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(PRIME MINISTER)

EVENT: THE OPENING OF THE THIRD ASCOPE CONFERENCE AND EXHIBITION

VENUE: PUTRA WORLD TRADE CENTRE

DATE: 02 DEC 1985

TIME:

Honourable Ministers;
Your Excellencies;
Distinguished Delegates;
Ladies and Gentlemen;

On behalf of the Government and people of Malaysia I would like to welcome you all to Kuala Lumpur and to the Third ASEAN Council of Petroleum Conference and Exhibition. We are proud to play host to this distinguished gathering of energy experts from all over the world, that will over the next few days exchange experiences and knowledge in an area which is of great importance to us.

2. This is also the first time that Malaysia is hosting an energy conference and exhibition of this magnitude. According to alphabetical order Malaysia should have hosted the second ASCOPE meet but the honour was given to the Philippines because we had no facilities then. Now that we have the Putra World Trade Centre, Malaysia is very pleased to host the Third ASCOPE Conference and Exhibition.

Ladies and Gentlemen,

3. Where Petroleum is concerned, the ASEAN grouping is peculiar in that three members -- Indonesia, Brunei and Malaysia -- are not only self-sufficient but are actually net exporters, while three others are importers of petroleum and related products. In addition Singapore, although a non-producer, is the third biggest petroleum refining centre in the world. Our interests must of necessity differ. Indeed they are in conflict. The fact that we agree to have an ASEAN Petroleum Council implies that there is some common interest, or at least some need to cooperate. It is important to remember this, if we are not to end up pulling in different directions.

4. The escalation in oil prices in the first half of the 70s has been a mixed blessing for the ASEAN countries. While some suffered initially, others prospered as petroleum revenues increased while new fields became economic to explore and produce. Even those of us which have no oil benefited for the abundance of investments and funds created jobs and lucrative contracts which accrue

directly or indirectly to us. Thus Singapore not only benefited from refining but became a manufacturing centre for oil rigs. Philippines and Thailand gained contracts and jobs in oil and development projects in the Middle East.

5. One thing that is worthy of note is that while the price of crude rose by 2000% at one stage, the retail price of products rose only by 300 to 400%. Even if we deduct Government taxes the retail price increase is only in the region of 600 to 800%. We can attribute this to greater efficiency in processing, transportation and marketing. But we cannot help but conclude that prior to the oil price escalation the big petroleum companies must have made huge profits. We, particularly the countries like Malaysia have a lot to thank the Arabs and the OPEC for raising crude prices. We would not be producers otherwise and we would still be the markets for overpriced products.

6. The developing countries which have no oil did suffer, but not to the extent indicated by the rise in crude price. The massive generation of funds by the big oil producing countries filtered down to many countries via numerous channels. Only those who are not willing to grab the opportunities or who want to stay home suffered. Remittances home during the oil boom must have been the highest in the history of the world's economy.

7. More than the big oil producing countries, the biggest beneficiaries of the price escalation are the developed countries. Not only do the petro-dollars flow in their direction to help finance numerous economic activities, but huge contracts and supplies to the petroleum countries ensure that whatever the developed countries spent on importation of high-priced oil, returns to them with interest.

8. The picture is rapidly changing now. The price of petroleum is going down. Where once it was \$40/- a barrel, it is now only \$26/-. If the escalation in petroleum price is a cause of recession and hardship for poor countries, then surely declining prices should result in economic stability if not an upturn. But the fact is that declining oil prices seem quite incapable of stabilising the world's economy, much less reverse the recessionary trend. What is happening is that the developing oil producing countries are getting desperately cash short, while the non-oil producing developing countries are becoming worse off than they were when oil prices were high.

9. It would seem that escalating oil prices do not mean economic decline even for the non-oil producers among the developing countries, nor does a declining oil price lead to economic well being for them. For the oil producers, escalating oil prices means prosperity while declining prices certainly lead to economic hardship. Still one would hesitate to say that all developing countries would be

better off with rising petroleum prices. It would be more correct to say that everyone would be better off if the prices remain steady at a level that will make neither the producers nor the poor consumers suffer.

10. There is another important factor that complicates the effect of oil on the economy of nations. For historical reasons perhaps, petroleum is priced in American dollars. A hardening of the dollar against local currency or a de facto devaluation of the dollar would make nonsense of the best planned of national budget. Remedies for the fluctuating dollar exchange rates are not easily found. A hardening of the dollar would obviously increase fuel cost. A producer country should feel happy except that the cost of servicing loans and imports would nullify the gains. For those countries which have to import fuel the burden would be greater. On the other hand if the dollar is devalued, producer countries earn less and if they have borrowed Yens or other hard currencies, they will be in trouble. The consumer countries will gain a little with dollar devaluation but again they will have to find more local currency to pay off loans made in other currencies. On balance, any movement in value of the dollar would result in more negative than positive effects on the economy of a developing nation. A stable or steady exchange rate on the other hand can be accommodated through imports or borrowings within the means of a country.

Ladies and Gentlemen,

11. We are going through a very bad patch in the history of the world's economy. When oil prices first escalated in 1973, it was predicted that the world's economy would go into recession. It didn't really. But the spectre of recession hovered over the world since then. Today recession is not a spectre. It is a reality. And there is little doubt that although oil is not the sole cause or even the main cause, it is nevertheless an influence that requires to be managed if there is going to be a return to economic stability.

12. Clearly what the world needs is a reasonably stable price that is neither too low nor too high and that stable price must be real and not subjected to the vagaries of currency fluctuation. I am sure even the oil producing countries would want this. The world economy is sick because it no longer relies on trade. Instead it gambles on commodity prices and currencies.

Ladies and Gentlemen,

13. Malaysia is a commodity exporter. Petroleum is one of the commodities it exports. We are not the greatest in this field but petroleum exports is a major contributor to our foreign exchange earnings.

14. We believe we understand commodities, particularly in the context of third world producers. There was a time when the nations of ASEAN exchanged their spices for trinkets and glass beads brought by the merchants from the countries of the West. That situation has not changed. We are still getting trinkets. The recent breakdown in the tin market has once again illustrated the fragility of our commodity marketing system. Now petroleum is going through nearly the same process.

15. We know very well that low commodity prices benefit the rich consumers most. But we are quite unwilling to act as if all we need to do is to undercut the prices of our competitors. We overproduce as if that will earn us more. But all that happens is that the more we sell, the less we earn. If this goes on, a point will be reached when we cannot even recover the cost of production. All these as we know are logical and real but we go on doing these things and refusing to acknowledge that where commodity trading is concerned, discipline and long-term gains are more important than the transient prosperity of a short-term approach.

16. I must hasten to explain that all these observations are my own, a person untutored in economics, much less in the intricacies of the petroleum market. Still I feel they are valid observations resulting from having to deal with the vagaries of oil and its prices on the economy of a developing country like Malaysia, net exporter of petroleum though it is. I am sure the experts who are here for this Conference know better.

17. I suspect you will be hearing a lot about projections on future demands and prices of petroleum at this Conference. That is interesting. But Governments and people are not overly concerned about the prospect for the petroleum industry. They are interested in their nations' cost of living. Whether the people use petroleum products or not is quite irrelevant to them. If they can find a substitute then they will use it. Even Malaysia is interested in substitutes for petroleum. That is why we have diversified our energy sources. That is why we are doing research on palm-oil diesel.

18. It is obvious that the future of the petroleum industry is very much linked to prices. When you talk of the possibility of increasing demands, you are hoping that prices can be jacked up and more profits made. I think that is the wrong frame of mind. If profit are to be made it must come from increased volume rather than prices. Had oil prices gone up to \$70.00 as once projected, the plants to produce oil from coal and shale would have been put up. But because the price declined these plants were abandoned. By the same token unless oil prices are steady and reasonable, alternative energy sources would not challenge petroleum.

Ladies and Gentlemen,

19. As a Government leader my interest is more in the general well-being of the country than in the petroleum industry as such. Even though Malaysia exports petroleum we see it only in the context of our overall economy. We like the money we earn from petroleum. But if price increases result in costlier imports, then we would rather stick to a steady and comfortable income.

20. You will of course see the petroleum industry from a different angle. Still I think you need to appreciate that the petroleum industry is just a part of the whole economy. What is good for the petroleum industry is not necessarily good for the different countries you represent or indeed for the world.

21. As I said at the beginning, the ASEAN Grouping on Petroleum is peculiar in that the perspectives and relevance not only differ between the members, they are frequently in conflict. It will be difficult for you to find common ground. Perhaps the Conference is intended to educate us so that we will be better able to handle the problem of petroleum and related subjects. If that is so then there is no doubt that we will be better able to manage our economy, knowing but not necessarily trusting the projections that you will make.

22. Whatever may be the result, I am glad that in yet another field the ASEAN countries are cooperating. Only good can come of this cooperation.

23. And now I take great pleasure in declaring this Third ASCOPE Conference and Exhibition open.

Thank you.