

30/05/2000

Threat to national oil firms (HL)

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KUALA LUMPUR, Mon. - The recent mega-mergers in the world's oil and gas industry is now seeing a re-emergence of oligopolies and this is threatening the very existence of Asia's national oil companies.

Prime Minister Datuk Seri Dr Mahathir Mohamad, speaking to policy makers, strategists and analysts at the Fifth Annual Asia Oil and Gas Conference, said these mergers will have far-reaching ramifications on the industry and the order of the global economic system.

"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 the industry," he said when opening the conference, themed Market Positioning in the New Age.

The last three years has seen the mergers of, among others, BP and Amoco, Exxon and Mobil, Total Fina and Elf, and then BP Amoco and Arco.

In the face of these new alliances, Dr Mahathir asked how would these developments affect national oil companies (NOCs) in Asia, whose primary role was to regulate and manage its hydrocarbon resources.

"Would the NOCs still remain relevant? Would they be gobbled up by the new powerful sisters or would they seek alliance and strategic partners or can there be niches they might build for themselves?

"If they choose any of these, how should they function in a system where production, prices, policies, technologies etc. are dominated and dictated by the powerful few?," he asked.

Dr Mahathir added that in this case, "the playing field was not even level".

Dr Mahathir said none of the Asian NOCs were big enough to take on the merged giants or to qualify to be one of the new sisters and as such, they would have to hide behind their national boundaries.

However, with the era of globalisation or a borderless world, the NOCs would not have a place to hide or to seek protection from their governments.

Towards this, Dr Mahathir cited the example of John D Rockefeller whose extreme avaricious and pitiless tactics had led to him buying over all his rivals or just putting them out of business.

"Such was his power to dictate the price of oil that even the capitalist government of the United States had to put a stop to his almost complete monopoly of the business through the 1890 Sherman Anti-Trust Act," he said.

Dr Mahathir added that the company was then broken into several smaller entities and called the seven sisters.

These entities, he said, then became dominant members of the so-called oil majors which monopolised the worldwide exploration, production, refining and marketing of oil.

"They paid a pittance to the poor oil-rich countries which remained undeveloped and had to literally submit to the rule and politics of these seven sisters operating as monopolies in different countries," he said.

After the Arab-Israel War, Dr Mahathir said the oil producing countries also formed a cartel of their own - OPEC.

OPEC, which became a world power by pushing up oil prices, not only enriched themselves but increased the profits of the seven sisters as well.

"The only people who really suffered were the poor in the poor countries

where there was no oil. The price of oil was so high that they could not afford even electricity for themselves," he said.

Dr Mahathir added that fortunately the OPEC countries were not too united as they became avaricious.

Dr Mahathir admitted the fact that Malaysia had worked with these oil majors and had benefited from it.

"But if they become very powerful, can little countries like Malaysia producing only 650,000 barrels a day, ensure future supplies by venturing in the oil industries in other countries?" he asked.

Dr Mahathir said the oil sector was now seeing a return of oligopoly, but this time there were more oil companies which were many times bigger and richer than before.

Alluding to the fact that the participants at the conference knew more about oil and gas than he did, Dr Mahathir said he hoped they would spare a thought for the ordinary person whose needs made the industry tick.

He said when the hedge fund traders manipulated currencies, they saw only figures on the screen which represented the units of currency they dealt in.

"That a 0.1 per cent drop in value can kill hundreds of people, starve them is of no interest to these traders ... and so they wax rich the miseries of the people, real flesh and blood people.

"I hope that you, who deal in oil and gas, would always bear in mind the people whose life and death depends on you," he said.

Among those attending the two-day conference include Indonesian State Oil and Gas Mining Company (Pertamina) chief executive officer Baihaki Hakim, National Iranian Oil Company vice president officer Ahmad Rahzogar, France's International Energy Agency director Tatsuo Masuda, Singapore Petroleum Company chairman Choo Chiau Beng, Korea's Council of Energy and Environment president Dr Hoesung Lee, Royal Dutch/Shell Group of Companies chairman Dr Mark Moody Stuart, UNOCOL Corporation USA chief executive officer Roger C Beach, Director of Petroleum Ltd United Kingdom Dr Herman T. Franssen, Asia Pacific Energy Research Centre president Keiichi Yokobori, Standard & Poor's Platt's USA president Harry Sachinis and India's Reliance Petroleum Ltd senior vice-president Daryl J. Pattison.

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