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Small oil-based companies likely to benefit from Dr M's proposal

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THE move to set up another consortium to undertake oil exploration, production and refining activities will benefit petroleum-based companies

with small capital, an economist says.

Rating Agency Consultancy Services chief economist Dr Yeah Kim Leng said

it is appropriate for the Government to set up a consortium rather than a

company to serve as the second national oil corporation. This is because

it enables small companies to contribute towards developing the oil sector

regionally.

"Companies would need a huge capital investment to compete in the international oil industry.

"With Petronas (Petroliam Nasional Bhd) already moving internationally,

this left a plenty of room for small oil companies to fill in the gap left

by Petronas to explore the growing regional oil sector," Yeah told Business Times.

He was asked to comment on Prime Minister Datuk Seri Dr Mahathir Mohamad's statement in Budget 2004 that there is a need for another consortium to undertake oil exploration, production and refining.

Dr Mahathir had said that the Government can allow another consortium in

Malaysia to undertake the development of marginal fields so as to gain the

confidence of other countries.

Yeah said the proposed second national oil consortium will generate opportunity since Petronas has already diversified its activities.

"The new consortium should emulate Petronas to explore niche areas in South-East Asia.

"Thus, we welcome the move in view of the growth in the sector," he said.

Yeah said the proposal will benefit supporting oil companies as they would have more choice in providing their services.

"Rather than depend on Petronas, these companies will be able to contribute their services to another oil corporation," he said.

He also said although there would be competition between Petronas and the new consortium, in the long run, this would provide efficiency in the

local oil industry.

"Companies involved will be able to diversify their activities aggressively."

However, Yeah said the Government must make it clear whether the proposed consortium should also be involved in the oil retail business.

"We would not want this to lead to duplication of works and waste of

manpower. The oil retail sector in the country is already crowded," he said.

Besides Petronas, there are already Malaysian companies exploring the upstream activities in the oil industry.

For example, Zodan and Zudavi, two Malaysian companies linked with tycoon Tan Sri Ananda Krishnan, had finalised a deal with Indonesia's Pertamina to explore oil and gas opportunities in Indonesia in 2001.

The two companies, registered in the Netherlands, signed a product-sharing contract to conduct the exploration and production of oil and gas

off the east coast of Kalimantan in the Makassar Strait.

Companies supporting major oil groups include Scomi Group Bhd, Petra Perdana Bhd, Sumatec Bhd, SAAG Consolidated Bhd, Dialog Group Bhd, Oil Corp Bhd, Sapura Energy Sdn Bhd, and UMW oil and gas division.