

25/01/1999

World oil industry struggling to stay afloat

Adeline Ong

THE world oil industry is undergoing unpredictable and unkind times as the price of crude spirals down almost uncontrollably.

Since the biggest influence in stabilising flagging oil prices lies in the hands of the Organisation of Petroleum Exporting Countries (Opec), is there anything oil companies and oil-producing countries can do?

Probably not much.

According to Ratings Agency Malaysia's Economics Chartbook 1997/98, the failure of Opec members, which collectively account for 40 per cent of world oil output, to agree on cuts in production quotas is singled out as one of the key reasons for the price drop.

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) a barrel.

According to the Bahrain-based 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.

In 1997, oil prices slid from US\$25.60 in January to US\$16.80 at the end of the year, and in 1998, they averaged a high of US\$15.57 in January, and a low of US\$10.06 in November.

However, if Opec and other producers decide to cut back production, then the average oil price could possibly go above US\$14 a barrel. But with the oil market in such a turmoil, forecasts about prices and the industry are difficult to make and is anybody's guess.

Right now, most of the industry players are still trying to survive in a world of sustained low prices and only modest growth in demand.

It was reported that the largest private oil company, Royal Dutch/Shell Group, said last month it would sell 40 per cent of its chemical business, trim its 105,000-strong workforce and take a charge of US\$4.5 billion in the fourth quarter.

Locally, asked what Shell plans to do about falling oil prices, its chairman and chief executive, Datuk Megat Zaharuddin Megat Mohd Nor, told Business Times that there is not much that Shell plans to do apart from ensuring 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 for the oil price to stabilise," Megat Zaharuddin said.

In Malaysia, he added, Shell is the production contractor to Petronas and eventually it is up to Petronas to call the shots.

Meanwhile, Petronas has been reported as saying it does not have plans to reduce production despite the decision by Opec (in June 1998) to cut output by 1.3 million barrels per day (bpd) to boost prices. Petronas currently produces about 630,000 bpd.

With an albatross around its shoulders, Petronas has some strategic and tactical decisions to make in the oil industry - one in which its global competitors such as Exxon, Mobil, BP and Amoco are being forced into mega-mergers because of declining oil prices.

In Petronas' case, global competitive pressures need to be counter balanced with the unique role that the national petroleum corporation plays in the Malaysian economy.

Therefore, Prime Minister Datuk Seri Dr Mahathir Mohamad's remarks last Tuesday that Malaysia can reduce or even stop oil production if crude oil prices drop too low, came as a surprise.

Malaysia's earnings from export of crude oil and liquefied natural gas (LNG) seeing double-digit growth rates during the third quarter of 1998. Despite flagging world oil prices, Malaysia's exports of crude oil went up by 21.5 per cent to 4.4 million tonnes in July-September last year. 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.

Stronger demand for Malaysian crude oil was registered from Thailand, Australia, Sri Lanka, Japan, India, China, Indonesia and the Philippines which as a group accounted for 85.6 per cent of the total export volume. What can Petronas do now? Take heed of the Prime Minister's remarks or depend on its own experience in making the calls. The question is whether Malaysia can survive without crude oil's contribution to the economy. Perhaps Opec should be replaced by a stronger, bigger grouping that includes other major oil producers such as Mexico, Norway and Russia. Certainly, a new, beefed up organisation carries greater clout and could be more effective in turning oil prices around.

(END)