

The Virgin Islands Consortium

Opinion: Atlantic Basin Refining--Shall Or Shan't We?

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Virgin Islanders, as it relates to the sale of HOVENSA, we are at a place in time where haste is neither desirable nor advisable and our Legislators need to carefully analyze every step they take and try to foresee not all, but some of the expected or unexpected outcomes and consequences. It's a concept called visualization of action.

Our Legislature faces a decision where a new mistake, pro or con, may be so serious that it cannot be corrected and it will impact our economic opportunities for decades to come, as well as St. Croix's quality of life and property value. This is a decision that requires very careful scrutiny, without undue pressure, to attain for St. Croix and the territory the best possible agreement for the mutual benefit of all parties. The Legislature should not be pressured into making a possible regrettable decision that will haunt the

territory for decades to come.

It seems like much information was given in the two days of testimony before the Virgin Islands Legislative Committee of the Whole. Wrong. The Legislature was only given an encapsulation of limited information. I feel it is an insult that our Legislature is being treated as a bunch of incompetents that can be spoon fed crumbs and that they would jump on it because we are starving. That has to stop. There was significant information that was omitted or craftily withheld for a careful vetting of the agreement to validate whether it is a beneficial contract or not for St. Croix and the territory.

Looking at this in a realistic manner and at this stage in the process for legislative approval it is still of importance to be able to separate the “realities,” “promises,” community misgivings, and other extrapolations in an effort to avoid regretful failure, waste of money for investors as well as great disappointment to the local population. Therefore, it dictates that more pertinent information and neutral professional advice be made available for the decision process to take place in a sterile environment.

I am very concerned that the Atlantic Basin Refining (ABR) agreement lacked a stipulation that if the property was not going to be used for a refinery operations that any other use should be subject to approval and renegotiation by the Virgin Islands Legislature. This current proposed agreement should not be a carte blanche deal for any and every thing. Those days are gone; never to return. The status quo is D-E-A-D--dead.

A point of suspect is the inordinate amount of pressure being exerted by the Executive Branch and ABR at this time, during a lame duck government, to try to coerce the 30th Legislature into approving what should be considered a highly flawed and questionable agreement document. It is evident that dollar values were inserted to draw attention to those areas to distract attention from the critical sections that will have a greater impact on the territory over the terms of the agreement verses the stated benefits of minimal employment. A flavor of implied bait and switch, though not plainly expressed.

A major red flag for me was something I read on page 109 of the Duff & Phelps report in footnote 1, which plainly states, ***“Duff & Phelps Securities LLC has not solicited interest in Hovenssa from third parties. This screen of potential buyers is based on public information and our understanding of HOVENSA.”***

The Legislature should, before taking any action, get answers to what I would consider some very important pertinent questions:

- Who were the 142 companies that Lazard approached?
- In what publications did Lazard publish or list the sale of HOVENSA?
- Why did each of the approached companies reject any option to participate in the acquisition of the HOVENSA property? Specifics, not vague general terms.
- Which of the 142 companies were disqualified for being non-responsive and why? Describe the circumstances.
- Which were the short listed companies?
- What was in the Non-Disclosure agreement that made some companies be unwilling to sign it?
- Is this a Third World Agreement trying to be executed under United States jurisdiction?

- When was ABR incorporated and who are all the current equity holders? Who are the back-office movers and shakers? Will current government officials become future equity holders?

On taxes & financial benefit analysis

- What is the estimated gross revenue generated by the 32 million barrel petroleum product storage on site?
- What are the estimated gross receipts, fuel, property, franchise, and corporate tax values?
- What is the tax mil rate for industrial zones?
- Are there intentions to reconfigure the HOVENSA port facility to support a freight transshipment facility? If so, what would be the projected alternative use gross profits and how will the V.I. Government participate in that?
- What is the estimate gross revenue from wharfage and freight handling fees?
- Why is the rent on 167 acres of what are considered some of the world's best docks--assessed at \$5 billion--only worth \$1 per month for 42 years?
- Why isn't the USVI a partner in the effective utilization of this limited and valuable resource? What about public-private partnership or profit sharing?
- Why, in the ABR agreement, does it state ABR "shall" be give two, 10 -year extensions?

(This should be where the Virgin Islands Government gets to renegotiate)

- Why was HOVENSA or the Virgin Islands Government unwilling to accept proposals from third party companies?
- In this so-called sales/management agreement will ABR, why does it allow Hess Oil Virgin Islands Corp. (HOVIC) to write off exploration expenses to help diminish ABR profits for bookkeeping purposes?
- There are too many "unanswered" in this agreement to raise a high level of concern in whose best interest did DUFF & PHELPS participate in? The first branch of government needs to scrutinize in depth and in detail.

Using a formula extracted from the Department of Energy and Mineral Engineering, College of Earth and Mineral Sciences, the Pennsylvania State University *on Refinery Economics* it shows that with the price of crude at around \$84 a barrel, ABR refining 300,000 barrels a day would be making roughly \$710,640,000 in profit per year. Do you feel a \$30 million fixed payment to the Government per year is fair?

What is so amazing and befuddling is that a non first-, second-, or third-party company, created on St. Croix, that does not even have a DUNS number, is the only bidder for the HOVENSA refinery. If the people of St. Croix fall for that, then you deserve what you get. If that doesn't smell worse than rotten fish and skunk put together, we have a problem.

This is one of those occasions where some serious economic analysis is needed to really outline our way forward, even more so, to avoid past pitfalls and blunders that have cost this territory dearly. The territory needs a clear understanding, a sort of economic road map of its opportunities, and how to position its resources to benefit the territory against the advantages that investors have over the compromised, cash-strapped and unprepared-for-the-big-league economic investments in this territory. Too often, the

territory is taken advantage of because we lack the necessary economic and asset planning to leverage with investors for the benefit of each island, and the territory in general.

This looks like one of those contracts that needs **“a whole heap a bunch of them change orders”** before being ready for Primetime. The Virgin Islands as a territory has not really had an opportunity to benefit beyond limitations on the assets of the industrial zone located on the South Shore of St. Croix. And here we are being asked to again give up the territory’s use of that vast real estate for another half century. It is about time that the territory is included in more of the benefits of those natural and economic resources.

To the Legislature, as you ponder your actions please consider all the options and see how best to maximize the territory’s opportunity other than just giving the baby, the bath water, the house and car to someone that does not really have the best interest of the VI at heart.

This is but the first leg of this sale process. There are other bigger capitalized investors interested in the HOVENSA property and who are ready to offer St. Croix more. They have yet to be mentioned. If each Crucian put up \$10, St. Croix would be more capitalized than ABR at this moment in time. We know HOVENSA wants out. It is a matter of financial brinksmanship, for there is always room to negotiate. They can give more but they just want us to capitulate.

Please fight for St. Croix and let the 31st Legislature deal with this agreement without the undue pressure. They might just get us a way better deal yet!

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Image Courtesy: Wall Street Journal

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