

SPEECH BY MR S ISWARAN, SENIOR MINISTER OF STATE FOR TRADE & INDUSTRY AND EDUCATION, AT THE 25th ASIA-PACIFIC PETROLEUM CONFERENCE ON TUESDAY, 3 NOVEMBER 2009, 1830 HRS AT THE SOPHIA BALLROOM, RAFFLES CITY CONVENTION CENTRE

Mr Adam Dupre, Managing Director, Ocean Intelligence,

Dr Edward Morse, Managing Director and Chief Economist, Louis Capital Markets,

Distinguished guests,

Ladies and gentlemen,

Introduction

Good evening, I am pleased to join you today at the 25th Asia-Pacific Petroleum Conference or APPEC.

Challenges of the energy industry in the face of the economic downturn

This year's theme - "Global Oil Markets – Fears and Expectations" would resonate with all of us given the current economic context. It has been a year of volatile global economic conditions and many, including the energy industry, have had to cope with this flux.

Boosted by strong fiscal policy initiatives across advanced and emerging economies, the global economy is now showing the initial signs of recovery, and financial sentiments have improved. The IMF reported last month that the global economy is expanding again and financial conditions have improved markedly. Nevertheless, it is generally acknowledged that sustaining the recovery will be a challenge.

Notwithstanding these near term uncertainties, the long term demand outlook for the oil and gas industry remains robust. The Energy Information Administration (EIA) has projected that total world consumption of energy is expected to increase by 44 per cent between 2006 and 2030.

On the supply side, however, we see a somewhat less emphatic picture emerging. As a result of the financial crisis, energy companies are drilling less oil and gas wells, and cutting back expenditure on pipelines and refineries. Projects have either been scaled back or postponed due to a tougher financing environment and lower projected profits. The International Energy Agency (IEA) estimates that global upstream oil and gas investment budgets for 2009 have been slashed by a fifth compared with 2008 - a reduction of some US\$100 billion.

In light of the demand and supply dynamics, we can expect upward pressure on oil and gas prices. The economic downturn provided a brief respite but the risk of an oil price spike once the global economy recovers is real. With the contraction of new energy investments in the current economic climate, a shortage of supply that translates into high energy prices could hinder the global economic recovery. It is therefore essential that long-term investments in oil and gas infrastructure continue, including in unconventional sources such as ultra-deep waters, oil sands and oil shale. These will position the industry to meet the projected demand and to lessen the adverse impact that high energy prices may have on the recovering economies.

Harnessing New Growth Opportunities

Enhancing our position as Asia's premier energy hub

Looking ahead, we can expect an energy landscape that is driven largely by demand from Asia. In 1990, China and India accounted for about 10 per cent of the world's energy consumption. Since then, these two major Asian economies have grown spectacularly. By 2030, both are expected to consume in total almost a third of the world's energy. Clearly, growth opportunities for the energy industry are, and continue to be, in Asia.

This shift of the centre of gravity of the global energy market to Asia offers Singapore significant opportunities. We are already a major oil hub in Asia and we plan to further enhance our position as Asia's premier energy centre. To achieve this, we will identify new growth opportunities using a multi-pronged approach.

First, we will continue to strengthen our trade infrastructure to better facilitate the movement of goods globally. Singapore is one of the top global oil trading centres and

plays a key role in price discovery for Asian oil products. Over 100 leading energy companies including BP, Chevron, Emirates National Oil Company, Petrobras, PetroChina and Shell, have established their oil trading, marketing and supply operations here. Some have had a presence in Singapore for more than 20 years. We will also continue to build on existing trading platforms such as the TradeXchange and AsiaClear by the Singapore Exchange. We can use these platforms to better facilitate the exchange of information between government agencies and commercial entities.

Second, we will upgrade our refining sector and move into more complex and higher value products. The arrival of crude from more diverse sources, and hence of different oil grades, presents both challenges and opportunities for the downstream refining sector. To better manage a wider range of feedstock, the capabilities of our refineries will be enhanced to handle such increasing complexity and with greater efficiency. The refining sector will thus be able to produce a wider and higher value slate of products in response to a fast-changing market place.

A third element in our approach is the development of Jurong Island as a Global Energy and Chemical Hub. Singapore's competitive advantage as the oil hub of Asia rests on our seamless refinery and chemicals integration. To date, over 90 leading energy and chemical companies have invested more than US\$22 billion in fixed assets on Jurong Island. This combination of global and local companies allows us to foster a strong thriving chemical cluster with many upstream and downstream linkages across various companies. Moving forward, we will continue to diversify the range of activities on Jurong Island. We will focus on achieving better integration, increasing system robustness, and creating options to bring about the next level of integration.

The fourth aspect is to continue our investment in cutting-edged Research, Development and Demonstration (RD&D). This is especially critical in the evolving energy scene where technology can be a critical winning factor. We are encouraging the development of higher value products and partnering research institutes in areas such as process optimisation, catalyst development, as well as marine and offshore engineering innovation. For instance, we plan to expand further in the marine and offshore engineering sector where we are global leaders in offshore drilling rigs and Floating Production Storage and Offloading (FPSO) conversion. We will enter fast-growing

overseas markets, foster new partnerships, and build new capabilities in design and engineering.

Our fifth thrust is to develop Singapore's role in thought leadership in the energy arena.

In this regard, we see immense value in premier events, such as today's Asia-Pacific Petroleum Conference (APPEC). These are excellent opportunities for industry players to strengthen relationships and forge new connections while creating strategic conversations on the latest industry trends. Singapore has played an active role in promoting such platforms. For instance, the annual Singapore International Energy Week (SIEW), will take place in two weeks time. It offers yet another useful forum for international and regional policy makers, industry players, and academics, to meet and discuss energy issues and strategies of the day.

Harnessing new opportunities in a Carbon-constrained World

Looking even further ahead, we recognise that we must also take into account an increasingly carbon-constrained world and with it, new international climate change policies. Environmental challenges are high on the current global agenda. While fossil fuels will remain predominant in the next few decades, renewable and clean energy technologies will increasingly come to the fore when seeking to meet energy needs in a sustainable manner.

Companies in the oil and gas sector must, therefore, seize the initiative and re-invent themselves to face a slew of new challenges. On the energy supply side, there must be sustained investments in infrastructure and capacity building, as well as continuous innovations in exploration and production (E&P). To achieve sustainable growth, the oil and gas sector must make energy efficient design second nature, and begin to integrate carbon mitigation technologies into processes. In Singapore, we see the government playing an important complementary role in facilitating these changes, whether through the creation of a sound regulatory environment or directly supporting energy RD&D.

One good example is in the area of carbon capture and storage (CCS), which builds upon techniques developed for enhanced oil recovery (EOR). Prospecting for storage sites, assessing their characteristics and economic viability, and monitoring them – these are problems germane to the oil and gas industry. As some of the potential

sequestration sites may cross borders, this may give rise to complex issues surrounding the permanence of sequestration. Governments and industry will need to come together to put in place international mechanisms that can resolve such potential conflicts.

On the technology front, Singapore, with a strong foundation in refining and petrochemicals, also recognises that there is an opportunity for carbon capture and utilisation (CCU) technologies – turning “waste” products into useful ones. Across the diverse energy sector, Singapore is leveraging on its strong industrial base and R&D culture to capture more value by advancing technologies.

Conclusion

These are challenging but exciting times for the energy industry. In the midst of much economic volatility, there remain many opportunities to grow our energy and chemical industry. Asia’s long-term energy needs will continue to grow and I am confident that Singapore, situated right in the heart of the region, is well-positioned to play a significant role in meeting these needs.

And, in meeting these needs, Singapore also aspires to be a model of sustainable development. The growth of alternative energy solutions can and must run in tandem with a strong oil and gas sector. We must bring together diverse stakeholders to create and implement innovative solutions that can address climate change issues.

Today’s gathering of key players and experts from the energy industry is an excellent opportunity for novel views and innovative ideas to be mooted, shared and discussed. I would therefore like to conclude by wishing all of you a stimulating, fruitful and rewarding conference.

Thank you.