



# SEA VIEWS

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### **Meeting bigger challenges in deeper waters**

**Nazery Khalid**

*As the pursuit of hydrocarbon energy to meet voracious global demand goes to farther offshore locations in deeper waters, bigger and more challenges await players in the offshore oil and gas industry. Below are the excerpts of Nazery Khalid's opening remarks at the Offshore Australasia Congress 2010 in Perth on 14 April 2010 in which he shared his thoughts on some of the key issues and challenges that the industry players need to confront*

As the pursuit of hydrocarbon energy expands to new territories to meet growing global demand, the pressure for oil and gas majors to find new sources of these two coveted commodities will increase. Offshore locations, especially deepwater sites, have yielded prolific deposits, and are poised to be a hive of activities in the oil and gas industry. Operations farther and deeper in offshore sites will bring a variety of issues and challenges that will test the resolve and stretch the resourcefulness of industry players.

As the pursuit for offshore energy goes farther and deeper, greater technical capacity and technological capability will be required to undertake activities in these locations. By harnessing and leveraging the use of technologies optimally, those involved in offshore projects can increase the probability of success.

The use of cutting edge technologies will be a key driver in facilitating exploration and production (E&P) activities in offshore sites. Developing new technologies and coming up with ground-breaking solutions to undertake activities in farther offshore locations and more challenging environments will demand constant innovation and test the technical mettle of industry players to the maximum. Prospecting potential areas require state-of-the-art seismic and surveying technologies and skills to ensure a reasonably high degree of success in offshore E&P. More robust and advanced technologies are also required as the offshore fields enter into production and commercialization stage.

The stakes in the offshore industry are as high as the costs involved huge and the time spent considerable, hence companies and investors expect a decent return on their investments. To ensure E&P activities are carried out efficiently, safely and profitably, companies will have to consistently invest in and procure increasingly sophisticated assets and come up with creative solutions. This will require considerable amount of investments and resources, given the capital-hungry, high-tech and innovation-driven nature of the offshore oil and gas industry.

Amid the persistent global recession and credit crunch, offshore oil and gas industry players have to compete with other industries for funding. Banks are still reluctant to lend and investors are still sidelined, albeit the global economy showing signs of recovery. Raising adequate financing at reasonable costs will be a major challenge that the offshore oil and gas industry will face in the years ahead in funding projects.

The role of governments in ensuring the success of offshore oil and gas projects cannot be overemphasized. Pro-business and pro-investment policies are crucial in attracting capital and the participation of foreign players into these projects, especially in deep- and ultra-deepwaters which require huge investments in capital and technology. Take the example of Malaysia which has emerged as an attractive deepwater centre offering tremendous value proposition and enormous opportunities for players in the field thanks to such policies. The success of Petronas, a Malaysian success story in the ultra competitive oil and gas industry, is largely attributed to its attractive Production Sharing Contract terms. Its ability to attract major players and investment to participate in its offshore development projects has been one of the cornerstones of Petronas' ascent up the ladder of major global offshore energy players.

The shortage of skilled workers in the offshore oil and gas industry must be overcome to ensure increasingly sophisticated activities can be carried out successfully. If not addressed, the issue of shortage of human capital may become an Achilles Heel that could hamper the growth of the industry. The development of human capital must correspond with the breakneck pace of the development of technologies and the growth in the demand for oil and gas.

Safety is paramount in this industry. Personnel work long hours in challenging and severe conditions. Huge and expensive assets and heavy machineries are involved. In the eagerness to search for and extract hydrocarbon energy in far-flung offshore locations, safety of lives and assets can never be compromised. Incidences such as the explosion on the Piper Alpha Platform in the North Sea in 1988 that killed 167 crew members and more recently the Petrobras' P-36 Platform fire in 2001 that claimed 11 lives provide a grim reminder of the dire consequence of not paying anything less than a hundred percent attention to safety while working at offshore locations.

It is our collective responsibility to manage hydrocarbon resources in a responsible manner and to protect Mother Nature in the pursuit of extracting the riches from offshore locations. Companies involved in the offshore oil and gas industry must pay serious attention to the principles of sustainable development and corporate social responsibility, and not just think of profits and commercial interests alone.

In the wake of the COP15 summit in Copenhagen last December and in adjusting to a post-Kyoto Protocol world of lower carbon emissions, pressure is growing for the industry players to curb its greenhouse gas emissions and adopt green principles in their activities. Pressure is growing for the offshore oil and gas industry to reduce their carbon footprint and lower their carbon emissions in carrying out their activities. They must make *extract and protect* a guiding principle in their operations.