

Will Oil Prices Go Higher?

While producers would prefer moderate oil prices in the long term, increasing usage and a dwindling supply may put a strain on the ability to do that.

ARE the days of cheap oil a thing of the past? Ask this to an industry man like Shell Malaysia chairman Jon Chadwick, and he will give you a reassuring answer that the current prices of US\$35-40 a barrel are unsustainable.

'It's in nobody's long-term interest. We may make profits in the short term but hardship for customers will lead to action that will affect the long-term picture. The long-term pain will outweigh the short-term gains,' he says.

He has been through three oil price shocks in his 26 years in the business with

Shell, and if experience were to count for anything, then he expects prices to head towards a more reasonable US\$20 range, with some help from the Organisation of Petroleum Exporting Countries (Opec).

Producers like Opec would prefer prices supportive of sustained economic expansion.

The impact of higher oil prices on the Malaysian public is mitigated through government intervention but it has been bleeding government finances. The Ministry of Domestic Trade and Consumer Affairs that controls prices of motor gasoline, diesel and liquid petroleum gas (LPG), is already hinting that it wants to

decrease or stop subsidised pricing via the Automatic Pricing Mechanism.

Supply bottlenecks, security concerns and surging demand have been blamed for the current price rise. Speculators have jumped in to fire the rise and make a profit. But some analysts are painting a worrying picture for future crude prices.

They point to factors that suggest even higher prices in the years ahead. These include the rise of economies such as India and China, very tight American reserves and gasoline stocks, deregulation of energy markets that is leading to lower inventory levels, rising exploration and development cost that yield smaller finds, and falling production from non-Opec producers like Russia.

It's interesting to note that oil discovery rates peaked in the 1960s and that no giant field (above 1 billion barrels) has been discovered in the past 30 years outside of the Middle East.

In the 1960s, the global industry discovered about 375 billion barrels; in the 1980s only 150 billion. In the 1990s, finds were edging lower and global oil reserves have not increased since the start of that period.

In 1973, 15 giant fields pumped out one million barrels a day that accounted for 30% of the world's daily supply. The fields then had an average age of 22 years. Today, 13 of these fields are still producing, with only two above the one million barrels level and the remaining 11 at 200,000-300,000.

The average age has increased to 44 years. Only two fields in non-Opec countries produce above one million barrels and three about 500,000 barrels.

Are the days of finding giant fields outside of Opec over?

'I hope not. We are still looking for the big beast. We are out there looking for it with new technology in ever-increasing deep waters. Let's not forget, seven-ninths of this planet is ocean and sea and we are going after that deepwater potential,' says an optimistic Chadwick.

He demystifies the belief that large international oil companies like Shell are manipulating the market to increase their profits. 'Shell produces 3% of the world's oil and there's no way you can influence prices with that amount,' he says. **mb**

year in Malaysia.

1993 > Credit card acceptance at Shell retail stations.

1995 > The first deepwater PSC is signed between Shell and Petronas for the SB-G block offshore Sabah.

Shell Malaysia has its first Malaysian chairman, Datuk Megat Zaharuddin M Nor.

1997 > Shell Malaysia publishes first sustainable development report.

1998 > Formula Shell is first in the industry to go 100% unleaded nationwide. First deepwater well, Kamunsu East, is drilled.

2000 > Shell V-Power, Malaysia's only premium fuel is introduced to the market. **mb**