

MALAYSIA

*By Muhamad Nor Muhamad
Executive Director, Malaysian Chamber of Mines*

In the year 2000, the Malaysian economy recovered strongly from the 1997 Asian economic and financial downturn, spearheaded by its vibrant export sector and rising domestic expenditure. With the remarkable turnaround, several of the unorthodox economic measures and monetary reforms introduced by the government to contain the impact of the downturn were either withdrawn or modified.

Malaysia's real Gross Domestic Product (GDP) grew by 8.5% in 2000 from 5.8% the previous year. Per capita income in nominal terms rose strongly to RM13,361 (US\$3,516) in 2000 from RM12,343 (US\$3,248) in 1999, according to Bank Negara, Malaysia's central bank.

Inflation moderated further during the year despite a strong recovery in the domestic economy. The rate of inflation recorded in 2000 was 1.6% compared with 2.8% in 1999. This was the lowest rate recorded since 1987. The continuing moderation in the country's inflation was attributable to the relative stability of the Malaysian currency, which continued to be pegged at one US dollar to 3.80 Malaysian ringgit, low inflation abroad, and lower prices for many commodities.

According to Bank Negara, the country's economic growth in the year 2001 is expected to moderate at a strong pace, and to hold up quite well against a backdrop of gloomy external factors. GDP growth for 2001 is forecasted at 5.0% based on strong fundamentals and a track record of previous prudent policies.

Minerals

The mining sector in Malaysia contracted by a moderate 0.5% in the year 2000, a result of lower production of crude petroleum, which

accounted for almost 80% of the total sector. Natural gas production, however, increased due to higher domestic and external demand. Tin output declined during the year owing to exhaustion of ore reserves. Overall, the mining sector's contribution to real GDP in 2000 was slightly lower at 6.9% compared with 7.2% in 1999.

Tin-in-concentrates output declined by 14.1% to 6,307 t from 7,340 t in 1999. This was despite better average tin prices recorded during the year. Tin prices on the Kuala Lumpur Tin Market (KLTM), the Malaysian physical tin market, continued to record favourable prices in 2000. At the end of that year, the number of tin mines in operation totalled 70 units, a decline of two units from the end of 1999. The bulk of Malaysia's tin production in 2000 continued to come from the gravel pump sector, which contributed some 53.5% of total output from 25 operating mines.

The average tin price recorded on the KLTM for 2000 was slightly higher at RM20.47/kg compared with RM20.20/kg in 1999. Tin prices on the KLTM were generally strong during the early months of the year, but gradually turned lower towards end of 2000. Trading on the KLTM continued to reflect trading of tin metal on the London Metal Exchange (LME), which tracked the overall market performance of base metals trading. The highest tin price recorded during the year on the KLTM was RM22.84/kg on January 4, while the lowest price reached was RM19.42/kg on October 30.

Stocks of tin in LME warehouses during the year continued to increase. At the end of 2000, LME high-grade tin stocks totalled some 12,885 t compared with 9,155 t at the end of 1999, an increase of 40%.

Tin stocks held by the US Defense Logistics Agency (DLA) continued to decline during the year as a result of continuing sales. At the end of 2000, DLA tin stocks stood at 72,339 t compared with 84,339 t at the end of 1999, a reduction of some 14%. DLA stocks will gradually decline over the years as the US Government continues with its programme of tin stockpile disposals. In recent years, DLA tin sales have been targeted at around 12,000 t/y.

The domestic consumption of tin during 2000 was maintained at around the same level as in 1999. Tin consumed in the year 2000 totalled 5,639 t compared with 5,723 t recorded in 1999. The solder sector remained the mainstay of local consumption, followed by the tinplate and pewter sectors.

Malaysia's imports of tin-in-concentrates for smelting by its sole tin smelter operated by Malaysia Smelting Corp. (MSC), totalled 19,276 t, a small decline from 20,110 t imported in 1999. These concentrates came mainly from Australia, Peru, Vietnam and Myanmar. Malaysia exported a total of 20,614 t of refined tin during the year, a decrease of 14.2% from 24,026 t exported in 1999. The total value of Malaysia's tin exports in 2000 was RM434.7 million compared with RM490.7 million in the previous year, making it still by far the country's single largest mineral export earner, in value terms.

The production of other major minerals, namely iron ore, gold, bauxite, silica-sand and coal, again showed mixed performance during 2000. Copper output was nil due to the closure of Malaysia's sole copper mine, Mamut in Sabah, East Malaysia in mid-1999, because of ore exhaustion. Iron ore output decreased in 2000 by 23.4% to 258,553 t from 337,462 t a year earlier. The ores came from seven small mines located in several states in Peninsular Malaysia. All of the output was consumed by the domestic cement, and iron and steel plants.

Gold production in 2000 increased by 16.7% to 4,026 kg from 3,449 kg in 1999. The state of Pahang in Peninsular Malaysia is currently the biggest gold-producing state in the country. The Penjom Gold Mine, which started production in late 1996 and is located in Kuala Lipis, Pahang, is the single largest primary gold producer in the country. It is a joint venture between Malaysian and foreign interests. A number of smaller gold producers operate in Kelantan, Terengganu and Sarawak.

Bauxite production in 2000 decreased by 45.8% to 123,270 t from 227,724 t in 1999. Output came from two mines located in Johore in Peninsular Malaysia and was exported to Japan and the US in the form of upgraded bauxite ore.

Abundant reserves of naturally occurring silica-sand resources including tin-mine tailings sand deposits are found throughout Malaysia. According to the Department of Minerals and Geoscience, the country currently has some 148.4 Mt of silica-sand deposits. Small amounts of silica are also produced from the crushing of quartz rock. Most silica-sand mining is undertaken in the states of Johor, Perak, Selangor and Sarawak. There are currently 18 major producers supplying silica-sand for use as glass sand as feed material for the glass, ceramics, foundry, water treatment, chemical and the electronics industries. The output of silica-sand in 2000 totalled 243,784 t, an 11.3% decrease from the 1999 output of 274,823 t. Recognising the great potential in optimising the utilisation of Malaysia's silica-sand resources, the government, together with industry and foreign interests, is currently promoting the development and production of higher quality glass products.

Malaysia's coal production is primarily undertaken in Sarawak, East Malaysia, and located in the Merit-Pila Coalfield, which has the largest measured reserves of some 115 Mt of coal. Total coal output in 2000 increased by 24.1% to 382,942 t from

308,502 t produced in 1999. Malaysia is a net importer of coal for its power generation and cement plant requirements. The country's major import sources are Indonesia, Australia, China and Russia. Malaysia's major coal resources are located in Sarawak and Sabah, with small deposits in the states of Selangor, Perak and Perlis in Peninsular Malaysia. Total reserves, as estimated by the Department of Minerals and Geoscience, stand at 1,034 Mt of which 230 Mt are measured, 132 Mt indicated and 672 Mt inferred.

Coal forms a strategic resource in the country's "Four-Fuel Policy" whereby Malaysia's power requirements are interdependent on four energy sources, namely oil, gas, hydropower and coal. However, the country is now researching to include renewable energy sources such as solar, wind and biomass as an additional energy mix.

During the year, mineral prospecting continued to be actively undertaken in the states of Pahang and Kelantan in Peninsular Malaysia, and Sabah and Sarawak in East Malaysia. The exploration activities were carried out by local and foreign mining companies either on their own or on joint-venture partnerships to prospect and mine for minerals, such as tin, gold, copper, iron ore, nickel, cobalt, coal and industrial minerals.

Crude Oil and Gas

In 2000, crude oil production including condensates declined by 1.2% to 683,000 bbl/d. The oil is produced from 39 oil fields, 50% offshore in Peninsular Malaysia, 23% from offshore Sarawak and the remainder from offshore Sabah. The lower level of crude oil production in 2000 was consistent with the country's National Depletion Policy, which aims to moderate output in order to conserve the country's oil reserves. Malaysia's crude oil reserves as at January 1, 2000 were estimated at 3.40 billion barrels, ranking it 27 in the world. At the current rate of production, this level of reserves should last for another

16 years without replenishment. About 61% of the reserves are located in the offshore areas of Peninsular Malaysia, 24% in Sarawak and 15% in Sabah.

Output of natural gas increased by 9.4% to 4,308 million ft³/d in 2000. About 42% of production is from Peninsular Malaysia, 54% from Sarawak and 4% from Sabah. A total of 218 gas fields and seven gas wells are in existence in the country. The increased output during the year was the result of strong domestic demand by the power generation and manufacturing sectors. At the same time, there was also increased external demand for LNG from Japan and Taiwan. Malaysia is estimated to have gas reserves of some 84.4 trillion ft³ as at January 1, 2000, ranking it 12 in the world. This level of gas reserves could be utilised for another 40 years based on the present production rate. In energy terms, it is about five times Malaysia's oil reserve. Half of the gas reserve is located in Sarawak, 9% in Sabah and 41% situated in Peninsular Malaysia.

Currently, 42% of Malaysia's crude oil reserves and 18% of its gas reserves have been developed. In addition to the aforesaid gas reserve, there are some 4 trillion ft³ of gas reserves (Malaysian share) in the offshore Malaysia-Thailand Joint Development Area.

During the year, three new Production Sharing Contracts (PSC) were signed between Petroliaam Nasional Bhd (Petronas), Malaysia's national oil corporation, and major international oil exploration production companies. A total of 18 exploration wells and 38 development wells were drilled in 2000. Some 94,400 line km of seismic data were acquired for exploration and development purposes. These efforts were designed to increase the nation's oil and gas reserves.

Meanwhile, Petronas which undertook globalisation of its business beginning in 1991 reported recently that it would post a

record performance this year; thanks to its aggressive approach towards venturing overseas and becoming a major international player and helped by the high oil prices. For the half year ended September 2000, Petronas recorded a net income of RM9.90 billion (US\$2.6 billion), which is almost 80% of its earnings for the whole of the 1999 financial year. Petronas has ventures in more than 24 countries both in the upstream and downstream sectors of the oil and gas industries in Asia, Africa, West Africa, Europe, Australia and South America. It's overseas revenue comprises some 30% of total earnings.

In the most recent *Fortune Global 500*, Petronas is ranked 137 overall in terms of shareholder's funds, and the fourth largest amongst its industry peers in terms of net profits. Petronas is in fifth position, up from 18, and has made the biggest gain in the United Nation's Conference on Trade and Development latest list of the 50 largest non-financial transitional corporations (TNC) from developing countries in terms of foreign-owned assets.

For the year 2001, Malaysia's mining sector is forecast to decline, albeit moderately. This is attributable mainly to an expected continuing decrease in crude oil production during the year, in line with Malaysia's National Depletion Policy. National gas production is forecast to increase in 2001 owing to rising domestic and external demand from its traditional overseas buyers. As natural gas is an important resource under

the country's energy policy, there are plans for greater gas utilisation in future, particularly in the residential, industrial and commercial sectors.

Meanwhile, production of tin in 2001 is expected to remain at around the same output level as in 2000, provided more tin mines are reopened resulting from the renewal of new mining leases granted by the authorities. KLTM prices are expected to be under pressure during the year depending on the severity of the anticipated economic slowdown in the major tin-consuming countries, namely the US and Japan. The production of other major minerals are forecast to continue to remain mixed in the year 2001.

Major Mineral Production (t except where stated)		
	1999	2000
Bauxite	227,724	123,270
Silica-sand	274,823	243,784
Iron Ore	337,462	258,553
Copper Concentrates	20,726	Nil
Tin-in-Concentrates	7,340	6,307
Coal	308,502	382,942
Gold (kg) +	3,449	4,026
Silver (kg) *	2,744	5
Crude Oil (barrels per day)	691,000	683,000
Natural Gas (million standard cu. ft. per day)	3,939	4,308

+ Includes by-products from other mining

* By-product of gold and copper mining

Sources: Department of Minerals and Geoscience, Malaysia

Bank Negara Malaysia Annual Report 2000