

05/06/2000

## Asia's oil, gas sector at important crossroads

Lokman Mansor

OIL producers and refiners are smiling, for now. Since late 1999, world crude prices have increased from the previous year's slump, and refiners are optimistic that their refining margins will improve.

The use of gas meanwhile, has been on an uptrend and is expected to grow further. Prospects for natural gas remains bright, particularly as an alternative to oil. Oil now accounts for 37 per cent of the total energy demand while natural gas, 12 per cent.

Many believe Asia will remain the engine of growth in the global economy, with its energy demand increasing by 6 per cent this year, mainly supported by robust expansion in export-oriented industries.

As a comparison, the world energy demand is expected to register a growth rate of 3.4 per cent per annum up to the year 2005.

According to industry forecasts, the uptrend in the region's energy demand is likely to continue for the next 10 years, at a 3.6 per cent growth per annum.

In short, the beginning of the 21st century is expected to be a period of global recovery for the oil and gas industry. But there are challenges as well.

Despite its position as a major energy consumer, the Asia Pacific region itself has limited indigenous oil and gas supply. Production in the region is just slightly more than 10 per cent of the global total, and reserves less than 5 per cent, which is estimated to last only over a decade at the current rate of production.

This has led the Asian countries to become more dependent on West Asia, whose share of oil imports to the region is expected to rise steadily from about 75 per cent now to nearly 95 per cent by 2010. Hence the need to reduce this over-dependency is very crucial, particularly given the delicate political scenario in West Asia which would affect the global oil supply and the price regime.

Speaking at the Asia Oil and Gas Conference 2000 (AOGC) in Kuala Lumpur last week, Prime Minister Datuk Seri Dr Mahathir Mohamad also warned of another danger facing the industry, the mergers of the world's giant oil companies.

How should oil and gas players in Asia, mostly made up of national oil companies (NOCs), react to these mergers? Will they be gobbled up by these giant companies, do they seek alliances and strategic partners, or perhaps find and develop their own niches. How will these oil majors make use of their control over the production, marketing and technology in the industry.

"The story of the oil industry is the story of attempts at monopolising the industry," Dr Mahathir said. "Oil and gas will always remain a political instrument and the powerful countries and their mega oil companies will always avail themselves of this potent weapon."

The NOCs and smaller players may need to reinvent themselves not only to adapt to these changes, but also to help reshape the new business environment for the oil and gas industry.

Globally, oil prices have gradually improved since mid last year following efforts by Organisation of Petroleum Exporting Countries (Opec) to curb the ample crude oil supply in the market. While oil producers reap higher revenues from the stronger oil price, consuming nations are faced with a setback as the current stock levels remained low despite the ample

crude oil supply in the market.

The spate of mergers and acquisitions among multinationals has also left the industry with a handful of powerful giants having the abilities to accept higher risks and compete in areas where margins are narrow.

Oil and gas companies in the region are therefore faced with volatile crude oil prices, escalating costs, and declining market share. They need to be better equipped and position themselves well to compete effectively in the global market of the new age.

On its part, Petronas is taking a proactive approach in dealing with these challenges. It organised the three-day AOGC 2000 to bring these issues out in the open to be discussed and debated, and to explore possible solutions.

"It is our hope that the discussions and the networking will help in laying the groundwork for the orderly growth of oil and gas industry in the new century," Petronas chairman Tan Sri Azizan Zainul Abidin said.

(END)