

# Well overdue

BANGKOK

## More drilling, less subsidising

**S**INCE last year, Indonesia has enjoyed the unwelcome distinction of being the only OPEC member that is an overall importer of oil. While gas production ensures that it remains a net energy exporter, the country's oil production is now a lamentable third below its peak in the late 1970s. Like many of its South-East Asian neighbours, Indonesia has plenty of under-explored oil and gas prospects, onshore and offshore, and desperately needs to encourage oil firms to get drilling. Among the many factors that discourage them—corruption, political instability and so on—the most prominent has been a five-year deadlock over the big Cepu oilfield on Java island. Finally, this week, Cepu's feuding main partners, ExxonMobil and Indonesia's state oil firm, Pertamina, signed a face-saving deal in which they will nominally ►►

► share the management of the project, though in practice Exxon will be in charge, as it had demanded.

When Indonesia's President Susilo Bambang Yudhoyono took office in 2004, he pledged to resolve the Cepu row within 100 days. Though he failed to do so, he now deserves credit for defying the strong nationalist lobby that wanted Cepu to be run by Pertamina. The deadlock began to ease earlier this month, when the president publicly excoriated the state firm as "slow, half-baked and ineffective" and, shortly after, fired most of its bosses.

Such is Cepu's potential that, if there are no further hitches, the project could boost Indonesia's oil output by a fifth in two years. And it could achieve more than this: the victory for Exxon may encourage it and other oil multinationals to invest more in oil and gas, not just in Indonesia but throughout South-East Asia.

Some countries in the region, notably Malaysia and Vietnam, have raised their output in recent years—even tiny Timor-Leste is starting to see revenues from its gas fields. Others are only now taking action to reverse slumping production. Besides Indonesia, one is Papua New Guinea, which said this month it would soon launch its first round of bidding for exploration licences in six years, and approve a proposed pipeline to export gas to Australia.

Myanmar has substantial reserves but multinationals are reluctant to deal with the military junta that runs the place. State-run firms from Asia's thirsty giants, India and China, have no such qualms. Last week, for example, India's state gas firm, GAIL, signed a deal to pipe gas from Myanmar along a new pipeline.

Until recently another big deterrent to energy investment in South-East Asia was the widespread use of price controls and fuel subsidies. Besides driving away the multinationals, these deprived the region's state energy firms of revenues they needed to invest in exploration. However, the past year or so has seen drastic subsidy cuts in some countries, most notably Indo-

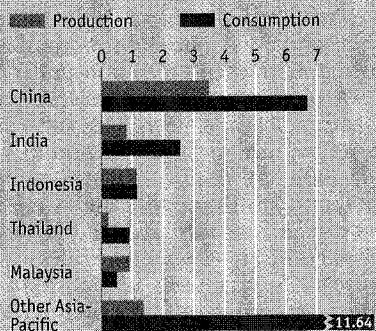
nesia, which raised fuel prices by 127% last year; and Malaysia, where petrol prices have risen 40% and diesel prices have doubled since October. Mr Yudhoyono and Malaysia's prime minister, Abdullah Badawi, have stood firm despite street protests against the price hikes.

South-East Asia's subsidy-slashing is doing it plenty of good and little harm, says David Fyfe of the International Energy Agency. Governments' finances have improved greatly but the resulting sharp rise in fuel costs has not plunged the region

into recession, even though demand for oil-based fuels has slumped. One reason is that motorists are switching to cheaper (and greener) biofuels. Sales of "gasohol"—petrol mixed with alcohol made from sugar cane—are soaring in Thailand. This week it announced plans to put half a million gas-powered vehicles on its roads by 2011, to reduce oil dependence and provide a market for the off-shore gas fields it is developing. With such policies, the region should be much less vulnerable to spikes in energy prices. ■

### Skewed

Oil production and consumption, 2004  
Barrels per day, m



Source: BP Statistical Review of World Energy