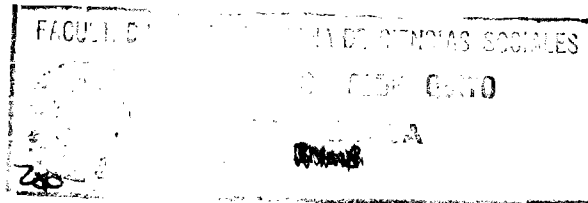


DEVELOPMENT STRATEGY AND
NATIONALISATION IN THE
OIL INDUSTRY OF TRINIDAD-TOBAGO:
THE CASE OF SHELL TRINIDAD LIMITED

A THESIS PRESENTED TO
TO
THE LATIN AMERICAN FACULTY OF SOCIAL SCIENCES
(FLACSO)
FOR THE DEGREE OF
MASTER IN DEVELOPMENT STUDIES



JOY CAROL JEFFERS
AUGUST, 1980

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CHAPTER 5
STATE ACTIVITIES IN THE ECONOMY

CHAPTER 5

STATE ACTIVITIES IN THE ECONOMY

In this chapter we intend to look at the role of the State in the economy of Trinidad-Tobago. The periodization corresponds to the immediate post-war period under British colonial rule through to independence in 1962 and until the 1970's where we see a strong tendency among Caribbean Governments to intervyene directly in their economies.

We have already seen in chapter 3 and 4 that although the oil sector of Trinidad-Tobago has proved to be the back-bone of the economy, it has always been almost completely dominated by foreign control. We are arguing therefore that this apparent contradiction was congruent with the Government's development strategy - adopting the role of a non-interventionist State (at the economic level) and inviting foreign investment to promote the economic development of the country/1. According to the

1 RYAN, Selwyn. Race and Nationalism in Trinidad and Tobago. ISER, UWI. Trinidad/1974. pg. 116.

Government, the aim of this strategy, given that oil was a temporary windfall, was to diversify the economy through foreign investment in order to decrease the dependency upon this sector, and subsequently create employment in order to resolve a growing unemployment problem, especially since the immediate post-war period.

By the 1960's however, because there was a growing recognition that the development strategy being adopted was a failure due firstly to the fact that the relatively limited number of firms which entered the country over a comparatively long period of time impeded any real diversification of the economy and the country had to maintain its dependence upon the oil sector; and secondly, the introduction of specialized manufacturing firms whose operations were more capital intensive rather than labour intensive, resulted in the inability of this strategy to create enough jobs to solve the unemployment problem. This led to growing discontentment among the unemployed which began to express itself in the formation of loosely-knit organizations under the ideology of 'Black Power' leading to a mass unrest in 1970. One of the principal objectives of the Black Power movement was to reject imperialism and neo-colonialism propagated mainly through foreign investment and multi-national corporations and they accused the Government of co-operating with and encouraging same in the main sectors of the economy.

We shall argue that due to the lack of favorable results from the policy of advocating foreign investment for economic development, and consequently growing social and economic crisis in the country, the Government was forced to re-analyse its development strategy which was then modified to implement a new policy favoring State intervention in the economy. Under this new policy, State participation in the economy could vary from minimum share-holdings in some companies to the maximum of complete national control or nationalization, and attention was focussed on the oil sector.

In this chapter we shall therefore discuss (i) the ideology of the Trinidad-Tobago Government vis-à-vis the orientation of the development strategy adopted in the country, (ii) the first development strategy and its failure and (iii) Government participation in the economy, emphasizing its role in the oil sector.

5.1 POLITICAL IDEOLOGY VIS-A-VIS DEVELOPMENT STRATEGY

Infering from Silva's work, Government participation in an economy or its policy of nationalization has to be seen in the context of the development strategy which is defined for a particular country, irregardless of the particular ideological content./2

The Williams's Government of Trinidad-Tobago has claimed that they have openly rejected both the Capitalist and the Socialist path to development: the first, because of the failure of the Puerto Rican Capitalist model; and the second, the Cuban Socialist model was though inappropriate, according to William, "for an orthodox political system' such as that of Trinidad and Tobago./3

As an alternative the Government declared in 1965,

"The Trinidad and Tobago Government and people have sought, and believe they have found a middle-way between outright nationalisation (as occurred in Cuba, J.C.J.) and the old-fashioned Capitalist organization (as found in Puerto Rico, J.C.J.) backed by the marines and the dollars of the United States.

That middle-way is active partnership between

/2 SILVA, Iván. Estrategia de Desarrollo, Nacionalizaciones e Imperialismo. Monografía. Ecuador. 1979, pg. 9.

/3 RYAN, Selwyn. Op. Cit. pg. 389.

Government and the major foreign investors in both the formulation and the achievement of the Government's social objectives"./4

Prior to this announcement, the strategy of development adopted in Trinidad-Tobago was based on the initiative of private foreign capital. In fact, according to Ryan, the first planned programme for economic development (1958-1962) in the country was nothing more than

"a framework of priorities designed to provide for servicing the programme of privately financed industrialization."/5

The second Five-Year plan which followed, 1963-1968, was also based largely upon the formulation and orientation of the first, and Government participation in, or acquisition of assets formerly operated exclusively by private enterprise, was small and was undertaken in response to 'special circumstances' which we can term crisis situations./6

/4 Ibid. pgs. 389-390

/5 Ibid. pg. 385

Once Self-determination was achieved, and the Williams' Government, the Peoples' National Movement (PTM) in power in 1956, they recognised the need for systematic planning for the economic development of the country. Thus the first Five-Year plan was initiated in 1958-1962. Subsequently two other plans followed, 1963-1968, 1969-1974.

/6 One of the earliest participations by Government involved the acquisition of a substantial shareholding in Angostura Ltd. a British run firm, in a successful effort to stave off an attempt to remove this important export industry from the country. Another was the acquisition of a controlling interest in British West Indian Airways in 1961 to ensure some control over air services available to the region to support the Caribbean tourist industry - White Paper No. 1, Public Sector Participation in Industry. Trinidad, 1972. pg. 11.

By the time that the third Five-Year development plan was formulated, 1969-1974, we witness a modification in the strategy to economic development. The Government announced that

"all public utilities will be owned or substantially controlled by the public sector, and that this sector will not hesitate to enter either alone or in partnership with foreign or local private capital into the productive fields of industry, tourism and agriculture...and quite apart from mobilising resources and spending funds on development of infrastructure, the public sector has an important role to play in building institutions, to protect the national interest, and to ensure the development of a truly national economy."/7

The new plan was therefore regarded as a natural corollary to the decision to diversify the economy and reduce its excessive domina

"by foreign capital and establishing the basis for a greater amount of national self-determination in economic affairs."/8.

We herefore see that until 1969, the Government's announced policy for economic development was that of a non-interventionist State and foreign investment was expected to solve the socio-economic problems of the country. The decision to adopt the 'middle-way' which is also coherent with the third Five-Year development plan which was followed, clearly show however that this 'new' path to socio-economic development was strongly biased in favour of the capitalist pattern. The strategy was based upon capital accumulation in the most productive sectors of the economy. The Prime Minister, Dr. Eric Williams himself expressed that non-alliance of dependent

/7 Ibid.

/8 Ibid.

countries on the super powers - East (Socialist) or West (Capitalist) - in their development process is impossible,^{/9} and his option was to rely upon the Capitalist one. This is clearly so in his acclamation,

"If foreign investment were a key to happiness this (Trinidad and Tobago) would have been a happy place."^{/10}

And due to the strong vinculation of Trinidad-Tobago economy with multinational corporations, in spite of growing State participation in the economy, as we shall see later in this chapter, the Government's 'middle-way' to socio-economic development was but another strategy to continue along the capitalist path.

Considering the Government policy of greater participation in the economy and simultaneously that of continuing to invite foreign capital, we can then question the degree to which Government participation in the economy can result in nationalization/¹¹. The Government stated that

"Government policy has never been one of nationalization per se (J.C.J.). Rather, nationalization has been one of the many strategies that Government has used in its pursuance of the goal of greater public participation and the localization of decision-making in the key sectors of the domestic economy. In the implementation of the latter strategy, Government has never failed to take over and will always consider the acquisition of the assets of any company, local or foreign,

^{/9} RYAN, Selwyn, Op. Cit. pg. 390.

^{/10} PARRIS, Carl. Capital or Labour? The Decision to Introduce the Industrial Stabilisation Act in Trinidad and Tobago. Working Paper No. 11. ISER, Jamaica. 1976, pg. 1.

^{/11} This question is subject to detailed discussion in Chapter 6 using the nationalization of the Shell Trinidad Limited oil company as a case in point. Here we try to understand the Government's theoretical model for greater participation in the economy vis-à-vis nationalization within its development strategy.

that is deemed, after due consideration of the facts, not to be operating in the national interest."/12

It becomes quite evident that although the Government is interested in greater participation in the economy, nationalization per se is not one of its strategies./13 In fact, this is interpreted as action undertaken by a Socialist regime - an ideology which the Trinidad-Tobago Government has rejected. Rather, Joint-venture agreements with foreign companies was the means used to attain greater participation in the economy, and this meant, as we shall see later in this chapter, investing in as wide a range of economic activities as possible and not complete control of important economic enterprises or sectors. Even in adopting its middle-way strategy, the Trinidad-Tobago Government only resorted to nationalization in situations of crisis./14 We may contend here that the lack of economic resources /15 could have been a major determinant in the decision to nationalize, however this argument falls short when we discuss the nationalization/joint-venture of the B.P. oil company in 1969./16

Farell has argued that in developing countries such as Trinidad-Tobago which have adopted a capitalist path to eco-

/12 Official documents on the oil industry of Trinidad-Tobago. Ministry of Energy and Energy-based Industries. Trinidad.

/13 Later we will discuss the types of nationalization under a capitalist regime.

/14 Later we will undertake a conceptual discussion of the types of nationalization which can occur under a capitalist regime.

/15 See Chapter 4.1.

/16 Ibid. And here we can stress that in 1969 the Annual Growth Rate of the economy had fallen considerably with respect to the previous year.

conomic development (J.C.J.) and which have very limited or no control over their key resources, it is not possible to plan systematically the future development of those resources/17, and this is regarded as a key obstacle to the nationalization of the sectors controlled by multinational companies - such is the case of the oil industry in Trinidad-Tobago. To understand the meaning of nationalization we will now attempt a definition of the term. According to Farrell, nationalization implies the acquisition and control of properties by the State. Due to circumstances -lack of capital, technology, the intended exit of a company, etc. - different types of nationalizations may be affected. For him, the term 'should' mean.

"the compulsory and State-executed acquisition of effective direct control over properties, with or without compensation, and with such control once achieved being exercised in the public interest"./18

It is precisely because of the lack of capital and technology in developing countries and therefore the need to depend upon multinational companies, such a definition becomes inapplicable in Trinidad-Tobago. Subsequently we refer to a categorization of the term /19 which is more applicable to the development strategy being followed.

'Rescue Nationalization': this can be genuine, but it is usually to rectify some threatened economic dislocation.

/17 FARELL, Trevor. "Seis problemas de la Planificación del Desarrollo en los estados pequeños del Caribe" el Boletín de Planificación 8-9, ILPES. Sept. 1979. Año 3, pgs. 1-15.

/18 In Whose Interest? Nationalization and Bargaining with the Petroleum Multinationals. The Trinidad and Tobago Experience". Trinidad. No date. pg. 3.

/19 Ibid, pg. 7.

'Cosmetic Nationalization': also called pseudo-nationalization is only symbolic because control of the company remains foreign.

'Reasoned Nationalization': a well thought-out strategy in the country's interest.

In this study we will use this categorization to discuss the nationalization of the British Petroleum Oil Company and Shell Trinidad Limited - the two cases of nationalization in the oil sector in Trinidad-Tobago. The nationalization of B.P. is considered relevant here because it represented the first step by the Government for greater participation in the oil industry, but this study is more concerned with the nationalization of Shell - the first and only oil company to become completely State - controlled - which is subject to discussion in the following chapter.

For our immediate purposes we will recur to a more detailed discussion of the orientation and implementation of the first development strategy adopted in Trinidad-Tobago based upon the open and unrestricted invitation of foreign capital.

5.2 THE FIRST DEVELOPMENT STRATEGY BASED UPON THE UNRESTRICTED INVITATION OF FOREIGN CAPITAL

We have already mentioned that facing internal unrest in the colony among a working-class calling for political and economic control of the colony - Home Rule and Nationalization of the primary economic resource, the oil sector - Britain began to educate and train a local middle-class who were co-opted as the 'fit to rule'. This class consolidated itself at the end of World War II making the return to Trinidad (and the West Indies) of a large number of professionals and veterans, largely of African descent. According to Ryan, these returners had be-

come involved in progressive movements in the metropolitan countries, and because they believed that the War was fought for democratization of the World, they were the ones to be found in the vanguard of national movements throughout the West Indian islands./20

Thus the granting of universal adult suffrage, accompanied by the general elections of 1946 in Trinidad-Tobago provided the opportunity for the new 'radicals' to consolidate themselves in a nationalist movement - the West Indian National Party (WINP). They took upon themselves the responsibility of elaborating a blue-print for socio-economic re-construction of the society, because they saw the time as ripe for West Indian peoples to make a constructive contribution towards the solution of the economic, social and political problems, instead of waiting for action by the Colonial Government. This new radicalism among the people led to the formulation of a new constitution in 1950 which gave rise to a 'quasi-ministerial' system of five popularly elected officials to be put in key Ministeries/21. While this was to imply a small degree of self-determination, the contextual situation remained essentially a colonial one. But it was these five Ministers who agreed that what the country needed to solve its socio-economic problems was 'stability and a healthy climate to attract foreign capital', which was thought a sine qua non of its economic development'./22 It was in this general context that the Pioneer Industries Ordinance was passed in 1952, although in fact the invitation of foreign capital had begun since 1950. This Ordinance was formulated to encourage foreign investment into the country because this was regarded as the medium for the take-off to economic development. It was

/20 RYAN, Selwyn, Op. Cit. pg. 70.

/21 These Ministries were not specified.

/22 RYAN, Selwyn. Op. Cit. pg. 95.

based largely upon the Puerto Rican model of development as elaborated by Arthur Lewis /23, and it was also adopted in other Caribbean Island. This model considered the close and dependent connection of Puerto Rico with the U.S.A./24 and it was based upon the luring of foreign capital, especially US capital, to develop the economy. Considering the similar relationship between Trinidad-Tobago and British, the model was adapted through the implementation of the 'Aid to Pioneer Industries Programme'.

Later, with Constitution Reform leading to Self-determination and the first pseudo-national Government/25, the People's National Movement (PNM) in power (1956), we have already mentioned that one of its basic concerns was to solve the problems related to economic development of the colony. They therefore considered necessary to re-enforce the policy of the invitation of foreign capital for economic development./26

One of the principal objectives of the APIP programme was to industrialize and diversify the economy. As a consequence, the Government's intention was that the industrialization process should lead to the creation of much-needed employment opportunities. Therefore, the legal investment in industry were created: duty-free imports, machinery, raw material, income tax holidays and special depreciation allowances were offered

/23 Arthur Lewis' studies upon which the development strategy was based are - An Analysis of Industrial Development in Puerto Rico", in 1949, and the other, prescriptions for The Industrialisation of the British West Indies of 1950.

/24 CRAIG, Susan. "The Germs of an Idea". An Afterword to Arthur Lewis' labour in the West Indies: The Birth of a Worker's Movement. New Beacon Publications. Trinidad. 1977. pg. 68.

/25 The country had not yet attained Independence. This was to come in 1962.

/26 PARRIS, Carl. Op. Cit. pg. 1.

to foreign investors. Meanwhile there were no legal mechanisms for the selection of industry, products, need, etc. We can therefore agree with Ryan when he referred to the first Five-Year development plan of 1958-1962 as a "framework" for the operations of foreign companies. Thus, leaving the responsibility for economic development to foreign companies, the Government adopted the role of a Liberal State and did not seek to engage in any direct participation in the economy./27 State activities were reduced to infrastructural development - developing industrial sites, roads, electric power facilities, water resources and training programmes - with the aid of loans from U.S. and British Governments.

Given the cheap labour available in Trinidad-Tobago, the Government's incentive programme and the resulting profitability of enterprise, Government expected foreign capital to bring technology, markets, capital, etc. and create an industrial sector which nationals were expected to take over within a particular time schedule./28

However, the Pioneer industries development strategy came nowhere near fulfilling its objectives - diversifying the economy and solving the country's unemployment problems. During 1950-1956, this programme created thirtyfive industries which produced a variety of goods ranging from beer and stout to textiles, typewriters, polishes and false-teeth for the internal market. There was one factory which was export-oriented, producing cement for the British market. However, due to the relatively high degree of mechanisation in the industries being

/27 RYAN, Selwyn. Op. Cit. pg. 374.

/28 FARRELL, Trevor. The Multinational Corporations, the Petroleum Industry and Economic Underdevelopment in Trinidad and Tobago. Unpubl. Ph. d. Thesis Corneel University, 1974. pg. 364.

established and the low dynamics in the industries themselves, the unemployment problem was not being alleviated. Whereas between 1950-1953, during the initiation of the programme, approximately 2.000 jobs were created, this number was reduced between 1954-1956 to 200 new jobs. Summarily, if we consider the development strategy for its entire duration 1950-1967, only approximately 350 industries were created, generating about 15.000 direct jobs and about half as many indirect. By comparison, for Puerto Rico the results were more favorable: the programme managed to attract over 1.000 industries by 1966 and these were creating approximately 10.000 jobs each year /29

Our hypothesis on the low dynamics of the pattern of economic development followed is confirmed by the Annual Growth Rate of the GDP for the period 1956-1962, as can be observed in the following table.

TABLE 5-1
ANNUAL GROWTH RATE OF THE GDP 1956-1962

	1956	1957	1958	1959	1960	1961	1962
GDP (at factor cost)	552.2	654.7	714.2	793.1	856.6	946.3	1005.7
% Rate of Growth	16.7	18.6	9.1	11.0	8.0	10.5	6.3

SOURCE: Monograph on The Industrialization Process and Industrial Relations in Trinidad and Tobago. Faculty of Social Sciences. U.W.I. Trinidad. No date.

Though there are absolute increases in the GDP throughout the period, its annual rate of growth show a declining

/29 RYAN, Selwyn. Op. Cit. pg. 376

tendency. The sharpest decline occurs between 1957-1958 representing a fall from 18.6 percent to 9.1 percent and which in the following years did not attain the original growth rate, dropping to a very low 6.3 percent by 1962. The growth rate of the GDP decreased even further showing a total increase of only 3.5 percent for the period 1962-1965./30

According to Ryan then, in spite of efforts made to diversify the economy through the invitation of foreign capital,

"the economy remained a petroleum economy in the sense that its rhythm of development was determined by what happened in the oil industry"/31

The development strategy during these years was therefore reduced to the creation of infrastructure to invite foreign capital. This strategy did not lead to the development of the country's economy because foreign companies were contributing very little to encourage diversification of the economic base and job creation. It was only the Government's construction activities based upon the creation of infrastructure for foreign companies which acted as the principal absorbent sponge of unemployment/32. Additionally, by encouraging foreign investment, this economic strategy caused more capital outflow, by permitting the limitless transference of excedents, rather than capital inflow, into the country, as is evident in the following table 5-2.

/30 Ibid. pg. 386

/31 Ibid. pg. 387.

/32 Ibid.

TABLE 5-2
CAPITAL INFLOWS AND OUTFLOWS DUE TO
DIRECT FOREIGN INVESTMENT, 1956-1967

YEAR	CAPITAL INFLOW \$MN	CAPITAL OUTFLOW \$MN	NET OUTFLOW \$MN
1956	48.3	76.8	28.5
1957	100.6	119.2	18.6
1958	69.6	88.8	19.2
1959	109.2	116.0	6.8
1960	89.0	98.6	9.6
1961	63.9	126.5	62.6
1962	73.4	123.5	50.1
1963	100.7	136.5	35.8
1964	57.7	138.1	80.4
1965	197.4	122.9	15.5
1966	42.6	125.0	82.4
1967	45.9	139.0	93.1
TOTAL	908.3	1.410.9	502.6

SOURCE: A. Mc Intyre and B. Watson. "Studies in Foreign Investment in the Commonwealth Caribbean" No. 1. Trinidad and Tobago. ISER. UWI. Trinidad 1970. pg. 18.

The clearest contradiction between direct foreign investment and the strategy of economic development pursued was that while the capital invested did not only fail in its planned objectives, but it also resulted in greater capital outflow because of a declining tendency in the amount invested in the country and the simultaneous growth in capital outflow. This is evident in the fact that during the 1960's capital net outflow was increasing considerably. It means then that since it was the foreign re-investment in the country which had to provide the national base for accumulation allows the State to diversify, if the State was not accumulating locally, then diversification

of the economy remained in foreign hands.

Thus we can see that the development strategy adopted in Trinidad-Tobago until the late 1960's based upon the policy of 'industrialization by invitation' clearly failed to meet the expectations of the Independent Government. Even the most enthusiastic proponents of this strategy became disillusioned with the results obtained, and the Government recognized that its position as a Liberal State and not intervening indirect participation in the economy was invalid.

5.3 IMPLEMENTATION OF THE POLICY OF GREATER STATE PARTICIPATION IN THE ECONOMY

We have seen that in the 1960's, Trinidad-Tobago was experiencing severe economic problems - the country was described as being in a 'recession'./33 This gave way to a slow recognition /34 of the failure of the basic Government development policy of inviting foreign capital to encourage economic development, upon which the Five-Year plans were based. This realization forced the Government to acknowledge the need for the implementation of a new development strategy to alleviate the socio-economic problems, recognizing that it was the oil sector, whose performance largely determined the positive or negative rate of growth of the economy, and which would have to play an important role within the new strategy. A policy was therefore, implemented to increase Government participation, and it was explicitly stated in the policy, as a means to control the country's natural resources, especially oil, and emphasis was on using the excedents from the oil sector to diversify the economy.

/33 PARRIS, Carl. Op. Cit. pg. 19

/34 Though we have seen that throughout the 1960's there was a steady decline in the growth rate of the GDP, and that the unemployment situation was not being resolved, it was not until the 1970's that there was open admission about the failure of the development strategy being adopted and the need to implement another.

5.3.1. THE TRANSFERENCE OF OIL EXCEDENTS TO OTHER SECTORS OF THE ECONOMY

Given the fact that the oil sector remained the backbone of the Trinidad-Tobago economy in spite of the attempts at its diversification and thereby decrease the dependency upon this sector, the Government decided to do a thorough assessment and evaluation of the resources of this sector.

Already in 1963-1964, a Government - appointed Commission of Enquiry into the oil industry was ordered to define the Government's future role in this sector within the context of setting out long-range national objectives for the country. It was stated that whereas revenue considerations initially dominated Government policies towards the industry, it was no necessary to consider the UN Resolution, "Permanent Sovereignty Over Natural Resources",

"that the right of the people's and nations over their natural wealths and resources must be exercised in the interest of national development and of the well-being of the people of the State concerned. The exploration, development and dispensation of such resources...should be in conformity with the rules and conditions which the people and nations freely consider to be necessary or desirable"./35

It was since then that the "closer participation" of national capital in the industry was recommended in order to exercise greater control over the operations of foreign companies. This recommendation was made in 1966 and was finally incorporated into Government policy in the formulation of the forthcoming Five-Year development plan 1969-1974. It has to be stressed here that although the Government recognized the

/35 Report of the Commission of Enquiry into the Oil Industry of Trinidad and Tobago, 1963-1964.

need for State intervention to direct economic development in the country's interest, it was still stringly believed that foreign capital was a necessity in Trinidad-Tobago, and was therefore always very careful not to contradict its interest. In fact, the Government so strongly believed in foreign capital that the new development strategy was based upon the accumulation of capital, ignoring the need to create employment, the lack of social services, etc. - 'factors which had to wait until enough capital was accumulated'./36

Whereas in the 1969-1974 development plan the Government only announced its new strategy of greater state participation in the White Paper of 1972 /37, the content of this strategy was clearly defined. Government began to focus on systematic planning to increase its participation in industry. The stated objectives of the policy were:

- "i. to accelerate the transfer of control of foreign-owned firms to local hands.
- ii. to encourage and support new industry.
- iii. to save jobs in industries, which, with rationalization could be made more viable"./38

In order to implement this new policy within the context of national self-determination, the Government had to rely heavily upon the revenues from its key economic sectors. It was stated that a national and nationally-oriented sector

/36 NACLA. Latin America and Empire Report. Oil in the Caribbean - Focus on Trinidad. Vol. X No. 8. Oct. 1976, pg. 28.

/37 White Paper No. 1 on Public Sector Participation in Industry. Trinidad. 1972.

/38 Ibid.

had to be created and as this sector did not already exist, the State would have to create it; and the goal of the strategy was to acquire the highest level of technological development based on hydro-carbons, leading to petro-chemicals and steel./39

The fact that the State is oriented towards the creation of a modern industrial sector with modern technology, explains the integration of multinational corporations in the economy, as seen in the oil sector. In the measure that the Government is only secondarily interested in the creation of employment, there will be job creation during the construction phase, but due to the high investment in technology, this will not have a multiplier effect to generate employment in the long-run.

Due to the favorable returns to the economy from the rise in oil prices on the World Market and the increase in local oil production, the Government decided on optimum utilization of both human and hydro-carbon resources via the establishment of a solid industrial base./40 Such activity was expected to lead to diversification of the economy, generation of employment opportunities, and rapid improvements in infrastructure/41. The Prime Minister specified the Government policy which would then prevail.

"Our basic policy is clear - to put Government in the driving seat with a view to working out rational plans for development in the national interest avoiding as far as possible duplication among competing companies,

/39 NACLA. Op. Cit. pg. 28

/40 Prime Minister Dr. Eric Williams' Welcome Address to the Convention on Best Uses of Our Petroleum Resources. Trinidad. January 13, 1975.

/41 Ibid.

and to diversify that development; or to expand horizontally over the entire field of industrial development rather than concentrating on only one area of development(JCJ)"/42

This stated policy is quite coherent with the pattern on Government investment post the "Energy Crisis". We shall, therefore, analyze Government participation in the economy in two phases in accordance with the two published White Papers on Public Sector Participation in Industry. The first includes information from the time of the initiation of the policy in 1969 until the publication of the first White Paper in 1972, and the second, published in 1978 reflects the changes in State participation between 1972-1978. This second periodization also incorporates the "Energy Crisis" whose favorable impact on the economy we have already discussed in chapter 2.

From our analysis of the companies in which Government has invested shares (Table 5-3), we can substantiate our thesis that Government development strategy was focussed on infrastructural developments rather than in industry. Whereas, until 1972 Government's direct investment in industry was T.T. \$17.561, in the Tertiary or Services Sector this corresponded to T.T.\$40.952.136. We also have to consider Government's investment through Public Authorities, in this case, the Industrial Development Corporation (IDC) (Table 5-3(a)), where even though the indirect investment in the Secondary Sector is higher than that of the Tertiary, T.T. \$1.792.600 with respect to T.T. \$886.626, the general tendency is for the Government to concentrate its investment in the Tertiary Sector. In fact, until 1972 the total investment in the Secondary Sector T.T.\$18.423.984 is approximately 44 percent lower than the T.T. \$41.838.762 invested in the Secondary Sector.

/42 Prime Minister Dr. Eric Williams' Speech No. 2. May 8, 1974 on the "Energy Crisis".

TABLE 5-3

COMPANIES IN WHICH GOVERNMENT HAS PARTICIPATION - 1975

SECTOR	VALUE OF EQUITY	PERCENTAGE EQUITY
	HELD	HELD
	\$	\$
<u>Primary Sector</u>		
	-	-
<u>Secondary Sector</u>		
Sugar		
Orange Grove National Co.	3.479.242	100
Caroni Limited	9.955.182	51
Sub-Total	13.428.424	
Manufacturing Other Than Sugar		
Trinidad-Tobago Printing & Packaging Co.	1.173.960	100
Trinidad-Tobago Meat Processors Ltd.	250.000	51
National Fisheries Co.Ltd.	930.000	- 50 *
National Brewing Co. Ltd.	206.000	- 50 *
Neal & Massy Holding Ltd.	1.002.002	- 50 *
Point Lisas Development Co.Ltd.	105.000	- 50 *
Angostura Bitters Ltd.	364.000	- 40 *
Trinidad-Tesoro Petroleum Co.	102.000	50.1
Sub-Total	4.132.962	
TOTAL	17.561.386	

* A company in which the Government has minority interest.

SECTOR	VALUE OF EQUITY	PERCENTAGE EQUITY
	HELD	HELD
	\$	\$
<u>Tertiary Sector</u>		
Communications		
GIO Radio	1.050.000	100
Trinidad-Tobago Telephone Co. Ltd.	10.250.000	50
TEXTEL	6.018.000	51
Trinidad Tobago Televison Co.	<u>2.354.136</u>	
Sub-total	19.672.136	
Transport & Storage		
British West Indian Airways	1.400.000	90
Trinidad Port Contractors Ltd.	<u>765.000</u>	51
Sub-total	2.165.000	
Finance		
National Commercial Bank	5.000.000	100
Trinidad-Tobago Development Finance Co. Ltd.	4.000.000	95
Agricultural Development Bank	8.352.000	+ 50 **
Marine Life (Caribbean)Ltd.	563.000	- 50 *
Trinidad-Tobago Mortgage Finance Co.	1.200.000	- 50 *
Hotel & Tourism		
Sub-total	<u>19.115.000</u>	
TOTAL	40.952.136	

SOURCE: Compiled by Author from White Paper No. 1 on Public Sector Participation in Industry. Trinidad. 1972.

** Company in which the Government has majority interest.
 * Company in which the Government has minority interest.

TABLE 5-3 (a)

COMPANIES IN WHICH GOVERNMENT EQUITY IS HELD BY THE
INDUSTRIAL DEVELOPMENT CORPORATION (IDC)

SECTOR	NO. OF SHARES HELD	BOOK VALUE \$
<u>Primary Sector</u>	-	-
<u>Secondary Sector</u>		
Manufacturing Other Than Sugar		
Coconut By-Products Ltd.	750	75.000
Universal Metal Company	60.000	300.000
Trinidad Bagasse Products	195.001	975.005
Point Lisas Development Co. Ltd.	80.780	89.780
Polymer Caribbean Ltd.	222.815	222.815
Regal Manufacturing Co. Ltd.	500	50.000
		<hr/>
Sub-total		1.792.600
<u>Tertiary Sector</u>		
Hotels & Tourism		
Caribbean Hotel Develop- ment Co.	356.626	381.626
Trintoc Development Ltd.	77	77.000
Tobago Holidays Ltd.	200	2.000
Sea Island Dvelopment Co.	45.200	226.000
Town & Country Ltd.	20.000	200.000
		<hr/>
Sub-total		886.626
TOTAL		2.679.226

SOURCE: Compiled by Author from White Paper No. 1 on Public
Sector Participation in Industry. Trinidad. 1972.

During the period 1972-1978, we witness important change in the pattern of Government investment in the country, see table 5-4. Whereas the value of equity in the Tertiary sector now corresponds to an investment of T.T. \$24.434.000, the corresponding value in the Secondary sector has increased considerably to T.T. \$143.000.000. Investment in the Tertiary sector now represents a mere 17 percent of the total Government investment. This is quite a reduction within six years considering that until 1972 this sector represented approximately 70 percent of total Government. On the other hand, investment in the secondary sector is eight times what it used to be until 1972. Keeping in mind the "Energy Crisis" of 1974, and that oil revenues since then was representing more than two-thirds of total recurrent revenue (Table 4 - pg.) we are contending that the "Energy Crisis" had a direct effect on the modification of the Government policy of participation in the economy since this facilitated the policy then adopted of diversification of the industrial sector through the implementation of oil revenues.

In fact, in the 1972-1978 period we see that it is Government investment in the oil sector which is responsible for the tremendous change in the pattern of investment followed. For example, whereas until 1972 investment in the oil sector was a mere T.T. \$102.000 or approximately 2.4 percent of total investment in industry, by 1978 because of the purchase cum nationalization of the Shell Trinidad Limited Oil Company there is an increase to T.T. \$91.6 million, and this investment alone was representing 65 percent of Government's total investment in the industrial sector.

Since the nationalization of Shell was responsible for a considerable increase in Government investment in the industrial sector, the bias of this study is to evaluate this nationalization within the Government global policy of greater

TABLE 5-4

PRINCIPAL CHANGES IN GOVERNMENT'S HOLDINGS
IN INDUSTRIAL AND COMMERCIAL ENTERPRISES SINCE 1972
(i.e. CHANGES IN TABLE 5-3 BY 1978)

SECTOR	VALUE OF EQUITY HELD \$	PERCENTAGE EQUITY HELD
<u>Primary Sector</u>	-	-
<u>Secondary Sector</u>		
Manufacturing Other Than Sugar		
Point Lisas Development Co.		
Fertiliser Company	25.000.000	51
Liquefied Natural Gas Plant	25.000.000	51
Lime Factory	N.A.	N.A.
National Fisheries Co. Ltd.	N.A.	100
Shell Trinidad Limited	93.600.000	100
	<hr/>	
TOTAL	143.600.000	
<u>Tertiary Sector</u>		
Communications		
Trinidad-Tobago Television		100
Trinidad and Tobago Tele- phone Co.	15.200.000	100
British West Indian Airways		100
Trinidad-Tobago Air Services		100
	<hr/>	
Sub-Total	15.200.000	
Finance		
Trinidad-Tobago Mortgage Finance Co.	N.A.	+ 50
2 new Insurance Companies	9.000.000	N.A.
Export Credit Insurance Co.	234.000	N.A.
	<hr/>	
Sub-Total	9.234.000	
TOTAL	24.434.000	

TOTAL GOVERNMENT INVESTMENT - 1972

Primary Sector	-
Secondary Sector	19.353.986
Tertiary Sector	<u>41.838.762</u>
TOTAL	61.192.748

GOVERNMENT INVESTMENT - 1978

Primary Sector	-
Secondary Sector	143.600.000
Tertiary Sector	<u>24.434.000</u>
TOTAL	168.034.000

participation in the economy. However it should also be noted that the above stated tendency on Government investment in the economy and the change in the structure of State investment with emphasis in the industrial sector will be re-enforced even further in the near future since we have to consider the construction of the heavy energy-based industrial complex at Point Lisas whose total investment is estimated at T.T. \$800 million in which the Government would control majority equity participation. In the following section we give a broad overview of the main industries being constructed using the revenue from the oil sector.

5.3.1.1 OIL EXCEDENTS AND HEAVY INDUSTRIES

It was because of the "Energy Crisis" that the Government was able to undertake construction of a vast industrial estate at Point Lisas, which had been on paper for quite some time previously. This estate, situated on the West Central coast of Trinidad has been planned by Government as the focus of development of major energy-base industries, which are all crucial to the Government's present plan for industrialization the country, and their success or failure will largely determine the socio-economic development of the future.

In the initial planning for the establishment of this Industrial Estate, the Government was entering as a minor partner. However with the change in the fortunes of the oil industry and the emphasis on majority Government participation in natural resources, the opportunity was taken to increase its shares.^{/43} We will now give a brief sketch of the main projects for the Estate.

The Iron and Steel Company of Trinidad and Tobago

^{/43} White Paper No. 2 on Public Sector Participation in Industry. Trinidad, 1978.

(ISCOTT) whose construction began in 1975 and whose total investment needs are estimated at US\$ 300 million, is 100 percent owned by the Government of Trinidad and Tobago. It is a fully integrated steel making complex capable of transforming iron through all stages into finished steel products comprising principally wire rods and re-inforcing bars. This company, due to begin production in 1980, is expected to be in profit in its second year. A U.S. \$33.2 million operating profit is estimated in 1981. By 1982, ISCOTT's operating profit should rise to U.S.\$ 59.2 million according to the Government./44

Fertilisers of Trinidad and Tobago (FERTRIN) was formed in 1977 as a joint venture between the Government of Trinidad and Tobago (51%) and Amoco (49%). It is due to come on stream in mid-1981 manufacturing anhydrous ammonia. In 1982, Fertin is expected to make an operating profit of US \$12.8 million, going up to \$ 22.3 million in 1983.

Another company Trinidad Nitrogen (Tringen), the 400.000 tonne anhydrous ammonia plant owned jointly by the Government and the U.S. transnational W.R. Grace, was expected to show an operating profit of \$24.3 T.T. million (US \$ 1 = T.T. \$ 2.41) for 1979. Tringen was the first of the Point Lisas Plants to come on stream /45

Other energy industries on which the Government is soon to make final investment decisions include a 150.000 tonnes per year aluminium smelter; a 438.000 tonne methanol plant and a 750 cubic feet per day LNG plant. An ethylene based petrochemical complex, a refactories plant and a granular fertiliser

/44 Statistische Bundersant Wiesbaden, Lander Kurbericht Stuttgart, 1978. Trinidad and Tobago, pg. 2.

/45 Latin America Economic Report. Vol. VII. No. 14. Apr. 6, 1979.

factory are all under consideration for the Point Lias estate.

It is therefore, evident that not only is Trinidad-Tobago totally dependent upon the fortunes of its oil sector, but in turn it is also heavily dependent upon the decisions of the multinational companies operating in this sector. We can therefore interpret the Government's policy of diversification of the economic base as a means to break away from this dependency especially that on the two autonomous multinational - Texaco and Amoco - which together control the refining and producing activities in the country. On the other hand, this attempted independence of the multinational oil companies is by no means an attempt to break away from dependency upon foreign capital for development, along with its implications. In fact, the Government's policy is only intended to diversify the SOURCE of foreign capital by encouraging the investment of Japanese and European capital, instead of concentrating upon US capital. Another factor which is worthy of note is that although Government would nominally be the majority share-holder in a large number of the industries at Point Lisas in 51:49 agreements, a simple by-law of this arrangement is that all major decisions must have the support of two-thirds of the Board, hence the Government would be unable to make any independent decision. /46. The evidence is therefore conclusive that throughout the Government's development policy, there is no evidence to support the notion that the Trinidad-Tobago Government is seeking to break away from a dependency syndrome similar to that perpetuated.

Given this, we will now attempt an analysis of Government participation in the oil sector, the main stay of the economy.

/46 Documents on the National Liberation Struggle in Trinago: Communist Line. Vol. 1, No. 1, August 1974. Publ. West Indian People's Organization, Canada. No date.

5.3.2. GOVERNMENT PARTICIPATION IN THE OIL SECTOR

The exit of the B.P. oil company in 1969 provided the Government with the first "opportunity" to become an active participant in the oil industry. Since 1962 B.P. had begun to liquidate its operations in Trinidad and to retrench its workers /47. Simultaneously B.P.'s decision also coincided with the recognized failure of the industrialization programme based upon the invitation of foreign capital, the decline of the economy and a serious unemployment situation. The OWTU - the trade union which had its origins in the labour movement of the 1930's with their call for nationalization of the oil industry, as we have seen in chapter 1 - used the current crisis situation in the country to present a case for the establishment of a National Oil Company. Although this proposal was seriously considered and was presented in the Five-Year development plan of 1969-1974, the Government still tried to convince the ten important multinational oil companies, Texaco and Shell to take over the B. P. properties./48 However, the Government only saw itself obliged to nationalize the B.P. assets after the refusal of the two multinationals to follow its suggestion. According to one senior Texaco Official, although Texaco was financially capable, it was not disposed to buy into a company whose resources were uneconomic./49

Both the terms 'rescue' and 'cosmetic' can be attributed to this Government action. The use of the concept 'rescue nationalization' is explained by the fact that the

/47 Between 1962-1963, approximately 300 workers were retrenched and though the Company was given the approval by the Government to retrench even more to meet its need, it insisted on closing down its operations in the country.

/48 FARRELL, Trevor. In Whose Interest? Op. Cit. pg. 27.

/49 Interview with Senior Texaco Official, August, 1980. Ecuador.

Government intended to 'rectify some threatened economic dislocation' which could have been produced by B.P.'s exit, for example the generation of unemployment of quite a number of workers. On the other hand, Government paid compensation of T.T. \$44 million while the value of the B.P. holdings were stated as T.T. \$ 28.6 million /50 .The use of the category 'cosmetic nationalization' is explained by the Government decision to enter a joint-venture with Tesoro (discussed in Chapter 3) on a 50.1:49.9 basis, since this new foreign company got control the future policy of the enterprise./51 In spite of this confliction evidence, in Government circles, the B.P. nationalization is still regarded as a 'desire to obtain greater control of the commanding heights of the economy'./52

Following the establishment of the joint-venture with Tesoro upon B.P.'s exit, another area of Government participation in the oil sector was in the establishment of the Consortium of Texaco, Shell and Tesoro in 1971 (as discussed in Chapter 3). In order to control the operations of the multinational companies in this sector, it was made explicit that no longer would licences for oil explorations be granted to individual companies, but rather to a group of companies, in an arrangement which would give the Government a controlling interest.

Finally, through the establishment of the National Petroleum Company in 1975, the Government made itself the sole distributor of petroleum in the country.

/50 FARRELL, Trevor. Op. Cit. pg. 29

/51 Ibid.

/52 A Review of the Petroleum Industry 1969-1979. Ministry of Planning and Development. Trinidad. No. 1979. pg. 12.

It therefore, becomes evident that in relation to the key role of the oil industry in the Trinidad-Tobago economy, the Government's participation in this sector is insignificant. Another area of participation which is quite important is the nationalization of the Shell Oil Company, and given that this action is the key to this study, we will now undertake its analysis in the following chapter.

CONCLUSION

Over time we have seen that due to the growing economic crisis in the country, the Government modified its policy of non-intervention to participate directly and indirectly (through Government Bodies) in the economy. Although this new development strategy was accepted since 1969, in the Five-Year development plan, until 1972 we saw that Government investment in the economy was still largely based upon its former policy of developing the Tertiary sector. It was the revenues from the "Energy Crisis" which favoured a drastic change in the Government strategy being adopted and which led the Government to concentrate on restructuring the economy through diversification of the economic base. This diversification of the economy can be interpreted as an attempt to break away from the dependency on the oil sector for the country's future economic development, but it cannot be interpreted as an attempt to break away from dependency upon foreign capital - the intention is merely to diversify the origin of foreign capital in order to reduce the exclusive dependence on US capital.

On the other hand, it is bearing in mind the context of the Government policy of greater participation in the economy, that is, the decision to create a modern industrial sector based upon modern technology and secondly, in order to lead to national self-determination and controlling the local resources, that we will now attempt an analysis of the nationalization of Shell. We will try to understand the degree to which this nationalization was coherent with the development strategy being adopted.

CHAPTER 6

THE NATIONALIZATION OF SHELL TRINIDAD LIMITED

CHAPTER 6

THE NATIONALIZATION OF SHELL TRINIDAD LIMITED

In this chapter we intend to analyse the nationalization of the Shell Trinidad Limited oil company. In our analysis we will contend that Shell's decision to close down its Trinidad operations did not automatically mean that the Trinidad-Tobago Government was obliged to nationalize this company since a range of choices were open to the government: it could have entered into a joint-venture with another foreign company, securing majority participation; it could have allowed another foreign company, securing majority participation; it could have allowed another foreign company to control Shell's assets; or the complete state nationalisation of Shell was a third possibility.

We shall also argue that while the Government of Trinidad-Tobago has expressed within its development strategy its concern of co-operating with foreign capital in order to acquire the necessary technology for the creation of a modern industrial sector (as discussed in the previous chapter) this was not to be realized by nationalizing the Shell oil company whose assets were generally described as comparatively primitive

and run-down/1.

Consequently, given the overall development strategy being adopted-greater participation in the economy, and according to the Government, in order to control the country's natural resources, we have to analyze if this strategy, which was apparently in accordance with the OPEC policy (as discussed in chapter 2), could have had some influence on the Government's decision on nationalization. However this argument falls short considering that Shell was the least important of the oil companies operating in the country as seen in chapter 3, and therefore any attempt to 'control the natural resources' should be oriented to the more important companies.

Finally we shall contend that while the "Energy Crisis" provided the financial resources to facilitate the purchase cum-nationalisation of the Shell Trinidad Limited oil company, the Government used this opportunity to assure foreign capital of a favorable political climate for its operations in the country, guaranteeing compensation when it is no longer economical to pursue its operations in the country. This action has to be understood within the contextual framework of the development strategy of requiring foreign capital and technology for the creation of a modern industrial sector.

However, given a popular call for nationalization of the oil industry, whose origins ca be traced back to the 1930's and which climaxed more recently in the 1970's with

/1 FARELL, Trevor. In whose Interest? Nationalization and Bargaining with the Petroleum Multinationals . The Trinidad and Tobago Experience. Mimeograph. no date. pgs. 27-29.

the Black Power Rebellion, and the illogic of openly pursuing its capitalist ideology, the Government resorted to an ideological strategy to justify this nationalization. Firstly, it used the particular conjuncture created by OPEC to state that by increasing State control of the natural resources, namely the oil sector, the country would be able to gain entry into 'that powerful Organization' (OPEC); and secondly, it regarded the nationalization as a national "gift" to the country for the twelfth anniversary of Independence.

This chapter is therefore sub-divided into an analysis of i) the causes of Shell's departure, ii) the range of choices which were open to the Government and iii) the factors which were ultimately responsible for the Government's decision to nationalize the company.

6.1. SHELL'S DECISION TO LIQUIDATE ITS TRINIDAD OPERATIONS

The official reason given by Shell for its decision to leave Trinidad was that it was no longer "economical" to continue its operations in the country/2. This argument was partially rejected by a Senior Official of another multinational company operating in Trinidad, hypothesizing that if Shell had foreseen the very favorable increase in oil prices after the "Energy Crisis", it may have continued its operations in Trinidad/3. However this argument appears to be very weak since

/2 OWTU. Official documents on the Oil Industry in Trinidad and Tobago.

/3 Interview with Senior Texaco Official. August 1980. Ecuador

Shell's exit from Trinidad comes immediately after the crisis. A more valid reason which can be put forth is that the general decline in the country's operations, since Shell's operations were centred on land production. Between 1968-1974 the total land production had fallen from 38.815.000 barrels to 18.788.000 (Table , pg.), that is whereas in 1968 land production represented approximately 60 percent of total crude production by 1974, it was only representing about 28 percent. It was marine production which had clearly begun to dominate oil production in the country, in both relative and absolute terms. However, Shell did not make any effort to compensate for its sharp decline by using the recommended secondary and tertiary recovery methods for its production, as will be discussed later.

Another very important factor which affected Shell's nonprofitability in Trinidad was a growing competition from Texaco Trinidad Limited in the field of refining since both sold their products on the U.S. market. Considering the concept of scale economy, Texaco was able to produce at relatively low costs since its refining capacity was almost four and a half times that of Shell. Thus while both were competing on the U.S. market Shell was operating at a comparative disadvantage.

On the other hand, we have seen in chapter 2, that Shell's major Caribbean refinery at Curacao with a refining capacity of 460.000 barrels per day is one of the three biggest refineries in the World, and it was also exporting principally to the U.S. market - in 1974 this market accounted for approximately 50 percent of its refined product^{/4}. It therefore seemed more profitable to Shell International to close their small

^{/4} NACLA, Latin America and Empire Report. Oil in the Caribbean Focus on Trinidad. Vol. X. N^o8 October 1976
Pg.8

Trinidad subsidiary and to concentrate on consolidating their Caribbean assets by better integrating their Curacao refinery. Simultaneously they were also completing the construction of the Curacao Oil Terminal with a capacity of 800.000 barrels per day/5, which guaranteed them a stronger position to compete with other companies on the U.S. market.

It was thus that since the late 1960's Shell had begun to liquidate its assets in the country, and this culminated with its nationalization in 1974. One Ministerial Report criticised that the company was engaging in 'apparently planned neglect' and identified the problems besetting the company as resulting from the fact that.

"for a long period, Shell had been carrying out bread-down maintenance rather than preventitive maintenance which is necessary for a high degree of reliability."/6

During 1968-1974, one could observe an overall decline in Shell's oil activities in Trinidad-Tobago because of non-reinvestment of any significant amount of capital in its manufacturing operations and in crude oil production. In the former, Shell did not reinvest in preventitive maintenance and only performed patch-up jobs, and in the latter, the company stopped undertaking exploration and development activity, and relied on proved resources for production. In sum, with respect to its producing activities, from mid 1967 to February 1970 (32 months) Shell Trinidad Limited did no drilling; between 1964-1974, it had not opened up any new oil-fields; between 1960-1974, its annual crude production from its own wells fell steadily from 7.2 million barrels to 2.4 million./7 According to Farrell,

/5 Ibid.
/6 FARRELL, Trevor. Op. cit. pg. 29
/7 Ibid. pgs. 27-29

this practice effectively amounted to the liquidation of existing oil inventories.

One apparent contradiction to the above-mentioned conclusion on the liquidation of Shell's assets since then 1960's is that in 1969 Shell increased its refining capacity from 65.000 barrels per day to 80.000 and this was increased to a further 100.000 in 1970./8 We are contending that this relatively large investment in its refining operations was an attempt to rescue its refining operations facing the steady decline in oil reserves on land. However due to the lack of favorable results from this strategy because small-scale refining was a losing business/9. and that real profits were only in large scale refining, the company decided to close down its Trinidad operations.

From the evidence presented, one can conclude that Shell was in fact engaging in 'closing-down' operations for a relatively long period, approximately one decade, and that its decision was based purely upon the profitability of this subsidiary within its global operations.

6.2 ALTERNATIVES OPEN TO THE STATE.

Having seen that Shell had in fact decided to liquidate its operations in Trinidad-Tobago because of a fall in profits,

/8 Ministry of Planning and Development. A Review of the Petroleum Industry. 1969-1979. Government of Trinidad and Tobago. NOV. 1979. Pg. 9

/9 National Liberation Movement of Trinago (Trinidad and Tobago). Documents on the National Liberation. Communist Line. Vol 1, N^o 1, August 1974. Canada. no date.

or even losses, we have to weigh the factors which influenced the Government's decision to nationalize this company, and for that, we have to consider Parris' contention, that it is necessary to analyse the range of choices which are open to the decision-maker. Within this analysis, we also have to bear in mind Government's policy since the late 1960's to control apex industries in the economy, and how the nationalization of Shell fits into this global strategy.

Facing Shell's decision to leave, the choices which were then open to the Government were:

- i. to allow a foreign company to control Shell's assets.
- ii. to enter a joint-venture agreement with a foreign company.
- iii. to nationalize the company.

We will now attempt a detailed analysis of each of these factors.

Whereas prior to 1969 Government's development strategy was oriented towards the invitation and almost complete reliance of foreign capital (as we have seen in the previous chapter), post this period there was a modification in the existing policy which meant that no new 100 percent foreign-owned enterprise would obtain permission to operate in key sectors of the economy, and more than that, any national participation in joint-venture arrangements must be meaningful/¹⁰ (see appendix). Within this strategy then, the Trinidad-Tobago Government was not disposed to allow any other foreign company to enter and take full control of this oil company.

The second point to be considered then, is if the Government were prepared to opt for entering into a joint-venture agreement. If such were to be, Cabinet had agreed that,

¹⁰ White Paper N° 1, 1972 on Public Sector Participation in Industry. Government of Trinidad and Tobago. Pg.11

- "i. a new company will be formed to operate Shell holdings with Government having a majority participation of not less than 55 percent (J.C.J.)
- ii. this arrangement will apply only to land production and to the refinery.
- iii. The Government will have sole control (J.C.J.) of Shell's offshore holdings in Soldado and Shell's service stations.
- iv. With reference to Shell's share in the Consortium, the Government will negotiate with its partners for an increased share in the carried participation already provided for as soon as commercial production is achieved." /11

In our discussion on joint-venture we have to mention that Tesoro had proposed a merger with the Government, offering the latter a controlling interest of 60 percent./12 But even before tendering this official offer, Tesoro had already sent a memorandum to the Government insisting that something be done about the gross neglect which Shell had been showing to its refinery and its crude operations./13. This small foreign company even made a formal proposal on the future activities of such a joint-venture, once realized,

- "i. to expand Shell's refinery at Point Fortin to a capacity of 300.000 barrels per day (Shell's capacity was 100.000 bpd).
- ii. to install a petrochemical complex involving no fewer than thirteen specific plants.
- iii. and pledging to undertake an aggressive programme of exploration and drilling both on land and off-shore./14 "

/11 Prime Minister, Dr. Eric Williams' Speech No. on the "Energy Crisis".

/12 FARRELL, Trevor. Op. Cit. pg. 19

/13 Prime Minister's Speech on the Energy Crisis No. 2. May 8. 1974.

/14 Ibid.

It can be argued that Tesoro's interest in buying into the Shell company was due to the fact that being a rather small multinational company, Shell's assets would have boosted its credit-rating and enhanced its ability to expand even further./15 Additionally, although it had become 'uneconomical' for a small British/Dutch company whose land production was in decline and whose markets showed low profitability in the U.S. (as discussed earlier) to maintain its operations in Trinidad, however for another U.S. based company, namely Tesoro, which already had its markets in the U.S. and otherwise, it would not necessarily be as uneconomical. Another point was that Tesoro was already in a joint-venture agreement with the Trinidad-Tobago Government with respect to the B.P. operations, and the company was quite optimistic to make a similar arrangement on the Shell operations. According to the NACLA report, because of Tesoro's success in this venture, it was able to integrate its international operations diversify its sources of crude and acquire marketing outlets./16

Although the Government was initially prepared to accept a joint-venture agreement with any company which was offering at least 55 percent majority participation, later this decision was changed. We can hypothesize that the Government reconsidered Tesoro's offer, and given that the Government already had a similar arrangement with this company, they recognized that this joint-venture was only strengthening the Tesoro company/17 and was making the company into another U.S. force to be contended with in the local oil industry. This latter consequence was clearly in contradiction to Government's objective since an attempt was being made to lessen the dependence upon U.S. capital by diversifying its sources./18

/16 NACLA, Op. cit. Pg. 26

/17 We have seen in chapter 3 that through the B.P. joint-venture, Tesoro was able to consolidate itself quite favorably, because of its Trinidad operations.

/18 As seen in the previous chapter.

A secondary factor was that the ideological climate nationally as well as internationally were in favour of a rejection of the formation of a joint-venture and was favouring state nationalisation of this company (we will return to this point later).

6.3 FACTORS AFFECTING THE STATE'S DECISION TO NATIONALISE.

After the decision was taken to nationalize Shell, the Government declared

"We have been holding discussions with Shell over a long period placing our on more dynamic development and greater local use for our resources (JCJ). In a nutshell, the Government has offered to purchase the holdings and assets of Shell's obligations (JCJ) with regard to (trade, JCJ) union agreements and good industrial relations practices. Preliminary discussions begin tomorrow at our High Commission in London to work our agreement and avoid disruption of operations with the inevitable effect on revenue and employment."/19

Given the focus of the Government's development strategy post 1969, to amplify the state sector of the economy and to acquire highly sophisticated technology for the creation of a modern industrial sector, the decision to nationalise the Shell Trinidad Limited oil company seems only ideologically coherent. This point is re-emphasized in the above quotation by the Government reference to 'trade union agreements' and good industrial relations

/19 Prime Minister. Dr. Eric Williams' Speech No. 2 on the "Energy Crisis" . Op. Cit.

practices - this means that the Government presented itself as one which respected the demands of the popular base, in ideological terms.

We have seen that (i) although oil is the key resource to Trinidad-Tobago's present and future development, the oil sector is almost completely dominated by multinational companies whose operations generally, are incongruent with the country's interest; and (ii) Shell was relatively unimportant compared with the larger multinational oil companies operating in the country-companies in which the Government had no participation whatsoever. Within this framework we will attempt to evaluate the nationalization of Shell - whether in fact this Government action referred to the aim of the new development strategy of controlling the country's natural resources; whether it meant an attempt to acquire the necessary technology for the creation of a modern industrial sector; or whether it was to satisfy the needs of foreign capital by guaranteeing the security and the climate for foreign investment.

In relation to the first point, whether this nationalization was undertaken in an effort to control the country's natural resources, we see that while the ideology of nationalization was quite coherent with the development strategy being adopted after an examination of the assets which being nationalized, and that in fact Shell was the least significant of the oil companies the operating in the country, this nationalization appears to be in contradiction with the development strategy.

On the other hand we also have to mention that while the Government was nationalizing Shell's facilities - which were in fact reduced to its refining facilities (we have already seen that in production its activities were quite low), this was not equivalent to controlling the country's natural resources since more than 50 percent of the raw material for the refinery

has to be imported. Therefore what can be said is that the nationalization of Shell was reduced to the nationalization of Shell's refining structure in Trinidad.

We can link the nationalization of this refining structure to the possibility of acquiring modern technology. However, the technology adopted by Shell has been described as "olds, simple and primitive by modern standards" because since Shell's entry into the country in 1913 there were no radical changes/20 in its facilities, and in addition, these facilities were suffering from at least one decade of negligence, so that it was recognized that with Shell's departure

"the refinery would require heavy maintenance expenditure to bring it up to standard and that its major processing plant, the distillation unit, might have to be replaced within the years." /21

So far it is apparent that the nationalization of Shell is illogical and uneconomical given the development strategy of the country. However we will now return to a point made earlier to explain this nationalization, that is, that the ideological climate nationally as well as internationally were in favour of state nationalization of Shell.

On the national level, the Government was being pressured by the formation of groups due to growing economic crisis which expressed their frustration in mass discontent in the society. This was largely a cross-class movement, ideolo-

/20 FARRELL, Trevor. Op. cit. pg. 26

/21 Ibid.

gically based upon race and they were rejecting the philosophy of dependence upon foreign investment for development and were calling for national ownership and control of the key sector of the economy, as we have already seen.

Internationally, due to the special conjuncture created because of the OPEC struggle for a redistribution of power among developed and developing countries - corresponding to oil consuming and oil producing countries respectively, the Trinidad-Tobago government used the opportunity of the presence of OPEC experts in the country to state that the Trinidad-Tobago was requesting entry/22 . This was so because OPEC's general policy that oil producing countries should have some national control over their local oil industries was congruent with the overall development strategy being pursued in Trinidad-Tobago, that is, an attempt to control the countries natural resources.

A third factor, though apparently it has no scientific logic, which was clearly influential in the nationalization of Shell, was the Government's insistence that the company be nationalized for the country's twelfth anniversary of independence/23. This is regarded as an ideological strategy to convince the population, and especially working-class organizations that the Government did take their call for a national economy seriously.

/22 Trinidad Express, March 3, 1974

/23 Only three months after the initial announcement that Government intended to participate in Shell, the Government broadcasted that they were going to purchase nationalize the Shell holdings. This time span within which the Government was able to decide and implement such an important decision is relevant because traditionally such action is decided through the institution of a Commission of Enquiry which investigates, recommends; then there is open debate. Because of all the bureaucratic steps some decisions remain pending for years. We are therefore seeing the nationalization of Shell, within three months and for the Independence strategy as part of Government's ideological strategy.

We have to stress that given the development strategy of wanting to control the country's natural resources and to create a modern industries sector based upon advanced technology in order to maximise profits-these factors were openly incongruent with the nationalization of the Shell Oil Company/24. On the other hand, we have seen that the Government's principal objective in the last years has been the expressed need to cooperate with foreign capital in order to acquire the necessary technology for the creation of its modern industrial sector. Thus the nationalization of Shell was de facto a situation in which the Government openly assured foreign capital the necessary climate for investment and guaranteeing compensation in the moment that their returns are low.

However, because Government was unable to avoid the explicit contradiction between its development strategy - its desire to create the atmosphere for foreign investment, in order to justify its action, it resorted to an ideological notion of nationalization. Thus referring to Farrell's categories, we can describe the Shell nationalization as 'cosmetic' or even 'mock' since it was reduced to an action which would perpetuate foreign investment generally in the country, and it was not intended in the light of considering national control of local resources.

We can therefore understand the nationalization of Shell only by considering the intention of the State to guarantee a favorable climate to foreign capital, using on the other hand, the national and international atmosphere of the time to justify this action.

/24 Although Shell's technology was described as primitive, Government paid a compensation of T.T. \$ 93.6 million for assets which were valued at T.T. \$ 56.6 million.

CHAPTER 7

CONCLUSION

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The aim of this study has been ^{to} weigh the factors which influenced the nationalization of the Shell Trinidad Limited oil company and to analyse the coherence of such a nationalization within the development strategy being followed in Trinidad-Tobago.

Using the theoretical framework of dependency, we have attempted to show that the economy of Trinidad-Tobago has always been appendaged to that of a Metropole and thus it was foreign interests which largely determined the country's future economic development in a relationship of structural dependency. This relationship of metropole-hinterland, within a context of international capitalism had its roots in the Plantation Economy when sugar was the main staple. However the decline of sugar and the simultaneous increase in importance of oil gave the latter an unrivalled position in the Trinidad-Tobago economy. But the relationship between the metropole and the hinterland was not merely determined by factors external to the hinterland as is discussed in the Dependency Theory, nor just the 'product cycle syndrome' as Sudama calls it, but

rather internal factors such as the formation of groups with particular political/economic interests was also a key determinant of changes in this relationship. The latter is quite evident in Chapter 1 where we see that the formation and persistence of working-class groups for political and economic changes in the hinterland was partly responsible for the change in the dependency relationship from colonial under British rule to neo-colonial with the rise of U.S. hegemony.

In Chapter 2 we saw that the emergence and development of the oil industry, firstly under Britain, and later under the United States, had particular implications for Trinidad-Tobago. In the first instance, Britain was only interested in crude production for fuel, and shaped the industry to meet her needs. However, post World War II and the rise of U.S. hegemony in the World, saw the penetration of U.S. capital in Trinidad-Tobago via the oil industry. The industry was then transformed to suit the interests of this new metropolitan power as is evidenced in the shift from crude production (under Britain) to oil refining (under the United States). ^{and the} The restructuring of the oil industry no longer necessitated direct political control of the colony.

The transition of the oil industry from oil production to oil refining also corresponded to the formation of a new political nationalist movement. It was the fusion of British and U.S. interests in the country, as seen in chapters 1 and 2, which encouraged and propagated the creation of the local political group the PNM which would give the semblance of national control in the country and which at the same time, would not pose a threat to metropolitan interests. It was through this nationalist movement in the post war period, very unlike the popular movement of the 1930's in their call for

political and economic control, that the dependency relationship passed from colonial to neo-colonial, the new nationalist movement assuming political control while foreign control of the economy persists.

In our profile of the oil industry in chapter 3, it becomes quite evident that the oil industry has continued to be dominated by foreign control, especially by the two U.S. oil companies Amoco and Texaco - two companies in which there is no Government participation and which together, control the country's crude production and oil refining. On the other hand, chapter 4 clearly shows that this natural resource is the backbone of the Trinidad-Tobago economy. This contradictory position raises an important issue on the difference between national and corporate economies since we have seen that the tendency is for the subsidiary of the multinational companies to function largely according to the interests of the global company - in spite of the consequences to the host country.

The apparent lack of control over this key economic resource takes us to a discussion of the development strategy adopted by the Government of Trinidad-Tobago. The clear objective of this strategy has been, and still is, to encourage foreign investment in the hope that this would bring modern technology and would therefore lead to the creation of a modern industrial sector. Although greater Government participation in the economy was also stressed, this was not meant to be a strategy which would eventually lead to a displacement of foreign investment in the country, rather, implicit was that the Government sought to maintain a 'desirable' political climate to attract foreign investment.

In this context we analysed the nationalization of the Shell Trinidad Limited Oil Company. We have seen that this nationalization appeared in a conjuncture where both national and international factors influenced the decision to nationalize this company. While the key national factors,

- i. Shell was liquidating its Trinidad operations
- ii. The favorable inflow of revenue because of the 'Energy Crisis' facilitated the purchase cum nationalization.
- iii. The call by national groups for greater national control of the economy (which was also a corollary of the stated development strategy).

played a causal role in impulsing the decision to nationalize, these factors per se were insufficient to lead to its realization. This is so since other options-to enter joint-venture agreement or to let another multinational company control Shell's operations-were not considered. We have also seen that at the time of nationalization, the Shell company could have contributed very little to the country, be it in terms of technology, or in terms of economic returns, as seen in chapter 6 thus it appeared incoherent with the stated development strategy.

On the other hand, the international climate the call by OPEC countries for a redistribution of power between developed and developing countries within their general policy that oil producing countries would have some national control over their local oil industry and the simultaneous spate of nationalizations also affected the decision to nationalize. However our contention is that the Government was most interested in guaranteeing a favorable climate to foreign investment since a policy of 'reasoned' nationalization would have been focussed on the more profitable companies (technologically as well as economically), Amoco and Texaco, thus the ideological climate nationally as well as internationally, was used as a political

tool to effect the nationalization of Shell.

From our analysis it is evident that the Trinidad-Tobago economy is directly vinculated to a metropole-hinterland relationship. This vinculation is effected through the annexation of the key economic sector, the oil sector to the corporate economic system of the multinational corporations. However, in spite of the fact that the oil sector is the mainstay of the economy, there is no systematic attempt to break away from foreign control of this resource. We can argue that if this were the aim of the nationalization in the oil sector, then it would have been directed at the more important oil companies. And given the fact that Shell was nationalized only when the company was no longer operating profitably confirms the belief that there is a strong tendency for the Government to act in accordance with foreign capital even guaranteeing compensation in the moment that the latter's returns are low. Thus nationalization per se does not necessarily contradict the interests of international capital given the fact that state ownership of the company's refining facilities does not obstruct other of the companies' activities in the country such as the production and marketing of some of its by-products in the country.

From this study on Government participation in the oil sector we can deduce that because of the existing policies for economic development, in its own way the nationalization of Shell was congruent with Government's objectives that is, to guarantee a desirable political climate for foreign investment, and contrary to those of the militant groups which have pursued the call for 'reasoned' nationalization over the years. It becomes apparent that the Government does not seem particularly keen on breaking the dependence on foreign control of the local oil industry, and we may even

infer to the rest of the economy that because the diversification of the origin of foreign investment and not an attempt to become less dependent on the metropolitan powers, the Trinidad-Tobago economy appendaged to the metropole. Thus only a radical change of Government's development strategy or in ultimate instance a change of Government, may lead to the implementation of 'reasoned' nationalizations in Trinidad-Tobago.

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We have seen that from its beginnings, the organization and development of the Trinidad-Tobago Oil Industry were shaped according to the interests of foreign capital - firstly British and later U.S., and the latter has persisted to the present day through multinational corporations. This persistence of international capitalism in the country through the oil industry, had its roots in the Plantation Economy when sugar was the main staple. However, the decline of sugar and the simultaneous increase in the importance of oil gave this product an unrivalled position in the Trinidad-Tobago economy.

In spite of the fact that the oil industry continues to be dominated by foreign companies, this natural resource is the lifeline of the Trinidad-Tobago economy. This contradictory position raises an important issue of the difference between national and corporate economies since we have seen in Chapter 2, that the tendency is for the subsidiary of the multinational

to function largely according to the interests of the global company - in spite of the consequences to the host country.

The focus of this study has therefore been on the importance of the oil resources to the country; the domination of the oil sector by foreign companies and given the development strategy adopted, whether the nationalization of Shell was an attempt to put a stop to the major contradiction which exists in the Trinidad-Tobago oil industry.

From our analysis it is evident that the nationalization of Shell was not a systematic plan to break away from foreign control of this key resource but in fact it raised another contradiction - it appeared as a guarantee to safe investment for foreign capital, even when they are no longer functioning in the interest of the country. This is limited to the further contradiction that whereas the Government once stated that nationalization of the oil sector made no sense since Trinidad-Tobago lacked the basic skills to run such a large enterprise, without any policy of developing same, the nationalization of Shell was effected.

From this study on Government participation in the oil sector, we can deduce that because of the existing policies for economic development, in its own way the nationalization of Shell was congruent with the Government's objectives and contrary to those of the militant groups which have pursued the call for nationalization over the years. It becomes apparent that the Government does not ^{seem} particularly keen on breaking the dependence on multinational control of the local oil industry, and we may even infer to the rest of the economy that because the diversification of the economic base is in function of the diversification of the origin of foreign investment, and not an attempt for the country to become less dependent on the metro-

politan powers, the Trinidad-Tobago economy would remain appendaged to the Metropole. Thus only a radical change of Government's development strategy or in the ultimate instance a change of Government may lead to the implementation of 'reasoned' nationalization in Trinidad-Tobago .