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THE INSTITUTION OF ENGINEERS, MALAYSIA

Bangunan Injener, Lots 60 & 62, Jalan 52/4, P.O. Box 223, (Jalan Sultan) 46720 Petaling Jaya, Selangor.
 Tel: 03-7968 4001/4002 Fax: 03-7957 7678 E-mail: sec@iem.org.my Homepage: http://www.iem.org.my

**Oil and Gas Bubble**by **Engr. Muhamad Apandi bin Osman**, *MIEM, P. Eng.*

Chairman
 Oil, Gas and Mining Technical Division

NATIONAL oil companies (NOCs), multinational companies (MNCs) and other service providers in the oil and gas industry enjoyed the oil and gas boom for 2-3 years up to end of 2008. As crude oil prices rose, their revenues and profits increased to record levels. From US\$40 per barrel 2-3 years earlier, crude oil price finally peaked at close to US\$150 per barrel in July 2008.

Underpinned by high crude oil prices and the need to sustain energy resources and maintain the country's status as a net oil exporting country, the country intensified its exploration and production efforts.

To offset the declining crude oil production trend and reserves from shallow waters, the focus shifted to more advanced technologies for crude oil production from marginal fields as well as the exploration and production of crude oil further away offshore and at deepwater locations.

Hence, the Kikeh deepwater project came into fruition. The facilities started operation in 2006, while other deepwater projects such as Gemusut/Kakap and Malikai are at various stages of project implementation.

Then, as the result of a chain reaction from the economic and financial crisis, crude oil price dropped to below US\$40 per barrel at the end of 2008. While the development of gas fields progressed as planned, as gas prices remained stable as a result of long term price agreements between producers and consumers, the development of oil fields was hit hard by the crude oil price drop.

Will crude oil price go up or down further, or will it stay put? If crude oil production is no longer feasible, do we have other commercially feasible substitutes? How should stakeholders in the oil and gas industry react in this period of low crude oil cost and project deferment?

The oil and gas industry is cyclical in nature. As with other industries, the forces of supply and demand dictate the price. While smaller oil companies and service providers will be hit harder by the price drop due to the review of capital expenditure, and new project tenders being deferred or cancelled, I believe oil majors such as NOCs and MNCs are resilient enough and have the resources to ride the tide.

Though their revenue from crude oil sale will drop in the short term, NOCs and MNCs would proceed with their projects, and revamping and rejuvenation works on existing facilities would progress as planned. NOCs and MNCs would also cope with falling crude prices by looking at cheaper and more effective solution for exploration and production.

With Petronas as the anchor of the country's oil and gas industry, hopefully, the local oil and gas service providers would not be too hard hit in this period of low crude oil price. With the oncoming period of economic gloom, our role is to work harder and smarter, leverage on technology, reduce cost where possible, and be more cost effective and commercially prudent to make the industry buoyant and bubbly again. ■