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Mergers of oil giants a cause for concern: PM (HL)

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THE trend of mega-mergers among the world's oil giants will have far-reaching ramifications on the industry and the global economic order, says Prime Minister Datuk Seri Dr Mahathir Mohamad.

In the past three years, BP has merged with Amoco, Exxon with Mobil, Total Fina with Elf, and BP Amoco with Arco.

"The wave of mega-mergers has and will inevitably change the structure of the business with a few of these newly-created giant entities dominating and dictating to the industry," he said when opening the Fifth Annual Asia Oil and Gas Conference in Kuala Lumpur yesterday.

Players in Asia, mostly made up of national oil companies (NOCs), should decide what to do in the face of these new alliances and merged entities, he added.

"Would the NOCs remain relevant? Would they be gobbled up by the new more powerful sisters, would they seek alliances and strategic partners, or can there be niches they might build for themselves?" Dr Mahathir asked.

NOCs have to deal with the powerful few which dominate and dictate production, prices, policies and technologies. While previously they can depend on favoured treatment in their own countries, NOCs can no longer expect similar protection in the era of globalisation.

"A borderless world means nowhere to hide, no place to seek protection," the Prime Minister said, adding that merged companies are getting larger and larger, and whether they intend it or not, a cartel, an oligopoly or even a monopoly will emerge.

This threat is further compounded by the use of oil and gas as a political tool by powerful countries and their mega-companies.

"Simply by producing more or producing less, political objectives can be achieved. Preventing an oil-rich country from producing is equal to laying siege on a city, the favourite means to bring a nation down on its knees in the old days," Dr Mahathir said.

The Prime Minister said Malaysia has worked with these oil majors and benefited from the relationship. But it was not always like that.

"There was a time when they wouldn't even talk with us. They tended to lay the terms for any cooperation with us. But they are more reasonable now. But if they become more powerful, can little countries like Malaysia, producing only 650,000 barrels a day, ensure future supplies by venturing into the oil industries of other countries?"

"We know that the oil companies may want to cooperate for profits but their governments might not allow them to. And oil production and processing need sophisticated equipment, parts and components, which certain countries control.

"For these big powers which regard oil as a legitimate weapon of foreign policy, preventing 'recalcitrant' countries from enjoying their oil wealth in order to bring them to heel is perfectly all right," he said.

At a press conference later, Dr Mahathir said Malaysia is studying how to respond to these mega-mergers. But for the moment, the country is fortunate to produce sufficient oil and gas to meet domestic needs, with some to spare.

Asked about global oil prices, he said: "Fortunately, we are not badly affected by fluctuating prices because we don't produce a lot of oil. For us, oil accounts for only a small fraction of the economy."

Even then, the oil and gas industries ought to take the lead in the search for alternative sources of energy. He said they should pool their resources to finance the research and development of an alternative fuel in anticipation of future shortages.

"When oil prices rose to unreasonable heights during the first oil crisis there was a sense of urgency to search for and develop alternative energy. Now we have become more complacent," Dr Mahathir said.

This is partly because new oil fields are being found that will last hundreds of years.

"But there must come a time when the world's population will be so big and so rich that there will be shortages in hydrocarbon supply and reserves. Perhaps the answer is for governments to step in, to contribute a proportionate percentage of their royalties and revenue to finance the necessary research.

"It is going to be a long-drawn affair but...it is never too early to take the first step," Dr Mahathir said.