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No immediate plans to reduce oil output (HL)

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PETROLIAM Nasional Bhd (Petronas) is closely monitoring global crude oil prices which have sunk to near historical lows but has no immediate plans for a cutback in production.

The Malaysian "sweet" crude, which is of low sulfur content, is able to command a price which is slightly higher than the heavy "sour" oil produced elsewhere, its president Tan Sri Mohd Hassan Marican said in Kuala Lumpur yesterday.

Petronas has therefore been able to maintain its export level and its PSC contractors their profitability, he told reporters after the signing of new production sharing contracts (PSC) with Murphy Oil Corp of the US. "The country produces about 630,000 barrels per day (bpd), of which 400,000 bpd are exported and the rest refined in Malaysia by Shell, Esso and ourselves... 400,000 bpd is quite small by world standards," he added. Hassan was asked to comment on Prime Minister Datuk Seri Dr Mahathir Mohamad's suggestion last week that should oil prices fall too low, Malaysia might as well stop producing oil, or just pump enough to meet domestic needs.

World oil prices are expected to drop significantly this year unless Opec takes urgent measures. Brent, the North Sea benchmark oil, is currently hovering at the US\$10 per barrel level, down from US\$25.60 in January 1997. The Asian economic crisis, a mild winter in the major fuel oil markets, as well as Opec member indiscipline have been all been quoted as reasons for the price slide.

According to the industry weekly, Oil and Gas News, if the production cutback committed by Opec members and a number of major non-Opec producers fails to hold, prices could well fall to US\$5 a barrel.

Hassan said in ringgit terms, which has been fixed at 3.80 to the US dollar, the present oil price level is still manageable for Petronas.

"If you consider the level the ringgit was in 1996, the impact is not that big."

In any case, cutting production is not a simple process as there are matters such as the PSCs to consider, he said.

"When you beam down production, you have to sit down and ask, 'do you extend the PSC? How do you pay back the barrels (forgone) to the contractors?' At the moment, we have not reached that stage," Hassan said. As for the possible impact of low oil prices on Petronas' revenue, he said the national oil corporation derives some 32 per cent of its earnings from crude oil exports.

"All producers are very concerned about the situation... it is being monitored and discussed... to see what can be done."

Malaysia earned a projected RM7.26 billion from 16.6 million tonnes of crude oil exports last year, up 2.7 per cent from RM7.07 billion in 1997. The commodity is expected to earn more or less the same amount this year. Liquefied natural gas (LNG) meanwhile earned RM8.19 billion in 1998, compared to RM6.75 billion in 1997. In 1999, LNG earnings are forecast to dip 8 per cent to RM7.53 billion.

Asked if the outlook for upstream activities might be affected, Hassan said fortunately, Malaysia is not a high-cost area as far as exploration is concerned.

"Being a business with long gestation periods also helps as companies see this as an opportunity to consolidate. On average, it takes 8 years,

and if you are lucky, from the day you start exploring to find and pump oil."

On Petronas' break-even point for upstream operations, Hassan dismissed analysts' estimates that it is costlier to produce oil in Malaysia - said to be approximately US\$7 per barrel for offshore fields - than in Indonesia.

"They are probably talking about the fiscal regime of the Malaysian PSC. It has been said to be tough and we have never denied that fact... however, the PSCs are still attractive enough to attract foreign oil companies here."

As to whether Petronas or the PSC contractors will bear the brunt of low oil prices, Hassan said that under the PSC terms the risk is borne by the contractors. "The cost is incurred by PSC contractors. However, PSC contractors include Petronas Carigali."

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