

**MINISTRY PAPER No. \_\_\_\_\_**

**PERFORMANCE OF THE PETROJAM LIMITED FOR FINANCIAL YEAR  
2006/2007 AND FOCUS FOR FINANCIAL YEAR 2007/2008**

**1.0 Purpose of Ministry Paper**

The purpose of this Ministry Paper is to inform Parliament and the public about the performance of the Petrojam Limited for the Financial Year 2006/07 and its focus for the Financial Year 2007/2008.

**2.0 Mission of Petrojam Limited**

Petrojam's 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.

The vision of Petrojam is to be the petroleum product supplier of choice and be "best at what we do".

**3.0 An Overview of Petrojam Limited**

**3.1 Refinery**

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

Petrojam satisfies approximately 86% of the local non-bauxite petroleum demand<sup>1</sup> in the country, through a mix of products refined from crude oil, and imported finished products. The total non-bauxite demand at March 2007 was estimated to be 16.0 million barrels, of which Petrojam supplied 13.7 million barrels in March 2007 with the remaining 2.3 million barrels being supplied by the Multinational Marketing Companies (MNCs). Additionally PETROJAM exported (not including Turbo Fuel) a total of 4.3 million barrels and with the inclusion of Turbo fuel exports amounted to 5.5 million barrels. Total demand for 2005-6 was 14.2 million barrels.

**3.2 Shipping**

Petrojam Shipping is a major division of the company which manages the vessels used in its marine operations. Petrojam currently owns one (1) vessel and charters others as required to effect movement of crude and finished products into the country. The vessels also make round island movements (RIM's) with products for JPSCo and other power companies, as well as to Petrojam's Montego Bay Terminal. The vessel owned by Petrojam is a tug and barge, used primarily to deliver bunker

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<sup>1</sup> The local non-bauxite demand does not include Turbo fuel, or bunker fuels, which are both classified as export

fuel to vessels calling in the Kingston Harbour. Additionally, the vessel, MT Kingston, under a time-charter agreement with Aegean Shipping is primarily used to transport fuel oil to the power producing companies and is also available for short spot charters.

### **3.3 JARS**

Jamaica Aircraft Refueling Services (JARS) is a subsidiary of Petrojam Limited, being owned 49:51 with Air B/P. JARS supplies Turbo fuel into-plane at the island's two international airports. This company ensures that Petrojam has an outlet for its Turbo fuel independently of the MNCs.

From 2000/01 to 2005/6, JARS sales volume has increased by an average annual growth rate of 84%. This has resulted in an increase in Petrojam's local market share for Jet Fuel from 44% in 2000 to 66% December YTD 2006/7.

### **3.4 Petrojam Ethanol Limited**

Petrojam Ethanol Limited was established for the purpose of exporting dehydrated fuel grade ethanol into the United States of America, under the CBI legislation which allows duty free access. Since 2004, following the cessation of wine alcohol feedstock from the EU in, 2004 and termination of the tolling agreement with ED&F Man, it was decided to restart manufacture of ethanol at the Petrojam facilities, using Brazilian feedstock.

September 2006 marked the 1<sup>st</sup> anniversary of the commissioning of the refurbished ethanol plant. Since commissioning and up to March 2007, Petrojam Ethanol shipped approximately 42 million US Gallon of ethanol to the U.S.A. In addition, Petrojam Ethanol Limited supplied the ethanol used to make the E10 fuel used in the Pilot study conducted over the period May to October 2006.

Petrojam Ethanol is staffed by a full complement of twelve (12) persons; nine (9) Operators, a General Manager an Administrative Assistant and a Production Supervisor.

### **3.5 Bunkering Operations**

A supply agreement with AGEAN Marine Petroleum SA Ltd. of Liberia through its local subsidiary AGEAN Bunkering Jamaica Ltd. for sale of bunker fuels for vessels outside of the Kingston has resulted in significant increase in sales volume over the last 2 years.

## 4.0 PETROJAM TARGETS AND OBJECTIVES FOR 2006/07

Table 4.1 Profitability Targets

ITEMS	Target at March 06/07 Mil J\$	** Preliminary YTD March 06/07 Mil J\$
Refinery Gross Margin	4,055	4,346
Other Operating Income	307	121
Admin and Operating Expenses	(2,435)	(2,561)
Other Operating Expenses	(1,231)	(1,212)
INCOME FROM OPERATIONS	695	694
Non-operating Income	1.3	164
PROFIT/(LOSS) Before Tax	696	858
Taxation	232	286
NET PROFIT/ (LOSS)	464	572
Sales Volume	15,396 kbbls	17,544 kbbls

\*\* The following adjustments are still pending

- Bad Debts – awaiting decision on Petcom financing
- Employee future benefits cost ( pensions , health insurance) – awaiting Actuarial Valuation report

## 5.0 CORPORATE PERFORMANCE HIGHLIGHTS FOR 2006/07

Financial and operating performance up to March 2007 for the refinery was modest due to:

- The refinery was shutdown for 57.2 days for catalyst regeneration and major mechanical maintenance work.
- Weak margins experienced in the last half of the year due to declining crude and product prices on the world market.

A number of performance parameters were affected. These include:

- Gross margin – above target by **6.7%** at March 2007
- Service factor – the refinery YTD service factor at March 2007 was 84.1% compared to a target of 90.3%.
- Maintenance expenses –higher than planned due to unforeseen maintenance activities conducted during the shutdown
- Higher than planned demurrage expenses

Good performance was, however, achieved in the following areas:

- Higher than planned sales volume, driven primarily by increase in export volumes

- High supply reliability
- Improved safety record over last period, primarily in the number of lost time incidents and lower cost of incidents
- High customer satisfaction rating

Petrojam received several awards for outstanding corporate performances. Awards were received from the Jamaica Manufacturers' Association for Champion Exporter (large exporter category) and the Prime Minister's Cup. The Export Club Award was also received from the Jamaica Exporters Association for companies who had exports of over US\$113 million.

## **6.0 Major Projects**

### **6.1 Update on Refinery Upgrade Project (RUP)**

Development of the (Front End Engineering Design) FEED Study continues, with completion now slated for March 2008. The projected completion date has been pushed back to enable integration of the existing designs with the designs for the Delayed Coker Unit, for which go-ahead was received from Cabinet in May.

Concurrently, work on environmental permitting activities is in train, as well as engagement of the Financial Advisors to the project.

### **6.2 E-10 Project**

The Ministry has mandated the use of ethanol in gasoline in the Jamaican market by 2008. To this end Petrojam conducted a pilot study to determine the ethanol blend in gasoline, which would be most suitable for Jamaica's transportation fleet. The study took place over a six month period, May to October 2006. The assessment done at the end of the study revealed that none of the cars in the pilot (except for one pre-1986 vehicle, as expected) suffered any adverse reaction using ethanol blend gasoline. Therefore, full implementation of E-10 (10% ethanol in gasoline) is currently being pursued.

## 7.0 Performance in Key Result Areas

Table 7.1

Strategic Thrusts	GOAL	PERFORMANCE MEASURES	Target 2006/07	* Preliminary YTD March 2006/07
<b>LONG TERM COMPETITIVENESS</b>	To minimize procurement costs, and maximize the yield and efficiency of the production process	1. Unit gross margin (US\$/barrel)	3.66	3.73
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ FEED study and other developmental activities for the Refinery Upgrade Project in an advanced stage. Purchase of additional lands and building complete.</li> <li>▪ Activities for demolition and renovation of newly acquired buildings underway</li> <li>▪ Pilot project for introduction of ethanol into gasoline completed</li> <li>▪ Joint venture agreement with PDVSA signed</li> </ul>				

Table 7.2

Strategic Thrust	GOAL	PERFORMANCE MEASURES	Target 2006/07	* Preliminary YTD Mar 2006/07
<b>MAINTAIN AND EXPAND MARKET SHARE</b>	To consolidate existing market share and aggressively pursue opportunities for increasing local market share as well as export markets	1. Local Market Share (%) 2. Export Volume (000 barrels)	86.1% 4,248	85.9%. 5,449
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ Increased sales of bunker fuel</li> <li>▪ Obtained contract to supply bauxite companies with ADO</li> <li>▪ Obtained contract to supply Jamaica Broilers with fuel oil.</li> <li>▪ Increase in local market share for LPG</li> </ul>				

**Table 7.3**

<b>Strategic Thrust</b>	<b>GOAL</b>	<b>PERFORMANCE MEASURES</b>	<b>Target 2006/07</b>	<b>* Preliminary YTD March 2006/07</b>
<b>MEET AND EXCEED CUSTOMER NEEDS</b>	To ensure consistent supply of products at the specified quality at the best price and in the required quantity.	1. Delivery Downtime (supply days down)  2. Customer Satisfaction Index	0 days  85	4 days  80
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ Mooring facility completed.</li> <li>▪ Repair work on the dock completed</li> <li>▪ Implementation of ISO 17025 in the laboratory in progress.</li> <li>▪ Customer Service unit established in the Logistics &amp; Marketing Department</li> <li>▪ Very high level of customer satisfaction measured</li> </ul>				

**Table 7.4**

<b>Strategic Thrust</b>	<b>GOAL</b>	<b>PERFORMANCE MEASURES</b>	<b>Target 2006/07</b>	<b>* Preliminary YTD March 2006/07</b>
<b>IMPROVE PLANT RELIABILITY</b>	To maintain the companies facilities and system to ensure the optimum use of plant and equipment to meet the country's energy requirements at all times.	1. Maintenance Expenses (US\$/bbl sales)  2. Operational Availability (% service factor)  3. Productivity (%)	0.18  90.3  98	0.25  84.1%  94.1%
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ Major plant and tank maintenance program developed and implemented</li> <li>▪ Increased use of the computerized maintenance management module of SAP to improve maintenance planning and scheduling.</li> <li>▪ Establishment of a Preventative Maintenance system for critical equipment</li> <li>▪ Improvements in cost containment, planning and the requisitioning process for Turnaround</li> </ul>				

**Table 7.5**

<b>Strategic Thrust</b>	<b>GOAL</b>	<b>PERFORMANCE MEASURES</b>	<b>Target 2006/7</b>	<b>* Preliminary YTD March 2006/7</b>
<b>INCREASE BUSINESS PROCESS EFFICIENCY &amp; COST SAVINGS</b>	To increase efficiency, reduce costs, and streamline internal business processes	1. Energy Intensity Index	96.0	105.7%
		2. Oil LOss	0.4%	0.66%
		3. Other Operating and Admin. Expenses	\$2.0	\$1.94
		4. Receivables Past due	4%	12 % (Feb 2007)
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ Finalized tuning of furnace operations to reduce fuel consumption</li> <li>▪ Effected repair to areas experiencing major steam leaks</li> <li>▪ Modified operation of reverse osmosis unit to improve efficiency</li> <li>▪ Boiler operations optimized to increase efficiency</li> <li>▪ Major corrective work done to electrical wiring which has resulted in more accurate accounting of electricity used.</li> </ul>				

**Table 7.6**

<b>Strategic Thrust</b>	<b>GOAL</b>	<b>PERFORMANCE MEASURES</b>	<b>Target 2006/07</b>	<b>* Preliminary YTD Mar 2006/07</b>
<b>STRENGTHEN ORGANIZATIONAL SUPPORT</b>	Improved safety and environmental compliance, alignment of human resources to strategic plan, , and leverage IT to improve business process	1. Safety Index	100	80
		2. Environmental Compliance	66% min	22%
		3. Employee Satisfaction	80%	73%
		4.		
<b>Major Achievements:</b> <ul style="list-style-type: none"> <li>▪ Oil spill response equipment upgraded (Montego Bay and Kingston)</li> <li>▪ Continued execution of the Process Safety Management Programme</li> <li>▪ Human resources policies updated</li> <li>▪ First phase of the records management program implemented</li> <li>▪ Pilot for MIS help desk completed</li> <li>▪ Development of Intranet well underway</li> </ul>				

## **8.0 STRATEGIC DIRECTION FOR 2007/08**

The future viability of the Petrojam refinery must be actively pursued in order to ensure security of supply of energy for the country. In this regard all efforts are being made to implement the first phase of the refinery upgrade that will see a conversion of Heavy Fuel Oil (HFO) into higher valued products such as vacuum gas oil for export. This will be in keeping with global market trends which have resulted in many refineries making conversion investments.

There are a number of emerging issues which will be closely monitored as they may present challenges or opportunities for Petrojam Limited. These include:

- Introduction of LNG into the market for JPSCo and the Bauxite/Alumina companies
- The lobby by some CARICOM countries for the removal of the CET on imported petroleum products and subsequent increased competition from regional suppliers.
- The phase out of MTBE as an octane enhancer by the United States over the period 2004-2007, which is expected to affect its availability and price for importers such as Jamaica.
- Increasingly stringent fuel products specifications worldwide, which could see regional specifications converging with the 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, optimizing the product mix and flattening the cost structure in order to close the benchmarking gaps between ourselves and our regional peers.

The proposed upgrade of the refinery is expected to address most of the challenges identified above. This project was approved by the Government in August 2004, and is currently in an advanced stage of development.

## 9.0 Capital Projects for 2007/08

The major capital projects for 2007/08 are outlined in the Table below.

**Table 9.1: Summary of Major Capital Projects for 2007/08**

STRATEGIC THEME	MAJOR PROJECTS		ESTIMATED EXPENDITURE IN 2007/8	EXPECTED BENEFIT/IMPACT
LONG TERM COMPETITIVENESS AND SURVIVAL	Project Development of the Refinery Upgrade Project	RUP	US\$16.6 million	The refinery upgrade project will enhance competitiveness of the refinery and secure long term viability. Relocation to the Esso and Antilles properties will facilitate siting of the expanded refinery units.
	Purchase ESSO property and renovate offices	RUP	J\$252 million	
	Redevelopment of Antilles chemical facility.	RUP	J\$400 million	
	Introduction of ethanol in gasoline		J\$300 million	To ultimately reduce reliance on petroleum imports, and reduce foreign exchange outflow, and prepare for the eventual phase out of MTBE, while achieving improved environmental impact.
MEET AND EXCEED CUSTOMER NEEDS	Upgrade CCTV system and other security devices		J\$5 million	Improve security arrangement at the ILR
MARKET GROWTH	Facilities for Marine Gas Oil production		J\$11 million	Take advantage of market opportunity
ENSURE PLANT RELIABILITY	Major maintenance replacement equipment program		J\$ 140 million	Sustaining capital requirements for refining plant facilities.
	Power generation upgrade		J\$ 60 million	Improved reliability of power supply
BUSINESS PROCESS EFFICIENCY IMPROVEMENTS	Upgrade ESSO dock	RUP	J\$ 176 million	Risk mitigation measure, and reduction of demurrage expenses
	Implement SAP S& D Module and version upgrade		J\$16 million	Improved efficiency and effectiveness of business process
	MIS relocation to ESSO building and installation of new servers		J\$22 million	
	Radar tank gauge and gauging taskmaster installation		J\$23 million	Improved efficiency and effectiveness of business process
	Refurbish 2 tanks located at ESSO property		J\$136 million	Improved efficiency and effectiveness of business process
ORGANIZATION SUPPORT IMPROVEMENTS	Implement refinery fire fighting, and other safety and emergency response system upgrade		J\$ 15 million	Improvements to emergency response systems
	Purchase laboratory test equipment Refurbish and Equip offices		J\$33 million	Improved facilities and Equipment

## 10.0 MAIN PERFORMANCE TARGETS FOR FINANCIAL YEAR 2007/08

Below is a summary of the main performance targets.

<b>Performance Targets 2007/8</b>		
	<b>Performance Measure</b>	<b>Target 2007/8</b>
<i>FINANCIAL</i>	<i>Gross Margin Ratio</i>	<i>5.73%</i>
	<i>Profit before tax</i>	<i>\$591,958 mil</i>
	<i>ROCE</i>	<i>9%</i>
CUSTOMER/MARKET	Local Mkt. Share	83.3%
	Export Volume	4450 Kbbbls
	Customer Satisfaction	85%
	Service Standards Compliance	85%
	Delivery Downtime	2 days
INTERNAL BUSINESS	Gross Margin	US\$3.81/b
	Productivity	95% min
	Oil Loss	0.4% max
	EII	96 max
	Service Factor	90.3% min
	Safety Index	100 min
	Environmental Compliance	TBD (measurement index to be revised)
	Receivables Past Due	4.0% max
	Maintenance Expenses	US\$0.19/b
	Other Admin Expenses	US\$2.21/b
ORGANIZATIONAL EFFECTIVENESS, LEARNING & GROWTH	Employee Satisfaction Index	80% min
	Training Hours per employee	40 min

## 11.0 BUDGET FOR 2006/07 and 2007/08

Table 11.1 shows the financial performance for 2006/07 and projection for financial year 2007/08.

**Table 11.1: Budget for Financial Years 2006/7 & 2007/8**

<b>ITEMS</b>	<b>2006/07 J\$M</b>	<b>2007/08 J\$M</b>
Refinery Gross Margin	4,055,	4,562
Other Operating Income	307	211
Admin and Operating Expenses	(2,435)	(2,880)
Other Operating Expenses	(1,231)	(1,353)
<b>INCOME FROM OPERATIONS</b>	695	540
Non-operating Income	176	280
PROFIT/(LOSS) Before Tax	696	592
Taxation	(232)	(197)
<b>NET PROFIT/ (LOSS)</b>	464	395
Sales Volume	16,796 kbbls	17,614 kbbls

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**Phillip Paulwell**  
**Minister**  
**Ministry of Industry, Technology, Energy and Commerce**  
**May 30, 2007**