

Oil producers see drop in revenue

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RM15.2b loss in Southeast Asia region

KUALA LUMPUR: Mirzan Mahathir, chairman of Konsortium Logistik Bhd, the country's No. 2 haulage company, said he was not pleased when diesel prices rose last month as it pushed up costs of his company by 20%.

Mirzan's father, Prime Minister Datuk Seri Dr Mahathir Mohamad, has bigger problems. The cut in subsidies on gasoline and diesel in October for the second time in 12 months as a 37% fall in crude oil prices in the past year has threatened to slash revenue for Southeast Asia's second-largest oil producer.

"Southeast Asian oil producers are feeling the pain," said John Cairns, an oil and gas economist at researcher IDEAglobal in Singapore. "Oil is in massive surplus and supply will have to be reduced to balance demand."

The pain could amount to a total of RM15.2 billion in lost revenue for the region's oil producers, including Indonesia, Vietnam and Brunei.

Southeast Asia's oil output was worth RM122 billion last year, based on the average price of US\$29.92 a barrel for Tapis crude, the Malaysian benchmark. This year's decline may reduce that to RM106.4 billion, according to a Bloomberg data.

For Indonesia and Malaysia, the biggest oil producers in the region, and their smaller neighbours, the drop in oil prices is hurting more after the terrorist attacks.

"Since Sept 11, investors and consumers are turning more pessimistic, exacerbating the slowdown across the world and reducing demand for goods and commodities," said Anita Chung, an economist at Morgan Stanley Dean Witter. "Crude oil is no exception."

The US economy shrank in the third quarter for the first time since 1993, reducing demand in the market that takes more than one-fifth of Southeast Asia's exports, economists said.

Faced with lower investment from the US and closure of factories by disk-drive maker Seagate Technology Inc and computer manufacturer Gateway Inc, Malaysia was counting on oil to offset a drop in electronics exports. Those exports fell 8.9% in the first seven months of this year to RM116 billion.

"It's a critical issue for countries such as Malaysia and Indonesia, which are depending on higher revenue to pump-prime their economies," said Song Seng Wun, an economist at G.K. Goh Research Pte. "The lower crude oil price is an added burden."

Malaysia estimates export earnings from oil will fall to a three-year low of RM11.1 billion in 2002, based on the average price of US\$23.50 a barrel. It did not say which type of oil this price was based on.

Even to meet the lower target, Malaysia will have to boost oil production for the first time in four

years. Sales of crude oil and natural gas will provide about 6.8% of Malaysia's export earnings in 2001 and 21% of Indonesia's.

Indonesia earned an estimated 75 trillion rupiah (RM26.6 billion) from oil and gas last year. It expects that to fall 22% to 58.5 trillion rupiah this year.

Crude oil for December delivery fell below US\$20 a barrel for the first time in two years on the New York Mercantile Exchange Friday, dropping as low as US\$19.69. The contract ended the day at US\$20.18 a barrel.

As Southeast Asian economies face the damage from the drop in oil prices and a US recession, the Organisation of Petroleum Exporting Countries (Opec) is expected to cut oil output quotas to boost prices when its 11 members meet next week in Vienna.

Lower demand in the US, the biggest energy consumer, has helped send Opec's crude oil index, its so-called basket price, down to US\$18.25.

Opec has already cut daily output targets three times this year, by a total of 13%. Member states exceeded current targets by 850,000 barrels last month, according to research firm Petro Logistics.

"Opec is going to cut quotas, but the real cut in production will be much less because some countries will ignore it," said Cairns of IDEAglobal. - Bloomberg