

## **THE ASIA OIL AND GAS CONFERENCE**

SHANGRI-LA HOTEL, KUALA LUMPUR, 30 JULY 1996

It gives me great pleasure to officially open this conference, the first of its kind to be held in Malaysia. Let me first of all extend a warm welcome to all our foreign guests, some of whom may be visiting Malaysia for the first time. I wish you all a very pleasant and enjoyable stay in Malaysia. We are honoured to host such a distinguished gathering of policy makers, energy experts, top executives and other key players in the oil and gas industry.

2. The holding of this conference is indeed appropriate at a time when the regional market is faced with numerous challenges due to political and economic changes worldwide. While on one hand countries appear to favour the free market systems, they still indulge in protectionism and closed regionalism. Widespread concern for the environment has also led to changes in fuel specification. All these changes translate into increase costs, especially in upgrading refining processes and improving combustion of the fuel in order to reduce exhaust gases.

3. In the East Asian region the growth in the demand for oil and gas is perhaps the highest due to the rapid economic development in the region. Growth in the region for the next five years is expected to hover around seven percent per annum. And this is occurring despite the fact that East Asia is made up of a mixture of developed, newly industrialised countries and developing countries which have only just adopted liberal economic policies.

4. Still in the early stage of their economic take off, China had been recording an annual growth of more than ten percent while Vietnam had been recording more than eight percent. The trend will continue into the foreseeable future. The economic growth for ASEAN and the newly-industrialised countries, although still high, has been quite steady, current account deficits notwithstanding. It is also worth noting that Japan has turned around and is now recovering with an expected real growth of 2.4 percent in 1996.

5. The spread of the free market economic system and the abandonment of the command economy by countries like China, Vietnam, Myanmar and Cambodia has opened up new avenues for foreign participation in oil and gas exploration as well as marketing of products. At the same time those countries which have always been market economies such as Japan, the Philippines, Indonesia, Malaysia, India and others have been rapidly deregulating in order to attract private and foreign investment. With these developments, we can expect a more

vibrant economic environment which must impact positively on the oil and gas industry.

6. For Asia, the mere size of its population, making up more than half the world's total, is a major factor that will support growth. With the liberalisation of the economies bringing about new investments and jobs, there will be increases in the income level and the purchasing power as well as the lifestyle of the people. Higher standards of living will result in increasing demands for sophisticated goods and services. The demand for energy in the region must grow proportionately in particular petroleum for transportation, power generation, industrial and domestic use. Consumer preferences will be towards cleaner fuel. If previously consumers in these countries were using firewood for cooking, now they would prefer and would be able to afford kerosene or even LPG or natural gas. Consciousness of the need for cleaner environment has also resulted in increased demand for lead-free petroleum products, low sulphur fuel and increasing usage of gas. However, despite all these and the efforts to achieve energy resource diversification, oil is likely to remain the most important fuel in the region. The current relatively low oil price provides little economic incentives to switch to other energy resources. Demand for energy in Asia is expected to increase between five percent to six percent per annum until the year 2000 while oil demand is projected to grow at an average rate of 3.9 percent between 1995 to 2000, reaching almost 20 million barrels per day by the year 2000.

7. What should be of concern to the region is the imbalance between the increasing consumption and the lower growth in production, especially in the area of indigenous low sulphur crudes. The supply/demand imbalance could be further aggravated by the increasing demand for environmentally friendly energy resources as new environmental awareness takes root in Asia. New environmental standards are being rapidly proposed and implemented not only in the richer countries of Asia but also in many of the region's developing nations. Lead is rapidly being phased out of the gasoline mix, while diesel and fuel oil specifications are being tightened to control the sulphur content. We also see efforts to reduce aromatic content in jet fuel. Nuclear power generation has now gone into disrepute and few new plants are being built in the region, thus putting even greater pressure on oil and gas for power generation. Again, due to rapid economic growth, the demand for power in East Asia and even Central Asia is growing at a faster rate than in any other region of the world.

8. The decline in the regional crude availability will result in the region being more dependent on imports of the Middle Eastern crudes whose reserves are estimated to last about 100

years at their current rate of production. To consuming countries, this high dependence on the Middle East crudes may result in OPEC again exercising control over prices. It should be noted that no country in East Asia can remain independent of outside supply for long. Their rapidly growing economies will soon outstrip their production of oil and gas for domestic use. Even Malaysia which presently exports half of its oil and gas production may become an oil importing country fairly soon.

9. Intensive efforts are being taken by governments in the region to increase exploration in their respective countries. In order to tap financial and technical resources from international oil companies, host governments should be prepared to be flexible in terms of policies and reward system. The increasing market opening and deregulation in the emerging economies of the region are attracting foreign companies to explore new acreage. While this is happening, focus should also be made on secondary recovery, exploration in deep waters, new technologies to increase the success rate of striking oil and marginal fields development. Efforts must be made to keep costs of exploration and production down.

10. Natural gas could be one answer to the declining oil availability in the long run in view of the abundant reserves and its environmentally friendly characteristics. While oil will remain the prime source of world energy for many years to come, we can no longer ignore the fact that gas will increasingly play an important role in supplying the energy needs in the region. With current regional gas reserves amounting to 328.5 trillion cubic feet and more oil exploration activities resulting in gas finds, natural gas production and usage is slowly gaining momentum and emerging as a strong alternative to oil especially in the power and industrial sectors. Technology improvements have enabled gas to become more a global rather than local or even regional industry and will be a major growth area for the future. But bringing natural gas to the market will require enormous infrastructural investment in view of its nature, particularly its more complex storage and transportation requirements. To achieve economies of scale, the projects would have to be of reasonably large and markets assured. However, given the very slow progress of the pipeline projects in the region, and the costly infrastructure involved in the setting up of transnational gas transmission systems, liquefaction will remain the only feasible form of transporting natural gas to consumers for at least the next decade. Again because of the large investments involved, development of gas resources and supply requires long term partnership between producers and consumers. The potential partners should not try to hold each other to ransom because this strategy only results in delays

and increases in cost. Instead partners should be sincere and flexible, taking into consideration the instability not only of policies but also the US dollar in which all transactions are denominated.

11. The oil and gas industry is highly capital intensive. But for the hike in oil prices by OPEC in the 70's, the industry would have been confined to the oil majors. But high oil prices made the then marginal fields worth exploring. Countries like Malaysia were able to open up areas on land and sea for exploration because of better returns from production sharing. Later the national oil companies in these countries were able to actually go into the oil business, exploring, producing, refining and marketing.

12. The emergence of small national oil companies is good for the industry and the consumers. But such is the uncertainty of this business that not many can afford the huge capital outlay needed. It is good therefore for the oil companies to cooperate with each other and to share the risks. Besides, national oil companies cannot depend on domestic production only. They have to go abroad in order to ensure future supplies. Abroad they will not get the kind of protection they enjoy at home. They have a need to spread the risks by teaming up with other oil companies, especially the oil majors. The willingness of these big companies to accept the small national oil companies as partners in ventures in third countries should augur well for the future of the oil industry. National oil companies can contribute through their business connections and the relation between their country and host nations. It is not only in their own countries that the national oil companies can be useful to the bigger international companies. They will be useful in third countries too. Thus most international oil companies are now entering Asian markets strategically through joint ventures with NOCs or private local enterprises.

13. Countries where the big international oil companies invest or market their products expect much more than to be passive locations for doing business. They expect the oil companies to literally fuel their economic growth. They expect participation by locals so as to benefit not just from employment opportunities but also some technology and marketing know-how transfer. The oil business is a lucrative business and the wealth generated must be shared fairly. No one should forget the result of the exploitation of the Middle Eastern oil nations. Eventually they hit back by increasing by many times the price of oil. The world's economy was thrown into turmoil as a result.

14. The growth and increasing affluence of East Asian including South East Asian countries will change the pattern of trade and distribution of raw materials for the whole world. This is inevitable. If Asians become massive and wasteful consumers as the Europeans and Americans are, demand must exceed supply of many of the basic raw materials. If we can imagine all the Asian countries having the per capita income of Western countries, the consumption of petroleum would probably dry up all the oil wells of the world in record time. We can look upon this scenario with fear and try to prevent it by stifling the development of Asian countries. But this is a rather negative approach to a future problem. The better thing to do is to study and carry out research and development on how to use energy more efficiently and to identify newer fuels and energy resources, in particular renewable resources. The attempt by some misguided groups to prevent the development of renewable energy resources in Asia is to be regretted. Instead the judicious harnessing of renewable energy resources particularly hydro power should be encouraged and subsidised by the developed western nations, in the interest of conserving exhaustible fossil fuel for them to share in the future. I would urge the participants at this conference to mull this problem of the future.

15. With this, Ladies and Gentlemen, I take pleasure in declaring the conference open.