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MEMORANDUM FOR: John Bushnell
National Security Council
Program Analysis
Room 365 OEOB 20506

SUBJECT : Review of Basic Petroleum Situation in Southeast Asia

1. As agreed in December, we are forwarding (see attachment) a general review of the petroleum production and trade situations in the respective Southeast Asia countries. This package is one we will update and elaborate informally for our own purposes, and we would greatly appreciate any additions or emendations you can make. This week we are looking into aspects of foreign exchange budgeting for petroleum in 1974; and, should this research result in any clearly defined conclusions, we will share the results with you.

2. The tabulation at the start of each country section requires a few words of explanation. We thought it appropriate to distill some of the key aspects of trade status, domestic output, and consumption into a short tab. Nevertheless, this sort of thing has the defect of fitting different situations rather imperfectly. In order of reliability, the data presented descend from fair certainty for production and aggregate trade through information on Arab-source imports to rather weak material on consumption patterns.

3. I have never been as sure in any intelligence effort that progress would depend on note-swapping and successive drafts than in this one. As you are aware, every successive commodity question the community turns up yields still more evidence of fragmented coverage. If you know of others with whom we should be in contact on this issue, please let me know.

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Review of Basic Petroleum Situation in Southeast Asian Countries

Introduction

1. Regional petroleum shortages in Southeast Asia generally are a function of the level of shortages experienced by Singapore, the major refining center supplying the region. Cutbacks in the supply of crude oil flowing to Singapore (over 90% from Arab sources) announced by the oil companies in late November were to be 10 to 15% of the levels then current. The regional impact of the November cutbacks was probably mitigated slightly by the termination of contracts involving US military installations that were supplied through Singapore. The Singapore government has made substantial efforts to maintain supplies of crude oil by courting Arab interests in the last several months; and the oil companies, which possess a large complement of recently installed facilities in Singapore, are similarly interested in keeping this market open.

2. There is wide variation among the nations of Southeast Asia with respect to reliance on external petroleum supplies. The dependence of individual nations is conditioned not only by their possession of domestic supplies of crude, but also by the extent of their refining capacity and -- in the cases of those nations that have domestic crude production --

the importance of crude oil in their external trade position. South Vietnam, Laos, and Cambodia have neither indigenous supplies of crude nor any domestic refining capacity. Burma produces and refines about three-fourths of its domestic requirements. Thailand and the Philippines have the capacity to refine their domestic requirements, but are almost completely dependent on external feedstocks.* Indonesia is the only major oil producer in the Southeast Asian group, and it refines nearly all of its domestic requirements. Interestingly, a portion of the crude oil refined by Indonesia for its domestic needs comes from the Middle East because it is more profitable for it to market its oil to the developed countries, which pay a premium for sweet crude. A similar situation prevails in Malaysia, where Middle Eastern crude replaces domestic crude that is valuable as an export product. Malaysia possesses sufficient refining capacity to provide for only about half its domestic needs.

* Although Thailand and the Philippines are both dependent on external sources of petroleum, the Philippines has since November been substantially more aggressive in attempting to obtain direct commitments from Arab governments. The Thai government, faced with domestic difficulties and inertia in the face of rising shortages, only recently took action to raise domestic prices and to secure sources of crude for the coming year.

3. Trading patterns in the region have been somewhat altered by the prevailing shortages of petroleum, but there have as yet been no shifts dramatically affecting the position of any individual nations. Indonesia has been approached by a number of the other Southeast Asian nations as a potential supplier; and, while the Indonesian government has expressed a desire to support the others in this aspect, its production is largely committed to industrial countries. The Philippines formerly received most of its petroleum through the international oil companies operating there, but it is in the process of nationalizing the domestic industry and will probably get most of its crude oil for the coming year direct from the Arab nations. Thailand has entered discussions with the PRC for the purchase of diesel fuel but the amounts involved represent a small percentage of Thailand's total requirements.

4. The impact of the shortages on the economies of the individual nations in the region has thus far been fairly modest. All of them except Singapore are primarily dependent on agriculture, which relies principally on human labor and draft animals. Shortages of petroleum products will likely impact most strongly on domestic commerce in the region, for road transportation is the principal means

of getting goods from producing areas to market and assuring steady inflows of such needed inputs to farms as agricultural chemicals and textile fabrics. Most of the nations have instituted some set of conservation measures targeted primarily at oil consumption in large cities. There has as yet been little information to indicate that the shortages have disrupted life in smaller towns or the countryside, where some two-thirds or more of the region's population lives.

5. Cognizance of the potential impact of the shortages has been much more evident in Singapore than elsewhere, a result of its industrialized base and dependence on foreign trade. As the largest refining center for export in Southeast Asia, Singapore would lose valuable foreign exchange earnings if unable to supply petroleum products. Its requirements for petroleum, which include bunkering fuel needed to service the international shipping, are substantial. Singapore possesses a large manufacturing sector that needs a steady source of electric power, the supply of which is entirely oil-fired.

6. The prognosis for Southeast Asia seems good based on the attitudes of most of the nations toward the situation in the Middle East and the behavior of the Arab supplying countries toward the region in the last several months.

Many of the nations have significant Moslem populations, and the pro-Arab attitude has found increasing support of late, particularly in Singapore. Malaysia has been on the Arab favored list, the Philippines have managed to obtain a temporary sanction from one of the supplying nations, and while the attitude of the Singaporean government has previously leaned toward the Israeli side, it has been evident in the past months that Singapore will not jeopardize the domestic economy for the sake of ideological commitment.

Burma

Country Status	:	Unfavored
Arab Imports (bpd)	:	5,000
Arab Imports as % of Total Oil Imports	:	100%
Total Oil Imports as % of Total Oil Supply	:	25%
Oil as % of Total Energy Consumption	:	30%
Arab Oil Imports as % of Total Energy Consumption	:	10%
Energy Consumption by End Use	:	Agriculture . . .15
		Industry. . . .15
		Transport . . .25
		Household . . .40
		Other 5

Burma is now experiencing severe shortages of most petroleum products, but these are unrelated to Arab actions. Although the nation normally meets about three-fourths of its requirements from domestic production, a scarcity of foreign exchange has generally rationed imports. The government and the national oil company Myanma drastically cut back sectoral allotments of products in October and December. Kerosene and fuel oil were available at levels about 40% less than a year ago, and the overall shortage of all petroleum products was about 35%. Because of the backwardness of the nation, the economic impact is difficult to measure and may be less than the extent of the shortages would imply. The situation will worsen, however, as the rising prices of oil make it more difficult for Burma to purchase its requirements.

Cambodia

Country Status	:	Non-favored
Arab Imports (bpd)	:	5,000
Arab Imports as % of Total Oil Imports	:	100%
Total Oil Imports as % Total Oil Supply	:	100%
Oil as % Total Energy Consumption	:	25%
Arab Oil Imports as % Total Energy Consumption	:	25%
Energy Consumption by End Use	:	Agriculture . . . .35% Industry. . . . .15% Transport . . . .25% Household 25%

Petroleum supplies on hand or scheduled to arrive in Cambodia probably will cover consumption requirements over the next three months, but rapid deterioration of supply may take place in late spring. Shell, Caltex and Summit have been supplying the nation's modest petroleum demands, but Summit -- accounting for 30% of domestic requirements -- defaulted on its 1974 shipments. Contracts with the other two companies expire in May, and the companies remain uncommitted on renewal. The government's oil distribution monopoly -- Tela Khmer -- has been importuning the Indonesian government to supply Cambodian requirements, but it is doubtful that Indonesia will be able to act as a routine supplier.

Cambodia is completely dependent on imported refined products because the only refinery is currently out of operation. At present, stocks are adequate to cover 2 to 6 weeks' civilian and 8 weeks' military consumption, but the situation could change radically if supply sources cannot be confirmed by May.

Indonesia

Country Status	:	Non-favored
Arab Imports (bpd)	:	Negligible
Arab Imports as % of Total Oil Imports	:	Negligible
Total Oil Imports as % Total Oil Supply	:	Negligible
Oil as % Total Energy Consumption	:	30%
Arab Oil Imports as % Total Energy Consumption	:	Negligible
Energy Consumption by End Use	:	Agriculture . . . 20% Industry. . . . . 30% Transport . . . . 25% Household 25%

Indonesia, which supplied over 300 million barrels of crude oil to Japan and the US during 1972, is the only nation in Southeast Asia riding the current crest of the world petroleum shortage. Although the country imports some Arab crude for its own refineries as well as a small number of refined products, it is not in a position where it can be adversely affected by any Arab actions.

While the Indonesians openly support the Arab cause and were instrumental in promulgating the November ASEAN statement against the Israelis, they are dependent upon their petroleum exports as a source of foreign exchange earnings, and they have been notably soft-spoken in discussions. In the most recent round of oil price increases, Indonesia's selling price of $10.80 a barrel was somewhat below the lead taken by the Arab states despite the high quality of its crude. The government and Pertamina -- the state-owned oil company -- are taking a moderate position on the current crisis, despite domestic criticism that the nation should be making the most of it. Indonesia apparently wishes to expand its position as a supplier to markets in developed countries, but its current production is at capacity and any substantial increase in output will be at least a few years in coming.

Various Southeast Asian nations have solicited Indonesia for the supply of crude oil*; but, despite the government's expressed desire to be of assistance, the bulk of its output over the next few years has been contracted for in advance by Japan and the US. Only a small amount of Indonesia's total production is not exported by the major companies, and the sale of this residual is likely to be limited to priority transactions, such as the swap agreement reportedly being arranged with Burma for foodstuffs.

* These include Cambodia, Thailand, the Philippines and Burma.

Laos

Country Status	:	Non Favored
Arab Imports (bpd)	:	3,700
Arab Imports as % of Total Oil Imports	:	100%
Total Oil Imports as % Total Oil Supply	:	100%
Oil as % Total Energy Consumption	:	20%
Arab Oil Imports as % Total Energy Consumption	:	20%
Energy Consumption by End Use	:	Agriculture . . . .35% Industry. . . . .15% Transport . . . .25% Household 25%

Laos is dependent on US assistance programs for the entirety of its petroleum requirements. Although Shell informed officials in Vientiane in late November that supplies to resident US agencies would be terminated as of 1 December, the comapny recanted and later served notice that supplies would be continued at their current levels. Diesel fuel may be available only at levels 15% below those previously in effect. Because of its minimal requirements, the backward character of the nation and assurances from Shell that supplies will be sustained, the economic impact on the country will probably be minimal.

Malaysia

Country Status	:	Favored
Arab Imports (bpd)	:	160,000
Arab Imports as % of Total Oil Imports	:	90%
Total Oil Imports as % Total Oil Supply	:	50%
Oil as % Total Energy Consumption	:	45%
Arab Oil Imports as % Total Energy Consumption	:	20%
Energy Consumption by End Use	:	Agriculture . . . .20% Industry. . . . . .35% Transport . . . . .25% Household 20%

Malaysia has fared well thus far in the energy crisis and will probably continue to be little affected by the world petroleum situation. Normally, Malaysia exports nearly all of its production of sweet crude (some 30 million barrels from Sarawak) and receives half of its refined products from Singapore. Because domestic consumption is about the same as its crude oil exports, however, it is in a good bargaining position with suppliers and could in an emergency arrange for refinement of its own crude on consignment. Moreover, as a Moslem state, it is on the Arab's favored list and can expect some cooperation from these traditional sources. Finally, it has enjoyed improving terms of trade that give it the exchange reserve capacity to cover soaring petroleum import costs.

The Malaysian economy has been booming the last several years as world prices for rubber and tin have continually risen and the domestic economy has received substantial impetus from the influx of foreign manufacturing firms. The biggest worry at present is that the inflation being experienced by the rest of the world will impact on Malaysian economic performance. The magnitude of any recession from this factor is not estimated to be large.

The Malaysian government raised the prices of gasoline by 10 percent on 21 December, but there have been no other widespread conservation measures instituted. The price of kerosene -- used by rural Malaysians for heating and cooking -- was maintained at previous levels to lessen the impact on lower income groups. A full cost increase was accorded the oil companies operating in Malaysia, probably as a result of the government's interest in inducing oil company investment in the possibly large reserves of crude oil that remain untapped.

Philippines

Country Status :	Favored (temporary)
Arab Imports (bpd) :	180,000
Arab Imports as % of Total Oil Imports :	90%
Total Oil Imports as % Total Oil Supply :	100%
Oil as % Total Energy Consumption:	60%
Arab Oil Imports as % Total Energy Consumption :	55%
Energy Consumption by End Use :	Agriculture . . . 15% Industry. . . . . 20% Transport . . . . 35% Household . . . . 20% Other 10%

The Philippine government has moved forcefully on three fronts to assure minimum impact to its economy from the present oil crisis. In late 1973 President Marcos took steps to place the government in charge of national procurement of crude oil. Before and since, his administration has made various political concessions to the Arabs to assure continued supply. Finally, a fairly extensive set of conservation measures has been promulgated and retail fuel prices raised twice in the last three months.

On 10 December, President Marcos issued a general order that authorized the administration to assume overall control of crude oil and oil products. Since that time, arrangements have been worked out for the government to take over the ESSO operation in the islands, but this has not been finalized due to the question of control over a refinery owned jointly be Esso and Mobil. Although the oil companies operating in the Philippines have wanted out for some time because of low profitability, it is not yet clear whether the government will assume complete control over the industry or if the oil companies presently there will continue operations.

Vigorous international politicking has secured temporary placement on the Arab's favored list and some assurance that the Philippines may be confirmed as a friendly country. The significance of this is that the nation will be able to obtain supplies of crude on a direct basis from the Arab supplying nations. [redacted] 25X1

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Conservation measures invoked by the government have been primarily aimed at the transport sector, which is responsible for over 30% of total domestic consumption. Gas rationing went into effect early in November, and prices for gasoline were raised later in the month and again in December. Other conservation measures have included a four day work week for government employees, closing of schools, and restrictions on domestic consumption of electricity.

Despite these measures, however, the future may be somewhat rocky for the Philippines. A contract between Gulf and Filoil to supply over 7 million barrels of crude annually expires at the end of January, and the prospects for renewal are bleak. Without this contract, and because of the growth in demand for oil, shortages during the coming year could result in a 30% reduction from the level of available supplies in 1973, and serious economic disruptions are anticipated if this occurs.

Singapore

Country Status	:	Non-favored
Arab Imports (bpd)	:	490,000
Arab Imports as % of Total Oil Imports	:	90%
Total Oil Imports as % Total Oil Supply	:	100%
Oil as % Total Energy Consumption	:	90-100%
Arab Oil Imports as % Total Energy Consumption	:	85-90%
Energy Consumption by End Use	:	Industry . . . .60% Transport . . . .22% Household . . . .12% Other 6%

As the major refining center and the most advanced economy in Southeast Asia, Singapore faces the greatest potential damage from a cessation of Arab oil supplies. Singapore receives small amounts of crude oil from Brunei and Malaysia, but is almost wholly dependent on Arab imports for domestic consumption and for export of refined products (which accounted for 18% of total exports in 1972). There is no capability to convert electric power generation to alternate energy sources, and the large percentage used by transport and industry leaves small margin for personal consumption, where cutbacks can be most easily applied. Singapore also requires extensive supplies of marine bunkering fuel to sustain the entrepot trade vital to its economy (probably about 25 million barrels in 1973).

Because of its unique circumstances among Southeast Asian countries, Singapore showed the most visible signs of nervousness after the cutbacks were announced. Although trying to maintain a facade of equanimity and independence, the Singapore government readily acquiesced to Arab demands when it pressured oil companies to cut off supplies to US military forces in the area, and later recanted its announced position of neutrality when it supported the ASEAN statement of late November condemning Israel for occupation of Arab territories.

The major oil companies owning the refineries in Singapore announced in November that supplies of crude would be cut back by 10-15%, but as yet there has been no evidence that the economy was immediately affected. A program instituted on 15 November contained voluntary measures designed to reduce consumption of electricity and gasoline by 10 percent and reports of mid-December indicated that a five percent reduction had been achieved. An additional tax was levied in late December on the purchase of gasoline, raising the price of a gallon by Singapore $0.11. There is continuing concern in the government on the destabilizing effects of the cutbacks and further conservation measures are likely to be enacted.

Thailand

Country Status	:	Non favored
Arab Imports (bpd)	:	108,000
Arab Imports as % of Total Oil Imports	:	100%
Total Oil Imports as % Total Oil Supply	:	100%
Oil as % Total Energy Consumption	:	30%
Arab Oil Imports as % Total Energy Consumption	:	30%
Energy Consumption by End Use	:	Agriculture . . . .30% Industry. . . . . .20% Transport . . . . .30% Household 20%

Because of domestic political turmoil and bureaucratic inertia, the Thai government was slow to react to the worsening petroleum shortage in the country. Oil prices were, however, raised twice between November and December, and there now appears to be substantial cognizance of the problem. As of late December, the government had taken action to deal with the oil crisis by extending emergency powers to the prime minister.

Nevertheless, the shortage may worsen substantially before any measures can take effect. The nation has sufficient refining capacity to supply most of its domestic requirements, some 40% of which previously came from the state-owned refinery at Bangchak. Feedstock for this refinery was supplied by Summit, a small American-owned company that purchased supplies on a spot basis and had no long-term contracts. The Thai government is now faced with lining up other long-term sources and thus far has had little success in dealing with the Middle East supplying nations. The discussions with the PRC for the purchase of diesel fuel are the only evidence thus far of substantive activity, and the quantities involved represent only a small part of Thailand's total requirement for this product.* In Thailand's favor is its position as a major supplier of rice to Saudi Arabia, a factor that may be helpful in eventually procuring the needed crude oil.

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South Vietnam

Country Status	Non-favored
Arab Imports (bpd)	55-60,000
Arab Imports as % of Total Oil Imports	100%
Total Oil Imports as % Total Oil Supply	100%
Oil as % Total Energy Consumption	35%
Arab Oil Imports as % Total Energy Consumption	35%
Energy Consumption by End Use	Military . . . .35% Industry . . . .15% Agriculture . .10% Transport . . .25% Household . . .15%

To meet the nation's petroleum requirements for both civilian and military uses, the government of South Vietnam has had to adjust to new arrangements that minimize the apparent US involvement in funding. Before November 1973, military requirements were supplied through DOD contracts. Under pressure from the Arabs, these were terminated by the oil companies, and South Vietnam's military was supplied out of US war reserve stocks for the remainder of 1973. Since the first of the year, military petroleum requirements have been met by a contract negotiated directly between Saigon and Shell; there has been no apparent disruption to military supplies.

South Vietnam's already-tight petroleum supply situation took a sharp turn for the worse in early December when the nation's largest storage tank facility at Nha Be was attacked by the Communists and largely destroyed. In response the Saigon government took immediate convervation steps beyond earlier (20 November) provisions of a 25%-47% increase in the administered prices of oil products and cutbacks in civilian and government consumption. The new measures included restricting the amounts in single gasoline transactions, gas station closures, and reduction of electric power to government and residential buildings.

The large-scale destruction of civilian stocks and storage capacity places additional short-run strains on an economy highly dependent on imported petroleum products. South Vietnam consumers some 55,000-60,000 barrels of refined products daily. Of this amount, civilian consumption is about 35,000 bpd (13 million barrels annually), with roughly 30 days' civilian supply normally on hand in the country. These products, consumed primarily in Saigon, go to electric power production, transportation, domestic cooking and industrial uses.

Brunei

Brunei produces a substantial amount of crude oil (about 70 million barrels in 1972) nearly all of which is shipped to Japan. Refined products are obtained from Singapore -- most of which are consumed by motorized vehicles -- and in turn Brunei supplies about five percent of Singapore's input of crude petroleum. Because of small domestic requirements and a bargaining position based on relatively significant supplies of crude, Brunei should suffer little from the current situation.