

SOUTHEAST ASIA AND THE WORLD OIL CRISIS: 1973

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The year 1973 saw the dramatic emergence of a full-fledged world oil crisis and the almost hopeless entanglement of oil issues with larger aspects of world politics. To some extent, the fourfold price increases by OPEC, the production cutbacks by most Arab producers, and the Arab oil embargo represented merely a rapid acceleration of existing trends in the international oil world. Yet by the year's end, it appeared that the political, economic and military impact of these events was leading to what one oilman termed "The New World".

For Southeast Asia, which was already in the midst of substantial readjustment in its external relations following the Vietnam ceasefire and the start of the American military withdrawal, the events of October, November and December seemed capable of generating important changes in the structures of interaction with major powers.

This article takes a brief look at the impact of the world oil crisis on the domestic and international political economy of Southeast Asia and suggests some prospects for the future.

I. Oil Import Dependence and the Structure of the Oil Industry in Southeast Asia

A central fact about Southeast Asia's position in the world oil crisis is its high dependence on Middle East oil imports supplied by the major international oil companies, principally Exxon, Shell, Caltex, Mobil and British Petroleum (BP), for its energy. Even the principal oil producing nations in the region, Indonesia and Malaysia, satisfy their domestic needs through imports from the Middle East, while exporting their low-sulphur oil to Japan and the United States at premium prices.* By establishing refining and marketing operations in Southeast Asia, the major oil companies have developed "captive" markets for their Middle East crude oil

* Prices of Indonesian and Malaysian crude are about US\$2.00 per barrel more than Persian Gulf discount prices.

production. As a general rule, these vertically-integrated companies have tended to show their profits at the producing stage, using their control over Middle East crude oil produced at low-cost to prevent independents from competing in downstream operations. What this means is that the price charged downstream affiliates (the transfer or discount price - approximately US\$3.00 per barrel following the 16 October 1973 price increases) is very much higher than the cost of production (approximately US\$0.10 per barrel in 1973). The profit margins of the refining and marketing affiliates are small, in large part because of heavy government taxation and political pressures which keep retail prices low. The real cost figures at any one stage, however, are closely guarded secrets, because the companies can to some extent allocate costs among stages and among countries so as to maximize their profits.

Since the early 1960's Southeast Asia has followed the global trend toward the construction of refineries close to the area of consumption rather than close to the crude source. An Organization for Economic Cooperation and Development (OECD) study cites several main factors behind this trend:

- The rapid increase in demand for a variety of refined products, making the construction of such refineries economic.
- The development of large tankers, favouring shipment of crude oil rather than the more costly shipment of products in smaller tankers.
- Lessening the foreign exchange costs, yet satisfying expanding oil needs, by importing the less expensive crude instead of oil products.
- From a strategic point of view the import of crude is somewhat more secure than the import of refined products.
- The economic advantages implicit in the refining industry of processing a package of crudes of different types with complementary qualities close to market, compared with refining at crude oil producing centres where generally less intake flexibility is available.
- The imposition of import duties on finished products by consuming country governments.

Thus, by the end of 1973, every country in Southeast Asia (except Vietnam and Laos) had some domestic refining capacity (Table I). Except for refineries in Singapore, Sarawak, and Indonesia, these refineries are oriented toward the domestic market. For geographical, political and economic reasons, Singapore has developed as the main refining centre in Southeast Asia. By 1975, Singapore's refining capacity will be over 1 million barrels/day, making it the third largest refining centre in the world after Rotterdam and Houston.* Singapore's refineries, located in the main oil supply route from the Middle East to Japan, import a variety of Middle East crudes (principally from Kuwait, Iran and Saudi Arabia) and some light crude from Sarawak and Brunei, and export refined products to virtually every country in Southeast Asia, as well as to Japan, Australia, Hong Kong and even the United States. Leading markets in 1972 were South Vietnam (S\$267,545,494), Japan (S\$214,942,770), and Thailand (S\$137,327,356).

In the past, the oil companies have resisted pressures to develop export-oriented refineries in Southeast Asian countries other than Singapore; but 1972-73 saw some change in both Japanese and oil company policy on the building of "offshore" refinery capacity in Southeast Asia. The nature and implications of this change will be discussed in Section III below.

While the bulk of investment in the oil industry in Southeast Asia continues to be in downstream operations, oil and gas exploration and production are becoming increasingly important. By the end of 1973, oil exploration was going on or planned in virtually every country of Southeast Asia (Table III). Companies of all the major powers were involved, with U.S. companies and Royal/Dutch Shell dominating the activity (Tables IV and V). Important new oil and gas discoveries were made in Thailand and Malaysia during 1973, while production from new offshore fields in Sarawak and Indonesia increased total regional production to approximately 1,700,000 barrels/day (Table V). Some of the political and economic issues behind this growing oil exploration and production will be discussed in Section IV.

* Shell is presently adding an extra 180,000 barrels/day to its Pulau Bukom refineries and BP together with Mitsubishi may expand its 27,000 barrels/day refinery to 170,000 barrels/day.

Table I: Refinery Capacity in Southeast Asia, 1973

Country	Location	Present Capacity barrels/day		Company
Burma	Syriam	20,000)	26,000	Myanma (State)
	Chauk	6,000)		Myanma (State)
Cambodia	Kompong Som	12,000)	12,000	Société Khmère de Raffinage des Pétrole (ELF-35%)
Indonesia	Pladju	110,000)	352,000	Pertamina (State)
	Dumai	100,000)		Pertamina (State)
	Sungei Gerong	75,000)		Pertamina (State)
	Balikpapan	50,000)		Pertamina (State)
	Wonokrono	6,000)		Pertamina (State)
	Tjepu	6,000)		Pertamina (State)
	Rantau	5,000)		Pertamina (State)
Malaysia	Port Dickson	35,000)	132,000	Shell
	Port Dickson	32,000)		Esso
	Lutong	65,000)		Shell
Philippines	Limay, Bataan	50,000)	312,000	Mobil, Esso*
	Bauran, Batangas	62,000)		Caltex
	Tabangao, Batangas	100,000)		Shell
	Rosario, Cavite	100,000)		Filoil (State)**
Singapore	Pulau Bukom	378,000)	825,000	Shell
	Pulau Ayer Chawan	181,000)		Esso
	Jurong	175,000)		Mobil
	Pasir Panjang	27,000)		BP
	Pulau Ayer Merlimau	65,000)		Singapore Petroleum Company
Thailand	Bang Chak	65,000)	165,000	Summit***
	Sri Racha	65,000)		Torc (Shell 30%)
	Sri Racha	65,000)		Esso
Total		1,824,000		

* Esso liquidating investment as of 31 December 1973.

** Gulf Oil liquidated investment in early 1973.

*** Leased from Defence Energy Department of the Ministry of Defence.

Table II: Domestic Petroleum Consumption in Southeast Asia, 1973

Country	Est. Civilian Consumption barrels/day	Main Markets (% share)
Burma	25,000	Myanma (State) (100%)
Cambodia	7,500	Shell, Caltex, Summit, Esso, TelaKhmer (Semi-Public)
Indonesia	170,000	Pertamina (State)
Laos	n.a.	Shell, Esso, Caltex
Malaysia	84,000	Shell (42%), Esso (28%), Caltex (12%), BP (10%), Mobil (8%)
Philippines	180,000	Esso*, Mobil, Shell, Caltex, Getty, Filoil (State)**
Singapore	37,000	Shell, Esso, Caltex, BP, Mobil
Thailand	165,000	OFO (State) (32%), Shell (28%), Esso (21%), Caltex (9%), Summit (9%)
Vietnam, North	n.a.	State
Vietnam, South	65,000	Shell (60%), Esso (30%), Caltex (10%)

* Esso liquidating investment as of 31 December 1973.

** Gulf liquidated investment in early 1973.

Table III: Oil Exploration/Exploitation/Concessions/Contracts
In Southeast Asia, 1973

Country	Company	Location
Brunei	1 Brunei Shell-Brunei Government	Offshore/Onshore
	2 Sunray (50%)-Superior (25%)-Clark (25%)	Offshore/Onshore
	3 Ashland, Woods, Penzoil	Offshore/Onshore
Burma	Bidding for Contract Areas in Gulf of Martaban; Results Expected in early 1974	
Cambodia	1 ELF (65%)-Esso (35%)	Offshore
	2 Marine Associates (100%)	Offshore
*Indonesia (Minority owners sometimes excluded - operators given first)		
	1 ENI-Phillips, Tenneco	South China Sea
	2 ENI, Tenneco, Phillips	South China Sea
	3 Aminoil-White Shield	West Sumatra
	4 Amoseas	Flores Sea
	5 Atlantic Richfield (ARCO)	East Kalimantan
	6 ARCO-IIAPCO	Java Sea
	7 ARCO-Kondur Pool	Malacca Straits
	8 Asamera	North Sumatra
	9 Ashland-Deminex-Kyushu	Southeast Kalimantan
	10 Ashland-BP-Kyushu-Aquitaine (Total)	Makassar
	11 Associated Australian	Ceram Area
	12 BP	Makassar
	13 Caltex	Central Sumatra
	14 Conoco-Getty-Amoco	South China Sea
	15 Conoco-Union-Amoco	South Kalimantan
	16 Conoco-Amoco	West Irian
	17 Gulf-Japex	Malacca Straits
	18 Gulf-Whitestone	West Irian
	19 Gulf	Sulawesi
	20 Huffco	South Sumatra
	21 IIAPCO-Shell	Java Sea
	22 International Oil	Timor
	23 Jenny	West Sumatra
	24 Mobil	North Sumatra
	25 Mobil	Malacca Straits

Table III (continued)

Country	Company	Location
Indonesia (continued)	26 NOSODECO	North Sumatra
	27 Petrometer Trend	West Irian
	28 Pexamin-White Shield, Asia Oil, Whitney	South Kalimantan
	29 Pexamin-White Shield, ODECO, LVO	West Irian
	30 Phillips-AGIP	Java
	31 Phillips-Superior	West Irian
	32 Redco/REDC	Java
	33 Redco/REDC	East Kalimantan
	34 Redco/REDC	South Sumatra
	35 Redco/REDC	East Kalimantan
	36 Shell	North East Kalimantan
	37 Shell	South Java
	38 Stanvac	South Sumatra
	39 Tesoro-Wendell Phillips	West Irian
	40 Total-Sun Oil	Sumatra
	41 Total-Japex	Kalimantan
	42 Total-Hispanoil	Java Sea
	43 Union-Japex	Makassar Strait
	44 Union	Sumatra
Malaysia	1 Esso (100%)	East Coast of West Malaysia
	2 Continental (50%)- El Paso (25%), BHP (25%)	East Coast of West Malaysia
	3 Mobil (100%)	Malacca Straits
	4 Esso (100%)	Offshore
	5 Sabah Shell-Shell Pecten	Offshore Sabah
	6 Sarawak Shell (100%)	Onshore/Offshore Sarawak
	7 Aquitaine (50%)-Sabah Marine Areas (50%)	Offshore Sabah
	8 Teseiki	Onshore/Offshore Sabah
	9 Oceanic Petroleum	Offshore Sabah
Philippines	(Service Contracts Only)	
	1 Caltex et.al.	Palawan
	2 Superior-Endeavor, et.al.	Sulu Sea
	3 Triton Oil & Gas	Palawan
	4 Husky Oil-Australian Oil & Mining	Sulu Sea
	5 Phillips	Palawan

Table III (continued)

Country	Company	Location
Thailand	1 Gulf (50%)-Texaco (25%), Chevron (25%)	Gulf of Siam, Blocks 7, 8, 9
	2 Amoco (100%)	Andaman Sea, Block W-2
	3 Amoco (50%)-Idemitsu Expl. (50%)	Gulf of Siam, Blocks 5, 6
	4 Conoco (50%)-Mitsui Oil Expl. (50%)	Gulf of Siam, Blocks 10 & 11
	5 BP (100%)	Gulf of Siam, Blocks 3, 4, 16, 17
	6 Meridian Oil (100%)	
	7 Pan Ocean Oil (100%)	Andaman Sea, Blocks W-3, W-4
	8 Tenneco (33 1/3%), Marathon (33 1/3%), Phillips (23 1/3%), AGIP (10%)	Gulf of Siam, Blocks 2, 14, 15
	9 Triton Oil (50%), Crown Thailand (12½%), Anschutz Overseas (12½%), Gorge (12½%), Inlet Petroleum (12½%)	Gulf of Siam, Blocks 18, 19
	10 Union Oil (80%) SEAPEEC (20%)	Gulf of Siam, Blocks 12, 13
	11 Weeks Petroleum (100%)	Gulf of Siam, Block W-1
Vietnam, North	1 ENI possibly with Japanese	Offshore, Gulf of Tonkin
Vietnam, Shell	1 Shell Pecten (50%)-Cities Service (50%)	Blocks 3, 4, 11
	2 Esso (100%)	Block 10
	3 Mobil (100%)	Blocks 4 & 8
	4 Sunningdale, Bow Valley, Siebens, Sante Fe	Blocks 21, 22

* Source: *Petroleum News, Southeast Asia*, Statistical Summary, various issues.

Table IV: Main Foreign Companies Involved in Oil Exploration
In Southeast Asia, 1973 (By Nationality)

American

- 1 Exxon: South Vietnam, Cambodia, Malaysia, Indonesia
- 2 Standard of California: Thailand, Philippines, Indonesia
- 3 Texaco: Thailand, Philippines, Indonesia
- 4 Gulf: Thailand, Indonesia
- 5 Continental Oil: Indonesia, Malaysia, Thailand
- 6 Union Oil: Thailand, Indonesia
- 7 Mobil: South Vietnam, Malaysia, Indonesia
- 8 Amoco (Straits of Indiana): Thailand, Indonesia
- 9 Tenneco: Thailand, Indonesia
- 10 Phillips: Indonesia, Philippines, Thailand
- 11 Triton Oil: Thailand, Philippines
- 12 Ashland: Indonesia, Brunei
- 13 Marathon: Thailand
- 14 Cities Service: South Vietnam
- 15 Sun Oil: Brunei, Indonesia
- 16 Clark Oil: Brunei
- 17 Weeks: Thailand
- 18 El Paso Natural Gas: Malaysia
- 19 Shell Pecten: Malaysia, South Vietnam
- 20 Meridian Oil: Thailand
- 21 Pan Ocean: Thailand
- 22 Pexamin: Indonesia
- 23 IIAPCO (Natomas): Indonesia
- 24 Oceanic Pet.: Malaysia
- 25 Aminoil: Indonesia

French

- 26 CFP (Compagnie Francaise des Petroles): Cambodia (ELF),
Malaysia (Aquitaine), Indonesia (Total)

Table IV (continued)

Italian

27 ENI: Indonesia, Thailand (AGIP), North Vietnam

United Kingdom-Dutch

28 British Petroleum: Thailand, Indonesia

29 Royal Dutch/Shell: Malaysia, Brunei, Indonesia

German

30 Deminex: Indonesia

Spanish

31 Hispanoil: Indonesia

Japanese

32 Mitsui: Thailand

33 Idemitsu: Thailand

34 SEAPPEC: Thailand (Maruzon, Daikyo, Nippon)

35 Teseiki: Malaysia

36 Sabah Marine Areas: Malaysia (Pet. Dev. Corp.; Sumitomo, Teikoku)

37 Kyushu: Indonesia

38 Japex: Indonesia

39 NOSODECO: Indonesia (OECF, Mitsui, Japex, Nippon, Masubeni)

Australian

40 Endeavor Oil: Philippines

41 Australian Oil & Mining: Philippines

42 Associated Australia : Indonesia

43 Broken Hill Prop.: Malaysia

Canadian

44 Asamera: Indonesia

45 Husky Oil: Philippines

46 Sunningdale: South Vietnam

47 Superior: Philippines, Brunei

Table V: Estimated Oil Production in Southeast Asia, 1973

Country	Company	Production barrels/day	
Brunei	Shell Brunei	215,000	215,000
Burma (est. 1972)	Myanma	20,300	20,300
*Indonesia (Avg. August 1973)	Caltex	1,000,322)	
	AAOC (Assoc. Australia)	1,373)	
	Asamera	19,594)	
	ARCO-IIAPCO	66,908)	1,374,263
	IIAPCO	33,631)	
	Stanvac	60,787)	
	Pertamina	95,997)	
	Union-Japex	76,000)	
Malaysia	Shell Sarawak		100,000
Total Southeast Asia			1,709,563

* Source: *Petroleum News, Southeast Asia*, Vol. 4, No. 7, October 1973, p. 11.

II. The Cost Supply Squeeze and Domestic Political Economy in Southeast Asia

The oil companies hoped in 1970 and 1971, when they signed the Teheran and Tripoli Agreements, that they had succeeded in buying secure oil supplies for the next five years at predictable, even if escalating, prices. At the time, these agreements were considered a revolutionary development in the world oil industry, representing a fundamental shift in the balance of world oil power. The economic impact of the agreements would be to add an estimated US\$30 billion to the oil revenues of the OPEC countries during 1971-75 with the total revenues to be received by the OPEC countries during that period figured at close to US\$86 billion.

However, the oil companies' hope proved short-lived as the OPEC countries raised prices to compensate for two successive dollar devaluations and in October and December of 1973 took unilateral action to raise posted prices by over 400%. As part of an overall political strategy against Israel, some Arab producers, most importantly Saudi Arabia and Kuwait, cut back oil production and imposed an embargo on oil exports to the United States and Holland for their support of Israel.

The impact of these actions on the oil-importing countries of Southeast Asia was a serious cost-supply squeeze. While the posted price (tax reference price) of Persian Gulf crude went up from US\$2.59/barrel in January 1973 to US\$11.65 in January 1974,* the discount price went up from US\$1.00 to approximately US\$7.60. The magnitude of these increases has placed tremendous pressures on the oil refining and marketing companies to pass on these price increases to the consumers in Southeast Asia. However, the political task of raising retail prices is exceedingly difficult, since national governments do not want to increase inflationary pressures which are already great, due in part to rising prices of imported manufactured goods from developed countries.

* Under the Teheran Agreement of 1970 the posted price of Saudi Arabian, Persian Gulf crude was to go up from US\$2.392/barrel on 1 January, to US\$2.502/barrel on 1 January 1974, and to US\$2.614/barrel on 1 January 1975.

The supply cutbacks, averaging from 15% to 30% in all countries except Malaysia and Indonesia, as well as the escalating prices, threaten to slow industrial growth and exacerbate the already serious urban employment situation. By the end of 1973, reports of export commodities piling up on the docks because of shortages of bunker fuel as well as shortages of imported materials like fertilizers and synthetic fibres were prevalent. Rising prices, low wage rates, and growing unemployment also appear to have been a factor in the recent student and labour demonstrations in Thailand and Indonesia. Here, it should perhaps be recalled too that the large-scale demonstrations in the Philippines during 1971 and 1972 against rising oil prices and inflation, including the bombing of oil company offices, were seemingly important factors in Marcos' decision to impose martial law in September 1972.

During 1973, the governments of Southeast Asia have been confronted with decisions among several possible courses of action: (1) to increase prices, as requested by the oil companies; (2) to reduce government import duties and increase excise taxes (excise tax usually accounts for 40-60% of retail price); (3) to maintain present prices and hope the oil companies will continue to operate in the country; (4) to maintain present prices and to take over the companies, thus subsidizing continued operations; (5) to impose conservation measures; and (6) to ration oil supplies to essential industries. For the most part they have reluctantly raised prices and sought to hold down demand through conservation measures. By the end of 1973, every country except Malaysia had taken measures to conserve oil supplies. The price increases and conservation measures were aimed at reducing foreign exchange payments as well as reducing domestic consumption to a level in line with reduced supply. It should be remembered that oil demand in most countries had been growing at an average rate of over 10% per year prior to the October cutbacks. Thus, there was a need to cut consumption even in countries like Malaysia and Indonesia which continued to receive supplies at September 1973 levels.

The sheer magnitude of the discount price increases since October (US\$1.65/barrel-US\$7.60/barrel) poses a major dilemma for all the governments of the region. If they do not raise prices sufficiently, the oil companies may decide, as Gulf and Esso have done during 1973 in the Philippines, that they can no longer afford to operate in these markets. In other words, the small

size of the markets is not worth the political struggle it takes to persuade governments to increase prices. In a time of short supply, there is a natural tendency on the part of the companies to eliminate marginal markets and concentrate on the more lucrative ones. They can also use the liquidated assets for investment in exploration and development of new sources of supply. There have indeed been some reports that the oil companies have diverted oil supplies from Asia to the United States and Europe.

The precise nature of the government-company confrontation in the cost-supply squeeze varies from country to country and is very much related to larger political issues within the society. In this regard, it is interesting to look at the case of Thailand, given the dramatic overthrow of the Thanom Government in October 1973.

In Thailand, the retail prices of petroleum products are set by the Thai Government. The foreign oil companies, since the initial OPEC price increases in 1970 and 1971, had repeatedly tried to get the Thai Government to raise retail prices, which had been unchanged for almost five years. The Thai Government had resisted these requests, taking the position that the oil companies could stand the price squeeze and that low oil prices were necessary to promote industrialization and prevent inflation which might lead to political and economic instability. In 1971, retail prices went up temporarily, but due to public protests, the prices were reduced. In 1973, the oil companies requested price increases in February and again in May, to which the Thai Government finally capitulated on 4 July 1973.

The July price increases were relatively higher for gasoline than for diesel and fuel oil. With rising prices in the international market, the import price of diesel at 1.21 Baht/litre became higher than the domestic retail price at 1.05 Baht/litre. No incentive therefore existed for the oil companies to import the diesel fuel necessary to meet domestic demand. Shortages developed which resulted in a growing consumer reaction.

An important factor behind the government's subsidization of the low diesel price was the market position of the Oil and Fuel Organization (OFO) of the Defence Energy Department. OFO, which is supplied under special contracts from the Summit Refinery, has a monopoly over government oil purchases. It has apparently used this

monopoly to sell to the government at maximum prices while maintaining low prices on the open market. OFO's ability to maintain these lower prices and still operate profitably has thus strongly influenced the government's price policies.

OFO, two months after the July price increases, submitted a proposal to the Cabinet, which was apparently approved in principle, that the government should take over the importation of crude oil and its distribution to local refineries so that the government could assess information on operating costs and prevent local oil companies and refineries from raising prices "unfairly". The media billed this act as a first step toward the nationalization of the oil industry. The foreign oil companies were apparently surprised by the Cabinet announcement and expressed doubt that the Thai Government would be able to obtain oil from foreign sources at a price lower than that secured by the private sector.

Prior to these events, it had been reported in July 1973 that Narong Kittikachorn, then a director of the Thai International Petroleum Company (TIPCO), had negotiated a personal deal with Kuwaiti leaders to buy cheaper oil. This deal was mentioned in connection with a proposed 100,000 barrels/day TIPCO refinery at Sri Racha. The ostensibly strong government support for the refinery project suggested that it posed a potential threat to Summit's position as monopoly supplier to the Thai Government.

These were some of the major oil events preceding the overthrow of the Thanom Government on 16 October 1973. What was the relationship, if any, between the above oil developments and the subsequent ouster of the Thanom regime?

The ostensible spontaneity and uniqueness of the student demonstrations, the critical intervention of the King, and the opposition of General Kris and other military leaders to the violent suppression of the students, makes the identification of direct causal links extremely difficult, if not dubious. It is interesting to note, however, that a week following the overthrow, Industry Minister Osot Kosin, Chairman of the Petroleum Control Committee, announced that the new government would leave trading in crude oil up to the private companies. This fact might suggest that Prapass, as Minister of Defence, and Narong, through TIPCO, were behind the proposal of OFO to take over the importation of crude into Thailand. Revelations since the October events on the activities of the two suggest that such a move would have been only one in a series of attempts made to increase their

political and economic power since the military coup of November 1971.

A critical question is the position of General Kris on the OFO proposal. Kris' statement on 9 December 1973, in which he advocated a "mild socialism" for Thailand, could perhaps be interpreted to indicate some sympathy for greater government, especially military, involvement in the oil sector. Such an assumption would lead to the tentative conclusion that an intra-military conflict over government policy toward the oil sector was not a factor in General Kris' opposition to calling in the Army to suppress the students.

It is important to remember in the course of this speculation that oil revenues are a substantial percentage of total government non-aid revenues. One oil industry economist estimated that they account for as much as 30% of total revenues. Oil revenues in general and revenues from OFO's operations in particular are important to the maintenance of military dominance in the Thai bureaucracy.

OFO's operations came under attack shortly after the Sanya civilian government took over. On 9 November 1973, the Chairman of the Three Soldiers Petroleum Station Owners Group, which buys products from OFO, threatened to boycott OFO if preferential contracts of OFO given under the Thanom regime were not terminated. And on 13 November 1973, an oil inquiry committee, established by the Cabinet on 6 November 1973, recommended the reorganization of OFO. One report suggested that a probable first step would be the dismissal of Major General Amnuay Somaas from directorship and the dissolution of monopolies within OFO. OFO was also accused of aggravating oil shortages by withholding supplies.

Bowing to oil company requests for higher prices in light of the 14 October 1973 OPEC price increases, the Sanya Government on 14 November 1973 decided to allow retail prices to rise by an average of 24.7%. This time the price of diesel oil was increased more than gasoline (Table VI). The higher prices led to a series of demonstrations and walkouts by labour groups and coincided with a general proliferation of demands on Sanya's caretaker government. Oil stocks were deemed sufficient to meet most needs through the end of January; however the three refineries announced that their supplies had been cut by 15% (Esso); 12% (TORC) and 30% (Summit). Despite the prospects of severe shortages in 1974,

the Sanya Government seemed unwilling to impose any serious conservation measures, rejecting on 6 December 1973, the recommendations of the oil inquiry committee for oil conservation. The Cabinet instead disbanded the committee and decided to revive the Energy Crisis Probing Committee set up by the old administration. Meanwhile, diplomatic attempts to secure oil from foreign sources were pursued and the government reviewed efforts to speed up the development of domestic energy resources. On 16 December 1973, the government raised the tax on premium and regular gasoline and on diesel oil, thus further increasing the retail prices of these products (Table VI).

The second OPEC price bombshell came in late December and prompted the immediate announcement on 28 December 1973, of an Emergency Decree giving the Prime Minister power to order rationing of oil, control of refining and production, marketing, transportation, possession, import and export of all petroleum products. A ban on Sunday gas sales, the 11.00 p.m. closing of places of entertainment and a ban on neon-sign advertising were also authorized. On 5 January 1974, an Oil Administration Committee was established to intervene in the marketing plan of oil companies and to ensure oil supplies to the nation's top eleven industries. The committee would act on the information developed by three groups of officials looking into the operations of TORC and Shell, Esso and Caltex, and Summit and OFO.

Of course, the pressing question is how will the Sanya Government deal with oil company requests for price increases. Negotiations are imminent if they have not already started, since the oil companies cannot wait very long to pass on the recent, tremendous price increases. However, the growing economic unrest puts the government in a serious predicament. The promulgation of a new Constitution and the re-establishment of civilian rule would be difficult under the best of conditions. The current oil cost-supply squeeze represents a potential threat to the movement toward a more equitable and open society in Thailand.

While the Thai case is in many ways unique, it does serve to illustrate the complexity of domestic oil politics in Southeast Asia as well as the profound influence of external changes in the oil world on domestic politics.

Table VI: Retail Price of Petroleum Products in Thailand, 1973 (Baht/litre)

Product	Before 4 July 1973	After 4 July 1973	% Change	After 14 Nov 1973	% Change	After 16 Dec 1973	% Change
Premium Gas	2.10	2.30	+9.52	2.69	+16.95	3.01	+11.89
Regular Gas	1.91	2.09	+9.42	2.50	+19.61	2.82	+12.80
Kerosene	1.34	1.45	+8.21	1.78	+22.75	1.78	0.00
Diesel Fuel	0.98	1.05	+7.14	1.41	+34.28	1.61	+14.18
Fuel Oil	0.96	1.03	+7.29	1.34	+30.09	1.34	0.00

III. The Cost-Supply Squeeze and International Political Economy in Southeast Asia

The cost-supply squeeze has also had a major impact on international relations in Southeast Asia. It has accelerated the process of adjustment in the foreign policies of the governments of Southeast Asia to U.S. military disengagement, while at the same time opened up new possibilities for fundamental changes in the structure of major power interaction with the region.

One important aspect of this situation is the increasing development of extra-regional links on a government to government basis with the countries of the Middle East. In the past such links have been largely monopolized by the international oil companies and the United States. However, the Arab threat of an oil embargo caused even countries with close military ties with the United States, like Thailand, and the Philippines to cut off oil supplies to the U.S. military and to take a pro-Arab position in support of the United Nations Resolution 242. To what extent these actions represent a major change in the political division of labour between the United States and Southeast Asia is unclear and depends on how one reads United States' interests and objectives in the Middle East crisis as well as in Southeast Asia. In other words, the cutting off of supplies to U.S. troops and the pro-Arab position was most likely perceived as less harmful to United States' interests than a total Arab boycott of supplies to the vulnerable nations of Southeast Asia. The United States has apparently been able to supply its foreign military forces from domestic naval petroleum reserves without difficulty.

The assumption of equity participation in January 1973 in the production affiliates of the international oil companies gave Middle East governments access to their own crude supplies. This fact coupled with the growing involvement of the governments of Southeast Asia in the domestic oil industry (e.g. the Philippines established a national oil company in 1973 and Malaysia planned to do likewise in 1974), made government to government deals increasingly possible; and the October and subsequent events made the breaking of dependence on the international oil companies seems all the more desirable. Thus, the Philippine Government in late 1973 reportedly offered Saudi Arabia participation in a large refinery and petrochemical complex in return for crude

oil supplies. The Philippines has been particularly hard hit by the Arab oil cutbacks and embargo, and conditions of the deal are apparently quite favourable to Saudi Arabia. The Government of Thailand has been negotiating with the Governments of Kuwait and Saudi Arabia over the barter of rice and cement for oil. These countries had made specific offers to Thailand in July 1973; however, by the end of 1973 no agreements had been reached despite major Thai efforts. It was also reported that Kuwait might buy a 20% interest in the proposed TIPCO refinery in Thailand through the supply of crude oil ("participation crude").

Whether these government to government deals will result in Southeast Asian countries being able to secure crude at lower prices than those charged by international oil companies remains to be seen and will be important in influencing oil company strategy. There has been considerable advocacy of a two-tier pricing system (one for developed nations and one for less developed nations) in international forums. The balance of payments impact of the OPEC price increases on the industrial world and the pessimistic appraisals of aid prospects in light of this, have also led to calls for the Arab world to take on part of the responsibility for assisting the developing countries. In this regard, Malaysia and Indonesia during 1973 were involved in discussions with Arab countries over the establishment of an Islamic Development Bank to be financed with contributions from the members, most of whom are oil producers. The potential financial assets of such an institution would be enormous; and its role in development assistance could grow to rival that of the World Bank.

Another significant development in inter-governmental relations involved the establishment of an oil refinery on Batam Island near Singapore. Indonesia, which had signed an agreement in early 1973 through the state oil company Pertamina with the Japanese companies Nissho-Iwai, Masuzen Oil and Daikyo Oil for a 150,000 barrel/day refinery, has apparently asked some Middle East countries, including Saudi Arabia and Kuwait, to participate in the project. Such an arrangement may signal the development of an alternative supply route from the Middle East to Japan which would compete with that of the international oil companies through Singapore.

This potential development comes at a time when Malaysia and Indonesia have announced their intentions

of prohibiting tankers of over 230,000 dwt. from using the Straits of Malacca after 1974 and when Japan is actively seeking to break its dependence on oil supplied by the major oil companies.

Japan has shown considerable interest in Indonesia's offer of oil depots in the Semangka Gulf (South Sumatra) and in the Lombok Strait as well as in the possibility of a pipeline across southern Thailand. The Lombok Strait is the major, present alternative passageway to Japan for the Very Large Crude Carriers (VLCC's), while Semangka is conceived as a possible major trans-shipment point. One scheme envisions Ultra Large Crude Carriers (ULCC's) of 500,000 dwt. or over bringing Middle East crude to Semangka from where it would be loaded onto smaller tankers for transport to regional refineries including Batam Island.

A large feasibility study on a canal through the Isthmus of Kra was also completed in 1973; however, a multitude of political, financial, and technological problems, including the use of nuclear explosives for canal excavation, stood in the way of the project at year's end.

Japan's involvement in the estimated US\$200 million Batam Island refinery and other Indonesian refineries is a growing indication of its willingness, given pollution, land availability, costs, and political factors, to develop offshore refinery capacity in Southeast Asia. To what extent this apparent Japanese policy will continue in the light of dramatic increases in oil import prices and its rapidly declining foreign reserves position is unclear.

The oil companies also have apparently decided against expanding refinery capacity in Japan and are instead increasing capacity in Singapore. In 1973, it was also reported that Caltex is studying a proposed project to establish a petroleum refinery in the Mariveles Export Processing Zone in the Philippines. As regional oil production increases, there will be strong pressures for development of refineries that will process the domestic production before it is exported to Japan and elsewhere.

An important question in assessing the impact of the cost-supply squeeze is the role and potential of ASEAN. Although the ASEAN nations were able to agree

on a joint declaration, issued on 28 November 1973, against Israeli "territorial expansion", other forms of cooperation during the oil crisis have been minimal. The cost-supply squeeze has clearly revealed the inflexibility of Indonesia's export strategy. Indonesia when approached by the Philippines and Thailand for oil supplies, had to refuse, since Indonesia's oil exports were all locked up in long term contracts to Japan and the United States. Indonesia later announced that it would be able to sell a small quantity, about 5,000 barrels/day, to its ASEAN neighbours. The irony of the situation was that Indonesia, as the ninth leading oil producing country in the world, had to impose domestic conservation measures in order to come up with any oil at all.

In contrast to Indonesia's position, China offered to sell oil to the Philippines and Thailand, two countries that had been exploring increased relations with China throughout 1973. And in December, it was announced that China would sell 50,000 tons of diesel fuel to Thailand at favourable prices. It is not known whether China insisted on Thailand's recognition of "one China" as a condition for the sale, as had been reported on 18 December 1973. Regardless, the political value of the transaction was great for China and will no doubt help to accelerate the movement toward formalization of relations. The relatively small amount of oil involved suggests that China is probably not in a position to seriously compete with western oil companies in the immediate future. However, the reportedly favourable potential of Chinese onshore and offshore areas indicates that it may be an important competitor in the longer term.

The Indonesian response to the question of greater regional oil and energy cooperation will, of course, be very important in the future as it has been in the past. In this regard, one interesting model is that of Latin America where recently twenty-two Latin American and Caribbean nations joined together to establish a Latin America Energy Organization (OLADE). Venezuela, an OPEC country like Indonesia, was the moving force behind the formation of the organization, whose conceived function is to promote coordination of energy policies of member countries, giving particular emphasis to "integration, protection, conservation, rational utilization, commercialization, and defence of the region's energy resources." OLADE will apparently seek to establish a unified system for setting prices of crude and standardization of oil exploration and/or exploitation contracts between governments of member countries and private companies.

The prospects for such an organization in Southeast Asia very much depend on the political economy of oil exploration and production, which I shall now briefly consider.

IV. The Political Economy of Oil and Gas Exploration and Production in Southeast Asia

The events of 1973 added greatly to the existing pressures for the development of petroleum resources outside the Middle East. Southeast Asia and the North Sea were generally viewed as the most attractive areas for major new investments. Behind the pressures for increased E & P investments in Southeast Asia were several main factors: (1) the desire of the oil companies and the major oil-consuming country governments, especially the Japanese Government, to diversify sources of supply and to reduce their dependence on Middle East oil; (2) the competitive structure of the oil industry, especially the desire of independents to gain access to crude supplies given the cutbacks in supplies available from the majors and the basic fact that profitability in the industry stems from the sale of crude oil; (3) the desire of the major oil companies (and their home governments) to maintain control over the Japanese oil market and the opposing goal of Japanese companies and the Japanese Government to break this dependence on oil supplied by the major companies; (4) the improved "investment climate" in the Philippines and Vietnam following the imposition of martial law and the Paris ceasefire; (5) the discovery of new fields in Thailand, Malaysia, and Indonesia and the relatively good discovery "success/failure" ratio; (6) the greatly increased oil prices which have changed calculations on what is a commercial discovery and what is an acceptable investment risk; (7) the higher oil company profits and the political pressures to use these profits to develop new sources of supply; (8) improvements in technology for offshore exploration and production which have reduced exploration risks and lowered operating costs; and (9) the efforts of Southeast Asian governments to develop their indigenous oil and energy resources.

During 1973, these pressures resulted in an increasing penetration of Southeast Asia by international oil companies and governments. Of particular significance were the following:

- An agreement signed on 30 March 1973 between the Indonesian and Japanese Governments, providing the yen equivalent of US\$234 million in long term concessional credits to be used for developing the Indonesian oil sector.
- An agreement between Pertamina and five Japanese companies (Chubu Electric Power Company, Kansai Electric Power Company, Kyushu Electric Power Company, Nippon Steel Corporation, and the Osaka Gas Company) for the largest sale of Liquefied Natural Gas (LNG) ever made. The deal is worth US\$3,000 million and the LNG will be supplied from Mobil's field in North Sumatra and Huffco's field in East Kalimantan. Toward the end of 1973, the Japanese Government pledged a US\$200 million loan for LNG development in Indonesia.
- The signing of an agreement between Pertamina and Pacific Lighting of California for the future export of LNG to the United States West Coast; the gas will come from Mobil's Arun field in Sumatra. The United States Export-Import Bank is reported to have offered a loan of US\$400 million to Pertamina and Mobil for the liquifaction plant and loading facilities.
- The awarding of offshore concessions by the Government of South Vietnam to Esso, Mobil, Shell Pecten, and the Sunningdale Group in August 1973 and the beginning of offshore seismic work.
- The signing of an initial oil exploration agreement in April 1973 between the Government of North Vietnam and the Italian firm ENI and subsequent negotiations apparently involving Japanese as well as Italian oil companies in September-October 1973.
- The signing of five service contracts by oil companies with the Philippine Government.
- The visit of a Soviet mission to the Philippines in September 1973 to discuss cooperation in Philippine oil exploration.
- The announcement of a second LNG project in Sarawak in addition to the 725 mcf/d Lumut project currently in operation. The estimated cost of the project, which is a joint venture between Shell, Mitsubitshi, the Federal Government of Malaysia and the State Government of Sarawak is US\$1,000 million.

- The bidding for offshore exploration rights in Burma by international oil companies in late 1973.

What are some of the major implications of this increasing penetration for the countries of Southeast Asia?

One principal concern is the export-oriented nature of the oil and gas development in Southeast Asia. It is generally argued that such development in Southeast Asia is desirable because (1) Southeast Asian oil commands a premium price in Japanese and United States markets while Middle East oil, given the demand structure (Table VII) and nature of existing refinery capacity in the region, can be imported at lower cost; (2) oil exports earn valuable foreign exchange, which can be used to import needed capital for development; (3) oil exports to Japan and the United States help to offset the large imports from these countries; and (4) pollution is less of a concern in Southeast Asian countries and thus Middle East oil, which has a higher sulphur content can be used.

Table VII: Structure of Petroleum Consumption in Malaysia and Typical Refinery Product Yields from Sarawak Crude and Saudi Arabian Crudes

Structure of Consumption	Typical Refinery Product Yield (Sarawak Crude)	Typical Product Yield (From Saudi Arabian crudes)
Gasoline - 16%	21%	22%
Kerosene - 6%)	64%	40%
Gas Oil & - 43%)		
Diesel - 43% }		
Fuel Oil - 35%	9%	33%
Refinery Fuel & Losses	6%	5%

Source: *Sunday Times* (Kuala Lumpur), 6 January 1974, p. 1.

Table VIII: Destination of Indonesian and Malaysian Oil Exports,
First Half, 1973

Indonesian Crude and Product Exports: (% of total Volume)		Malaysian Crude and Product Exports: (% of total Value)	
Japan	75	Singapore	66.7
United States	18	Japan	11.9
Trinidad	4	Thailand	3.3
Singapore	1	United Kingdom	2.4
Others	2	Australia	1.2
		Others	14.5
Total Volume: 181,680,275 barrels		Total Value: M\$165.0 million	

Source: *Petroleum News, Southeast Asia*, Vol. 4, No. 8, November 1973, p. 26; Malaysia, Department of Statistics, *Preliminary Figures on External Trade*.

However, the pursuit of such a strategy is not without its costs. Leon Howell and Mike Morrow commented:

Petroleum developed primarily for international markets tends to become alienated from overall priorities of national development When petroleum is developed primarily as a source of foreign exchange earned from exports, a strong bias is created against expanding local consumption. Governments quickly acquire dependency on oil revenues for their budgets and interest groups for their wealth, status, and power.

Insight, September 1973, p. 32.

To a large extent, the above generalization seems to apply to Indonesia, where foreign exchange revenues from oil exports now account for over 50% of total export earnings and oil revenues provide over 40% of the government's

non-aid budget. The military elite, who dominate the national oil company Pertamina and the bureaucracy in general, benefit greatly from the increasing oil revenues. But what of the bulk of the 125 million people in Indonesia?

There is no question that Pertamina has grown tremendously under the dynamic leadership of General Ibnu Sutowo. *Fortune* magazine calculated Pertamina's 1972 sales at US\$600 million, its assets at US\$2.3 billion and its net profits at US\$30.8 million. Much of this growth has come from heavy external borrowing, which has apparently caused concern among some members of the Inter-Governmental Group on Indonesia (IGGI) and the International Monetary Fund (IMF). Its diversification into communications, insurance, petrochemicals, construction, hotels, fertilizers, etc., has extended its influence into virtually every sector and geographical area of Indonesia. The development of forward and backward linkages is continuing and giving impetus to new industries within the country.

The real question is whether such growth is being purchased at the price of an increasing external dependence and an increasing elite-mass gap within Indonesia. Are the cultural and economic development models and goals of Pertamina and national economic planners appropriate given the reality of mass poverty in Indonesia, of increasing transmigration from the outer islands to Java, of increasing movement of rural poor to congested urban centres, of rapid population growth which threatens to double the population in twenty-four years? And, does the Indonesian elite have any serious alternatives, considering the tremendous external pressures for the export-oriented development of oil and gas resources in Southeast Asia?

The answers to these questions are by no means obvious; however, one thing is certain - that the influence of the Pertamina experience has profoundly affected the thinking of national elites in other countries of Southeast Asia. The Philippines established a national oil company in 1973 and signed five service contracts with foreign firms modelled after the Indonesian system. At present it is not clear what role the Philippine military will play in the operation of this national oil company. In Malaysia, legislation for the establishment of a Hydrocarbons Corporation of Malaysia (HYCMA) and the introduction of a production-sharing system almost identical to Indonesia's is expected to be passed by May 1974. The Ministry of Primary Industries succeeded in 1973 in getting all seven

operating companies to sign letters of intent to switch to production-sharing when the legislation is passed. For the Malay dominated bureaucracy in Malaysia, the Pertamina model is particularly attractive and they see HYCMA's development to be of central importance in the achievement of the Malaysian Government's stated goal of 30% Malay participation in the economy by 1990. Oil revenues are expected to grow substantially in the next few years with the increased production from Shell's Sarawak fields, Esso's and Shell's fields in Sabah, and the continental El Paso-BHP field off West Malaysia. Whether these revenues will go towards increasing the wealth and status of the Malay elite *vis-a-vis* the Chinese and western elites or whether it will be used to help the bulk of the rural Malays remains to be seen. North Vietnam is also said to favour a production-sharing formula and the Burmese state oil company Myanma will sign production-sharing contracts with foreign oil companies following the announcement of successful bidders in early 1974. Department of Mineral Resources officials in Thailand recently indicated privately that they are studying the possibility of production-sharing. Oil companies in Thailand, Cambodia, and South Vietnam presently operate under a Middle East-type concession system.

The increased government involvement in oil exploration and production is significant because it opens up new possibilities for inter-governmental cooperation (and possibly conflict) in Southeast Asia. There is already substantial consultation between Pertamina representatives and officials in Malaysia, the Philippines, and Singapore. On a larger scale, ECAFE's Committee for the Coordination of Offshore Prospecting (CCOP), which includes all the countries of the region except Burma, Laos, and North Vietnam, is increasing its efforts to develop comprehensive geological information on offshore areas and increase technical expertise in the participating countries. Plans were announced in 1973 for the securing of a seismic vessel from the West German Government, contingent on United Nations Secretariat approval. However, international organizations, like the United Nations and the World Bank, have in the past deliberately avoided any substantial involvement in the domain of the international oil companies.

While the potential for increasing oil cooperation in Southeast Asia, particularly within the ASEAN framework,

appears good, competition and conflict exist over the issues of: (1) boundaries of national jurisdiction over the continental shelf; (2) location of export refining capacity; (3) pollution control; (4) location of logistical and financial centres; and (5) attraction of new investment. The potentially serious nature of the numerous offshore boundary disputes was highlighted by the military clashes between China and South Vietnam over the Paracel Islands in early 1974.

A final aspect of the increasing penetration of oil companies and governments into Southeast Asia concerns the strategic implications of offshore oil developments. There, of course, has been considerable speculation concerning the importance of oil in United States military involvement in Southeast Asia; but as yet no real evidence has been developed to support the contention that the oil potential of Southeast Asia was a crucial or even a major factor behind the massive United States involvement. Nevertheless, significant oil deposits have been developed in Southeast Asia since 1965 and the potential of areas such as offshore South Vietnam and Cambodia appear good. This fact, given the realities of the present energy crisis, raises the question of what the United States would do if faced with the likelihood of a communist takeover in South Vietnam and/or Cambodia. In addition, the vulnerable nature of the multi-million dollar offshore oil installations to military attacks, including terrorist and insurgent attacks (e.g. off Mindanao or Sabah), poses the question of what plans (possibly in connection with the local military in Southeast Asia) the United States military are considering to meet such contingencies? The military aspects of growing offshore oil exploration and production in Southeast Asia have not received sufficient public attention.

V. Prospects

The outlook for the countries of Southeast Asia as a result of the oil crisis of 1973 depends heavily on the future actions of the major powers and the Middle East OPEC countries. The events of 1973 threaten the oil-importing countries of Southeast Asia with large balance of payments deficits, rising inflation, a general slowdown in economic growth, and increasing political unrest. Oil imports in Thailand and the Philippines are estimated to cost between US\$600 and

US\$700 million, compared with approximately US\$200 million in 1973. Higher export prices will in some measure compensate for the higher import costs, but there is serious question as to whether the industrial countries, given the drain on their foreign reserves from the higher cost of oil imports, will be willing to expand imports from the developing countries. Indonesia and Malaysia are in a relatively better position given the fact that they are net oil exporters; however, they will be hit by rising costs of imported capital from the industrial nations. Indonesia is reported to be considering, along with other OPEC countries, an 80-90% excess profits tax on all oil company earnings over US\$5.00 a barrel, which would further increase its revenues from oil exports.

The fantastic transfer and concentration of world financial power in the international oil companies and the Middle East countries will generate counter pressures for the distribution of this wealth. Thus, the prospects for large-scale assistance by Middle East countries to Southeast Asia and the rest of the Third World, as well as increased investment by oil companies in oil exploration and production, appear good. International pressures for the lowering of oil prices are great and the OPEC countries are presently studying the desirability of such a move. However, the OPEC countries want to avoid any kind of downward price competition; and thus any action to lower prices will most likely be a joint one. The February 1974 meeting of major oil-consuming countries in Washington will be crucial in determining the extent to which OECD countries can as a group take action to increase pressures for lower prices. And, the OPEC perception of the meeting will be just as critical.

In sum, the world oil crisis of 1973 has accelerated the movement toward government control over the international oil industry in both importing and exporting countries and has furthered the break-up of the oligapolistic structure of the industry. This coincides with the increasing "politicization" of economic issues, as reflected in the growing North-South conflict. The future implications of this development are by no means clear. However, the conflict involving governments, corporations and international organizations over the world's oil and energy resources will certainly be of major consequence for the future of Southeast Asia.