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# RSIS COMMENTARIES

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## **ASEAN Petroleum Security Agreement: Sealed or Leaking?**

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*The ASEAN Petroleum Security Agreement signed recently in Thailand marks a milestone for ensuring regional energy security by including a provision for voluntary oil stockpiles. However, mandatory, as opposed to voluntary, oil stockpiling could better serve the medium- and long-term energy security needs of ASEAN.*

### **A Fruitful Start for Regional Energy Security?**

THE RECENT signing of the ASEAN Petroleum Security Agreement (APSA) during the ASEAN Summit in Thailand on 26 February to 1 March marked another milestone for regional energy cooperation. An enhancement of the preceding 1986 agreement, the new APSA is designed to enhance ASEAN's energy security.

Compared to the 1986 APSA, the new pact included voluntary oil stockpiling as one of the medium- and long-term measures specified under Article 3.3 (f). This would surely be music to the ears of Japan and South Korea which had long advocated an ASEAN oil stockpile. In the past, there had been divisions within ASEAN on the issue of oil stockpiling. Hence, the inclusion of oil stockpiling in the new APSA represents a significant regional effort towards ensuring energy security.

However, the caveat attached to this clause remains telling -- it specifies that "oil stockpiling, whether individually or jointly by ASEAN Member States, shall be on a voluntary and commercial basis". The 'voluntary' provision, which invariably makes oil stockpiling an option instead of a stipulation to ensure supply security in times of emergency, could expose ASEAN to potential new risks.

### **Oil Stockpiling – An “On-Off” Affair**

Oil stockpiling on a 'voluntary and commercial basis' is not new to ASEAN. In fact, some ASEAN countries do stockpile petroleum surpluses and had emplaced national emergency guidelines on their utilisation. However, uneven oil stockpiles exist among these countries, ranging from 15 to 90 days. Also, not all ASEAN countries possess the necessary storage infrastructures. Effective coordination on

the utilisation of national oil stockpiles is absent among ASEAN member states, unlike those of the International Energy Agency.

Enthusiasm for regional oil stockpiles had ebbed and risen from time to time. In anticipation of the Iraq war in 2003, some ASEAN countries quietly began to stockpile oil. The Philippines for instance amassed 62 days worth of petroleum – the highest amount in a decade – in mid-March 2003. Facing oil price hikes and geopolitical uncertainties in 2004, ASEAN renewed interest in regional oil stockpiling. However, a 2006 ASEAN+3 joint stockpile proposal involving China, Japan and South Korea was never further heard of again. Some ASEAN officials had pointed out that ASEAN, unlike Japan and South Korea for instance, is less reliant on energy imports thus precluding the need for a regional oil stockpile. They also argued that such capital intensive endeavours are affordable only to developed states. Some even suggested that storage sites could become sitting ducks for terrorists.

Fortuitously, not every ASEAN member country has encountered a serious supply shortage to date. However, given geopolitical uncertainties and ASEAN's increasing dependence on foreign oil, there is little room for complacency. Supply disruptions would lead to global oil shocks and cause economic recession in the region.

### **Weighing Costs and Benefits**

A voluntary commitment to regional stockpiling is most likely predicated on cost factors, given the socioeconomic disparities within ASEAN. Indeed, the costs of building and maintaining stockpiles, under most circumstances, would far outweigh the benefits to individual countries. However, mandatory stockpiling through cost-sharing arrangements could alleviate this issue while mitigating unfair 'free-rider' problems that could result from a voluntary scheme.

In times of supply disruptions, stockpile release could calm markets and might help dampen oil price hikes. This will lower import costs while allowing economies to adjust to shocks. The release of Japanese oil stockpiles in 1990 helped the Japanese yen resist the anticipated oil shock. A US think-tank study showed that the release of Strategic Petroleum Reserve helped American households save an average of US\$65 and US\$125 on gasoline during the 1990 Persian Gulf War and post-Hurricane Katrina in 2005.

More importantly, mandatory stockpiling would become a manifestation of ASEAN political will. This will represent an important symbol to global players, by deterring politically or economically motivated supply interruptions. As such, mandatory stockpiling could also foster the expansion of intra-ASEAN cooperation and provides a safeguard against supply disruptions due to unforeseen circumstances, such as natural disasters.

Cost considerations, while legitimate, should not militate against such a scheme. Thailand, which has a rock salt dome capable of storing approximately 100 million barrels of oil, could facilitate construction of a relatively low cost storage within relatively short periods. Unused storage in Brunei, as well as the former US military base in the Philippine's Subic Bay, are also suitable sites.

ASEAN could establish a regional fund to collectively operate and maintain the joint stockpile. Japan and South Korea, which had previously offered technical expertise and financial assistance, are potential partners to work with. Mandatory regional stockpiling arrangements could begin with private stock holdings and governed under an ASEAN framework.

Stockpiling is appropriate for ASEAN at this juncture given the present low price of oil compared to previous years. In 2005, South Korea's oil stockpiling came to a standstill due to oil price hikes. Drawing from this analogy, stockpiling only in times of price spikes might prove futile for ASEAN. An early, concerted effort to stockpile oil would prepare ASEAN against supply disruptions within or

outside the region.

### **Lest It Is Too Late**

ASEAN as a whole has a combined gross domestic product of over US\$1.4 trillion and relies on the Middle East for more than 80 percent of its oil. Energy consumption in ASEAN was projected to reach 400 million tonnes of oil equivalent (MTOE) by 2020, rising to 782 MTOE by 2030, as compared to 265 MTOE in 2000.

A US-based independent researcher remarked recently that almost immediately after the global economy recovers in the not-so-distant future, oil prices would return to US\$100 a barrel. Such developments could possibly ignite energy price hikes again, and the cost ASEAN would have to pay for its increasing oil imports could be prohibitively high.

Oil is a private commodity while security is a public good. An abrupt oil supply disruption during times of economic recovery could have serious ramifications for ASEAN. Even though oil stockpiling is capital intensive, a mandatory regional stockpile would give every member a stake in ensuring regional energy security. This will better ensure that its benefits accrue to all, including countries beyond ASEAN.

Nobody could perfectly predict a future oil shock, but everyone could buffer the shock by being well prepared.

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