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Shell ready to meet Petronas if needed (HL)

Adeline Ong

SHELL Malaysia says it is ready to discuss matters with Petroliam Nasional Bhd (Petronas) if the national oil company decides to cut back production because of flagging world oil prices.

Its chairman and chief executive Datuk Megat Zaharuddin Megat Mohd Nor said Shell is just a production contractor in Malaysia and it is up to Petronas to call the shots.

"If (Petronas) decides to restrain production as part of a greater effort of non-Opec countries, or through a government directive, we have to sit down and discuss what can be done," Megat Zaharuddin told Business Times.

On whether production contractors have discussed the matter with Petronas, he said Shell has expressed its opinion. "Malaysia has a policy to maintain production at a certain level and we will fulfil our share in that production total as allocated by Petronas."

Prime Minister Datuk Seri Dr Mahathir Mohamad said on Tuesday the country can reduce or even stop oil production if oil prices drop too low. Earlier this month Kuwait warned that oil prices could fall to US\$5 (US\$1 = RM3.80) a barrel this year unless Opec takes urgent measures. Brent, the North Sea benchmark oil, is trading at about US\$10.60 per barrel.

Megat Zaharuddin, who was at the Prime Minister's Hari Raya open house at Sri Perdana on Tuesday, said since the capacity in stabilising crude oil prices is largely in the hands of Opec, there is not much oil companies can do.

What Shell may do is to ensure that its facilities continue to be well maintained.

"If there is an opportunity to maintain the facility in the near future, we will do so. And when that happens, obviously there will be some production taken out of the system.

"However, that is not going to contribute very much because the bigger capacity is in Opec and it is up to them to decide on whether any more production cuts will be made," he added.

Oil prices started 1997 at US\$25.60 and ended the year US\$16.80. The price freefall continued in 1998 to US\$15.57 in January and US\$10.06 in November.

Analysts have attributed the price plunge to a huge surplus in the world market. Megat Zaharuddin explained: "It is very similar to the sale of petroleum products in the Malaysian market. When there is a slash in demand, a lot of people will do all sorts of things like reducing prices in order to boost sales."

"People like ourselves and other multinational companies will do what we can to ensure that we do not lose out in the marketplace.

"We will try to produce whatever we can in order to meet the requirements of the market. If the price is stable, it is great but if the price drops, then it is bad news for everybody."

Also, Megat Zaharuddin said that there has been a great technological push among oil companies in the past 10-15 years.

Shell Malaysia's annual information technology expenditure on both hard and software is around RM100 million, excluding project-related items which add up to many hundreds of million ringgit now.

Worldwide, the Shell group invests US\$2 billion annually on Information Technology (IT).

"As a consequence, companies like Shell have been at the forefront in developing newer and newer technologies in drilling for as well as producing oil.

"Also, with governments around the world are opening new areas for exploration, and people like us have been successful in finding new sources of oil and gas.

"When the Asian economies were booming, that was not a problem. However, now that the Asian economies have slowed down and the effects of that slowdown are being felt in other parts of the world, there is a tremendous surplus in supply.

"The price now is even lower in real terms than even that of the 1970s. This is a growing concern among people in the industry," he said.

Shell Malaysia has a sizeable presence in Malaysia. Apart from exploration and production, it has an extensive retail network. The number of Shell petrol stations is expected to reach 900 next year, from 800 at end-1997 and 710 in 1990.

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