

**KEYNOTE ADDRESS BY
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AT THE 9TH ASIA OIL & GAS CONFERENCE: RISING TO NEW CHALLENGES
AT MANDARIN ORIENTAL, KUALA LUMPUR
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(Read by Deputy Prime Minister YAB Dato' Seri Najib Tun Razak)

Honourable Guests

Ladies and Gentlemen

I would like to begin by thanking the Organisers for inviting me to deliver a few words today. It is indeed a great pleasure for me to be given the opportunity to address to such a distinguished collection of industry specialists, practitioners and participants from the global oil and gas fraternity.

2. This is the ninth edition of the Asia Oil and Gas Conference. I am pleased to note that it has grown into an event that has continuously provided a platform for intellectual discourse on the oil and gas industry in Asia in particular, and the world in general. The theme for this year's Conference is, I have been informed, "Rising to New Challenges". As industry participants and insiders, I am sure there are a multitude of technical issues and challenges to address and overcome. From a strategic perspective, however, I believe the greatest challenge that the oil and gas industry must surmount is how to meet the energy requirements of a growing Asia.

Ladies and Gentlemen

3. Asia has long been a continent of great opportunity and latent potential. Its vast reserves of natural resources, allied to its large population of industrious peoples provide it the necessary tools to generate growth and prosperity. Indeed, it was these very qualities that made Asian lands such coveted possessions of old world powers. Many Asian countries have spent the last five or six decades coming to terms with life as independent sovereign nations. Many countries have been grappling with the realities of statehood and each has had to deal with its own set of nation building challenges. Some had had to overcome internal conflict, while others have had to weather wars and other forms of armed insurgency.

4. Thankfully, Asia has, by and large, put many of these obstacles behind it and is now primed to register strong economic advancement. The numbers are compelling: China and India are transforming themselves into the economic powerhouses that they have always threatened to become. The economies of East Asia that were so ravaged by the Financial Crisis of 1997 have recovered, rebounded and are now registering robust growth. Japan, which has been suffering a decade long slump, is now showing signs that its recovery is more than merely nascent. And a number of

other nations are opening up, in the process attracting foreign investment, stimulating activity and blossoming into vibrant and expansive economies. In short, Asia is back and the outlook is promising as the Asian economy is expected to sustain its current growth rate in the region of six percent per year by 2010. This is almost double the average growth rate for the world.

5. Asia's appetite for energy is commensurate with its growth. Overall in 2003, we have seen oil demand reach a peak of 22 million barrels per day in Asia, triggered mainly by strong economic growth in developing Asian countries. Based on current projection, developing Asia will remain a major oil consuming market with an average annual growth rate of 3.2 percent, which is almost three times higher than that of industrialised nations.

6. Driven by strong demand from China, oil consumption in developing Asia is projected to reach 32 million barrels per day by 2025, more than double the region's total consumption in 2001. China's crude-oil consumption in 2003 alone was equivalent to nearly 70 percent of the combined crude oil consumption of France, Germany, Italy and the United Kingdom, and China is currently the world's second-largest consumer of crude oil after the United States.

7. Gas, too, is increasingly becoming an important alternative to oil in the Asian region. Globally, gas utilisation is projected to increase sharply by almost 70 percent to 151 trillion cubic feet by 2025. Between 1995 and 2002, pipeline gas export grew by 46 percent, while LNG exports have expanded by 62 percent. Developing Asia will remain one of the fastest growing gas consuming regions with annual demand projected to increase by an average of 3.5 percent per year between 2001 and 2025. The growth in annual demand projection is about twice as fast as that projected for the industrialised countries.

8. These figures represent persuasive evidence that energy is going to play a major role in sustaining the growth momentum that Asian economies are generating. What Asia needs is a secure, reliable and affordable supply of energy. Asia has, in the past, been able to weather past energy crises and shortages. However, its sustained and continuing economic expansion means that any disruption in supply or any volatility in prices will have severe implications on future growth. Asia's reliance on energy, especially on imported oil and gas is expected to increase further as its economy expands and prospers. In 2003 alone, Asia's reliance on oil imports was about 64 percent. Governments in the region certainly are aware of the importance of energy security and sustainability. For instance, ASEAN has stated its intention to achieve these goals by 2020.

9. Energy security is not only vital to fuel Asia's factories and furnaces. One must keep in mind that while Asia is blessed with a number of fairly rich economies, the region also comprises a number of poor economies. It is estimated that one in every five Asians are still living below the poverty line. Thus, apart from the security of energy supply, access to reliable and affordable source of energy will provide an important avenue for about 3.3 billion people of Asia, over half of the world population, to enhance their socio-economic standards.

Ladies and Gentlemen

10. What then are the necessary measures to ensure energy security for Asia? Of all the primary energy sources in Asia, it should be recognised that in the short to medium term at least, oil and gas will continue to remain as the primary energy source. For all our advancements in developing alternative sources, hydrocarbons will continue to be the main source of energy.

11. The nature of the oil and gas industry is that it is an extremely capital intensive one. Things cannot be done in half-measures. The business requires massive investment to fund exploration and to develop infrastructure to deliver the commodities to the markets. As production declines in some regions, more and more new hydrocarbon reserves need to be tapped. The chances are that these reserves will be increasingly located in remote frontiers and deeper waters, as traditional reserves are depleted. One estimate quotes the cost of new investment needed to meet targeted demand in excess of USD2 trillion. In addition, research and development as well as better technology and innovation will be critical to enhance the efficiency of the value chain so that resources can be brought to the markets in a cost effective, efficient and environmentally friendly manner.

12. Collaboration and cooperation should therefore be the order of the day to pool and maximise the utilisation of limited resources. The enhancement and expansion of bilateral and multilateral energy cooperation could serve as one of the means to promote closer regional economic cooperation, especially in growth areas across the common borders. Indeed, the various Asian National Oil Companies (NOCs) could also play a pivotal role towards meeting this objective by working together as strategic partners and forming alliances to bridge the existing gaps in Asia's energy security.

13. There are already a number of intra-ASEAN partnerships either in existence or in the pipeline. For example, Petronas, Pertamina and Petrovietnam are jointly exploring and developing oil and gas in Vietnam. Malaysia, Indonesia and Brunei have agreed to cooperate on production and shipping of liquefied natural gas. There is an emerging Trans-ASEAN Gas Pipeline project that seeks to create a truly regional energy infrastructure. Links between Malaysia, Indonesia, Singapore, Thailand, Myanmar and the Philippines are significant steps towards realising an integrated regional gas network. These initiatives must continue and be expanded as they will strengthen our resilience in ensuring a reliable supply of energy.

14. Apart from intra-regional cooperation, it would also be desirable for more technical cooperation and technology transfer between the giant multinational oil companies and national oil companies. Petronas has benefited from being in partnership with companies such as Shell and Exxonmobil in exploration works all over Malaysia, as well as working with companies such as TotalFinaElf in Iran and Chevron in Chad. Conoco worked closely with Pertamina and Petronas to develop the West Natuna gas field in Indonesia. Developing nations are keen to learn new

technologies and absorb new ideas. Only by providing access to the requisite knowhow and expertise can developing countries and their national oil companies survive and prosper.

Ladies and Gentlemen

15. Although this is not a political forum, it would be remiss of me to talk about the challenges facing the oil and gas industry and issues such as security of supply without making reference to the Middle East. The Middle East currently accounts for two-thirds of the global oil and gas reserves, 30 percent of the total world oil supply, and virtually all of the world's excess capacity. However, almost in perpetuity, the region is very much embroiled in political issues and conflicts despite continuous efforts to bring peace to the region. The Palestinian problem remains unresolved for almost half a century and the Iraqi people have been subjected to unprecedented turmoil and strife

16. The recent developments outlining the transfer of full sovereignty to the Iraqi people is therefore a welcome step towards normalising the situation in the region, although true peace cannot be achieved until the Palestinian issue is resolved in a fair, lasting and equitable manner. It is hoped that the global community can work towards a just solution with the same determination and resolve as it has with Iraq.

Ladies and Gentlemen

17. The energy industry has an important contribution to make in the growth of a stable and prosperous world. Real progress however will require new and broader cooperation not only amongst industry participants but also with everyone who has an interest in a stable and prosperous world. Herein lies the importance of relationships and the value of mutually beneficial cooperation. The time has come for us to commit to deliverables that could effectively and meaningfully accelerate the development of energy resources in a sustainable fashion. This means not just recognising what needs to be done but also expediting the pace of progress. Let us work towards realising the full potential of the energy industry, which will bring opportunities to individuals, prosperity to communities and economic growth to countries. Let us continue to work towards closer cooperation, continuous dialogue and relationship building between the public and private sectors in Asia.

I wish you all a successful conference.

Thank you.