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Rising crude prices to benefit upstream sector

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THE rising crude oil prices may translate into higher earnings for oil companies in upstream sector like ExxonMobil, but it is a different story

for the downstream business.

ExxonMobil Subsidiaries in Malaysia financial director James A. Hall said the increase in crude oil prices is not usually accompanied by a simultaneous increase of refined oils such as petrol and diesel.

In Malaysia, he said ExxonMobil's earnings does not benefit much by the crude oil price increases as petroleum prices are controlled by the Government.

"The Government subsidises the prices and that cushions the impact on the consumers. And obviously, the crude price increase doesn't have that much effect on our earnings because of the control price mechanism," he told Business Times after the launch of ExxonMobil Young Entrepreneur programme by the Education Ministry school division director Datuk Kusaini

Hasbullah in Kuala Lumpur last week.

The anticipation about the US-led war against Iraq has dragged oil prices upwards. The world's crude oil is now hovering above US\$36 (US\$1 = RM3.80) per barrel.

Hall said the rising world's oil prices has different impact in the upstream sector, which comprises oil exploration and production activities, and the downstream sector of refining and marketing of petroleum products.

"It affects us in different ways - rising oil prices means we make more money on the upstream side but there are challenges in the downstream side," he said.

He explained that in countries where petroleum prices are not controlled by governments, during periods of rising crude oil prices, ExxonMobil experiences narrower margin in the downstream business.

"What happens is that the increase in the crude prices, which is the raw material, is often faster than our ability to increase the sales prices in the marketplace. So, typically, in times of rising crude prices, we will have a difficult time in making money in the downstream business where margins are squeezed," he said.

On the net overall revenue, Hall said ExxonMobil worldwide will make more money in time of increasing crude petroleum prices.

Asked on when ExxonMobil expects the crude oil prices to stabilise, he said the company does not really forecast crude oil prices.

As the oil prices are dictated by the market, he said the company chose to focus on things that it can control such as running efficient and

reliable operations, managing cost and making the operations efficient and safer.

"When crude prices are rising or falling, or whether the market is good or bad, we always focus on things that we can manage that is good operation, safety, reliability, managing the tasks.

"We do that throughout the business cycle," he added.

Mayban Securities, in its research report, has forecast that spot crude oil price to reach between US\$41 and US\$45 per barrel if war breaks out.

Last month, Prime Minister Datuk Seri Dr Mahathir Mohamad said he believed that oil prices could increase to about US\$50 per barrel if the US launched an attack on Iraq.

He said Malaysia, as an oil producing country, would gain by about US \$54 million if the price of crude oil increased by just US\$1.

ExxonMobil produces almost half of Malaysia's oil production and two-thirds of Peninsular Malaysia's natural gas production.

The US-based company produces 280,000 barrels daily from 32 platforms and 1.3 billion cu ft a day of natural gas from four platforms.

ExxonMobil - the largest crude oil producer in Malaysia - operates as a contractor to Petronas under production sharing contract terms.

At the downstream sector, ExxonMobil now operates refinery at Port Dickson through its subsidiary, Esso Malaysia Bhd with the capacity of 88,000 barrels a day.

ExxonMobil Subsidiaries in Malaysia is a group of companies, formerly known as the Esso and Mobil companies, which has business activities ranging from upstream exploration and production of oil and gas to the refining and marketing of petroleum products.

Throughout Malaysia, ExxonMobil runs 13 fuel terminals and plants, and about 570 Esso and Mobil service stations.