CHAPTER I

INTRODUCTION

1:1 Statement of the Problem and Context of the Study

On oil everything depends, for Trinidad, moreso than any of the other Caribbean islands. As early as the second Five Year Development Plan (1964-1968), the oil sector was identified as one of the fundamental weaknesses of the Trinidad and Tobago economy. It was pointed out that:

"The first and most basic (fundamental weakness) is the dependence of the economy on petroleum - a wasting asset facing the uncertainties of the world market situation - to the extent of 30 percent of Gross Domestic Product, 85 percent of export income and 35 percent of Government Revenue."

This situation was to have changed considerably with the decision of the OPEC countries to quadruple the price of oil in the 1973-1974 period. Oil was no longer 'a wasting asset facing the uncertainties of the world market situation'. The consequence of OPEC's action to raise oil prices, however, was to make the economy of Trinidad and Tobago even more chronically...
dependent upon its oil resources. Today, the oil sector alone accounts for two-fifths of total output, 86 percent of exports and 60 percent of Government revenues. The oil sector also indirectly accounts for a great deal of employment. This is because the Government is the largest employer of labour and the capacity of the government to generate employment itself depends upon the level of its revenues derived from the oil sector. Thus, the critical determinant of the levels of output, incomes, employment, government revenues and foreign exchange was, and still is, the oil sector. Clearly then, the fate of the Trinidad and Tobago economy is critically dependent upon what happens to its oil sector. In fact, oil is the economy and whatever happens to oil, happens to us.

Today, there are many apparent indicators of crisis in our oil sector. To begin with, Trinidad's oil production has declined every year since 1978. In 1981, oil production fell to 189,425 barrels per day, 11 percent below 1980's production and the lowest level since 1974. Secondly, the Trinidad and Tobago government has, in 1981, introduced new tax legislation which has had the practical effect of reducing taxes on the companies, thereby reducing government revenues as well as its capacity to create employment. This legislation was back-dated to 1980.
The refining sector of the oil industry is also in crisis. Throughput levels have been declining. The downward trend began in 1970. But from 1976-1977, the decline has been quite sharp. By 1981, the local refineries operated at just 38 percent of capacity.\(^7\) In addition, in August 1982, TEXACO indicated that it was preparing to leave Trinidad. It is expected, therefore, that by 1984-1985, Point-a-Pierre would have become largely irrelevant to TEXACO.\(^8\) This will certainly have implications for the level of output, incomes, employment, foreign exchange and government revenues generated by the oil sector.

These adverse developments in the Trinidad oil industry have been further exacerbated by the falling real price of oil on the international market, due to policies adopted by the metropolitan countries. These policies have been aimed at the rapid deployment of energy conservation measures; the development of alternative energy technologies and fuel substitutes; efforts to arrest the decline of oil production in the U.S.A. and to find new reserves there; the cutting back of oil exploration in the OPEC countries; the expansion of non-OPEC oil producers; and the organisation of a massive stockpile programme.\(^9\)