AOGC delegates seek debate on industry’s future

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Pessimism over the oil price reigned at this year’s Asia Oil and Gas conference, in the Malaysian capital Kuala Lumpur, but some argued that the downturn could yield benefits for the industry

The oil price is about all anyone in the industry talks about these days, and it was no different at this year’s Asia Oil and Gas conference, one of the region’s largest industry confabs. The 18th edition of the conference in Kuala Lumpur was a more muted affair than years past, reflecting a new reality that settled in for the industry. And few, if any, of the executives, ministers and analysts gathered saw reason for optimism that the industry would see a swift exit out of the downturn.

Over the past year, the oil price has taken the industry on a rollercoaster. As shale output surged and geopolitical risks seemed to subside, the oil price plummeted. Brent crude fell by more than half from around $110 per barrel (b) in July last year to a low of $43/b in January. It has since recovered to nearly $60/b. The sharp price decline has hammered national budgets for oil producers, provided a windfall for consumers and forced the sharpest spending cuts the industry has seen in decades.

“This is certainly not the first time the sector is going through a downturn, but it is amongst the most drastic,” Datuk Wan Zulkiflee Wan Ariffin, Petronas’ chief executive, said. “The outlook is not very rosy. In my view it will be many years before we see prices anywhere near the $100 mark. I think we have underestimated the resiliency of US shale production,” he added.

That view was echoed throughout the halls of the Kuala Lumpur Convention Centre. ConocoPhillips’ chief executive, Ryan Lance, said that he expected a gradual rise in oil prices, but warned that the market would become more volatile after US shale oil had transformed the industry’s landscape. “We may, with some geopolitical event or something else going on in the world, see $100/b, but the fear is if we see that we’ll probably see $50/b on the back end pretty quickly.”

Others were more pessimistic still. Fereidun Fesharaki, who runs the consultancy Facts Global Energy, gave an entertaining presentation in which he tried to glean the future of the oil price through a crystal ball. His vision? The market remains oversupplied, inventories are piling up and the recent recovery in the oil price has come too fast. As a result, oil prices could fall by as much as $20/b in the coming months. “You need a trigger and when it comes, there will be a drop in the price of oil anywhere between $10-20,” Fesharaki said.

In many ways Asia is holding up better than most. The region’s national oil companies went into the downturn flush and they have been able to use their semi-sovereign status to continue to tap into cheap financing. Spending cuts have been less brutal and many projects are still going on. Petronas’ Ariffin said his company was still pushing ahead with the multi-billion dollar RAPID downstream project in southern Malaysia and the company’s Canadian liquefied natural gas megaproject.

Many of the cash-rich Asian national oil companies continue to look abroad for opportunistic acquisitions and many abroad are hoping to pull in much-needed investment from the region.

The head of Argentina’s YPF, Miguel Galuccio, came to Kuala Lumpur touting the potential of his country’s Vaca Muerta shale play. YPF has made some headway in the Vaca Muerta, which is now the largest producing shale outside North America. But the country will need $200bn of investment to develop the vast oil- and gas-field, Galuccio said.

Roknoddin Javadi, general manager of the National Iranian Oil Company, which has long been absent from the international industry conference scene, pitched the attractiveness of Iran’s oil industry as sanctions on the country are eased. “We hope to have an international conference in London, hopefully in late September, to introduce new opportunities in the oil and gas sector. We will introduce more than 50 new projects and we have prepared new contracts for investment and development and technology transfer. We believe it will be it will be much more attractive than what we had with buybacks in the past,” Javadi told the conference.

For all the pain the fall in the oil price has brought to the industry, Fesharaki told Petroleum Economist that it is not all bad. “It makes people more sane. Too much money can make you less careful. They splurge and waste money. But lower oil prices make a substantial readjustment in thinking. At the end they will be good for the industry. It’s a bit like going on a diet. If you’re fat, you’re happy but not healthy.”