Rising oil import costs may become Asia's growing pain

REUTERS/FILE

A gas pump is seen hanging from the ceiling at a petrol station in Seoul.

REUTERS, *Singapore*

A widening gap between Asia's oil production and demand is creating a growing capital drain for the region and leaving countries vulnerable to global supply disruptions and a sudden surge in oil prices.

Asia's net oil imports surpassed the total amount of oil consumed in North America in 2015 and are set to rise after producers slashed spending on exploration and production on low oil prices, leaving oilfields at risk of sharp production declines in the next decade.

Activities across Asia-Pacific to search for energy resources have nearly ground to a halt in the past year while recent exploration finds have struck more natural gas than oil, analysts said.

As Asia's net imports grow and crude prices recover, the region's oil import bill is set to climb back above $500 billion in 2017 for the first time in three years, calculations based on forecasts by the International Energy Agency and a Reuters crude oil price poll in August showed..

"With demand growth set to continue and outpace declining domestic production, this leaves Asia increasingly vulnerable to rising prices," said Energy Aspects analyst Virendra Chauhan.

The oil price slump since mid-2014 had given Asian economies a breather from high import bills.

But oil demand in the Asia-Pacific is expected to grow by 800,000-900,000 barrels per day (bpd) this year and next, while the region's output could shrink by 240,000-330,000 bpd during the same period, Chauhan said.

The gap between oil production and demand has jumped over 30 percent since 2010 to an estimated 25.7 million bpd in 2016 and is set to grow by another 1.1 million bpd next year. Rising oil prices, however, means the cost could soar by a third in just one year to $566 billion.

"We have seen two years in a row in 2015 and 2016 oil investments declining," International Energy Agency (IEA) chief Fatih Birol said. "This would mean oil security and oil markets may face a challenge as a result of a huge drop in the investments in a very few years in the medium term."

Producers across the region are struggling, which is not being helped by international oil companies' capital and expertise leaving the region, said Chauhan.

Consultancy Wood Mackenzie expects Asia's oil production to fall to 5 million barrels per day in 2025 from 7.6 million bpd in 2016.

"We've seen a number of projects delayed – some cancelled - plus the level of investments in existing oil fields is falling," Angus Rodger, director of Asia-Pacific upstream research at Woodmac said.

"That has a minor impact in the short-term, but if you go out to 2020, it means oil production across the region will have declined significantly."

China is leading the decline, with output hitting a five-year low in July as producers shut-in marginal fields while imports hit a record.

Indonesian officials said they are looking at ways to shore up a production target of 780,000 bpd in 2017, the lowest since 1969 and 40,000 bpd lower than 2016's forecast. "We are discussing how to make Cepu block production higher than now," Director General of Oil and Gas Wiratmaja Puja said, adding that output at the oilfield operated by Exxon Mobil may increase by 15,000 bpd.

Indonesia, the largest oil producer in south-east Asia, faces a potential 20-25 percent natural decline in production unless it steps up activities such as drilling and well servicing, said Muliawan, deputy for operations at regulator SKK Migas.

China, Indonesia and India have been actively investing in overseas oil production assets to supplement domestic output.

China has also been broadening its sources of supply, taking more oil from Russia and Latin America to reduce its dependence on the Middle East, as well as building its strategic reserves to cushion itself in the event of an oil price shock.

The region's biggest oil consumer is also turning to gas and renewable energy, but these are long-term solutions.

Asia imports just over half of its oil from the Middle East and will continue to rely heavily on Gulf producers, analysts said, exposing the region to geopolitical risks that have disrupted oil production and exports.

"Asian production is on the decline, notably among others in China, and with increases in refining capacity that are unlikely to remain idle, the dependency of the region to Middle Eastern oil will remain," BNP Paribas Global Head of Commodity Markets Strategy Harry Tchilinguirian told the Reuters Global Oil Forum.

"It is, as you can imagine, hard to replace Saudi Arabia in your import mix for many an Asian refiner."

AMCHAM

Planning Minister AHM Mustafa Kamal, *centre*, attends the monthly luncheon meeting of American Chamber of Commerce in Bangladesh, at Westin Hotel in Dhaka on Thursday.

Saudi state fund plans stake in big industrial zone

REUTERS, *Dubai*

Saudi Arabia's top sovereign wealth fund is negotiating to buy a stake in one of the kingdom's most ambitious real estate projects as Riyadh restructures the economy to cope with low oil prices, a source familiar with the plan said.

The Public Investment Fund aims to invest in King Abdullah Economic City (KAEC) on the Red Sea coast near Jeddah, the source said. That would inject capital into the business zone, now being developed by Emaar the Economic City (EEC), a Saudi consortium affiliated with Dubai's Emaar Properties Group, developer of the Burj Khalifa, the world's tallest building.

Launched in 2005, KAEC had a population of only about 5,000 people and 120 industrial tenants at the end of last year, but says it plans to grow swiftly into a full-blown metropolis. The chief executive of the city, Fahd Al Rasheed, told Reuters in January its population was projected to hit 50,000 by 2020, with an ultimate target of 2 million around 2035.

Tenants now include French pharmaceutical maker Sanofi, a venture involving U.S. battery maker Johnson Controls and producers of building materials.

But with economic growth slowing sharply because of cheap oil, the government wants such zones to expand much faster and focus more on industries such as tourism, medical care and education to diversify the economy beyond oil and create jobs.

Under economic reforms announced in April, the government said it would work with companies developing major business zones to "revamp" them; KAEC may be the first of those cases.

"What they can do is inject cash. It's no secret KAEC needs a lot of equity for this project," the source said of the PIF's plan. KAEC, EEC and the PIF declined to comment.

The source, speaking on condition of anonymity because the matter is not yet public, said the PIF could either buy a stake directly in KAEC and serve as a partner to develop the project along with EEC, or take a stake in EEC itself.

EEC obtained a 5 billion riyal ($1.33 billion) loan from the Saudi Ministry of Finance in 2011, which has been extended until 2026, and the source said the company had a similar amount of debt to commercial banks.

An investment by the PIF in the economic city would be a step in the fund's development as one of the most important institutions in the Saudi economy, using its financial power to push projects which the government considers vital.

Under the economic reforms, the government has said it will expand the PIF from 600 billion riyals to over 7 trillion riyals, by giving it assets such as ownership of state oil giant Saudi Aramco. That would make the PIF the world's biggest sovereign fund by far, on paper though not necessarily in terms of the cash it had available for investment.

MCCI

***Extreme left*, Syed Nasim Manzur, president of Metropolitan Chamber of Commerce and Industry, Dhaka, attends a discussion with a 16-member Thai business delegation at the chamber's conference hall yesterday.**

Chinese consumers take credit for boom in car loans

REUTERS, *Beijing*

Chinese households, traditional savers with an aversion to debt, are rapidly warming to the idea of borrowing to buy a car, as automakers push financing deals to boost sales and margins in an increasingly competitive market.

Nearly 30 percent of Chinese car buyers bought on credit last year, up from 18 percent in 2013, according to analysts from Sanford C. Bernstein and Deloitte, helping a rebound in the car market after a sticky 2015.

That is welcome news to China's government, which wants consumers to borrow and spend more to shift its slowing economy away from heavy industry and investment-led growth.

Beijing resident Wang Danian said he planned to buy his first car on credit, saying it was the smart move.

"I can use my cash to do other things," the 28-year-old said while looking at an FAW Besturn X80 sport utility vehicle. "If I use all my savings at once to buy a car, and then something happens, I can't manage the risk."

Six consumers interviewed by Reuters said they would all consider loans, lured by low-fee and interest-free deals, with half saying they'd prefer to buy on credit and save cash for other items.

"I'd estimate after the manufacturer came out with the low-interest deal that about 30 percent of potential cash buyers switched to buying on credit," said a salesman at a Volkswagen dealership in eastern China's Jiangsu province who gave his name as Zhao.

That is still a far cry from the more than 80 percent of cars bought on loans in the United States, but Deloitte predicts China will reach 50 percent by 2020.

Global automakers have struggled to encourage this trend for some time; Volkswagen established its finance subsidiary in 2004, but was held back by strict regulations on underwriting loans and sources of funding.

As the government gradually relaxed those restrictions over the last seven or eight years, financed purchases have grown, with Daimler's Mercedes saying more than 30 percent of its cars in China are now bought on credit, and it reported 31 percent year-on-year growth in net lending as at the end of July.

China's auto market struggled last year thanks to the slowest economic growth in 25 years and a stock market rout, but rebounded in October when the government cut sales tax on smaller cars. By July, vehicle sales were rising at their fastest monthly rate in three and a half years.

"While the government's tax reduction was the most obvious explanation for the rebound in Chinese car sales at the end of 2015, soaring auto financing penetration represented another, lesser noticed, driver of the boom," Bernstein said in April.

More Chinese automakers jumped into the loans market last year, with Guangzhou Automobile Group and Geely setting up financing firms.

Ukraine and Russia wage war -- in global courts

AFP, *Kiev*

After Russia snatched the Black Sea peninsula of Crimea from Kiev the new authorities installed by Moscow set about taking over one of Ukraine's largest banks as well as shipyards and hotels.

The state lender has now fired back by filing a massive claim with a court in The Hague -- one of multiple cases being fought by Kiev on a new legal front as a war with pro-Russian separatists in the east of the country drags on.

The various lawsuits add up to tens of billions of dollars (euros) and may take months or years to resolve.

But the ex-Soviet state is certain it will win back at least some of the money to help fill its shallow state coffers at a time when IMF aid remains suspended over Ukraine's perceived failure to properly tackle graft.

Ukraine's Justice Minister Pavlo Petrenko added fuel to the fire by warning that even more cases against Russia linked to its seizure of Crimea and alleged invasion of the east were in the works.

"We are preparing another lawsuit together with the foreign ministry that we plan to submit to the (UN) International Court of Justice," Petrenko told Ukraine's private 112 news channel on August 27.

The case of the State Savings Bank of Ukraine (Oschadbank) is of particular importance to Kiev because it may boost the pro-Western authorities' hand in winning back other properties from Russia.

It has hired the Quinn Emanuel Urquhart & Sullivan LLP global law firm to represent its case at the Permanent Court of Arbitration in The Hague.

An August 26 hearing boycotted by Russia heard that Oschadbank was seeking more than $1 billion (0.9 billion euros) in compensation "for the total destruction of its investment in Crimea".

Quinn Emanuel Urquhart & Sullivan LLP partner Alex Gerbi said that "if Russia continues with this stance, the claim shall proceed through an accelerated timetable to a final hearing scheduled for the end of March 2017."

Gerbi told AFP that a judgement in favour of Kiev would not necessarily set a precedent for similar disputes.

But he added that "investment treaty awards typically may be used as persuasive... authority in other cases under appropriate circumstances."

PrivatBank -- Ukraine's largest private lender with branches stretching from Italy to China -- is also seeking compensation over losses suffered when Crimea was swarmed by Russian troops and then staged a referendum to join Ukraine's eastern neighbour.

The UN General Assembly condemned the vote as 'illegal" by a nearly-unanimous margin.

Evghenia Sleptsova of the Oxford Economics forecasting and analysis centre said that "Russia would never pay" the huge state claim mentioned by the justice minister because Moscow "considers that Crimea joined Russia voluntarily."

"However, it does make sense for individual Ukrainian enterprises to pursue these cases, not to leave those losses simply pending in the air," Sleptsova told AFP.

The two sworn foes have further been duking it out in the Arbitration Institute of the Stockholm Chamber of Commerce over natural gas bills that add up to more than $65 billion.

Russia has cut off the flows to Ukraine -- one of its most important transport routes to central and southern Europe -- on four occasions in the past decade over price disputes.

Ukraine is now buying more gas from its European allies than Russia in order to eliminate what it sees as a political weapon wielded by the Kremlin each time Kiev looks to establish closer links with the West.

The February 2014 pro-EU revolution that finally pulled Ukraine out of Russia's orbit has resulted in all the pent-up resentment over the gas spilling over into one giant headache for the judges in Stockholm.

CITY BANK

Hossain Khaled, president of Entrepreneurs' Organisation (EO) Bangladesh, a global non-profit organisation, and Mashrur Arefin, additional managing director of City Bank, attend an interactive session on "Unleash your family business DNA" with Reg Athwal, at the bank's head office in Dhaka on Thursday. The bank hosted the session with EO.

LG Electronics to invest in robot technology

REUTERS

South Korea's LG Electronics Inc said on Sunday it will aggressively invest in robots, seeking to capitalise on advancing artificial intelligence that may eventually lead to sophisticated machines performing everyday human tasks.

LG, in a statement, said its appliances division is preparing the firm's entry into the robotics industy with the aim to develop products that will work closely with home appliances products such as refrigerators, washers and air conditioning units. "We will prepare for the future by aggressively investing in smart home, robots and key components and strengthen the home appliances business's capabilities," said Jo Seung-jin, head of LG's appliances business, in the statement.

Advances in fields such as artificial intelligence and wireless communications are allowing for more sophisticated machines that can talk to each other via the internet and perform more complex tasks.

Countries across the world are investing heavily in robotics in hopes to develop a new industry or cope with socio-economic problems such as low birth rates or an ageing population by introducing machines which can serve humans as cooks, caretakers or labourers.