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Enter a new breed of NOCs

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THAT NATIONAL oil companies (NOCs) from Asean countries, once the regulators and guardians of their nation's petroleum reserves, are today integrated oil companies with upstream and downstream operations in their home markets can be attributed to the region's booming economy in the last decade, the demand for petroleum and petroleum products and increasing domestic consumption of natural gas as a viable alternative fuel, particularly for power generation.

Thus observed Petronas president and chief executive Tan Sri Mohd Hassan Marican at the recently concluded two-day Second Asia Oil and Gas Conference in Kuala Lumpur. Petronas is a case in point. Strong government support and robust alliances with multinational oil companies and NOCs have helped turn it from a regulator and a collector of upstream revenues from production sharing contracts (PSCs) into a fully integrated oil and gas company both domestically and globally.

Petronas, as an NOC, explained Hassan, is directly involved in the country's in-frastructure projects that contribute to the development of other sectors of the economy.

One such project is the three-phased Peninsular Gas Utilisation Project (PGU) which costs a hefty RM9 billion. It involves the construction of 2000 km of gas pipeline and 2000 million standard cubic feet capacity gas processing plants. The PGU provides Malaysian PSC contractors the opportunity to develop gas reserves previously discovered but not utilised, in turn providing an alternative fuel for power generation.

The trend in the industry today is that NOCs are establishing a growing and active presence in the international energy scene well beyond their borders and traditional areas of operation. This signals the emergence of a new breed of NOCs which are becoming more like oil majors in their outlook and aspirations. These NOCs, said Hassan, will not only face each other as competitors when vying for new markets and reserves but be partners as well in joint ventures and international class projects. As an example, he cited the case of China National Petroleum Corporation which is partnering Petronas in the development of the Unity and Heglig Fields in Blocks 1, 2 and 4 in Sudan and the construction of a 1,500 km crude oil pipeline from the fields to port Sudan.

Hassan noted that competition is unavoidable in today's global business environment. He also noted that while the oil majors have established various joint ventures between them in their global businesses, NOCs appear reluctant to do so. In his opinion, competition need not be destructive.

`So where do we go from here? In my view, we should seriously consider entering into synergistic alliances and mutually beneficial co-operation to compete effectively in the global market place. The basic building blocks already exist such as the fertiliser plants in Bintulu (Malaysia) and Acheh (Indonesia) and the Malaysia-Thai Joint Development Area and the PM-3 Commercial Arrangement Area which are being developed by Petronas and PTT and Petronas and Petrovietnam, respectively,' he said.

Other opportunities include the development of regional gas pipeline grids, whose materialisation will primarily depend on the need to resolve major political, economic and social issues. In the Malaysian experience, regulation and NOCs are obviously a good thing but in the case of other Asean countries, the reverse is true. For instance, deregulation is the

keynote of the current Japanese energy policy.

Masato Hisatake, Japan's director of international affairs, petroleum department, Ministry of International Trade and Industry, estimated that petroleum accounts for 60 per cent of the primary energy supply in the country. With the petroleum dependency ratio being 99.7 per cent, Japan relies heavily on foreign imports with 76.4 per cent of its oil imports coming from the Middle East. These figures indicate that the energy supply structure in Japan is quite vulnerable. As a result, Japan's key policy has been to secure energy through various regulations, said Hisatake. In recent years, liberalisation and deregulation have become major challenges for the Japanese economy. Although a series of deregulatory measures have been applied since 1987, the latest reform of the petroleum system in Japan has been quite a breakthrough, he explains, causing significant changes in Japan's petroleum market. 'Soon after we started discussing a new petroleum system, fierce competition broke out in the Japanese petroleum market as if deregulation had already taken place. As a result, petroleum prices fell sharply,' reveals Hisatake.

The retail price of gasoline fell from US\$ 1.22 cents to US\$ 1.05 cents per litre, a 17 cents drop. Without taxes this translates into a 25 per cent decline. Even the price of gas, oil and kerosene which had been kept at a level lower than gasoline fell compared with the price of crude oil, he said. The stiff competition in the market began revising the unique price structure of petroleum products in Japan to conform with the international pricing structure. As a result, the business climate in Japan for petroleum companies became quite difficult as the profits of the refinery and wholesale sector nose-dived 41 per cent from US\$ 2.94 billion in fiscal year 1994 to US\$ 1.74 billion in fiscal year 1995, Hisatake stated.

Comments an analyst, 'The major petroleum companies will suffer only a temporary setback. These companies will be forced to adopt cost cutting measures and concentrate more on the volume done to compensate for the loss in margins. This means they have to be more innovative and diversify into value-added products. Basically, it will be the smaller companies that will bear the brunt of the competition.'

In response to changes in the market place, Japan's petroleum industry is restructuring to achieve dramatic cost reductions, including downsizing the existing work force, reducing the number of new recruits and logistically streamlining in order to make operations more efficient.

One of the challenges is to firmly establish the trend towards deregulation. Rigorous competition as a result of deregulation is set to make the Japanese petroleum industry globally competitive and as powerful as its foreign counterparts. This, thinks Hisatake, will result in a efficient supply of energy and ensure the security of energy supply through the globally integrated market.

The Philippines is also preparing for the full deregulation of its downstream oil industry. According to Dr Francisco L Viray, the secretary of the Department of Energy, Philippines, who spoke at the conference, the deregulation policy was implemented in two phases - the transition phase from June 16, 1996 to Feb 7, 1997 and full deregulation from Feb 8 this year.

In the Filipino experience, first, the non-pricing activities of downstream oil industry - such as import, export, manufacturing, marketing and distribution - were liberalised to increase the quality and number of players and deconcentrate the industry from the major oil companies. Second, the tariff imposed on oil imports was reduced effective April 16, 1996. Third, to complement the deregulation programme and to simplify tax administration while still ensuring needed government revenue, the

excise taxes on petroleum products were restructured on Aug 14, 1996. Fourth, as a preparatory measure to deregulate the oil price setting, an automatic pricing formula (based on the changes in Singapore posted prices), which would adjust monthly the wholesale posted prices of petroleum products, was introduced Aug 14, 1996, to last until the start of full deregulation.

According to Viray, the Philippines's petroleum product consumption in 1996 was on an upward trend. The total product consumption for 1996 reached 131.6 million barrels (mmbbls), posting a 5.6 per cent growth from 1995. The demand for petroleum products in the Philippines is projected to increase at an annual average growth rate of 6.2 per cent in the short term (1996-2005) (see table) and 6.5 per cent in the long term (1996-2015).

With the projected increase in demand for petroleum products, the country may need investments in additional refinery capacity to ensure adequate and secure supply of petroleum products, Viray ruminates. The Philippines is already importing a portion of its premium gasoline and diesel requirements and almost half of its liquid petroleum gas needs, he said.

Barely four months into the Filipino deregulation there are already more than 30 prospective new entrants who will engage in various downstream activities like storage, transshipment, bulk marketing, bunkering, refilling and operation of gasoline stations, Viray observes. A number of the new entrants are from Southeast Asia, namely Petronas of Malaysia, Petroleum Authority of Thailand and Itochu Petroleum of Singapore. At the same time Filipino-owned companies like Seoil Petroleum Corporation, Unioil Petroleum Corporation, RFV Group of Companies, Benz Oil Philippines, Eastern Petroleum Corporation and Dubphil Land and Marine Sales and Services have also joined the Filipino oil industry.

Deregulation in the Philippines is a wise decision, albeit a little inconvenient in the initial stages due to the increase in frequency and magnitude of price adjustments. Said Viray, 'It brings in free-market competition which exerts pressure to reduce prices, increase consumer choice in terms of products and services. It also encourages efficiency in energy production, promotes more investments and eventually develops local enterprises and creates more jobs.'

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