 1974-79



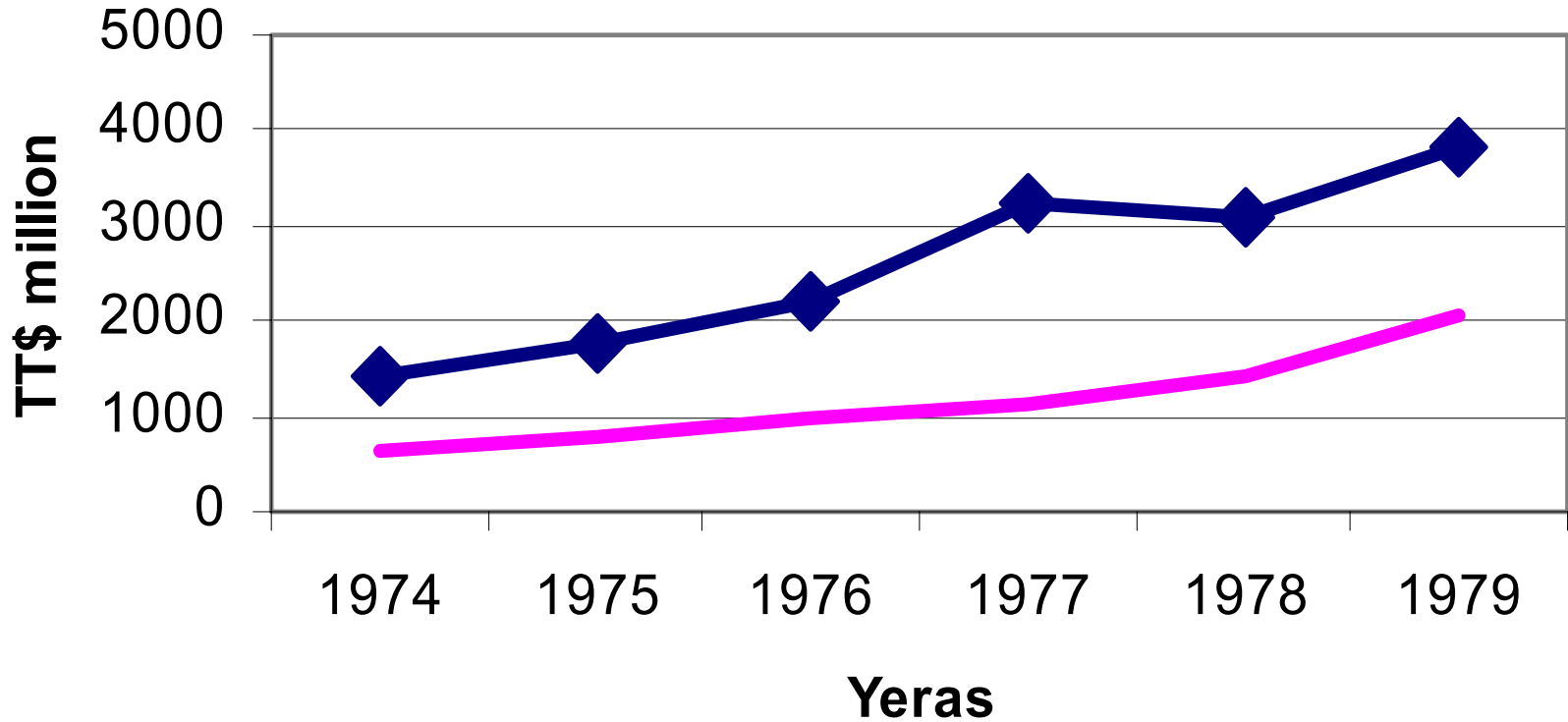
Total recurrent expenditure amounted to \$TT15 billion. Average growth rate 22% per annum compounded. Capital expenditure averaged 53% of total

Trends in Revenue and Expenditure 1999-2005



Recurrent expenditure growth= 15% per annum compounded, Revenue growth 16% per annum . What happens when rate of expansion of output or prices decline??

Trends in Revenue and Expenditure 1974-79



Recurrent expenditure growth= 27% per annum compounded, Revenue growth 22 % per annum . Total expenditure growth =24%

Some Observations

- Given lower base and limited capacity of the 1970's , capital expenditure was slow to take off. Recurrent expenditure though was growing faster than revenue.
- Classification of Capital expenditure has changed. For example in the 1970s some transfers to state enterprises were classified as Capital expenditure.

Some Observations

- In current period much of capital expenditure are off budget making direct comparison difficult
 - State enterprises funding expansion. e.g. NGC/NEC fund both equity and capital projects without recourse to Government .
 - Special purpose companies responsible for financing major projects: e.g. UdeCott.

Some Observations

- In current period much of capital expenditure are off budget making direct comparison difficult
 - We see welcome moves to build capacity outside energy in the form of Tamana Intech Park .
 - State appears to be shying away from direct investment. -

Distribution the Wealth

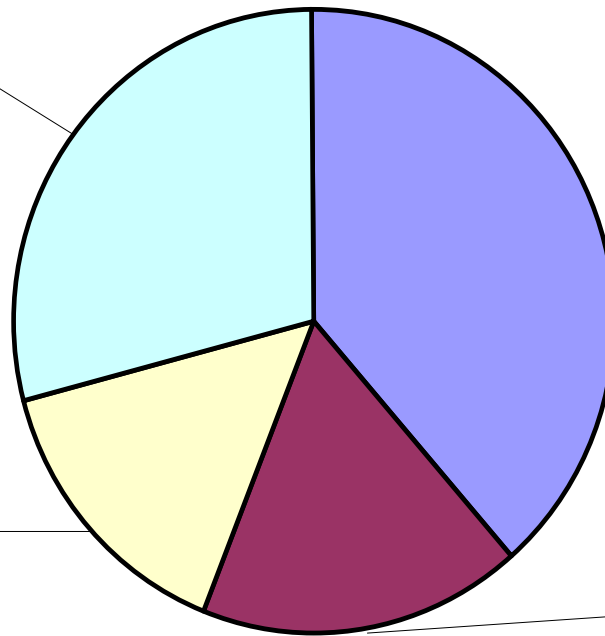
1974-79

Total
transfers
and
subsidies
29%

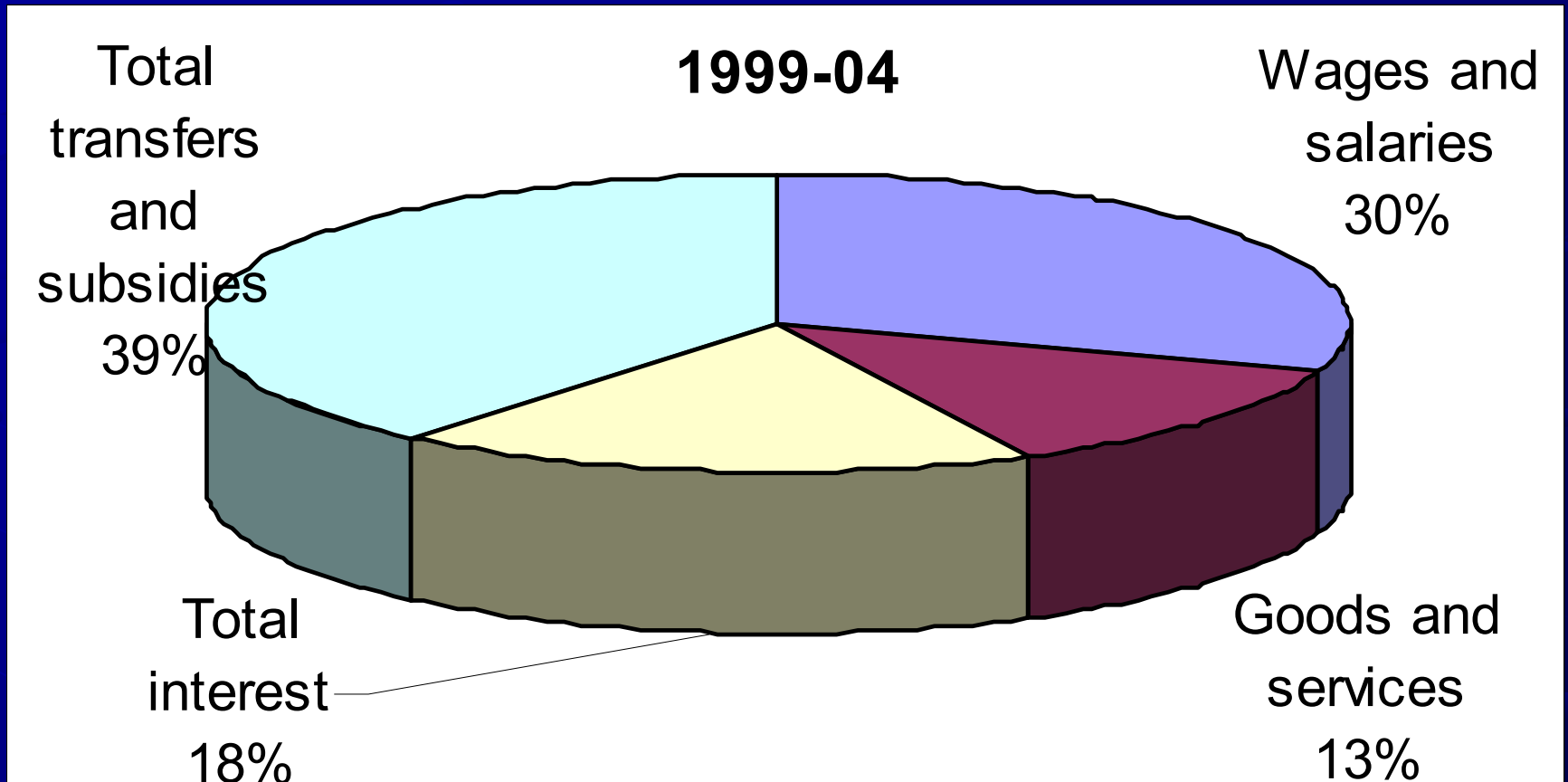
Wages and
salaries
39%

Goods and
services
17%

Total
interest
15%



Distribution the Wealth



The major shifts noted are : The greater share of Transfers and subsidies now 39% compared to 29% in the first period.

Correspondingly ; Wages and salaries now only 30% as opposed to 39% earlier perhaps reflecting reduction in Public Service.

Channels for Wealth Distribution

Initiative	74-79	99-04
Tax Relief	yes	yes
Food Subsidies	yes	no
Agriculture Subsidies	yes	little
Petroleum Products Subsidy	yes	yes
Cement	yes	no
Electricity Subsidy	yes	yes
Education	yes	yes
Soft loans and grants	yes	yes
Tobago Travel	yes	yes

Some Observations

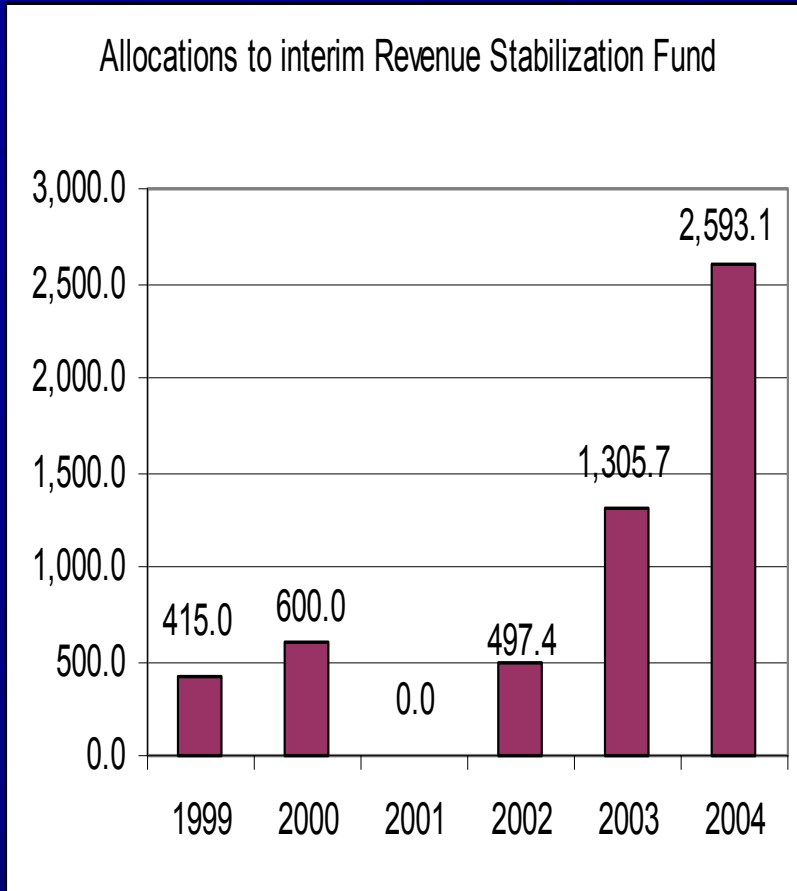
- Very similar channels of distribution in both periods.
- The absence of subsidies on cement and food due to economic liberalization policies in place since downturn.
- Gasoline and electricity subsidy significant-could be worth upwards of TT \$ 3 billion.

Saving For the Future

- In the first period mechanism used was Funds For Long Term Development .
 - In 1980, there were 21 such Funds including :
 - Culture, National Parks, Transportation, Primary Schools.
 - Between 1974 and 1979- Total appropriation was TT\$ 5,360 million. Interest earned was TT\$ 400 million.

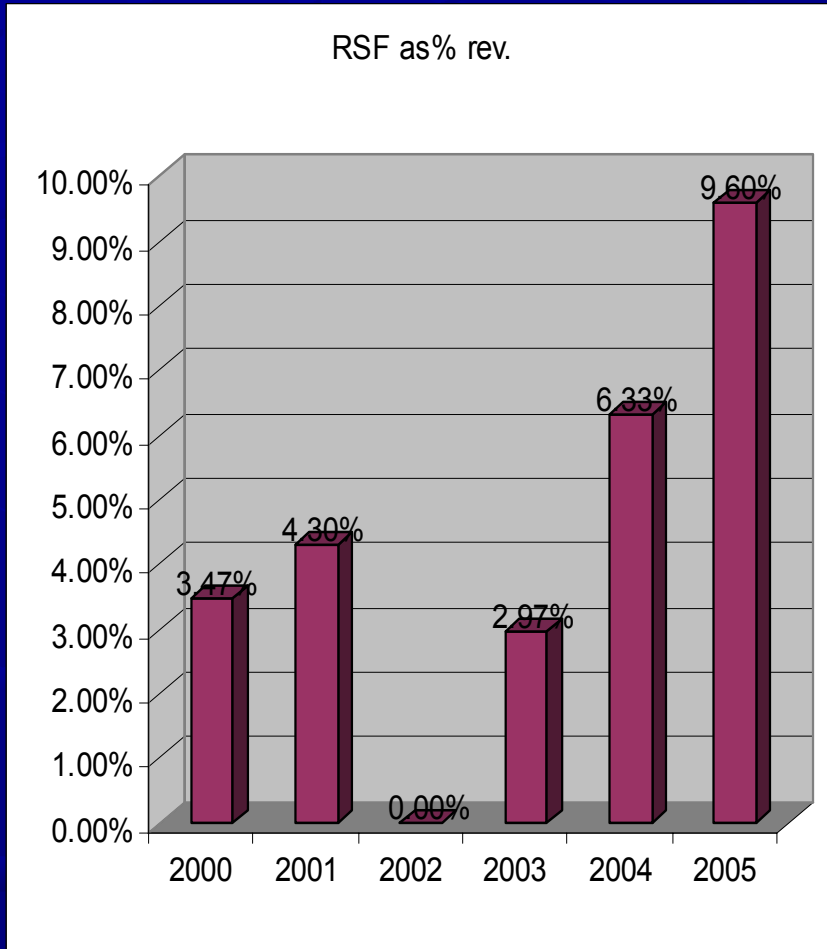
Note : Data sourced from Accounting For the Petrodollar 1980.

Saving For the Future



- In the second period mechanism used is Revenue Stabilization Fund.
- Total of TT\$ 5411 million up to end fiscal 2004-05.
- Several unanswered questions.?

Saving For the Future



- RSF allocations seem to be growing with income.
- No set pattern, may well be a residual amount.

Concluding Remarks

● Sources of Funds

- Need for inclusion of downstream taxes and royalty in what is classified as “oil revenue”.
- Need to publish disaggregated data.

● Uses of Funds

- Need for clear policy and rules on Heritage Fund as distinct from Stabilization Fund.
- Return to approach of Funds for Long Term Development to aid sequencing of projects.

Concluding Remarks

● Uses of Funds

- Need for clear policy and rules on Heritage Fund as distinct from Stabilization Fund.
- Need for general rules of fiscal policy
- Return to approach of Funds for Long Term Development to aid sequencing of projects.
- Greater emphasis required on transformation effort. Tamara seems to be a start , but I would rather build on agro industry and cultural products.

Thank You

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