Driving Singapore's External Economy

Singapore

Speech by Mr Teo Eng Cheong, Chief Executive Officer,
International Enterprise (IE) Singapore,
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"Oil & Politics – A New Awakening"
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1. Distinguished guests, ladies and gentlemen, good evening.

2. I am encouraged to see that the Asia Pacific Petroleum Conference (APPEC) continues to command such a strong turnout, even as you enter your 27th year. This shows that APPEC is one of the most important conferences for the oil trading community. I would also like to thank the organisers for inviting me to join you today.

3. Two questions affecting the entire global economy today are probably: how the Euro crisis will pan out; and whether the US will have a strong recovery. In both Europe and the US, there are short term and long term issues to be addressed. In the short term, many see the need to introduce stability into the system through the buying of sovereign debts by the European Central Bank and through banking re-capitalisation. In the US, the short term priority will be to turn the jobless recovery into a real economic recovery. It is likely that governments will take actions in the short term which are aimed at inspiring confidence and injecting stability.

4. However, in the longer term, structural reforms are needed to address the fundamental competitiveness of the affected economies.

5. One area of reform will be the measures to be put in place so that governments can keep their budget deficits in check and reduce their sovereign debts. There is

now wide-spread recognition that the over-consumption of the past years is simply unsustainable. And governments need to adjust to a lower level of spending.

6. We all hope that the world will be spared another sharp economic decline. However, in the longer term, we must expect governments in the US and Europe to gradually cut back on its government expenditure and to tighten its fiscal policies. This will be the new normal of global economics. All these imply that the growth in the US and Europe will slow to a more sustainable level. And there will be reduced demand for energy from these markets.

7. In Asia, the story is very different. The slower growth in the US and Europe will have a negative impact on Asia. The inflation in Asia is also a concern. Nonetheless, Asia is likely to continue on its high growth path because of a rising middle class, urbanisation and industrialisation. The World Bank forecasts 8.5% and 7.5% growth for East Asia and South Asia respectively, outstripping the 2.2% for high-income countries globally.

8. Asia is likely to be the key engine driving global growth in the mid- to long-term. This has already started to show up in Asia's energy consumption. Global oil trade grew by 2.2% in 2010, with net Asia Pacific imports accounting for nearly 90% of the growth[1].

9. Asia's demand for energy is also projected to grow in the future. First, by 2025, India is expected to join the US, China and Japan as the four largest net importers of oil globally. Second, the IEA forecasts that emerging economies will consume 52% of the world's oil by 2015, compared with 47% last year[2]. Third, by 2016, global demand for oil will increase by 8.2% to over 95 million barrels per day, all of which will come from non-OECD countries. Of this growth, China alone will account for 41%[3].

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[1] Source: BP Statistical Review of World Energy June 2011
[2] Source: http://www.gasandoil.com/news/features/2742747d97deb84b25bb76d6f7cadade
[3] Source: IEA Medium Term Oil & Gas Markets 2011: http://www.iea.org/Textbase/npsum/mtogm2011SUM.pdf

10. Oil trade is therefore projected to increase in Asia. And as physical and paper trading increase, demand for supporting services like storage and shipping, trade financing and risk management will also see a rise.

11. Singapore has played an important role in Asia's oil market since it started as an entrepot port in the early days. Trading then centred on logistics of supplying bunker fuel to ships. In 1961, Shell invested in its first refinery here, setting Singapore on the path to becoming an important oil refining centre.

12. In 1983, we crossed another milestone in Singapore's evolution as an oil hub. Dutch independent operator, van Ommeren, now known as Vopak[4], opened the first Asian independent oil products storage terminal in Singapore.

13. With storage, trading houses started moving oil from various locations, blending them to various specifications in Singapore and then re-exporting them. These independent storage facilities were instrumental in attracting the first wave of oil trading companies to establish their operations in Singapore in the 1980s and 1990s.

14. Today, Singapore has become a leading oil hub in Asia. This can be attributed to our complete ecosystem of oil refinery, oil storage, oil trading community, financial and shipping sectors familiar with the oil industry.

15. Our total oil refining capacity at 1.4 million barrels per day may not be as much as that in bigger countries in Asia. However Singapore plays a key role as a swing refinery, resolving supply bottlenecks in the region.

16. Our large independent storage capacity of 10 million cubic metres has helped make Singapore a key regional oil products distribution hub. This has further encouraged a pricing centre for oil products traded in Asia through Platts' FOB Singapore price benchmarks.

17. As one of the world's busiest ports with a strong shipping industry, we are also a natural location for ship bunkering. Today, Singapore has the world's largest

[4] van Ommeren later merged with Paktank to become Vopak.

bunkering market. Our shipping and logistics sectors also help ensure that physical delivery of oil is done efficiently at any point in time.

18. Finally, our strong banking sector, and over-the-counter commodity derivatives market complete the ecosystem and ensure that Singapore remain a leading oil hub in Asia. Singapore established SGX AsiaClear five years ago and it remains Asia's only OTC clearing platform for oil swaps and freight forward agreements.

19. We now have a critical mass of global and regional oil majors anchored in Singapore. There are 400 petroleum and petroleum product traders based here[5], with 9 of the top 10 global energy companies having a presence here[6]. Examples include BP, Chemoil Adani, Gunvor, etc.

20. More Asian oil companies have also set up operations in Singapore.

    i. Petron Corporation, the largest oil company in the Philippines, set up its base here last year.
    ii. Sinopec, set up another new entity last year called Sinopec Fuel Oil Trading.

21. Oil trading remains integral to Singapore's economy. Oil trade grew by a strong 35% in 2010, reaching over US$540 billion[7]. We recognise that in this uncertain global environment, there will be challenges. IE Singapore, as the government agency responsible for trade promotion, will work with the trading community here to further address these challenges and grow this sector.

22. We will continue to keep our economy open and maintain a stable regulatory business environment. To build a ready pool of trading talents, IE Singapore initiated the International Trading Institute, with the Singapore Management University and leading industry players in 2006. Since then, 400 industry executives have gone through its training; over 100 of its graduates have since joined the commodity trading and related industries.

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[5] Source: Department of Statistics.
[6] Source: 2010 ranking by Platts.
[7] Source: IE Singapore.

23. We will continue to work with you to build a more robust trade ecosystem in the years ahead. We hope to grow with you as you strengthen your oil trading and corporate functions in Singapore.

24. I wish all of you a fruitful conference ahead. Thank you.