

SPEECH BY: DATO' SERI DR MAHATHIR BIN MOHAMAD  
( PRIME MINISTER )

EVENT : THE ASIA OIL & GAS CONFERENCE 2000

VENUE : THE SHANGRI-LA HOTEL, KUALA LUMPUR

DATE : 29 MAY 2000

TIME:

I would like to thank the organisers of the Asia Oil & Gas Conference 2000 for the honour of addressing this distinguished gathering. I am delighted to see so many professionals, policy-makers, strategists and analysts, and other movers and shapers of the oil and gas industry, the world's biggest and most critical industry, gathered here under one roof. Indeed, I doubt I can say anything that you don't already know. So please bear with me.

2. This fifth annual conference, with the theme of 'Market Positioning in the New Age', is timely in the light of recent trends and developments in the oil and gas industry and the global economy in general. I sincerely hope that the conference will provide an excellent avenue for us, particularly players in the Asian region, to pause and take stock of the lessons and implications from these trends and developments to come up with new ideas and programmes that would help shape, position and steer the oil and gas industry so as to be beneficial to all in this new age of globalisation, liberalisation, re-alignment, mergers and so on.

3. In the last decade or so, we had witnessed various measures adopted by oil and gas players to strengthen their position in the industry. These initiatives, mainly in the form of changes to processes and procedures and -- to some extent -- to company structures, were necessitated by the need to remain profitable in the face of volatile prices and uncertainties experienced by the world economy including the rapid and high rise in the cost of exploration, production and transportation. For many national oil companies there is the problem of depleting resources and the search for future supplies.

4. However, more recently, a new trend has emerged in the shape of mega mergers among the world's oil giants, a trend which will have far-reaching ramifications on the industry and the order of the global economic system. Over the last three years, we have seen a few

of such mega-mergers: BP and Amoco, Exxon and Mobil, Total Fina and Elf, and then BP Amoco and Arco. The wave of mega-mergers has and will inevitably change the structure of the business with a few of these newly-created giant entities dominating and dictating to the industry. We have witnessed the same process happen in several other capital and technology-intensive industries. And we know globalisation will further bolster this process in the oil industry.

5. In the face of the new alliances, and the mega-mergers, what do players in Asia, mostly made up of national oil companies (NOCs) with a primary role as a regulator and manager of national hydrocarbon resources, have to do? Would the NOCs still remain relevant? Would they be 'gobbled' up by the new more powerful sisters or would they seek alliances and strategic partners or can there be niches they might build for themselves? If they choose any of these how should they function in a system where production, prices, policies, technologies etc are dominated and dictated by the powerful few? These are very real problems for the midgets of the world. In this case the playing field is not even level.

6. National Oil Companies depend much on favoured treatment in their own countries. Indeed without this privilege they would not exist at all. Some merely collect royalties and share the profits with foreign investors and operators. There is no technology transfer and know-how developed. Some have learnt the business and have developed their own capacities. But none are big enough to take on the merged giants or to qualify to be one of the new sisters. And so they need to hide behind their national boundaries.

7. But now comes the idea of globalisation, a borderless world. A borderless world means nowhere to hide, no place to seek protection. In the meantime, the merged companies are getting hugher and hugher and whether they intend to or not, a cartel, an oligopoly or even a monopoly will emerge.

8. The story of the oil industry is the story of attempts at monopolising the industry. We all know the story of John D. Rockefeller and his South Improvement Company. Avaricious and pitiless in the extreme he either bought up all his rivals or just kill their businesses. Such was his power to dictate the prices of oil and therefore his profits that even the capitalist Government of the United States had to put a stop to his almost complete monopoly of the business through the 1890 Sherman Anti-trust Act. The Standard Oil Company belonging to Rockefeller was broken up into several smaller entities. An oligopoly was formed with each of the companies as able to dominate as was the original company.

9. These offsprings of Standard Oil became dominant members of the so-called oil majors, the Seven Sisters. They monopolised the worldwide exploration, productions, refining and marketing of oil. They paid a pittance to the poor oil-rich countries, which remained undeveloped and had to literally submit to the rule and politics of these Seven Sisters operating as monopolies in different countries.

10. Then following the Arab-Israel war the oil producing countries themselves decided to form a cartel of their own. OPEC became a world power, pushing up oil prices so as to enrich themselves. They succeeded in doing this but in the process they increased the profits of the Seven Sisters also. The only people who really suffered were the poor in the poor countries where there was no oil. The price of oil was so high that they could not afford even electricity for themselves.

11. And it looked like the price of oil would keep on going up and up. Fortunately the OPEC countries were not too united and they too became avaricious. Each member tried to produce more than its quota. There was a glut and oil prices fell even though the demand had increased considerably.

12. It seems that oil producing countries would never again enjoy the halcyon days of the OPEC cartel. Oil prices were so low recently that they were actually unable to meet their budgetary needs.

13. Then they once again got their act together and cut back on their production. It is obvious that they can actually earn more by producing less and this is what they did. The prices shot up again and threaten to undermine the prosperity of the powerful. As usual the powerful issued threats of all kinds of economic sanctions unless more oil is produced. Between the threats and the bad faith of some members of the OPEC cartel, oil production increased again and prices went down.

14. Perhaps it is market forces, but more probably because of fear of the powerful, the prices of oil will not become unreasonable due to OPEC. But ominously we are seeing the reemergence of the oligopolies. The offsprings of the Rockefeller monopoly are coming together again. They are in fact teaming up with the other oil majors, to form an even tighter oligopoly. Together they can control the production, refining, marketing and also the relatively new petro-chemical industries.

15. Malaysia has worked with these oil majors and we must admit that we have benefited. There was a time

when they wouldn't even talk with us. They tended to lay the terms for any cooperation with us. But they are more reasonable now. But if they become very powerful can little countries like Malaysia, producing only 650,000 barrels a day, ensure future supplies by venturing in the oil industries in other countries? We know that the oil companies may want to cooperate for profits but their Governments might not allow them to. And oil production and processing need sophisticated equipment, parts and components, which certain countries control. For these big powers who regard oil as a legitimate weapon of foreign policy, preventing the recalcitrant countries from enjoying their oil wealth in order to bring them to heel is perfectly alright. Change your leader or we starve all of you to death is perfectly legitimate if an oil-rich country happens to have an unpleasant leader. Human Rights. Well Human Rights is for people who have leaders willing to submit to the will of the powerful.

16. This is not a political forum. So I will stop there. But seeing rich people beggared is not our idea of conducting international politics. It is primitive to bring people to their knees by impoverishing them. It is not their fault if they have a leader who is disliked by some people.

17. Oil and gas will always remain a political instrument and the powerful countries and their mega oil companies will always avail themselves of this potent weapon.

18. Malaysia is well aware that it is a tiny country whose wealth is smaller than the oil majors. Now it is even poorer by comparison to the mega multinationals resulting from the mega mergers. But we feel a need to sound a warning regarding new ideas and concepts because we know Man has never been able to materialise the good things their ideas and concepts promise. How many times have we been proven wrong about systems, ideologies and concepts, which appeared totally right, just and infallible when they were introduced but turned so sour that we have to discard them. Republicanism, Socialism, Communism, Capitalism and variations of these have been espoused and practised only to be dumped because instead of prosperity and equitability they only brought misery to the very people they are meant to benefit.

19. Now we are being told that globalisation, liberalisation, deregulation, market forces are good for us. The poor countries are supposed to reap great wealth if they embrace all these inevitable ideas whose time has come. Market forces, according to the sage Soros, is supposed to discipline Governments, make them more transparent, accountable and clean.

20. Pardon us if we seem sceptical. At first we did believe that free flows of capital was good. The multinationals came in to set up manufactories and to buy our shares. We thought our growth would be forever. Then suddenly they decided that we are corrupt and given to helping cronies and they pulled out their capital and short-sold our money. Within weeks the Tiger economies of Asia were begging for help, willing to sell their family heirlooms to save themselves from bankruptcy.

21. If we are corrupt and we practise cronyism, this could not be just in July 1997 when they pulled out. We must have been corrupt ever since our independence several decades ago. Yet they came in to invest year in and year out. No it was not corruption or cronyism. It was just a chance to make money by bankrupting us. We lost hundreds of billions of Dollars so they can make a few billions only for themselves. It was not even a zero-sum game. It was a minus-sum game for they destroyed what we had built over decades to make a relatively small profit for themselves.

22. Our experience of this price of globalisation has lead us to question the promises of a world without borders, of free flows of capital and goods etc. What we are seeing is a frenzied preparation to invade us when we open up. Giant corporations are merging to form even bigger giants. Rich and powerful banks are merging to form even more powerful and financially invincible banks. And behind them stand rich Governments ready to bail them out if they should fail.

23. Against all the giants our own corporations and banks will be easy meat. When they lose out in the free competition, they would be swallowed up. In the end the economy will belong to the foreign giants. Once that happens politics too will be manipulated by them. In other words globalisation and the opening up of markets can lead to loss of independence and a world ruled by enormously rich capitalists and their countries.

24. The oil business had seen oligopolies earlier than in other industries. We see a return of oligopoly, only the oil companies are many, many times bigger and richer than before. Will we be gobbled up? Will the oil companies dominate or the oil producing countries dictate terms in this business? Will the powerful economies of the world somehow dictate to the world?

25. Oil is the most powerful political weapon in the world. Simply by producing more or producing less political objectives can be achieved. Preventing an oil-rich country from producing is equal to laying siege of a city, the favourite means to bring a nation down on its knees in the old days. That people,

innocent people, old people, babies and women would sicken and die is unfortunate but is not a reason for not using the oil weapon. It is an effective weapon and it must be used to achieve the objective.

26. Oil produces more carbon dioxide and other noxious gases than any other fuel in the world simply because it is the fuel of choice. Try to exploit competing fuels and the environmentalists from the oil-consuming countries will descend like a ton of bricks on you.

27. People will always need energy, more and more all the time. If they cannot get it from one source they will get it from another source. Invariably the environment suffers. Thus if people cannot pay for oil or gas, they would cut down trees and shrubs to burn as fuel. In time all the trees and shrubs will be gone. Where once there was a green forest now there will be a desert.

28. The rivers can produce hydro-electric power but the environmentalists oppose development of hydro-electric plants because they flood huge tracts of forest where the few tribal people hunt for food. Even resettling these people, giving them good jobs with good wages and food in plenty are unacceptable to the environmentalists. The tribal people must have their millions of acres to hunt for food while the rest of the population are denied clean renewable energy and power.

29. Atomic energy promised a cheap source of electric power. The rich put up nuclear power plants so they may not have to depend too much on thermal power, based on oil or gas. Now we are finding that nuclear power plants are not safe. Any number of things can go wrong and people near and far will suffer from radiation sicknesses, carried by the wind, by food contamination.

30. There is not a hope that solar, wind and wave power can generate enough electricity for us to do away with thermal non-renewable power. There will therefore always be a demand for oil and gas, growing as the population of the world grows, growing as the wealth of people grows.

31. We are still finding new reservoirs of oil and gas. So far we have been able to keep up with the demand. And for a long time to come we will probably be able to meet demands. But there must come a time when the world's population will be so big and so rich that there will be shortages of hydrocarbon supply and reserves. It may be a long time yet but it seems that the oil and gas industries must lead in the search for alternative sources of energy. If there is a need for the oil companies of the world to come together to pool their resources to finance the research and development

of an alternative fuel, now is the right time to meet that need. When oil prices rose to unreasonable heights during the first oil crisis there was a sense of urgency to search and develop alternative energy. Now we have become more complacent. New oil fields are being found that will last hundreds of years. So there is no urgency. Besides it can affect the profitability of the petroleum companies.

32. Perhaps the answer is for Governments to step in, to contribute a proportionate percentage of their royalties and revenue to finance the necessary research. It is going to be a long-drawn affair but as the wise Confucius said "a journey of a thousand miles begins with the first step". It is never too early to take that first step.

33. I am sure you know more about oil and gas than I do. I am sure you will be discussing in depth all the innumerable aspects, ramifications, potentials of the industry. In the Information Age, the applications of I.T. will engage your attention. Then there is the Knowledge Economy, Globalisation, the interdependent world, currency fluctuations, hedge funds and the recalcitrance of some countries -- all these merit your serious attention, and you will discuss all of them in depth.

34. But I do hope you will spare a thought for ordinary people whose needs are really what make your industry tick. Without them oil would be worthless. When the great hedge fund traders manipulate currencies they see only figures on the screen, figures representing the units of currency they deal in. People are irrelevant. That a zero point one per cent drop in value can kill hundreds of people, starve them is of no interest to these traders. And so they wax rich on the miseries of people, real flesh and blood people.

35. I hope that you who deal in oil and gas would always bear in mind the people whose life and death depends on you.

36. On that note, it gives me great pleasure to declare this conference open.