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## **COMPETITION IN ENERGY MARKETS: NATIONAL LESSONS LEARNED DOCUMENT – THE TRINIDAD & TOBAGO CASE**

**PROJECT: COMPETITION IN ENERGY MARKETS**

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## NATIONAL LESSONS LEARNED DOCUMENT

Trinidad and Tobago is a special case among countries in the OLADE region. It is the only island with surplus hydrocarbons; its economy is dominated by natural gas industry which is structurally very different from what obtains in North America or any temperate country. Given these circumstances, The Trinidad and Tobago case study revealed some very interesting lessons.

### **Lesson Learned 1. Particular conditions of Trinidad & Tobago**

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| <b>The condition of energy production surplus in the midst of a small market imposes restricting conditions on competition.</b> |
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In energy surplus economies like Trinidad and Tobago, the introduction of market liberalization policy to stimulate competition in energy markets is circumscribed by the existing market structure and Government's industrialization policy. While Trinidad and Tobago boasts a high rank among the world's leading exporters of LNG, ammonia and methanol, the number of players in the industry is very small, leaving room for anti-competitive behavior in a liberalized market environment.

### **Lesson Learned 2. Natural gas as a tool for development**

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| <b>In order to use natural gas as a tool for the country's development, the government must maintain control.</b> |
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Market liberalization may be counterproductive to Government's deliberate policy of using natural gas as a tool for industrial and economic development. Government would lose control over the choice of industry as suppliers seek to maximize profits, while the country may wish to focus on maximizing value added. A classic example here is the choice between more LNG and additional downstream expansion of petrochemicals.

### **Lesson Learned 3. The presence of energy subsidies is very deeply rooted in the population**

**The idea that natural wealth belongs to the entire population and that any economic benefits that are generated should be shared by all is part of the thinking of local consumers.**

People of a small hydrocarbon exporting nation feel very strongly about “sharing in the wealth of the nation”. In response to this deep-seated sentiment, Governments tend to maintain low prices of energy products through the use of subsidies and rebates. Low prices and consequent narrow margins are disincentives to private investment. This has been the case with respect to the power generation and transportation fuels business.

### **Lesson Learned 4. The distortions generated by subsidies are difficult to correct**

**The subsidies avoid the incorporation of new technologies that may be beneficial for the country.**

Subsidies and artificially set prices distort market signals and result in sub-optimal consumer choices. This is evident in the Trinidad and Tobago context, where alternative technologies like solar power, CNG and gas-fired air-conditioning have difficulty competing in the market due to subsidized prices of power and transportation fuels. If subsidies are deemed necessary, they should be targeted to specific groups and the national community should be made aware of the subsidy.

### **Lesson Learned 5. Market segmentation initiatives not seen as a solution for Trinidad & Tobago**

**The anti-monopoly initiatives have not received substantial, continual support.**

Privatization and de-monopolization initiatives undertaken by the Government of Trinidad and Tobago have been driven mainly by the need to reduce the financial burden on the state rather than to introduce competition in markets. There is no evidence to support the idea that market liberalization is a policy of choice based on economic theory and practical reality.

### **Lesson Learned 6. The presence of energy subsidies is deeply rooted in the population**

**The idea that natural wealth belongs to the entire population and that the economic benefits generated should be shared by all is part of the thinking of local consumers.**

Government's interest in market liberalization runs counter-cyclical to the performance of the economy. In depressed economic conditions, there are moves to liberalize markets. But any initiatives that may be introduced are rolled back or suspended when prosperity returns.

### **Lesson Learned 7. The domestic natural gas market is not yet ready for competition**

**The market size, resource ownership and number of stakeholders hinder competition.**

Trinidad and Tobago's natural gas market is still a young industry where competition may be hindered by market size, skewed ownership of resources, and the limited number of players upstream and downstream.

### **Lesson Learned 8. Evolution towards a competitive market seems to be the best option**

**A drastic structural change in the industry does not seem to be the best option given the current situation in Trinidad & Tobago.**

An evolutionary rather than a revolutionary approach seems to be the preferred option for introducing some competition into the market, particularly the natural gas subsector.