A Malaysian National Prerogative: Engaging West Asia for Long-Term Energy Deals and Co-operation

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Abstrak
Hubungan Malaysia-Asia Barat yang lebih baik adalah penting terutama dari segi menentukan kemasukan sumber minyak yang lancar ke Malaysia dalam dekad-dekad akan datang lebih-lebih lagi kerana Malaysia akan menjadi pengimport bersih minyak selepas tahun 2015. Malaysia sedang mengenal pasti pilihan untuk mempelbagaikan sumber tenaganya supaya ia tidak terlalu bergantung kepada sumber gas yang semakin berkurang dan import arang batu dalam kombinasi kepelbagaian tenaganya. Oleh kerana Timur Tengah mempunyai pengaruh yang kuat dalam menentukan pembangunan masa depan industri petroliam dunia, Malaysia patut mensasarkan orientasi dagangannya secara strategik di mana ia boleh menggunakan hubungan tradisional untuk mendapat faedah daripada urusan tenaga jangka-panjang (misalnya, gas cecear asli (LNG) dalam senario pasca 2020). Secara resiprokal, Malaysia patut mengambil lebih banyak bahagian dalam projek infrastruktur tenaga untuk mendapat faedah lanjutan daripada kejayaan projek penswastaan tenaga dan disalinasi air Shuaybah bernilai RM9bn di Arab Saudi. Malaysia juga boleh menawarkan latihan khidmat teknikal dan peluang-peluang sangkutan industri dalam bidang elektrik (Institut Latihan Sultan Ahmad Shah (ILSAS), TNB) dan petroliam (Universiti Teknologi PETRONAS (UTP)) kepada industri tenaga di Asia Barat.

Kata kunci: Keselamatan Tenaga, pertumbuhan, sumber berkurangan, pengimport bersih, geo-strategik.
Abstract

An enhanced Malaysia-West Asia (Middle-east) relationship is vital especially in ensuring steady import stream of energy resources in coming decades to Malaysia in light of Malaysia becoming a net oil importer after 2015. Malaysia has been identifying options to diversify its energy resources so that it would not be too dependent on the depleting gas resources and imports of coal in its energy mix. As Middle-east has strong influence in determining future development in world petroleum industry, Malaysia should position itself to leverage on traditional relationship to benefit from long-term energy deals (eg. liquefied natural gas (LNG) for post-2020 scenario). To reciprocate, Malaysia could participate in more energy infrastructure projects to leverage on the success of RM9bn Shuaybah power and water desalination privatization project in Saudi Arabia. Malaysia could also offer technical services training and industrial attachment opportunities in electricity (Institut Latihan Sultan Ahmad Shah (ILSAS), TNB) and petroleum (Universiti Teknologi PETRONAS (UTP)) to West Asian energy industry.

Keywords: Energy security, growth, depleted resources, net importer, geo-strategic.
Background

As a developing country, Malaysia aspires to be self-sufficient and strongly resolved in finding resources to fuel its growth. As it indulges in global and regional economic activities, it also requires economic trading partners who require certain conditions to be met or abide with. These include timely payment schedules and trade regulatory compliance. More often than not, there are various other factors that determine a lasting and sustaining trade relationship, some of which are intangible but constitute warm reciprocity. As a small open economy, Malaysia has a strong commitment to promote international trade and investment in order to sustain its development. Malaysia has been trading with countries, regions and economic groupings all over the world including West Asia.¹

An issue that needs clear fore-sighting strategy is energy security. Energy security is defined as a situation where we enjoy self-reliance, self-contained energy supply which meets the energy consumption demand at all times without forcing the national utility to resort to harsh energy dispatch operations. Malaysia also requires petroleum products for its transportation needs. Energy security has impact on economic growth as investors and multinational companies treat security as basis for economic confidence. Industries and domestic household require electricity. Furthermore, any supply disruption will either deprive the economy of an essential factor of production, leading to a loss in economic output, or drive up international energy prices in a manner that negatively impacts the economy.

A country that is endowed with natural resources, which could last for ages, is comparatively insulated in the energy sense, and therefore needs not worry too much. On the contrary, a country facing a depleting resources base, and therefore a growing reliance on imported energy, will be exposed to disruptive events beyond its control, thereby complicating any efforts to ensure a reliable and sustainable supply of energy. For such a country, the quest for energy resources does not stop domestically. It will have to turn its attention overseas to acquire the resources. Malaysia is a country that fits into this second category. Since 1988, its self-sufficiency ratio (i.e., the ratio of indigenous production to domestic demand) has been declining, reflecting the fact that energy demand is growing faster than the ability of indigenous production to keep apace. If current trends persist, it is expected that Malaysia will emerge as a net energy importer by 2015, and the situation will exacerbate once currently producing fields mature and domestic production begins to decline.² In the case of natural gas, although Malaysia as a whole is expected to remain a net exporter of gas through 2030, peninsula Malaysia, where approximately 80% of total Malaysia energy demand is located, already relies on imports from Indonesia’s West Natuna and the Joint Development Area (JDA) of Thailand and Malaysia to meet domestic requirements. According to the 9th Malaysia Plan projections, imports will meet as much as 20% of peninsula demand by 2010, and although there is the possibility of developing new

¹ For this paper, the author takes the liberty to interchangeably use the term West Asia as much as the more widely-used name of Middle-East, popularly defined as Arab- or Persian-speaking countries spanning from Morocco to Iran which form a long land mass and maritime space.
gas fields, these will at best only mitigate the declining production resulting from the maturing of existing fields.

This is alarming since almost seventy per cent (70%) of Malaysia’s power needs come from natural gas. As for coal requirement, the national power utility, Tenaga Nasional Berhad (TNB), have sourced coal from Indonesia, Australia and South Africa. Although Malaysia has ceased to use petroleum in its power stations, oil retains a pivotal role in meeting the country’s energy needs owing to robust demand from the transport and industrial sectors. As in the case of gas, oil demand is expected to grow faster than the ability of indigenous production to keep pace. A number of major oil discoveries have recently been made in deepwater areas, but they will not be sufficient to offset the declining production from existing fields. Consequently, although Malaysia is currently a net crude oil exporter and are approximately self-sufficient in petroleum products, growing demand will oblige it to seek supplies from abroad, particularly from West Asia/Middle-East.

There is a good reason why Middle-East shall be singled out in this regard. Maturing oil production is a common challenge faced by virtually all of Asia’s traditional oil exporters and therefore does not offer a viable long-term solution to Malaysia’s needs – even neighbouring Indonesia (until very recently an OPEC member) turned a net importer in 2004. As Table 1 indicates, the Asia-Pacific region has very little by way of discovered oil and gas reserves to support its consumption – the region accounts for only 3% and 8% of world discovered oil and gas reserves, respectively; but 30% and 15% of consumption. By contrast, the Middle-East’s resource base far outstrips its consumption, suggesting that the region is destined to play an ever-increasing role in meeting the energy needs not only of the Asia-Pacific, but also the rest of the world.

Table 1. Comparison of Proved Oil & Gas Reserves – Asia-Pacific vs. the Middle-East

<table>
<thead>
<tr>
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<th>Reserves</th>
<th>Consumption</th>
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<tbody>
<tr>
<td></td>
<td>billion barrels</td>
<td>% of world</td>
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<tr>
<td>Oil</td>
<td></td>
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<tr>
<td>Asia-Pacific (Malaysia)</td>
<td>40.8 (5.4)</td>
<td>3% (0.4%)</td>
</tr>
<tr>
<td>Middle-East</td>
<td>755.3</td>
<td>61%</td>
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<tr>
<td>Gas</td>
<td>Reserves</td>
<td>Consumption</td>
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<tr>
<td></td>
<td>trillion cubic ft</td>
<td>% of world</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>511 (87)</td>
<td>8% (1%)</td>
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<tr>
<td>Middle-East</td>
<td>2,585</td>
<td>41%</td>
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This is the focus of this paper which acknowledges Malaysia’s potential dependence on Middle-East. Malaysia has to realise that energy security and resources are hard to come by
unless there is a dedicated bilateral agreements cemented between agreeing countries. Many countries have already recognised that a “hands-off” policy towards energy security, especially in the case of the geopolitically-volatile Middle-East, is dangerous. The US, for example, has long provided geo-strategic support for “US-friendly” regimes in the Middle-East, in order to ensure uninterrupted access to the region’s energy resources. More recently, China has also sought to strengthen its ties with the region, particularly by offering Middle-Eastern national oil companies such as Saudi Aramco and Kuwait Petroleum Corporation (KPC) a stake in its lucrative refinery and petrochemical projects in exchange for long-term supplies of energy. India too has been following China’s footsteps, particularly in countries which it calls its “near abroad”, including Iran, Qatar and Saudi Arabia.

But there are also other opportunities rather than solely targeting energy resources from West Asia/Middle-East, and as a comparatively small player in this area of energy diplomacy, Malaysia may find these other opportunities a more effective, niche bargaining tool. Malaysia could grab the opportunities offered in the West Asian region especially in infrastructure development and/or reciprocating by offering our West Asian counterparts opportunities in strategic sectors such as human capital development and training.

Malaysia’s Energy Outlook

Electricity Generation

The Peninsular Malaysian electricity generation mix in 2008 comprises of natural gas at 52 percent, coal at 43 percent, and hydroelectric (water) at 5 percent although day-to-day operational figures will vary according to operational regimes. Malaysia has benefited from indigenous resources of natural gas sourced from offshore Terengganu, especially in terms of keeping domestic gas prices affordable to users. Hydro resources in Peninsular especially those in Kenyir, Pergau and Cameron Highlands have been steadily contributing to the national power grid.

In the immediate future, natural gas is expected to remain the primary energy source for electricity generation in Peninsular Malaysia, but as gas import requirements rise in tandem with declining production, Malaysia – especially the incumbent power utility TNB - will increasingly be forced to pay the current market price – thereby reducing its attractiveness as a generation fuel. One strategy might be to diversify into coal, but a 45 per cent dependency on coal supplies is not sustainable, and thus Malaysia urgently needs to harness its hydroelectric potential. A massive hydro addition shall come from 2400MW power plant in Bakun, Sarawak scheduled to be operational in 2014 through a pair of 600km-long-submarine cable. Such is the planned scenario of the energy industry, as illustrated in Figures 1 and 2.

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3 Multiple media sources (Financial Times, International Herald Tribunes, Asian Wall Street Journal etc.). 2008
4 Source quoted from Malaysia’s Ministry of Energy, Communications and Water, and Tenaga Nasional Berhad.
5 Tan Sri Leo Moggie, Chairman of TNB Keynote address POWER-GEN Asia conference in Kuala Lumpur, 20 Oct 08.
Power operators cannot overemphasize the need for energy resources diversity. By the time gas supplies dramatically taper off around 2020, the power industry will be left significantly dependent on imported energy resources such as coal for electricity.

The uniqueness of gas pricing is that it is conveniently linked to oil as if there is mathematical correlation between the two. The world has witnessed oil price hikes were followed with gas price increases as well. Such phenomenon has frustrated energy regulators and players as there has not been any proven logic for both pricing regimes to intertwine, except possibly, to preempt potential sales undercutting when crude oil prices fall or to guarantee profit margins for long-term supply contracts.6

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Even coal prices have gone up; they have almost quadrupled since February 2007.\(^7\) This is the phenomenon or behavior of substitute resources.\(^8\)

A growing economy like Malaysia shall also consume more energies in the future. In the medium- and long-term, Malaysia have lined up public projects under the 5-year cycle Malaysian Plans that also introduce signature projects such as Multimedia Super Corridor (MSC), Economic Corridor Developments and new engines of growth such as Islamic financial services, biotechnology and halal hubs. Physical edifices such as mega...
infrastructures, business hubs/districts and megacities will also manifest in years to come, and these event- and life-shapers require massive energy consumptions.9

In the longer-term, the role of oil and gas in the country's future energy mix needs to be more explicitly determined. Such policy certainty, supported by the necessary market and pricing reforms, will help nurture the requisite confidence among potential investors to invest in new energy infrastructure needed to support growing oil and gas demand. This may include the construction of new refineries, LNG receiving terminals, etc..

Transportation

Energy consumption by the transportation sector accounts for 40% of final energy demand, some 99.4% are met from petroleum products.10 Natural gas accounts for 0.6%, while electricity a negligible amount. The future outlook of transportation fuel options may not vary much from our current consumption pattern as not many variations could be fathomed yet. Despite efforts to reduce the sector’s dependence on oil through the promotion of NGV, such efforts are unlikely to make significant headway. The true economic cost of NGV is more than RM 3.10 per litre, making it a more expensive option than petroleum products. PETRONAS currently subsidies retail sales of the fuel, but this may not be feasible in the long-term when gas has to be imported. It would be most refreshing to get electric- and hydrogen-powered vehicles on the streets of Malaysia at commercially affordable prices in the future.

Resource Import

As Malaysia’s oil and gas reserves have declined in recent years, the country needs both fossil and non-fossil fuel resources to provide generation sources for the electricity power grid. Notwithstanding the need to look into non-fossil fuel options, the energy security of the developing countries like Malaysia will remain dependent on the availability of reliable hydrocarbon sources at least until 2030.11

Malaysia needs diverse energy resources options so that it would not be too restricted in its energy generation choices. Neither could the country afford supply interruption and spiraling oil price scenarios. A manageable energy mix would ensure stability of generation costs, and thus augurs well for a competitive electricity tariff. Although Malaysia has been comfortable with current reserve margin12, it should not rest on its laurel but rather build a sound array of energy generation portfolios for medium and long term scenarios. As Malaysia gradually moves closer to 2020, the country will be left with little options but to extend its dependence on natural gas, coal plants, and hydro.

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9 In fact, if growth averages a modest 5.5% through 2030, the economy will nearly double by 2020 and more than triple by 2030.
10 Economic Planning Unit (EPU), PM’s Department webpage 2008.
11 Ibid.
What options are available to Malaysia? The answer is obvious: either Malaysia chooses to have stockpiling/storage\(^\text{13}\) or import strategy. Quite clearly, the logical choice is a properly-timed import strategy.\(^\text{14}\) Time is opportune on our side as it is better to be prepared in advance and to invest much ahead of its critical moment rather than acting frugally when the time descends on us. Although the prospect of the nation’s civil nuclear power plants may be realised by then, it is logical to spread Malaysia’s risks by leaving its options open to liquefied natural gas (LNG)\(^\text{15}\) imports from regions such as Middle-East.

LNG is the most economically developed form of gas in its gas value chain, and is being commercially driven by exploiting economies of scale of strategic gas reserves.\(^\text{16}\) As gas producers unlock the values of its exploration exercise and product chain, over times, gas (and LNG) has become the fuel of choice for power generation notably in US and Europe. Most of the LNG contracts are long term (20 years or longer) but recently, medium term contracts for three to ten years also have materialized. It is widely anticipated that China and India would be the next potential big markets for LNG, complementing the dominant role of Japan.

Option for alternative or renewable energy have yet to register meaningful successes as the respective technologies have not reached the technological frontiers that make them commercially attractive. Lately, there are mixed signals for solar energy production. On the supply side too, the early hypes on biodiesel and bioethanol have somewhat cooled down due to oversupply of raw sources and unfathomed sudden decline of oil prices.\(^\text{17}\)

Notwithstanding other attempts on renewable and energy efficiency, the efforts to ensure sufficiency quantum of resources for large power electricity generation must not be left in the lurch. The global energy industries have been talking about new nuclear renaissance or revival that is gaining strong momentum. Undoubtedly, the challenge for countries like Malaysia is to invest huge amount of money and time to introduce these defining technologies.

The Clean Energy and Climate Change Nexus

But lest Malaysia forget that the world has also embraced the concept of clean energy and climate-friendly generation sources. In this respect, natural gas, LNG, nuclear and renewables (or alternative) energy sources look attractive to remain the focal points of 21\textsuperscript{st} century energy

\(^\text{13}\) Singapore chose to have strategic storage, as well as aspiring to be a LNG hub, citing Dr Vivian Balakrishnan, Minister of State for Trade and Industry and National Development, captured in a sideline interview during gas Information Exchange Conference. Singapore. June 1 2004.
\(^\text{14}\) This is not really a choice, because even if a country chooses stockpiling/storage, it will still have to rely on imports to fill them up.
\(^\text{15}\) LNG is defined as natural gas (primarily methane CH\(_4\)) that has been converted to liquid for ease of storage or transportation. Wikipedia.org. 2008
\(^\text{17}\) The decline in oil prices is not all that surprising, given the recession that is beginning to spread in major oil-consuming countries; biodiesel and bioethanol under current technologies create the “food vs. fuel” problem and are not likely to be a viable alternative to petroleum. A raging energy and transportation debate in many literature circles for past few years.
answers. There are so many things at stake when the country decides to take the plunge on novel energy resources as it may not have sufficient learning curve and knowledge on each choice. Malaysia has been fortunate to have continually touched based with International Energy Agency (IEA) and other global and regional agencies that promulgate best energy practices.

Domestic consumption of gas (whether in the form of reticulated gas or liquefied petroleum gas (LPG) containers) is a growing sign of a modern society that have high regards for clean and efficient energy source. However, we have yet to reach a balanced commercial operation regime for the gas providers, i.e. Gas Malaysia and PETRONAS. A more sophisticated design would incorporate gas reticulation system, that rolls out a well-connected and regulated gas piping \textit{modus operandi}, that can be found in a few developed countries.

![Figure 3. Final Gas consumption structure (2005)](source: National Energy Balance, Pusat Tenaga Malaysia, webpage 2008)

The government is embarking on a long-term sustainable energy study for period 2008-2030 which shall address and incorporate diverse energy sources and comprehensive energy management strategy for Malaysia well past its Vision 2020 threshold.

Assuming that Malaysia has yet to discover new oil and gas fields in its offshore, the country must continue to source crude petroleum from West Asia.

\textbf{The Malaysia-West Asia/Middle-East Nexus – Choices Amidst Geographical Consideration.}

The question on why Malaysia must choose West Asia/Middle-East is not without a legitimate reason. West Asia/Middle-East region is a wide geographical area and is endowed with rich reserves of oil and gas and other mineral products since the turn of the last century. The region has attracted much interest from cash-rich investors backed by the persistent policies of their respective governments. Even US gets 21% of its oil from the Persian Gulf with others coming from Canada, Mexico, Nigeria, and Venezuela. Investors normally have
long-term strategic interest in the region. It is not only about oil but also on the geopolitical
stranglehold in the regions. 18

Traditional oil and gas oasis comprise of Saudi Arabia, Iraq, Iran, and Kuwait, and each
country has relied on their crafty and dexterous geopolitical maneuvering. Often political
conflicts – and even ideological warfare – have also resulted in military skirmishes and wars
affecting a few of these countries. The Levantine countries of Syria, Turkey, Jordan, Lebanon,
Egypt and Israel are playing the role of beneficiaries and conduits of these petroleum exports
to the rest of the world. The traditional rivalries of US and Russia have been thrown into more
complex situation with the increasing forays by China, Japan, South Korea, India and even
Singapore into West Asia; obviously the rush by these Asian countries not only serve as
countervailing forces but also as trade proxies among the competing multi-national companies.
The targets are not only petroleum products but also trade deals and infrastructure projects
over there. Countries have been racing to sign Free Trade Agreements (FTAs) with member
countries of the Gulf Cooperation Council (GCCs), or with the economic bloc itself.

Some careful observation is required here. The focus is not entirely West Asia but also
Central Asia connecting resource-rich Turkmenistan, Azerbaijan to the rest of Europe via
Turkey or Georgia. Geopolitical tension may arise and this has been like a chess game being
played on a wide-stretched board.

Without a doubt, the choice of import is also dependent upon considerations upon
geopolitical tensions. Largely it is the growing concern on exclusivity of exploration and
drilling rights as well as the maritime routes (such as the Hormuz Strait) for vessels plying
their trade in and out of the region. Even if firms from other countries do not have the rights
to ply their trade over there, they still need to purchase the crude and/or finished downstream
products through the maritime routes. Even when the US-led occupation of Iraq (and
previously world-wide sanctioned Libya) have yet to end, the energy-hungry countries have
started to watch Baghdad closely as the Iraqi government started to invite foreign developers
and investors to country. 19

The past decade has also experienced the increasing roles of the new global pacesetters:
China and India. Economies do not stay endogenous and inclusive although they may
support domestic consumptions. Aspiring countries need to increase their forays out of their
own boundaries. There are also other factors coming to the players’ equations. China and
India’s factor is overwhelmingly decisive in the energy race. But so have been their level of
spending optimism due to the massive volumes required. If the spending intensity wanes, the
global market will soften, and that could well explain the current global economic downturn
or recession. Chinese and Indian economies account for more than 90 per cent of the rise in

consumption of oil products and metals, and 80 per cent of the rise in consumption of grains since 2002.\textsuperscript{20}

China’s recent two decades of rapid economic growth have fueled a demand for energy that has outstripped its domestic sources of supply. Back in 1993, China became a net importer of oil for the first time. But it did not stop the country from continually consuming energy. Its gas appetite is expected to be growing by 6.5\% a year between 2000 and 2030 of which usage will dramatically increase from one sixth to one third according to EIA.\textsuperscript{21}

The cash-rich West Asian countries need to grow too. Their hard and soft infrastructures, especially new cities and human capital development, offer great investment opportunities. In addition, those countries and their rich countrymen also want to invest their money in other countries. That is where other countries could - and should - engage countries like Saudi Arabia, Iran and UAE. **Saudi** and **Iran**, which have the highest oil reserves in the world, are the two largest Middle Eastern economies in 2007, based on its Nominal Gross Domestic Product (GDP) and GDP-PPP (Purchasing Power Parity).\textsuperscript{22}

Key non-oil and non-oil-related products include the banking and financial services as well as tourism especially in the UAE and Bahrain. Rising stars include Qatar (which aspires to become a regional education hub in West Asia), Oman, Bahrain and Jordan although they have to compete with the bigger economies in the region.\textsuperscript{23}

**Malaysia’s Prerogative**

It is here that the question of Malaysia’s relationship with Middle-East revolves. It is logical to enhance our relationship with West Asian countries particularly Gulf Cooperation Council (GCC) states. Malaysia could open up a plethora of possibilities as trade is not only solely fixed on selective or single-track agenda. It could also use similar trade deal to strike other requirement. But Malaysia must prioritise its objectives which could – and have always prominently – feature petroleum imports. Besides securing longer term petroleum imports, we could eye downstream joint ventures. We could also eye some potentially lucrative LNG deals for post 2020 scenario by locking into available blocks in the region.

And there is the opportunity to concretely engage Iran which is ready supplier of Malaysia’s oil and gas needs.\textsuperscript{24} However, Malaysia must not thread gingerly because of


\textsuperscript{22} Stephen Ng. “A truly refreshing oasis”. Citing World Economic Outlook April 2008 database by IMF. BSNET.com. September 2008

\textsuperscript{23} Ibid, “Oasis”.

\textsuperscript{24} As offered by Iranian government during the visit of Dato Sri Effendi Norwawi, Malaysia’s Minister in the Prime Minister’s Department, to Tehran in November 2007.
paramount geopolitical issues not least the already-enforced economic sanction due to nuclear enrichment issues.

Role of the Public and Private Enterprises

Although participation in upstream oil projects is the sole preserve of the region’s national oil companies, Malaysia – led by PETRONAS - could still participate in downstreaming joint-ventures in a few countries. Malaysia could even realize its potential as a regional oil and gas hub by locking into strategic deals with major West Asian refiners. Malaysia could participate in more power plant projects in following suit the success of the US$7bn Shuaybah integrated electricity and desalination project, managed by the Khazanah-TNB-Malakoff consortium. MMC also has made Malaysia proud by participating in the Jazan Economic City and aluminium smelter projects in Saudi Arabia and gas projects in Iran. Proton, UEM and Si me Darby are also key players in the region by participating in the car market, road and building construction. Key service providers such as Zaid Ibrahim & Co, which has an office in Dubai, have lent invaluable help for Malaysian companies to thrive in the region.25

In a strategic push for human capital development, Malaysia could, not only cement strategic alliance in niche academic fields with reputable institutions in West Asia, but also offer training stints and/or engineering attachment in PETRONAS’s Universiti Teknologi PETRONAS (UTP) and TNB’s owned entities of Institut Latihan Sultan Ahmad Shah (ILSAS) and Universiti Tenaga Nasional (UNITEN). Malaysia has proven to be capable leaders in oil and gas sector through PETRONAS and in power generators’ repair and maintenance business as well as electrical training via TNB. We could leverage on Malaysia’s teaching capability to train petroleum and electricity knowledge workers to suit West Asian demand. This is a real “uncontested space”26 for Malaysia to thrive in West Asia.

Malaysia could galvanise its foray in West Asia/Middle-East through a Chamber of Commerce-like outfit.27 It should also enhance its networking via existing bilateral arrangement and cooperation such as the diplomatic channel (Wisma Putra), trade outfits (Matrade), OIC, NAM, higher education cooperation, science and technology (S&T) collaboration, and through NGOs such as Malaysia-Saudi Friendship Society. Malaysia should also utilise influential personalities to cement relationship with West Asian counterparts.28

25 Host of economic activities that have been made known to the Middle East Focus Group, EPU, Prime Minister’s Department, October 2007.
27 A Middle-East Focus Group was established when Dato’ Sri Mohd Effendi Norwawi was the Minister in the Prime Minister’s Department from 2006 until 2008. He led a Malaysian delegation to visit UAE and Iran in November 2007.
28 Singapore elderly statesmen such as Lee Kuan Yew and Goh Chok Tong have been reported to have complemented their current leaders in frequently visiting West Asian major cities.
Challenges and Opportunities for Malaysia-West Asia Long-term Energy Deal and Cooperation

Malaysia should warm up to the idea of greater engagement with West Asia especially for its energy security. The inevitable transition to the status of net oil and gas importer shall further highlight a regional trend for developed and developing Asian economies towards greater dependence on West Asian oil. A depleting domestic gas production scenario after 2015 necessitates a re-thinking of our energy diversification strategy that may entail import of LNG from West Asia.

However, several challenges lie ahead. Foremost, LNG is not a cheap option. LNG is currently fetching a price of US$24 per million British thermal unit (MMBtu) in the market. In addition, Malaysia must build LNG receiver terminals (for re-gasification from liquid to gas) which could reach exorbitant amount. Policy-wise, PETRONAS, the premier oil and gas provider must get the concurrence of Energy Commission, Malaysia’s domestic energy regulator, to adopt a market-based price structure for gas to be incorporated into the electricity tariff. Proper price signals and/or incentives (perhaps in the form of 10-year tax holiday) must be introduced to the players and operators as LNG imports alone will requires huge amount of financial undertakings, and potential burden to the utilities.

Among foreseeable risks are that we could be competing head-on with other countries to secure LNG shipments, thus creating a crowding out effect among procuring countries. Malaysia should strategise its energy deals with selected countries in the region so that it would not be left behind. As a country, Malaysia could leverage on the strong networking established by PETRONAS in the region.

Other potential showstoppers include an unnecessary cartel among the producing countries. However, Malaysia has been re-assured that the newly-formed Gas Exporting Council Forum (GECF), formed by Iran, Russia, and Qatar in October 2008, is just a facilitating institution for LNG.

Other unforeseen risks include piracy threats in the supply routes as well as outbreak of wars in those strategic routes (Straits of Hormuz, and others in the vicinities of Azerbaijani, Turkish and Caspian routes). In addition, speculative trading would surely pose major threats to most countries which have stakes in West Asia. Prices, especially in the spot markets, could spiral out of control and some long-term contracts could jettison as a result of perceived short-term gains.

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29 LNG market price first week November 2008. Platt oil and gas services.
http://www.singaporeangle.com/2006/10/energy-security-for-small-island.html
Nevertheless, numerous opportunities are open for Malaysia. In reiterating, Malaysia should enhance its relationship with West Asian countries so that it could look to long-term energy deals possibly in LNG importation. The country could, using the LNG avenue, lobby for resident production rights, which in turn will allow us to gain insider status to reap higher profit margins in upstream oil and gas productions. The government could play a leading role in lobbying and cementing trade and business deals. It should embark on a potential Malaysia-GCC FTA as it offers a binding trade and economic framework.

Malaysia could increase its visibility by participating in infrastructure projects such as power plants. In return, it could offer some value propositions in the form of offers to train West Asian knowledge workers in local institutes of higher learning (IHLs) notably UTP, ILSAS and UNITEN. Malaysia can also serve as an investment gateway, due to its strategic geographical location in Asian time zone, in services sector (Islamic finance) and wealth management.

Conclusion

Malaysia should take a proactive role in enhancing relationship with West Asian countries in order to firmly secure import of energy resources for medium- and long-term scenarios. While Malaysia is still importing petroleum products from there, it could explore downstream joint projects with countries in the region. A strong relationship could pave the way for an eventual but strategically-timed import of LNG by end of next decade. To facilitate the way, Malaysia should increase its trade and business visibility in the region via increase public and private involvement in projects and cooperation in strategic West Asian locations. It could reciprocate by lobbying West Asian countries to send their knowledge workers for training and attachment in our IHLs for instance UTP and UNITEN. Hopefully too Malaysia’s West Asian counterparts would participate in its national signature projects such as Iskandar Malaysia.

Reference


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EPU PM’s Department webpage 2008

National Implementation Directorate. Development work that include creation of a Middle East Focus Group which was established when Dato Sri Mohd Effendi Norwawi was the Minister in the Prime Minister’s Department from 2006 until 2008. He led a Malaysian delegation to visit UAE and Iran in November 2007.

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Intergovernment ministerial dialogue. As offered by Iranian government during the visit of Dato Sri Effendi Norwawi, Malaysia’s Minister in the Prime Minister’s Department, to Tehran in November 2007.

Various discussions in EPU and MDI, PM’s Dept, Malaysia where the author is a member of and/or privy to knowledge of, circa 2007-2008


Leo Moggie (2008), Keynote address by Tan Sri Leo Moggie POWER-GEN Asia Conference in Kuala Lumpur, 20 October 08.


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