

Higher oil prices a double-edged sword, says expert



Energy expert Anthony Paul



Former energy minister, Carolyn Seepersad- Bachan

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Subsidy costs and national energy security are under the microscope as energy experts Anthony Paul and Carolyn Seepersad-Bachan warn that the escalating war in the Middle East—specifically last weekend’s military

strikes by the US and Israel against Iran—has placed T&T in a precarious economic position.

As global oil prices surged following disruptions in the Strait of Hormuz, Paul noted that while the price hike might seem like a windfall for an energy exporter, the reality is a double-edged sword.

He explained that while higher crude prices technically increase state revenue, the country is essentially “cannibalising” those gains to fund the price at the pump.

Paul told Guardian Media yesterday that T&T is exposed on two critical fronts: the prices it earns from energy exports and the prices it must pay for imported fuel.

With the Petrotrin refinery long closed, the country imports all its gasoline, diesel and bitumen, leaving consumers vulnerable to global shocks.

“Paria is at the mercy of the world market. If the prices go up, it will go to Paria. Paria will either have to pass it on to NP and Unipet, or the Government will have to subsidise it. What happens in practice is that Paria sells it at the price they pay, plus their margin, as allowed by law, to Unipet and NP and they’re the ones who then have to go back to the Ministry of Finance for the refund or the subsidy. And the ministry drags it out for years.

“So, those companies, Unipet and NP, are the ones who carry the burden of the government subsidy because they pay the full price, and the government is supposed to refund them the subsidy,” Paul said.

This dynamic could lead to pressure on the Government to adjust pump prices.

Although the Ministry of Finance sets subsidy levels and can change them overnight, Paul said the State is already “scraping the barrel” for revenue.

“There’s no reason to believe they won’t raise pump prices if global prices spike dramatically and stay up,” he said, noting, “But everything depends on how long this lasts.”

At the same time, T&T’s export earnings could rise if international prices remain high but Paul warned that higher prices do not automatically mean higher profits. Shipping and insurance costs also spike during conflicts,

especially when naval tensions are involved.

“If a lot of vessels are stuck outside the Gulf, then ships become scarce and insurance rates go up,” he said adding, “The market price may rise but the netback price after shipping and insurance may not be as attractive.”

Seepersad-Bachan also echoed that higher oil and LNG prices would normally translate into improved export revenues, foreign exchange inflows and fiscal receipts.

However, the national benefit may be limited by structural realities, she said pointing to the fact that oil production has been on the decline and domestic natural gas production constraints have already resulted in sub-optimal LNG output and reduced petrochemical production at Point Lisas, including recent plant shutdowns linked to feedstock shortages and commercial issues (escalated port fees for Nutrient).

As a result, Seepersad-Bachan said the country may not be able to fully capitalise on elevated international prices. Instead, foreign petrochemical plants with spare capacity would benefit.

Additionally, she noted the continued closure of the domestic refinery increases exposure to higher import costs for refined fuels such as gasoline and diesel, potentially placing upward pressure on government subsidies given existing price controls.

Overall, Seepersad-Bachan cautioned that while the price spike presents a short-term opportunity, the net economic impact on T&T would depend heavily on the duration of the conflict and the country’s ability to stabilise upstream gas production.