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Panelist: Tan Sri Dato’ Mohd Hassan Marican (President and CEO, PETRONAS)

On behalf of PETRONAS, I would like to thank the Organisers for inviting me to be a panelist at this symposium. It is indeed an honour for me to be part of this distinguished panel. The oil and gas industry continues to be volatile and is full of challenges. This is what makes this industry interesting and dynamic which requires forums such as this to enable us to interact and discuss various issues that are relevant to the industry. It would of course be an added bonus if at the end of the day, we can find some resolutions to some of these issues.

I would like to start with a discourse on the development in the Middle East, which is probably the hottest development in the oil and gas industry and the world at large at the present moment. The threat of war in the so-called ‘cradle of world oil’, even though somewhat reduced with Iraq’s recent concurrence to allow unconditional return of United Nation’s weapons inspectors, continue to be a nagging concern affecting crude oil prices, the industry and the global economy. Current prices of around US$30 a barrel has factored in a ‘war premium’ partly due to the fear, perceived or otherwise, that such hostilities would lead to a disruption of supply.

The decision by OPEC two days ago to maintain the present rate of production would probably result in prices hovering at current levels, provided the much talked about war does not happen. Certainly, the efforts made by OPEC and non-OPEC producers to better balance supply and demand played a key role in addition to factors such as inventory levels, refinery bottlenecks, speculators, market psychology, weather conditions and so on. Indeed, this stabilising role is a vital function not only in the interest of OPEC member countries and other oil exporting countries but also for the benefit of the world economy in general. More importantly, the ability of OPEC member countries to abide by their consensus stand, highlights a major achievement by the organisation.

Notwithstanding the volatility, the medium and long term global demand for energy is forecasted to grow at 2% annually with demand in Asia expected to grow at a higher rate of 3%. While there may be enough reserves to meet this growing demand in the short to
medium term, we are faced with an increasing need to find and develop new reserves to meet the longer term future requirements.

The same case applies to us in PETRONAS. As a traditional producer in the Far East, the increasing domestic as well as regional demand made it necessary for us to go global to explore for new reserves to augment our declining domestic reserves. As mentioned by Bob Pridle earlier, Malaysia would soon become a producer and consumer country. While the main centre of world oil is the Middle East, PETRONAS being a small company and a late entrant in the global arena, found that our chances of penetrating the Middle East were tough. We therefore had no choice but to venture into the non-traditional areas - the frontier areas which are certainly more risky and challenging in almost every aspects.

Exploring and developing oil in new areas to sustain energy requirements brings with it many challenges. Challenges which are not related to technical matters but more importantly what is now commonly known as ‘sustainable development’.

One of our chosen geographies in our global strategy embarked in the early 1990s was Africa and today, as most of you may know, we have been able to establish a fairly strong presence on the continent. But for today, I would like to share with you our experience in another part of Africa - the integrated oil development project in Chad and Cameroon - a project that has brought together a diverse composition of players comprising oil companies, Governments, multilateral agencies and NGOs.

The integrated US$3.5 billion project in joint venture with ExxonMobil and Chevron involves the development of an oilfield in the Doba Basin in southern Chad, a landlocked country in Africa which has a population of about 7 million with per capita income of US$230, and the construction of a 1,070 km pipeline from the fields to Port Kribi in neighbouring Cameroon. The fields has proven reserves in excess of 1 billion barrels of oil and first production is scheduled for the second half of 2003.

From the onset however, the project faces unprecedented challenges which requires unprecedented solution. NGOs were strongly against the project right from the very
beginning, highlighting potential negative impacts that the project could bring to the environment and the people of the two nations.

There were concerns that the oil revenue to be generated from the project will not be used for the benefit of the people by the alleged repressive and corrupt governments of the two nations.

To the project sponsors, in addition to the business considerations, the project was seen to be able to transform the economy of Chad and Cameroon. The project is expected to generate substantial revenues for the countries which would provide social upliftment to the population and be a catalyst to industrial development. Other expected benefits are infrastructure improvements in both countries, employment generation, local project procurement, education, a spur in further oil exploration and development, and private sector investment in both countries.

The solution was a complex, four-way agreement between the project sponsors, the host governments, the NGOs and the World Bank and its relevant agencies. So, an unusual experiment, a non-traditional approach to doing business, began.

Under the agreement, the Government of Chad has approved a law that set out poverty reduction objectives and arrangements for the use of the oil revenues. Under the law, 10% of the royalties and dividends will be held in trust for future generations, 80% of the remaining fund will be devoted to education, health and social services, rural development, infrastructure, environmental and water resource management, and 5% will be for regional development in the oil producing areas. All expenditures will be under the supervision of a committee that includes NGO representatives.

And because Chad lacked a basic system of financial control, the World Bank and relevant agencies will help the Government formulate one from scratch.

A wide range of steps has been taken to minimise the social and environment risks of pipeline construction and operation. The pipeline route was altered to protect biodiversity, human settlements, indigenous peoples and cultural heritage. Only a small area of tropical
forest in Cameroon will be affected. To compensate for this, two new national parks have been created in Cameroon.

Even before oil starts to flow from the project, the benefits are already evident. As at the end of the first quarter of this year, the project has employed about 10,000 locals from Chad and Cameroon, representing about 88% of the project’s total workforce. Local businesses in both countries continue to benefit from the project expenditures. The consortium has provided healthcare facilities, schools and safe drinking water to the local population - facilities that were not there previously.

The project has so far proven that the oil industry, governments, multilateral agencies and NGOs can actually co-exist for mutual benefit. Of course the challenges and risks are great and an industry as complex as ours will continue to face great challenges amidst the developments and volatility faced by the industry. But if the experiences of the past have taught us anything, it is only with cooperation, can an industry like ours, with its many diverse facets, hope to thrive and prosper. We must sustain and build on the levels of cooperation and understanding for the benefit of all -- the producers, consumers and the world at large. We will need to create formal and informal alliances amongst ourselves while at the same time look for niche areas in the world to invest.

Energy needs will continue to grow. While there is enough reserves to meet increasing demand, the exploration and exploitation of these resources especially in the politically and environmentally sensitive regions of the world will need a new approach. The oil industry which is perceived to be ‘destructive’ must adapt and learn to co-exist with the new demands of the concept of ‘sustainable development’.

I have shared with you our experience in Chad/Cameroon and hopefully it will help to generate further discussion and debate in the ensuing course of this symposium to promote sustainable growth and expansion of the world energy industry for the benefit of all. As I have said earlier, it is only with cooperation, can an industry like ours, hope to thrive and prosper.

Thank you.