

**SPEECH BY  
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI  
AT THE 11TH ANNUAL ASIA OIL & GAS CONFERENCE "BALANCING THE  
INTEREST OF CONSUMERS AND PRODUCERS"  
AT KUALA LUMPUR CONVENTION CENTRE  
12 JUNE 2006**

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BISMILLAHIR RAHMANIR RAHIM

ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH AND GOOD MORNING

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EXCELLENCIES

DISTINGUISHED SPEAKERS AND PANELISTS

LADIES AND GENTLEMEN

1. IT IS A PLEASURE FOR ME TO BE GIVEN THIS OPPORTUNITY TO AGAIN ADDRESS SUCH A SIGNIFICANT GATHERING OF THE GLOBAL OIL AND GAS FRATERNITY AT THIS 11TH ASIA OIL AND GAS CONFERENCE 2006. I AM PLEASED TO NOTE THAT THE ASIA OIL AND GAS CONFERENCE SERIES IS CURRENTLY GLOBALLY RECOGNISED AS ONE OF THE PREMIER EVENTS IN ASIA'S OIL AND GAS CALENDAR. I BELIEVE THAT A MEETING OF MINDS AT AN EVENT OF THIS SCALE HAS ENABLED EXPERTS AND POLICY MAKERS FROM BOTH PRODUCING AND CONSUMING COUNTRIES TO ENGAGE IN STRATEGIC DISCUSSIONS, AND SHARE VALUABLE INSIGHTS ON COMMON ISSUES AND CONCERNS AFFECTING THE OIL AND GAS INDUSTRY.

2. ON MY PART, ALLOW ME TO SHARE WITH YOU SOME OF MY THOUGHTS ON THE DYNAMICS CURRENTLY AFFECTING THE OIL AND GAS INDUSTRY, AS WELL AS KEY ISSUES AND CHALLENGES IN THE CONTEXT OF PRODUCER-CONSUMER RELATIONSHIPS. HOPEFULLY, MY VIEWS WILL STIMULATE SOME OF YOUR THOUGHTS DURING THIS CONFERENCE. INDEED, THE THEME FOR THIS YEAR'S CONFERENCE, "BALANCING THE INTEREST OF CONSUMERS AND PRODUCERS" COMES AT A TIMELY JUNCTURE WHERE THE INDUSTRY IS FACING GREAT CHALLENGES IN ACCESSING NEW RESOURCES AMIDST INCREASING GLOBAL DEMAND FOR OIL AND GAS.

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3. FOR THIS YEAR, I AM MADE TO UNDERSTAND THAT OIL CONSUMPTION IS PROJECTED TO INCREASE TO SOME 84 MILLION BARRELS A DAY FROM ABOUT 67 MILLION BARRELS A DAY IN 1990. LIKewise, CONSUMPTION OF NATURAL GAS HAS

ALSO INCREASED FROM 73 TRILLION CUBIC FEET IN 1990 TO MORE THAN 95 TRILLION CUBIC FEET PRESENTLY. WHILE FUTURE DEMAND GROWTH IS EXPECTED TO COME MAINLY FROM EMERGING ECONOMIES SUCH AS CHINA AND INDIA, HIGH DEMAND FROM INDUSTRIALISED AND MATURE MARKET ECONOMIES IS ALSO EXPECTED TO EXERT FURTHER PRESSURE ON THE ALREADY TIGHT SUPPLY SITUATION. OVERALL, BETWEEN 2002 AND 2025, EMERGING ASIA IS PROJECTED TO REGISTER THE HIGHEST ANNUAL GROWTH IN ENERGY CONSUMPTION AT 3.5 PERCENT PER YEAR, WHICH IS ALMOST THREE TIMES HIGHER THAN THAT OF THE DEVELOPED ECONOMIES.

4. FOLLOWING THE CURRENT SLIM EXCESS CAPACITY SITUATION FACED BY THE INDUSTRY, THE TUSSELE FOR ENERGY RESOURCES COULD BECOME MORE ACUTE AND MAY EVEN DEVELOP INTO A GLOBAL ENERGY CRISIS, AS ENERGY HUNGRY ECONOMIES CONTINUE TO CONSUME MORE OIL THAN THEY CAN POSSIBLY PRODUCE OR IMPORT. THE PAST HAS SHOWN HOW ENERGY, ESPECIALLY OIL AND MARKET VOLATILITY COULD CREATE CONFLICTS OR EXACERBATE POLITICAL TENSIONS BETWEEN COUNTRIES. FOR EXAMPLE, THE OIL CRISIS OF 1973-74 IN THE WAKE OF THE MIDDLE EAST WAR, AND THE USE OF OIL AS A POLITICAL WEAPON, HAD PITTED PETROLEUM PRODUCING AND CONSUMING COUNTRIES ANTAGONISTICALLY AGAINST EACH OTHER.

5. IN ALL, IT IS PROJECTED THAT MORE THAN 100 MILLION BARRELS PER DAY OF OIL, AND SOME 150 TRILLION CUBIC FEET OF NATURAL GAS WILL BE REQUIRED BY 2025 TO ACCOMMODATE GLOBAL CONSUMERS' EVER GROWING APPETITE FOR ENERGY. HENCE, IN THE NEXT TWENTY YEARS, OIL INDUSTRY PLAYERS, PARTICULARLY THE PRODUCERS, ARE ESTIMATED TO BE REQUIRED TO INVEST IN EXCESS OF 5 TRILLION U.S. DOLLARS FOR OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION, AS WELL AS FOR CAPACITY BUILDING AND SUPPLY INFRASTRUCTURE TO SUSTAIN EXISTING PRODUCTION, AND TO MEET NEW DEMAND GROWTH. IN ADDITION, SOME 400 BILLION U.S. DOLLARS IS ESTIMATED TO BE REQUIRED BETWEEN 2001 AND 2030 TO BUILD NEW REFINERIES THAT WILL, TO A CERTAIN EXTENT, ADDRESS THE CURRENT CONSTRAINT IN CAPACITY THAT HAS BECOME ONE OF THE MAIN CONTRIBUTORS TO HIGHER OIL PRICES IN THE PAST TWO YEARS.

6. GIVEN THE ASTRONOMICAL SCALE OF THE PROJECTED CAPITAL OUTLAY REQUIRED TO ADDRESS SOME OF THESE CHALLENGES, THERE IS THE NOTION THAT PETROLEUM COMPANIES ARE TODAY 'CASH RICH BUT INVESTMENT POOR'. FORTUNATELY, IN THIS ERA OF STRATEGIC PARTNERSHIPS, ALLIANCES AND COLLABORATION, PRODUCERS CAN PERHAPS TAKE SOME COMFORT THAT THE FINANCIAL OBLIGATIONS AND RISKS WILL HAVE TO BE SHARED BY ALL PARTNERS IN THE BUSINESS CHAIN IN ORDER TO SUSTAIN THE LONG TERM VIABILITY OF THE OIL AND GAS INDUSTRY. IN THE FUTURE, IT MAY BE INEVITABLE THAT EVEN CONSUMERS WILL HAVE TO BEAR SOME OF THESE OBLIGATIONS AND RISKS.

7. TODAY, WE CAN ALSO OBSERVE THAT OIL PRICES REMAIN HIGH AND VOLATILE AMID INCREASING CONCERNS OVER ENERGY SECURITY. WHILE THE HIGHER PRICES ARE, IN PART, ATTRIBUTED TO THE INCREASING ENERGY DEMAND IN DEVELOPING ASIAN COUNTRIES AND THE UNITED STATES, BOTTLENECKS IN THE

SUPPLY CHAIN, AS WELL AS SPECULATIVE TRADING, GEOPOLITICAL UNCERTAINTIES AND THE DESTRUCTIVE FORCES OF NATURE ALSO IMPACT PRICE TRENDS, AND WORSEN PERCEPTIONS OVER ENERGY SECURITY.

8. AGAINST THIS BACKDROP OF ENERGY SECURITY CONCERNS, IT IS IMPERATIVE THAT PRODUCERS AND CONSUMERS TAKE A CLOSER LOOK NOT ONLY AT THE LONGER-TERM CHALLENGES, BUT ALSO AT THE PRESENT DAY'S CONSTRAINTS AND BOTTLENECKS THROUGHOUT THE ENERGY CHAIN. IN THIS RESPECT, WE NEED TO IDENTIFY POLICY FRAMEWORKS THAT WILL ENHANCE EFFICIENT MARKET OPERATIONS, AND THE NECESSARY MEASURES THAT GOVERNMENTS AS WELL AS THE PRIVATE SECTOR CAN TAKE TO MEET THE NECESSARY ENERGY DEMAND AND TO DEAL WITH THE EXCESSIVE VOLATILITY IN THE OIL MARKET.

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9. IT IS PROBABLY REALISTIC TO ACCEPT THE FACT THAT THE PERIOD OF 'CHEAP OIL' IS EFFECTIVELY OVER. IN THE CONTEXT OF TODAY'S INDUSTRY DYNAMICS, WE ARE UNLIKELY TO SEE PRICES OF CRUDE OIL RETREATING FROM THE CURRENT 70 U.S. DOLLARS PER BARREL TO 20 TO 25 U.S. DOLLARS PER BARREL OF FOUR YEARS AGO, OR EVEN TO 45 TO 50 U.S. DOLLARS PER BARREL SEEN TWO YEARS AGO, ANYTIME SOON. ON THE CONTRARY, WHAT WE HAVE BEEN HEARING IS NOT PLEASING AT ALL, AS SOME MARKET ANALYSTS AND OBSERVERS PREDICT THAT IT IS POSSIBLE FOR OIL PRICES TO REACH AS HIGH AS 100 U.S. DOLLARS PER BARREL OR HIGHER IN THE NEAR FUTURE.

10. DESPITE THE MANY PREDICTIONS, SUFFICE TO SAY THAT BASED ON EMERGING TRENDS WITH RESPECT TO THE SCARCITY OF ENERGY RESOURCES, IT IS CRUCIAL THAT WE CHANGE OUR MINDSET AS WELL AS ADJUST THE WAY WE LIVE AND CONDUCT BUSINESS IN ORDER TO ADDRESS FUTURE UNCERTAINTIES WITH RESPECT TO ENERGY RESOURCES. MOVING FORWARD, IT IS TIME THAT WE ASK OURSELVES WHAT IS REQUIRED TO RECONCILE AND BALANCE THE INTERESTS OF BOTH PRODUCERS AND CONSUMERS IN THE CONTEXT OF KEY ISSUES AND COMMON CONCERNS AFFECTING BOTH PARTIES.

11. I AM PLEASED TO NOTE THAT DIALOGUES CONCERNING ENERGY HAVE STRUCK FIRM ROOTS. THERE IS NOW A FIRM REALISATION THAT ENERGY IS CRUCIAL FOR ECONOMIC AS WELL AS SOCIAL DEVELOPMENT IN EACH AND EVERY COUNTRY. THERE IS ACKNOWLEDGEMENT THAT ENERGY IS IMPORTANT FOR BOTH COMMERCIAL AND POLITICAL RELATIONS BETWEEN COUNTRIES. IT IS AGREED THAT THE PRODUCTION AND CONSUMPTION OF ENERGY IMPACTS THE GLOBAL ENVIRONMENT. IN SHORT, ENERGY INFLUENCES AND IS INFLUENCED BY INTERNATIONAL POLITICS. INDEED, IT IS DIFFICULT TO IMAGINE AN AREA WHERE NATIONS ARE MORE INTERDEPENDENT THAN IN THE CONFLUENCE OF ENERGY SUSTAINABILITY, ENVIRONMENTAL PROTECTION AND ECONOMIC DEVELOPMENT.

12. IN MY VIEW, ENERGY COOPERATION IS ONE OF THE BEST WAYS FOR CONSUMING COUNTRIES TO SECURE FUTURE ENERGY SUPPLIES. WHAT THIS ENTAILS IS FOR BOTH PRODUCERS AND CONSUMERS TO CONTINUE TO PURSUE VALUE-DRIVEN INITIATIVES BASED ON STRATEGIC ALLIANCES TO EXPLORE NEW RESOURCES AND DEVELOP FUTURE CAPACITIES WITH WHICH TO ENHANCE THE SECURITY OF THE WORLD'S ENERGY SUPPLY. HOWEVER, THIS DOES NOT INCLUDE CURRENT INITIATIVES BY SOME CONSUMING COUNTRIES SUCH AS PREFERENTIAL OIL DEALS AND STOCKPILING TO ENHANCE THE SECURITY OF SUPPLY.

13. IT SHOULD BECOME OBVIOUS THAT THE LATTER MEASURES LACK SUSTAINABILITY, AS THE REAL ISSUE IS NOT ABOUT QUANTITY, BUT RATHER THE PHYSICAL LOCATION OF OIL AND GAS RESERVES. GLOBALLY, MORE THAN 70 PERCENT OF OIL AND GAS RESOURCES ARE OWNED BY NATIONAL OIL COMPANIES, WHICH MAKE THE BARRIER TO ENTRY EVEN MORE CHALLENGING FOR INTERNATIONAL OIL COMPANIES. MOREOVER, TWO-THIRDS OF PROVEN RESERVES ARE IN THE PERSIAN GULF, WHICH UNFORTUNATELY IS ONE OF THE WORLD'S MOST VOLATILE REGIONS. NO DOUBT, WE ARE ACUTELY REMINDED THAT SUPPLIES WERE DISRUPTED DURING THE IRANIAN REVOLUTION IN 1979, THE IRAN-IRAQ WAR IN 1980, IRAQ'S INVASION OF KUWAIT IN 1990 AND THE WAR ON IRAQ IN 2003. THUS, WHAT IS MEANT BY SECURING FUTURE ENERGY SUPPLIES IS THAT THE WORLD NEEDS TO SEEK AND DEVELOP NEW RESOURCES, AS FIELDS IN THE NORTH SEA, ALASKA, THE GULF OF MEXICO –TO NAME BUT A FEW – ARE RAPIDLY REACHING THE END OF THEIR PRODUCTIVE CYCLES. AS THE RATE OF DECLINE BECOMES MORE IMMINENT, THE PRESSURE ON PRODUCERS TO DISCOVER FRESH RESERVES IS BECOMING EVER MORE URGENT.

14. IN THIS REGARD, THE GREATER ASIAN CONTINENT, WHICH COVERS THE HYDROCARBON-RICH WEST ASIA, CENTRAL ASIA AND SOUTHEAST ASIA ARE COLLECTIVELY KEY ENERGY EXPORTING REGIONS. TOGETHER, THEY ACCOUNT FOR MORE THAN 60 PERCENT OF OIL, AND 51 PERCENT OF GAS RESERVES IN THE WORLD. DESPITE INTERMITTENT GEOPOLITICAL CONFLICTS AND CONTINUED INSTABILITY, THE UNEXPLORED POTENTIAL IN THE WEST AND CENTRAL ASIAN CONTINENT REMAINS VAST AND THUS OFFER HUGE PROMISE FOR NEW DISCOVERIES. SOUTHEAST ASIA ALSO HAS MUCH TO OFFER IN TERMS OF POTENTIAL EXPLORATION AREAS, ESPECIALLY IN DEEP AND ULTRA-DEEP WATER LOCATIONS WHERE MOST OF THE FUTURE OIL AND GAS DISCOVERIES ARE EXPECTED TO BE MADE. DESPITE THE HUGE POTENTIAL FOR OIL AND GAS DISCOVERIES WITH RELATIVELY LOWER GEOPOLITICAL RISK, THE REGION IS GROSSLY UNDER-EXPLORED. PERHAPS MAJOR OIL AND GAS CONSUMING COUNTRIES CAN SERIOUSLY CONSIDER INVESTING OR BECOMING A PARTNER IN UPSTREAM EXPLORATION AND DEVELOPMENT IN THIS REGION, SO AS TO REDUCE THEIR DEPENDENCE ON MIDDLE EAST OIL.

15. MEANWHILE, VARIOUS OTHER LOCATIONS WITH PROVEN AND POTENTIAL RESERVES THAT ARE CURRENTLY DEEMED AS BEING GEOLOGICALLY, ENVIRONMENTALLY AND TECHNOLOGICALLY CHALLENGING TO DEVELOP INCLUDE DEEP WATER AREAS, THE ARCTIC, TAR SANDS AND COAL-BED METHANE DEPOSITS. WHILE I AM TOLD THAT THE EXTRACTION OF OIL FROM SUCH LOCATIONS IS PRESENTLY TECHNOLOGICALLY CHALLENGING AND EXPENSIVE, IT MAY BE TIME FOR PRODUCERS AND CONSUMERS TO ENGAGE IN JOINT R&D EFFORTS TO

DEVELOP NEW TECHNOLOGIES THAT WILL BE ABLE TO MONETISE THESE POTENTIALLY RICH BUT DIFFICULT RESERVES IN THE LONGER TERM. IN THIS RESPECT, IT IS IMPORTANT TO LOOK AT ATTRACTIVE INVESTMENT POLICIES AND FISCAL TERMS THAT MAY ALLOW CONSUMING COUNTRIES TO TAKE PART IN DEVELOPMENT ACTIVITIES IN THE RESPECTIVE HOST COUNTRIES. GOING FORWARD, WHAT IS REQUIRED IS TO FURTHER ENHANCE THE LEVEL OF COOPERATION TO ALLOW MORE RESOURCE SHARING BASED ON COMMERCIAL TERMS.

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16. THE QUEST FOR ENERGY HAS INDEED BECOME A DEFINING GLOBAL ISSUE OF OUR TIME. THE GROWING DEMAND FOR DEPLETING OIL AND GAS RESOURCES IS LIKELY TO TRIGGER MORE INTENSE COMPETITION TO GAIN ACCESS AND CONTROL OVER THESE RESOURCES. CONCERNS AMONG CONSUMERS ABOUT THE SECURITY OF SUPPLY ARE MATCHED BY PRODUCERS' CONCERN ABOUT THE SECURITY OF DEMAND. ALREADY, CONSUMING COUNTRIES ARE SEEKING TO DIVERSIFY THEIR ENERGY MIX WHILE PRODUCING COUNTRIES WILL CONTINUE TO DIVERSIFY THEIR ECONOMIES. TOGETHER, I BELIEVE THAT CONSUMERS AND PRODUCERS CAN IMPROVE THE MECHANISMS BY WHICH THEY SEEK TO RECONCILE THEIR INTERESTS AND ACHIEVE MUTUALLY BENEFICIAL OUTCOMES. THE KEY TO ALL THIS IS INTERDEPENDENCE, WHICH WILL IN TURN DRIVE FUTURE COLLABORATIONS BETWEEN PRODUCERS AND CONSUMERS BASED NOT ONLY ON COMMERCIAL TERMS, BUT ALSO BASED ON THE MOST IMPORTANT ELEMENT – THE ELEMENT OF TRUST.

17. THE CHALLENGE OF GLOBAL ENERGY SECURITY IS TRULY MULTI-DIMENSIONAL. IT GOES TO THE CORE OF NATIONAL INTEREST. THERE IS NO QUICK AND LASTING FIX. THE CLUSTER OF ISSUES RELATED TO ENERGY SECURITY LENDS ITSELF TO THE PRESSING NEED TO HAVE ONGOING DIALOGUES NOT ONLY BETWEEN NATIONS AT A POLITICAL LEVEL – BILATERALLY, REGIONALLY AND GLOBALLY; BUT ALSO THROUGH PARTNERSHIPS BETWEEN GOVERNMENTS AND THE INDUSTRY. NEVERTHELESS, DIALOGUE IS MERELY A CONFIDENCE-BUILDING PROCESS. THE COURSE FOR A PURPOSEFUL PRODUCER-CONSUMER DIALOGUE HAS NO FINAL DESTINATION IN AN EVOLVING ENERGY WORLD. IT IS ULTIMATELY THE AMBITION OF ALL PARTIES AS WELL AS THE SUMS OF THEIR DECISIONS AND MEASURES THAT WILL DETERMINE THE ACHIEVEMENTS AND SUCCESS OF THE PRODUCER-CONSUMER DIALOGUE.

18. IN MY VIEW, WHAT THE WORLD TRULY NEEDS ARE MORE SUSTAINABLE ENERGY RESOURCES THAT WILL BE USED EFFICIENTLY AND BE ACCESSIBLE AND AFFORDABLE TO A LARGER SHARE OF THE WORLD'S POPULATION. ACHIEVING SUSTAINABLE ENERGY SYSTEMS WILL CONTINUE TO DEPEND ON MAJOR TECHNOLOGICAL BREAKTHROUGHS THAT RADICALLY ALTER HOW WE PRODUCE AND CONSUME ENERGY AS WELL AS FAR MORE RADICAL POLICY ACTIONS THAN CURRENTLY ENVISAGED. I BELIEVE THAT DEVELOPING AND DEPLOYING NEW CLEAN TECHNOLOGIES ARE KEY TO MAKING THE GLOBAL ENERGY SYSTEM MORE ECONOMICALLY, SOCIALLY AND ENVIRONMENTALLY SUSTAINABLE IN THE LONGER TERM. ALL OF US, ESPECIALLY GOVERNMENTS, MAJOR OIL CORPORATIONS,

AUTOMOTIVE COMPANIES AND MANUFACTURING CONGLOMERATES, HAVE A CRITICAL ROLE TO PLAY IN ACCELERATING THIS PROCESS AS A MATTER OF URGENCY.

19. GIVEN THE CURRENT CONCERNS SURROUNDING THE INDUSTRY, I AM CERTAIN THAT GOVERNMENTS ALL AROUND THE WORLD ARE MORE THAN WILLING TO PLAY A FACILITATIVE ROLE IN MAKING SURE THAT SUSTAINABLE AND RENEWABLE ENERGY RESOURCES BECOME REALITY IN THE NEAR FUTURE. ON THEIR PART, MAJOR OIL CORPORATIONS – MOST OF WHICH HAVE ACHIEVED RECORD PROFIT LEVELS DUE TO THE HIGH PRICE OF OIL – MUST ALSO BE WILLING TO REINVEST A LARGER PORTION OF THEIR PROFITS FOR THE RESEARCH, DEVELOPMENT AND COMMERCIALISATION OF RENEWABLE ENERGY RESOURCES. ONLY BY WORKING TOGETHER WILL WE BE ABLE TO SOLVE SOME OF THE LONG TERM CONCERNS WEIGHING DOWN THE OIL AND GAS INDUSTRY. IT IS MY VISION TO SEE THAT THIS PROCESS OF COOPERATION BETWEEN THE PUBLIC AND PRIVATE SECTORS BEGIN AT THE SOONEST POSSIBLE TIME.

20. IN THIS SHORT SPAN OF TIME, I BELIEVE THAT I HAVE ONLY TOUCHED UPON A SMALL PORTION OF ALL THE CONCERNS SURROUNDING THE CURRENT OIL AND GAS INDUSTRY. I AM CERTAIN THAT OVER THE CONFERENCE PERIOD MANY MORE ISSUES WILL BE RAISED AND DISCUSSED. IN ANY CASE, I AM SURE THAT THE UNDERLYING THEMES WILL BE SIMILAR – THOSE RELATING TO THE NEED TO IMPROVE MARKET TRANSPARENCY, FOR MORE EFFECTIVE MECHANISMS TO BALANCE THE INTERESTS OF PRODUCERS AND CONSUMERS, AND FOR MORE PRODUCTIVE DIALOGUES BETWEEN THEM.

21. ON THAT NOTE, IT GIVES ME GREAT PLEASURE TO DECLARE THE 11TH ASIA OIL & GAS CONFERENCE OFFICIALLY OPEN. I WISH YOU A SUCCESSFUL CONFERENCE AHEAD.

THANK YOU.