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Prime Minister's Opening Address for United Nations
Petroleum Seminar, April 16, 1968.

On behalf of the Government and people of Trinidad and Tobago I wish to welcome all of you here today - the Regional Representative of the United Nations Development Programme, the Representatives of the Energy Section of the Resources and Transport Division of the United Nations Secretariat, Lecturers, and Senior Petroleum Administrators from all parts of the world.

It is a special pleasure for us to host a United Nations Seminar since we in Trinidad and Tobago have come to associate the United Nations not only with the articulation of the needs of the underdeveloped countries of the Third World, but also with the organisation of practical efforts to achieve the economic and social transformation of these countries.

One of the most notable characteristics of the post-war world has been the recognition of the solidarity of all the peoples of the world and the desire for a better life on the part of the underprivileged nations. This recognition has been strongly expressed through the economic and social activities of the United Nations and its specialised Agencies. The United Nations took the lead after the war in analysing from a global standpoint the processes of economic and social development which would have to be carried through if the newly independent countries were to make full and effective use of their freedom from political domination.

We in Trinidad and Tobago have reason to be appreciative of the role of the United Nations and its Agencies in promoting economic and social development in our country. This applies in the field of Petroleum no less than in other areas. In partnership with the United Nations Development Programme we are now initiating an enterprise which can have a tremendous impact on the future economic development in our country. I refer to the Seismic Survey of the marine area between the islands of Trinidad and Tobago with the objective of determining the presence of oil under the sea. If this project eventually results in the discovery and exploitation of economic quantities of oil, the United Nations Development Programme and the Energy Section of the Resources and Transport Division of the United Nations Secretariat will have made a contribution of lasting value to our economic development.

The search for and commercial production of crude oil in the underdeveloped

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countries of the world raise in a very acute and dramatic form all the problems of relations between developing and developed countries. What is more, relations between the oil-producing countries and the Oil Companies are constantly subject to change and evolution, reflecting the changing and shifting political and economic relations between the Western industrialised countries and the countries of the Third World. One only has to compare the terms on which the international companies producing oil in underdeveloped countries operated in the 1920's with the terms under which they operate in the second half of the decade of the 1960's. Then the underdeveloped countries could be unequivocally said to have derived only a few crumbs from the tables of the rich international corporations. Now, generally speaking, the situation is somewhat more equivocal; great progress has been made in increasing the share of oil income accruing to the producing countries, even though there is still much controversy concerning the equity of the basis on which these benefits are being shared. I would like to take this opportunity to raise some of these issues.

The first and most important issue is taxation. Is the level of taxation accruing to the Governments of host countries such as to facilitate the host countries or the depletion of a wasting asset so that financial resources become available to strengthen their economic structure? Conversely, is the level of taxation such that the large international corporation is left with sufficient profits to justify its investments and to make continued production and further investment worthwhile? These questions, I would suggest, cannot be approached in any dogmatic or absolute spirit and can only be answered in the context of the circumstances of each particular country at each particular point in time. Each producing country has at every particular point in time to make a judgment on this issue. If I may refer to Trinidad and Tobago here, I would like to say that we have recently formed certain judgments on this subject after a very close study of the situation.

If I may return to the general issues, the second question relates to the division of producing activities between the international corporation and national enterprises whether state or privately owned. Increasingly many petroleum-producing countries are setting up national state enterprises to produce sufficient oil to meet local consumption in the first instance. In many other cases, too, there are partnership arrangements between national state enterprises and foreign corporations, acting either singly or in consortia. Again, the extent to which these arrangements are enforced depends on the particular circumstances of particular countries. Among these circumstances the financial position of the Government is obviously an extremely important consideration.

A third issue relates to the type of leasing arrangements permitted to international oil companies. To what extent should lease of mineral rights be associated with freehold or leasehold tenure, with work obligations, with competitive bidding, with surfact rights, etc.? I would merely observe in this connection that leasing practices among producing countries are tending to become increasingly standardised.

A fourth issue relates to the effects of petroleum operations on the wage structure of the economy. There is no doubt that petroleum companies can afford to pay higher wages than any other sector of the economy - such is the high productivity of the

of the petroleum industry associated with its high degree of capital intensity. The real question here is: to what extent can one insulate the wage structure of the rest of the economy from the high wage levels which the petroleum companies can pay? This is an .....

economic problem which transcends ideology and which has to be faced irrespective of the political orientation of the Government in power.

Yet another issue relates to the opportunities for employment at all levels open to nationals of the producing country. In most of the petroleum-producing countries there has been a tremendous change in this respect as compared with the situation forty or even twenty years ago. Most petroleum companies operating in developing countries now regard as fully legitimate and natural the obligation imposed upon them by the host countries not only to train nationals but to employ them at all levels of the industry.

The final and most complex (and also perhaps the most fundamental issue relates to the ability of the Government of the host country to secure adequate information about the operations of the large integrated international corporations as a basis for the formulation of appropriate oil policies in the national interest. These large integrated corporations, whose operations transcend national boundaries but which are controlled in the developed countries, are an important phenomenon of the contemporary world economy; and i is more than time that their operations should be subjected to the scrutiny of the economist and political scientist. There has recently been lively discussion of the nature, organisation and functioning of the giant corporation within the national boundaries of the developed countries, but serious analysis of the economic aspects of their international operations has hardly begun. The fact that most sales take the the form of intra-company transactions makes it extremely difficult to arrive at an objective export price for tax purposes. The host country has got to be extremely vigilant and fully informed with respect to "transfer prices" of products - for the obvious reason that such "transfer prices" are crucial determinants of tax revenue accruing to the Governments of the producing countries.

I raise the question - could there not be greater cooperation among the producing countries with respect to information about transfer prices?

A related but important question concerns the point in their integrated operations at which the international corporations decide to take their profits. The business of oil is a tightly integrated operation involving production of crude in the developing country, transport by tanker to the developed countries, refining and marketing. The allocation of costs as between these different stages can have a decisive influence on the apparent profitability of these stages and hence on the relative amounts of tax paid in different countries.

Apart from prices, there is the more general question of the basis of decision-making of these large international corporations. The decisions of these corporations, where unforeseen by the host Governments, can make nonsense of economic plans in developing countries. Economic projections can easily become paper exercises in some circumstances. I raise another question-can some international code be worked out which would make it the normal practice for such large international corporations to cooperate fully in the process of national economic planning in the countries where they operate?

Mr. Chairman, I have only touched upon these great issues. I have merely raised questions and have not provided answers. What I wish to suggest is that Governments concerned with the administration of the petroleum industry in developing countries have got a very onerous task and a very great responsibility. They need to have a body of Civil Servants who are dedicated to the national interest, open-minded and flexible in their dealings with the large international corporations and, above all, extremely well informed about the operations of the international oil economy. The supervision of the petroleum industry is one of the most difficult tasks facing the underdeveloped country with the good fortune to have petroleum resources. This is why we must welcome the efforts of the United Nations through the medium of Seminars such as this one to assist the less-developed countries in this difficult task. In the field of petroleum administration no less than in other areas of economic, social and political relationships between the developed and developing countries, the United Nations has to fulfil the role of an interpreter between the rich and the poor countries and of an understanding and sympathetic chairman in the continuing dialogue between the rich North and the poor South.

I wish you all success in this Seminar. I also hope that you will find your stay in our country enjoyable and interesting.