

26/01/1999

Analysts: Country should not stop, reduce oil output

Adeline Ong

IT WILL not be in Malaysia's favour to reduce or stop production of crude oil, analysts said yesterday.

Energy analyst at Salomon Smith Barney, Ms Janet Yang, said that on the whole, it will be quite negative for Malaysia to reduce or stop production.

"Malaysia is a net exporter of oil. A low price of oil is generally negative for the country. Meanwhile, Petronas is a big exporter of oil and gas," Yang said.

Malaysia's earnings from export of crude oil and liquefied natural gas (LNG) saw double-digit growth rates during the third quarter of 1998. Malaysia's export of crude oil went up by 21.5 per cent to 4.4 million tonnes in July-September last year despite the flagging world oil prices. Export earnings from crude oil rose by 25.8 per cent to RM1.8 billion as a result of valuation gains and that from LNG by 19.3 per cent to RM1.5 billion.

Export earnings from crude oil constituted some RM7.3 billion while oil and gas as a whole brought a total RM15 billion in export earnings last year. The total export-base earnings was RM330 billion.

"If the breakeven cost for Petronas is US\$5 per barrel, then it is still worth it to produce," Yang said.

Prime Minister Datuk Seri Dr Mahathir Mohamad last Tuesday said that Malaysia may reduce or even stop producing oil if the global crude oil prices drop too low.

Oil prices are expected to drop significantly this year unless Opec takes urgent measures. Brent, the North Sea benchmark oil, is currently hovering around US\$10 (US\$1 = RM3.80) per barrel.

According to the industry weekly, Oil and Gas News, if Opec members cannot agree to keep cutbacks in effect, prices could well fall to US\$5 a barrel this year, causing further economic shock to the oil-producing countries.

Yang added that it costs approximately US\$7 to US\$8 per barrel to get oil out of the ground.

Therefore, if oil prices goes down too much below US\$10 per barrel, most producers will stop producing since it will not be worthwhile.

It has been noted that in Asia, Indonesia has the lowest production cost because it has the most significant onshore output. Full cost of getting a barrel out of the ground in Indonesia was US\$4 to US\$6 for onshore fields. For offshore Indonesian fields, the total production cost was higher at US\$7 to US\$10 per barrel which meant operators of those fields were barely scraping a profit.

Analysts contacted by Business Times said it was hard to give a figure for Malaysia's production costs. However, in Asia, the highest cost is in Malaysia owing to its tough fiscal policy.

"However, in all that is bleak, we see further consolidation of large oil companies this year. There will inevitably be a sharp reduction in capacity and new supply.

"Salomon Smith Barney is also expecting Asia-Pacific to show signs of recovery in the year 2000. We are also forecasting the average Brent prices to be around US\$12 per barrel this year, and US\$15 per barrel for 2000.

"The wild card now is Latin America. The recovery will be slower now