

# Malaysian oil pipeline would bypass sea path

IHT-29 May, 2007

From news reports

**KUALA LUMPUR:** A \$7 billion pipeline to be laid across northern Malaysia will divert up to a third of oil now being carried through the Strait of Malacca, ensuring a secure supply from the Middle East to East Asia, officials said Monday.

The pipeline would stretch 300 kilometers, or 185 miles, from Kedah State, on the northwestern coast, to Kelantan State, in the northeast.

Work is scheduled to begin in 2008 and finish in 2014, said Rahim Kamil Sulaiman, chairman of the project owner, Trans-Peninsula Petroleum.

"This is not a political project," Rahim said at a news conference. "It is a commercial undertaking. The project is economically viable."

He said the pipeline would be a substitute for the Strait of Malacca, through which half the world's oil is shipped. The strait is also notorious for robberies and hijackings, although the number of attacks has fallen since Malaysia, Indonesia and Singapore, which share the waterway, increased patrols in 2005.

Rahim said the timing of the pipeline was perfect because more oil was being shipped to China, which has become the world's second-largest importer of oil, behind the United States.

Earlier Monday, Trans-Peninsula signed an agreement with the Malaysian company Ranhill Engineers & Constructors and with the Indonesian company PT Tripatra for the design and construction of the pipeline.

The signing was witnessed by the Malaysian prime minister, Abdullah Ahmad Badawi, and the Indonesian president, Susilo Bambang Yudhoyono.

Trans-Peninsula has also linked up with a Saudi company, Al-Banader International Group, for oil supplies but has given no details on this cooperation.

Financing for the construction of the pipeline will come from local and foreign investors, Rahim said without discussing details.

Under the plan, crude oil would be refined in Kedah, pumped through the pipe to Kelantan and then loaded onto tankers bound for Japan, China and South Korea, completely bypassing Singapore and the Strait of Malacca.

Kedah's chief minister, Mahdzir Khalid, told reporters that two refineries, costing a total of \$9 billion, would be built in Kedah by 2010 with a combined refining capacity of 450,000 barrels a day.

Two Malaysian companies, SKS Ventures and Merapoh Resources, are expected to present details of the refineries in August, he said. The first of three pipes is expected to be ready in 2011.

Malaysia and Singapore, economic rivals since they split in 1965, are vying to control the passage of crude between the Far East and the rest of the world. Singapore is Asia's biggest oil trading center.

"If it's going to divert traffic, it's going to have some effect on Singapore," said Kaladher Govindan, head of research at TA Research in Kuala Lumpur.

"If they can get the pipelines fully utilized, if they can get customers from the Middle East, I don't see why they can't pull it off," Govindan said.

China, which is the world's fastest-growing major economy, bought record volumes of crude oil in March and April. China imported 3.6 million barrels of oil a day last month and 3.3 million barrels a day in March, customs figures show.

"The oil market has shifted to East Asia and China is a significant player in oil pricing and demand," Rahim said. "With this project, it will take a shorter time for oil supplies to reach their destination."

Shares of Ranhill, which is based in Kuala Lumpur, were suspended for the announcement.

The stock last traded on Friday at 1.81 ringgit, or 53 U.S. cents. The shares, which have jumped 44 percent this year, will resume trading Tuesday, the company said.

An Indonesian company, PT Bakrie & Brothers, will supply pipes for the project, the statement said.

About 10 million barrels of oil, or 12 percent of the world's daily production, passes through the Strait of Malacca each day, according to the International Energy Agency.

The pipeline across Malaysia, whose territory also includes two states on the island of Borneo, may carry 20 percent of the oil that passes through the strait, Ranhill and Trans-Peninsula said. The project will initially have a storage capacity of 60 million barrels, they said. Offshore mooring facilities will be built at both ends of the pipeline to accommodate very large crude carriers, or supertankers. Ranhill said it would start buying land next year. (AP, Bloomberg)

