

MINISTRY PAPER NO. _____

**PERFORMANCE OF PETROJAM LIMITED FOR FINANCIAL YEAR
2003/2004 AND FOCUS FOR FINANCIAL YEAR 2004/2005**

1.0 Purpose of Ministry Paper

The purpose of this Ministry Paper is to present information on the performance of Petrojam Limited for the Financial Year 2003/2004 as well as provide a summary of the strategic focus, targets and programmes for the Financial Year 2004/2005.

2.0 Role and Functions of Petrojam Limited

2.1 Mission of Petrojam Limited

In October 2003, the mission of Petrojam Limited was revised at its annual Strategic Planning Retreat. Petrojam's new mission is "to refine and supply petroleum products at internationally competitive prices and quality, acting in the best interest of Jamaica and all other stakeholders."

2.2 Refinery

The core business of Petrojam Limited is the operation of a thirty six thousand (36,000) barrel a day oil refinery located on the Kingston Harbor. It is the only oil refinery in Jamaica.

Petrojam satisfies approximately eighty percent (80%) of the non-bauxite petroleum demand in the country, through a mix of products refined from crude oil, and imported finished products. The total non-bauxite demand is approximately 15.2 million barrels, of which Petrojam supplies 12.2 million barrels with the remaining 3.0 million barrels being supplied by the multinational marketing companies (MMC's).

2.3 Shipping

A major division of Petrojam is its Shipping Division, which manages the vessels used in its marine operations. Petrojam owns two (2) of these vessels and charters others as required to effect movement of crude and finished products into the country. The ships also make round island movements (RIM's) with products for JPSCo and other power companies, as well as to Petrojam's Montego Bay terminal.

2.3 JARS

Jamaica Aircraft Refueling Services (JARS) is a subsidiary of Petrojam Limited, being owned 50:50 with Air B/P. JARS supplies turbo fuel into-plane at the island's two (2) international airports. This company ensures that Petrojam has an outlet for its turbo fuel, independent of the MNC's.

At the end of February 2004, the market share of JARS at Norman Manley International Airport was 58.5%. It was in the region of 48.7% at the Sir Donald Sangster International Airport.

2.4 Petrojam Ethanol Limited

Petrojam Ethanol Limited is a wholly owned subsidiary of Petrojam Limited. The ethanol plant was built in 1986 but started consistent operations in 1990 when EC alcohol feedstock became available through the European Commission (EC). The plant has been inactive since 1997. The present operation consists of procurement and processing of hydrous ("wet") ethanol into fuel grade anhydrous (100% ethanol) at ED&F Man's JEPSCO Plant in Kingston. Under the Caribbean Basin Economic Recovery Act (CBERA), Jamaica is allowed duty-free access for the finished product in the United States where it is used as a blending agent (oxygenate) in motor gasoline.

In March 1998, Petrojam formalized an agreement with ED&F Man to process its feedstock at their JEPSCO plant in Kingston and to provide collection services for Petrojam's alcohol allotment from the individual distilleries in Europe (France, Italy, Portugal and Spain) to Jamaica. However, several aspects of the abovementioned arrangements with ED&F Man are currently under review.

(a) Company Performance

The company has been profitable over the years and continues to grow. For the 2002/2003 Financial Year, profit after tax was \$32.9M and for the review year (F/Y 2003/2004) based on unaudited figures, after-tax profit more than doubled, to \$66.8M.

(b) Projections

With the new thrust to resume production at the plant, the projection for the next five (5) years is to at least maintain the current growth rate while seeking to expand into new markets both locally and overseas.

(c) New Developments

(i) European Union (EU)

In March 2004, the company was advised by the EC of internal developments in the EU market, which will affect future sales of wine alcohol to third countries and therefore does not foresee any new tenders. Petrojam has been in consultation with the Jamaican Government, which has since responded to the EC indicating concern about this development, due to its potentially negative impact on the country. The intention is to request meetings with the EC parties concerned to better outline the impact and at a minimum to have a three (3) year phase-out period for tenders.

(ii) Rehabilitation of Plant

Petrojam Ethanol lacks its own processing facilities and is dependent on the EC for its raw materials. The company must then embark on efforts to develop viable alternatives for reliable feedstock and the supporting production capabilities within the given US market restrictions. Against this background Petrojam Ethanol seeks to identify reliable sources of feedstock at competitive prices in order for the rehabilitation of the Petrojam plant to be economically viable. It is appropriate for the company to establish a strategic alliance with potential investors/operators that will provide access to a reliable feedstock source such as Brazil, which is one of the world's leading producers of alcohol.

To this end, discussions with a potential partner for the rehabilitation project are at an advanced stage. This party brings to the table, capital investment, feedstock supplies and marketing of alcohol. The discussions have covered the commercial arrangement for the project and the estimated investment cost is US\$5.53 M. Resumption of ethanol production at the Petrojam-owned plant is expected by early 2005.

(d) Local Benefits of Plant

There are national benefits to be gained from the company's resumption of ethanol production. The rest of the world is presently developing bio-fuel programmes to replace MTBE with ethanol as an additive. Jamaica will need to adopt a bio-fuel programme in the future and with the Government having a stake in an ethanol-producing facility, there will be considerable savings in foreign exchange. In addition, local sugar cane could be directed into producing hydrous ethanol, which could serve as feedstock for the ethanol plant, thus helping to revitalize the sugar industry.

2.5 Fuel and Marine Marketing (FAMM)

There is in place, a joint venture arrangement with Chevron/Texaco to supply bunker fuel by barge to vessels in Kingston Harbour. The arrangement came into effect in April 2003. Petrojam supplies both ADO and HFO bunker fuel, while Chevron/Texaco is responsible for the marketing aspect of the venture.

The arrangement has been implemented with the full support of the Port Authority and is designed to enhance the overall development of the Port of Kingston as a world-class facility.

3.0 Petrojam's Targets for Financial Year 2003/2004

Profitability Targets

ITEM	Target \$ M	Actual (Unaudited) \$ M
Refinery Gross Margin	2882	2602
Other Operating Income	61	147
Admin. and Operating Expenses	(1399)	(1410)
Other Operating Expenses	(638)	(601)
INCOME FROM OPERATIONS	906	738
Non-operating Income	318	35
PROFIT/(LOSS) Before Tax	1096	772
Taxation	(365)	(257)
NET PROFIT/ (LOSS)	731	515
Sales Volume	13,417 kbbls.	14,867 kbbls.

4.0 Performance Targets and Achievements for Financial Year 2003/2004

4.1

Key Result Area	Goal	Performance Measures	Target 2003/2004	Actual 2003/04
Market Share Expansion	To consolidate existing market share and aggressively pursue opportunities for increasing local market share as well as export markets	1. Local Market Share (%)	80%	82.1% est.
		2. Export Volume ('000 barrels)	1456	1520
		3. Customer Satisfaction Index	80	TBD
Major Achievements: <ul style="list-style-type: none"> Contract signed to supply Mogas 87 and Jet Fuel in Montego Bay. Three-year supply contract with JPSCo signed Emulsion Asphalt plant installed Out port bunkering started in Ocho Rios Export Business for HFO and Asphalt started in Dominican Republic Obtained contract to supply second phase of Highway 2000 project with asphalt 				

4.2

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
SUPPLY RELIABILITY	To maintain the company's facilities and systems to ensure the adequacy of supplies to meet the country's requirements at all times	1. Delivery Downtime (supply days down)	0 days	7.5 days
Major Achievements: <ul style="list-style-type: none"> 90% completion of dock upgrade project New LPG sphere project in progress 25 kbbbl. ADO tank installed and commissioned at Bogue Power Plant Increased sales for Jet Fuel and ADO to JPSCO in Montego Bay. 				

4.3

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
PRODUCTION CAPABILITY	To maximize the utilization of the refinery production facilities within design and economic constraints	1. Operational Availability (% service factor)	95.0	75.3
		2. Productivity (%)	98	71
		3. Asphalt Unit capacity Utilization (BPCD)	616	528
Major Achievements: <ul style="list-style-type: none"> • Major equipment replaced during the scheduled plant turnaround • Installation of new pipestill crude distillation column • Updated documentation for Standard Operating Procedures for the refinery continues • Resolution of chronic boiler tripping problems in progress • Instrument Upgrade Project 				

4.4

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
GROSS MARGIN ENHANCEMENT	To minimize procurement costs, and maximize the yield and efficiency of the production process	1. Unit gross margin (US\$/barrel)	3.77	2.92
		2. Oil Loss (% loss on sales)	0.50%	0.50%
		3. Energy Intensity Index	100 max	96.9
Major Achievements: <ul style="list-style-type: none"> • Tank repair programme underway – three (3) tanks have been repaired and returned to service • Installation of facilities to improve use/efficiency of slurry blending to fuel oil • Increased utilization of Linear Programming to optimize procurement and blending operations • Flare gas meter installed awaiting 				

4.5

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
FINANCIAL RESOURCE MANAGEMENT	To make the most cost effective use of the company's financial resources in supporting the essential business processes, while maintaining cash flow and profitability	1. Maintenance Expenses (US\$/bbl sales)	0.325	0.324
		2. Other Operating and Admin. Expenses (US\$/bbl sales)	1.47	1.27
		3. Past due receivables	5% max	3.97%
Major Achievements: <ul style="list-style-type: none"> • Agreement reached with Antilles Chemicals for use of Antilles Dock Facility over the next ten (10) years. This will result in a reduction of demurrage expenses • Ongoing variance analysis of expenses to highlight areas that can be improved 				

4.6

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
HEALTH, SAFETY AND ENVIRONMENTAL COMPLIANCE	To eliminate all unsafe conditions, and to mitigate all aspects of the company's operations that have a negative impact on worker health and the environment	1. Safety Index	125	10
		2. Environmental Compliance	50% min	33%
Major Achievements: <ul style="list-style-type: none"> • Eighty percent (80%) completion of Process Safety Management Programme • Completion of project to relocate sewage effluent from the harbour to the municipal sewage system • Ninety five percent (95%) completion of repairs to damaged fireproofing • Simulations and drills conducted for process and lab staff 				

4.7

KEY RESULT AREA	GOAL	PERFORMANCE MEASURES	Target 2003/04	Actual 2003/04
HUMAN RESOURCE DEVELOPMENT AND ORGANIZATIONAL EFFECTIVENESS	To create a dynamic work environment characterized by high levels of employee productivity and participation, and in which Information Technology is used to improve business processes and enable effective communication, access to information, and facilitate knowledge management at all levels of the organization.	1. Employee Satisfaction Index	80%	TBD
<p>Major Achievements:</p> <ul style="list-style-type: none"> • Completed Phase Two (2) of Business Process Improvement Project for Accounting Systems • Continued work in the development of risk mitigation and recovery plans • Employee Wellness Policy in place • Three hundred and sixty (360) degree appraisals conducted for all managers • Employee training and development matrix completed • New sales and billing system completed 				

5.0 Strategic Focus for The Medium to Long Term

The main focus for the next three (3) years, is to ensure the continued viability of retaining refining capacity in Jamaica, and to secure Petrojam's position as the leading and least-cost supplier of petroleum products to the local market. In this regard, Petrojam will seek to address a number of issues that currently pose potential threats to its long-term survival. These include:

- The approaching FTAA negotiations slated to begin January 2005. One consequence may be the removal of the Common External Tariff (CET) on imported petroleum products and subsequent increased competition from regional suppliers by 2006/2007.
- The phase-out by the United States, of MTBE as an octane enhancer over the period 2004-2007. This is expected to affect its availability and price for importing countries such as Jamaica.
- Increasingly stringent fuel products specifications worldwide, which could dictate that regional specifications converge with U.S. specifications by 2010. Any requirement to adhere to these specifications will likely require significant technological upgrades to the existing processing facility.
- Intense competition in the regional markets, which requires the Petrojam refinery to make the structural changes necessary for maximizing capacity utilization and optimizing the product mix in order to close the benchmarking gaps between Jamaica and her regional counterparts.

The proposed upgrade of the refinery is expected to address most, if not all, of the challenges listed above. A major component of the upgrade project is the conversion of Heavy Fuel Oil (HFO) into higher valued products such as diesel oil and gasoline.

A technical pre-feasibility study was recently concluded. This included a technical and business analysis, identifying the key weaknesses of the refinery as well as the most suitable upgrade options. A comprehensive comparison of the appropriateness of retaining refining capacity versus conversion to a terminal facility was also included.

The focus of the refinery plans in the current engineering studies will be smaller scale projects that can be implemented on a phased basis.

There are several initiatives that will be pursued during the Financial Year 2004/2005. These initiatives fall under the eight (8) Key Result Areas:

- Long Term Survival
- Market Growth
- Customer Care
- Supply Chain Management

- Financial Resource Management
- Health, Safety and Environment
- Human Capital Development
- Organizational Effectiveness

(a) Market Share Improvement

Ongoing efforts to retain or improve local market share will continue through the retention and expansion of business from the multinationals as well as further growth in export markets.

(b) Business Process Efficiency and Best Practice Attainment

Petrojam Limited strives for excellence through several efforts to minimize costs, comply with technical specifications, maintain good supply reliability and achieve industry benchmark standards. These will be realized through the implementation of initiatives to improve existing quality management and information systems.

(c) Health, Safety and Environment

Sustained efforts will be pursued to implement the Process Safety Management System. In addition, there will be increased focus on industrial hygiene and obtaining greater compliance with environmental regulations pertaining to wastewater and hazardous waste management.

(d) Human Capital Development

Continued emphasis will be placed on training to strengthen the capability of the workforce for effective service provision. In addition, efforts will be pursued to improve the communications infrastructure through a more consultative approach with all levels of staff.

(e) Organizational Effectiveness

Information Technology (IT) will be used for improvements in business processes and to increase availability of information crucial to management decision-making. Ongoing efforts to institutionalize the Risk Management Programme will be maintained through the development of business recovery plans for priority risk areas.

A list of the major projects/initiatives is outlined in Table 5.

Table 5: Summary of Major Projects/Initiatives for Financial Year 2004/2005

MAJOR PROJECTS		INVESTMENT REQ'D (Est.)	EXPECTED BENEFIT/IMPACT
1	Complete Instrumentation Upgrade project	J\$130 million (project total)	Improve reliability of the refinery process, as well as efficiency and yields.
2	Major equipment maintenance and replacement	J\$224.5 million	Sustaining capital requirements for refining plant facilities and offsites (i.e. tankage).
3	Marketing initiatives	J\$21.5 million	Increase and maintain market share through: <ul style="list-style-type: none"> ○ Promote the use of Unl. 87 in preference to Unl. 90 ○ Improve loading rack delivery systems ○ Install infrastructure for industrial and commercial customers
4	Install New LPG Sphere	J\$80 million (Project total)	Increase LPG storage capacity; prevent stock outs and reduce freight charges.
5	Upgrade Antilles Shipping Dock	J\$9.4 million	Provide additional facility for enhancing supply reliability, asphalt exports, and reduced demurrage costs.
6	Upgrade safety, environmental and industrial hygiene equipment and systems	J\$70 million	To reduce/mitigate risk exposure to plant and personnel
7	Upgrade and enhance business critical SAP ERP software, and extend PC access to all users	J\$23.5 million	Upgrade is non-discretionary if continued vendor support is to be maintained.
8	Install Asphalt Emulsion Plant	J\$ 8 million	Enhance product offering and improve capacity to retain market share.

MAJOR PROJECTS		INVESTMENT REQ'D (Est.)	EXPECTED BENEFIT/ IMPACT
9	Build Additional Asphalt Storage Tank	J\$18 million	Enhance export capability
10	Upgrade Port and Vessel security to comply with ISPS requirements	TBD	Non-discretionary requirement. Compliance is essential to ensure continued availability of marine transport.
11	Pursue Relocation of the Fishing Village	\$25.0 million	Remove the present fire and safety risk and reduce insurance premium.
12	Project Engineering for the Refinery Bottoms Upgrade Project	J\$41 million	<ul style="list-style-type: none"> • Enhance viability of the refinery through production of higher value products • Reduce finished product import requirements and hence foreign exchange requirement • Increase export potential • Enhance ability to meet new product specifications • Improve competitive position relative to regional peers
13	Restart Ethanol Manufacturing Plant	US\$5.5 million	<ul style="list-style-type: none"> • Increase ethanol export capability • Provide ethanol as possible substitute for MTBE • Provide potential outlet for sugar cane production

6.0 Summary of Main Performance Targets for Financial Year (2004/2005)

Below is a summary of the main performance targets.

Performance Indicator	Performance Target (2004/2005)
Local Market Share	83.9%
Export Volume	2,826 barrels
Customer Satisfaction	80% minimum
Delivery Downtime	0 Days
Refinery Service Factor	95% minimum
Productivity	98% minimum
Asphalt Unit Capacity Utilization	616 BPCD minimum
Unit Gross Margin	US\$ 2.73/barrel minimum
Oil Loss	0.5% max on Input
Energy Intensity Index	100 maximum
Maintenance Expenses	US\$ 0.164/bbl maximum
Other Operating And Admin. Expenses	US\$1.44/bbl maximum
Past Due Receivables	5% maximum
Safety Index	100 minimum
NEPA Compliance	50% minimum
Employee Satisfaction Index	80%
Overall Corporate Performance	TARGET 100% of maximum rating in all measures

7.0 Budget for 2003/2004 and 2004/2005

ITEM	2004/2005 J\$M	2003/2004 J\$M
Refinery Gross Margin	2,506	2,882
Other Operating Income	55	61
Admin. and Operating Expenses	(1,471)	(1,399)
Other Operating Expenses	(658)	(638)
INCOME FROM OPERATIONS	432	906
Non-operating Income	370	318
Profit/(Loss) Before Tax	701	1,096
Taxation	(234)	(365)
NET PROFIT/ (LOSS)	468	731
Sales Volume	15,027 kbbls	13,417 kbbls

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