

**Remarks by Hon. Dato' Sri Abdul Wahid Omar, Minister in Prime
Minister's Department, Malaysia
AMER6 Plenary Session 1: Oil Markets: A New Normal or Just
Another Cycle
9 November 2015, Doha, Qatar**

Excellencies, Ladies & Gentlemen.

Assalamualaikum Warahmatullahi Wabarakatuh & Good morning.

Let me begin by thanking our host Minister Mohammed AlSada and the Government of Qatar for the kind hospitality accorded to us. It has been a while since I last visited Doha and I must say I am very impressed with the transformation of Doha into a modern city but without sacrificing its traditional values.

Excellencies, Ladies & Gentlemen,

Since a lot has been covered by the earlier speakers, please allow me to focus my remarks on three areas. :

1. The importance of diversity in the economy to cushion the impact of huge drop in oil prices;
2. Opportunities of a low oil price environment; and
3. Sustainability.

1. The importance of Diversity

Malaysia has always believed in the importance of diversity in managing the economy. Diversity in the structure of our economy, Diversity in our export markets and Diversity in revenue sources for the Government. Over the past five decades, Malaysia has transformed from a commodities based economy to one that is driven by the manufacturing and services sector. Contribution from the mining sector (including the oil & gas) and agricultural sector has been reduced to 18.2% of GDP. This has enabled the economy to grow between 4.5% to 5.5% in 2015 and is expected to grow between 4% to 5% in 2016 notwithstanding IMF's lower global growth forecast of 3.1%. Likewise we have also diversified our export markets where we are not overly dependent on any particular country. Similarly, we have also reduced our dependency on revenue from oil & gas from 40% of total Government revenue in 2009 to 30% in 2014. This was further complemented by the introduction of Goods & Services Tax (GST) on 1 April 2015 which broadened our revenue base further. If not for GST, with the 50% drop in oil prices from the average of around USD100 per barrel for Brent in 2014 to USD48 assumed average in our Budget 2016, our Government revenue would have fallen in 2016 thus affecting our ability to implement development projects for the people.

2. Opportunities of a low oil price environment

The low oil price environment presents three particular opportunities. Firstly on subsidy rationalisation. In 2013, Malaysia spent some MYR27 billion or 12.8% of Government revenue on fuel subsidies. This was simply too large and had contributed to the significant fiscal deficit. Malaysia then

embarked on gradual subsidy rationalisation starting with a 20 sen hike per litre in September 2013 and another 20 sen hike in October 2014. When oil prices collapsed towards end 2014, Malaysia took the opportunity to remove the blanket subsidy altogether in December 2014 by introducing a managed float market pricing mechanism where prices are determined based on market prices on monthly basis. Secondly, the lower oil prices provided opportunity for more contribution from value adding activities by focusing on the development of vibrant downstream sector. One of the major investments in downstream includes the Pengerang Integrated Petroleum Complex (PIPC). Petronas is implementing the Refinery & Petrochemical Integrated Development (RAPID) complex together with six major associated facilities with a total investment cost of USD27 billion. The project is progressing as planned, with Ready for Start-up date targeted for Q1 2019 and commercial operations to begin by Q2 2019. The third benefit of low oil price environment is the lowering of cost of production to manufacturing companies which will spur economic activities and lower inflation for consumers that helps people deal with cost of living better.

3. Sustainability

As Malaysia strives to be a developed nation by 2020, it is important that the three core components of our New Economic Model i.e. High Income, Inclusiveness and Sustainability be embraced. High Income refers to the 2014 threshold of USD12,736 GNI per capita for a country to be classified by the World Bank as a high income economy. To achieve this, we have identified various key projects to be implemented under the Economic Transformation Program. The second component of Inclusiveness refers

to the need to ensure as we achieve economic progress, no one will be left behind and that the divide between the male & female gender, between the urban and rural population and between the various ethnic groups will be narrowed in an effective, transparent and in a market friendly manner. And the third, Sustainability not just in the way we treat the environment but also in the way we manage our natural resources i.e. meeting present needs without compromising future generations. In this respect, Petronas has been maintaining an Overall Resources Replenishment Ratio (ORRR) of 2.1 times thereby ensuring our reserves would last us another 27 years of oil production and 44 years of gas production. The size of our oil and gas reserves at 23.6 BBOE is not that large compared to other major producers but we are humbled that the World Bank has recognised Malaysia as a success story in terms of harnessing natural resources for development.

Excellencies, Ladies & Gentlemen,

Let me conclude by saying we need to be prepared for any eventuality arising from global economic uncertainty and volatility. We need to be prepared for the rapid development in the energy storage or battery technology that will propel electric vehicles and disrupt the demand for traditional fuel for internal combustion engine vehicles. By diversifying our economy and reducing our dependence on revenue from oil and gas, we are effectively enhancing our resilience that will enable us to ride through this new normal of low oil prices.

Thank you.