

Young people who sell livestock at county fairs and the like should be rewarded for taking self initiative and allowed to keep the money they've earned to help pay for their education or to re-invest in other animals to raise. My bill would eliminate the current policy of forcing these youngsters to visit the tax man.

Mr. Speaker, I want to commend the young people of Fayette County's 4-H, as well as their parents and sponsors, for continuing the fine traditions of this truly great organization.

## GAS PRICES

### HON. SILVESTRE REYES

OF TEXAS

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 7, 1998*

Mr. REYES. Mr. Speaker, the citizens of El Paso voiced their concerns to me over what they pay for gas at the pump. As many of you know, the mayor of El Paso, Carlos Ramirez, contacted me earlier this year with a request that I initiate a closer look at this situation. At my request, Congressman GENE GREEN chaired a public meeting in El Paso on gas prices. I would like to insert for the RECORD the statements of two of the participants, Mr. Carter Montgomery of Longhorn Partners Pipeline, and Dr. R. Perryman of Perryman and Associates, who both spoke about the gas prices in El Paso and how to resolve those problems.

STATEMENT OF CARTER R. MONTGOMERY, PRESIDENT AND CEO, THE LONGHORN PARTNERS PIPELINE, SEPT. 3, 1998, EL PASO, TX

Good morning. I am Carter Montgomery, President and CEO of Longhorn Partners Pipeline. Longhorn is a limited partnership based in Dallas, Texas. In 1995, we began developing a 700-mile, 18-inch diameter pipeline that will transport gasoline, diesel and jet fuel from Gulf Coast refineries to West Texas communities and the El Paso gateway market.

Our pipeline consists of an existing 450-mile section from Houston to Crane, which we have significantly improved; a newly constructed 250-mile extension from Crane to El Paso; and a new nine-mile section to connect the existing pipeline in Houston with the GATX terminal in Galena Park, Texas. GATX is the largest products terminal on the Gulf Coast. By originating there, Longhorn will be able to receive products for delivery to West Texas from as many as 12 Gulf Coast refineries that, together, constitute nearly 25 percent of the refining capacity of the U.S. Our goal is to begin delivering products to El Paso and West Texas before the end of 1998.

In El Paso, we are also constructing a 19-tank, 900,000-barrel terminal to allow shippers to store fuels for this area and send some on to New Mexico and Arizona. In addition, Longhorn is constructing a smaller terminal in Odessa, Texas to serve the Permian Basin market. An 8-inch pipeline is being constructed from Crane to serve the new terminal in Odessa.

We made the decision to serve El Paso consumers and businesses after identifying historically high gasoline costs, often 10 to 20 cents per gallon more than drivers pay in other parts of Texas, such as Houston. This costs El Pasoans more than \$12 million per year.

As this chart shows, between January 1990 and July 1998, Houston had consistently lower gasoline prices than El Paso.

Even as El Paso's gasoline prices became slightly lower between June 1996 through July 1998, its prices have still remained higher than in Houston plus the cost of transportation, although an interesting phenomenon is taking place.

From June 1996 through July 1998, there has been a definite closing of the price gap. It appears to me that several factors have contributed to this welcome relief to El Paso motorists: the actions of El Paso citizens in demanding lower prices, including some very active advocates in the media; the actions of Mayor Ramirez and other elected officials like yourselves; and the mere threat of competition from the Gulf Coast that has resulted in gasoline merchandisers competing for market share before the new gasoline supplies get here.

I want to emphasize, though, that El Paso citizens have seen short-term price reductions before, only to have their hopes dashed a few months later. What will be different after Longhorn is operating is this—bringing gasoline and other fuels from those Gulf Coast refineries will create a structural change in the market. That structural change is what will seal in the new, more competitive market that will, in turn, help make fairer pricing a lasting part of the El Paso economy.

I am extremely proud to be a part of this project. We are building a safe, environmentally sound pipeline, with a goal of 100 percent safety. We have gone to great lengths to ensure the operating integrity of this pipeline. Many of the tests and improvements to the line exceed federal and state requirements.

Even before purchasing the line in 1995, we conducted several comprehensive tests. These included the "Smart Pig" test, a device, run through the pipeline, that electronically measures wall thickness and other structural conditions. Following that, a Hydrostatic Test was performed to confirm the integrity of the entire pipeline. In a Hydrostatic Test, the line is pressurized to 1.25 times its maximum operating pressure and held there for an extended period. The tests confirmed the pipeline's structural integrity. Going forward, Longhorn will conduct additional "Smart Pig" tests every five years.

Once in operation, the entire pipeline will be monitored 24 hours a day from a central control room, with readings taken every few seconds by computer. An operator will manage the pipeline, including the new remotely controlled valves we are adding as a safety upgrade.

Longhorn is adding these remotely operated block valves on both sides of the Edwards Aquifer and at all river crossings, isolating these small sections so the flow of products can be quickly halted if necessary. Volumes entering and exiting sections of the pipeline are metered and balanced every few seconds, allowing the operator to monitor the flow of products through the pipeline. Each valve operates independently, enabling the operator to select the most environmentally sound course of action.

Suction and discharge pressures at all pumping stations are also continually monitored, giving the operator additional data to operate the pipeline safely and reliably.

Longhorn will also install an additional pump near the Edwards Aquifer that will lower the operating pressures over the aquifer. These operating pressures will be lower than in the past. This is an additional step that will help to protect the environment.

We are also posting pipeline identification signs closer together than the previous operator, decreasing the risk of third-party damage to the line.

Longhorn will visually inspect the entire line once a week, more frequently than in

the past. Many of these safety measures go beyond the requirements of law or regulation, but we are doing them because they enhance safety, help us fulfill our commitment to safety and environmental quality and, frankly, because they're good, prudent business measures.

We are, and will continue to be, regulated by the U.S. Department of Transportation's Office of Pipeline Safety on interstate pipeline matters, and by the Texas Railroad Commission on any intrastate pipeline matters.

This concludes my statement. I will be happy to answer any questions.

SUMMARY OF TESTIMONY BY M. RAY PERRYMAN, PHD, SEPT. 3, 1998, EL PASO CIVIC CENTER

#### INTRODUCTION AND QUALIFICATIONS

My name is M. Ray Perryman. I am President and Chief Executive Officer of The Perryman Group (TPG), an economic research and analysis firm with its principal place of Business in Waco, Texas. In addition to my responsibilities at the firm, I am business Economist-in-Residence at Southern Methodist University (SMU) and Institute Distinguished Professor of Economic Theory and Method at the International Institute for Advanced Studies.

It is my pleasure to appear before this Committee and offer a perspective on the retail gasoline market in El Paso and New Mexico. I am deeply appreciative of the work that the Committee is doing and greatly admire the willingness of this group to tackle such complex issues. I will do anything possible to assist in the process.

#### INTRODUCTION

A new competitor is seeking to enter the market for gasoline sales in the Upper Rio Grande area which is dominated by the El Paso Metropolitan Statistical Area (MSA). The project will also provide a new source of refined petroleum products in New Mexico. The new venture promises substantial economic benefits to consumers in the form of lower costs. The project involves the development of a pipeline connecting the refineries of the Texas Gulf Coast with El Paso. The pricing structure offered by this new initiative will bring significant savings to area residents, particularly within the Hispanic population. The new pipeline will also enable connections to third party pipelines with access to major urban centers in Arizona and New Mexico.

The total project has far-reaching economic benefits for the economies of regions it serves, including construction costs, ongoing operating expenditures, and substantial savings to consumers. The present testimony presents the project's economic savings to residents in the El Paso area, to the local Hispanic community, and to New Mexico—all of which are made possible by the pipeline. Initially, a brief description of the methodology is provided. This discussion is followed by a presentation of results and a concluding synopsis.

#### METHODOLOGY

The basic technique used in this investigation is known as input-output analysis. In general, this approach involves the creation of a system which estimates the amount of various inputs required to make a unit of output (measured in monetary terms). For example, the construction of a typical house requires quantities of wood, glass, wiring, roofing shingles, financial services, and numerous other factors. Each of these items also requires inputs, thus leading to multiple rounds of activity. The portion of this production activity that remains in an area depends upon its capability to supply the various items required in the process.

The proposed pipeline will enable the achievement of consumer savings through notably lower prices for gasoline and diesel in the Upper Rio Grande areas it reaches. The direct magnitude of fuel purchases in the relevant regions is estimated based on data provided by the Texas Comptroller of Public Accounts and the New Mexico Taxation and Revenue Department for gallons of fuel sold and motor vehicle registrations. As a conservative assumption, 1997 volumes are used in the analysis although past data and forecasts for the regions suggest increasing future sales. (The regional forecasts of overall economic conditions are generated by The Perryman Group using standard regional modeling approaches.)

Once the volumes are established, the potential savings in wholesale costs are determined. Using data from the Oil Price Information Service, the differential between prices in the Gulf Coast area and the relevant consumer markets is calculated. A four-year average (1994-1997) disparity is employed in the analysis. The net differential in wholesale prices is determined by subtracting the expected transportation tariff for spot shippers to be levied by the new competitor and other third party shippers from the price gap. The calculations are completed in a manner that does not incorporate disparities in state gasoline taxes within the cost savings. Even greater savings could occur through contract shipments at lower negotiated rates, although this potential was not factored into the calculations in the interest of conservatism.

To translate these wholesale price reductions into retail savings for consumers requires an evaluation of the extent to which cost decreases are passed along to consumers. In general, studies indicate that "permanent" changes in wholesale gasoline costs are fully reflected in retail prices within a short period of time. Several recent national studies indicate that even temporary cost decreases are passed from 80%-100% to consumers. (See, for example, Robert Bacon, "Rockets and Feathers: The Asymmetric Speed of Adjustment of UK Retail Gasoline Prices to Cost Changes," *Energy Economics*, 1991; A. Borenstein, Colin Cameron, and Richard Gilbert, *Do Gasoline Prices Respond Asymmetrically to Crude Oil Price Changes?*, National Bureau of Economic Research, 1992; Jeffrey Karrenbrock, "The Behavior of Retail Gasoline Prices: Symmetric or Not?," *Federal Reserve Bank of St. Louis Review*, 1991; and US General Accounting Office, *Analysis of the Pricing of Crude Oil and Petroleum Products*, 1993.) In the present study, it is assumed that only 80% of the wholesale savings is translated to consumers, thus again understating the likely benefits. It is further assumed, and widely supported by empirical studies and market behavior, that reductions in cost from one supply source will be matched by others in the market. (See, for example, Howard Friedman, "The Analyst's Angle," *Indiana Department of Natural Resources*, 1998; "Taking the Mystery Out of Gasoline Prices," *Petroleum Communications Foundation*, 1997; Rick Castnais and Herb Johnson, "Gas Wars: Retail Gasoline Price Fluctuations," *Review of Economics and Statistics*, 1993; and Margaret E. Slade, "Vancouver's Gasoline-Price Wars: An Empirical Exercise in Uncovering Supergame Strategies," *Review of Economic Studies*, 1992.)

The calculated savings to consumers represent a net increase in after-tax spendable income. A portion of this gain will be saved or spent outside the area, but the vast majority of it will be spent locally on various household purchase items. The composition of these direct outlays is estimated using information regarding typical local spending

patterns compiled from the US Department of Labor and the American Chamber of Commerce Researchers' Association. (Some of these savings also accrue to local business enterprises. Those entities typically have higher multipliers than consumers, thus making the approach employed in this study quite conservative.)

After the components of direct spending are compiled, the indirect and induced (or multiplier) effects are determined. (The actual incremental consumer spending that takes place as a result of savings stemming from the project is called the direct effect. The production of the purchased goods is known as the indirect effect, while that resulting from payroll spending is the induced effect.) Given a reliable measure of the direct magnitude of increased spending, localized input-output models may be used to determine the additional or "multiplier" production that is generated.

These effects are calculated by using the relevant geographic submodels of the U.S. Multi-Regional Impact Assessment System which was developed and is maintained by The Perryman Group. This model, which has been used in hundreds of applications over the past two decades, reflects the unique industrial composition of each geographic region and may be used to assess business activity in any county or multi-county region. The system is extremely comprehensive and encompasses more than 500 distinct industrial categories. The model is similar in scope to the Input-Output Model of the United States and the Regional Input-Output Modeling System maintained by the U.S. Department of Commerce, but it incorporates numerous refinements, updates, expansions, and localization parameters. It is designed to provide a realistic yet conservative estimate of the overall outcomes resulting from specific economic stimuli. Thus, it offers an ideal mechanism to assess the anticipated gains to residents in the El Paso area and New Mexico who will benefit from the new pipeline's lower gasoline prices.

#### ANNUAL ECONOMIC BENEFITS TO CONSUMERS IN THE UPPER RIO GRANDE (EL PASO MSA) AREA

The Upper Rio Grande region primarily benefits from the advent of new competition via cost savings in gasoline and diesel products. The total yearly gains (from cost savings) to consumers in the El Paso area at project maturity are thus determined to be: \$46.648 million in annual Total Expenditures; \$21.165 million in annual Gross Area Product; \$13.168 million in annual Personal Income; \$12.264 million in annual Retail Sales; and 568 Permanent Jobs.

The first graph appended to this report graphically illustrates these economic benefits. (All monetary values throughout this analysis are given in 1998 dollars in order to adjust for the effects of inflation.)

These enhancements to local economic conditions permeate the entire area and positively affect virtually all segments of the population.

#### ANNUAL ECONOMIC BENEFITS TO HISPANIC CONSUMERS IN THE EL PASO AREA

As more competitive gasoline prices occur in the El Paso area, the highly-concentrated Hispanic population will receive significant economic benefits. Due to the presence of lower gasoline prices, this group is projected to enjoy yearly savings of over \$5.7 million, with an average gain of about 22.0% relative to non-Hispanic households.

The total yearly impacts (in consumer savings) from the new, competitive pipeline on economic activity among local Hispanics are expected to be: \$7.045 million in annual Personal Income; \$5.456 million in annual Wages and Salaries; \$7.154 million in annual Retail Sales; \$11.346 million in annual effective Purchasing Power; and 411 Permanent Jobs.

The second attached graph illustrates these benefits.

This entrance of a new player in the market clearly offers impressive increases in the well-being of the Hispanic community of the Upper Rio Grande region.

#### ANNUAL ECONOMIC BENEFITS TO HISPANIC CONSUMERS IN THE STATE OF TEXAS

Hispanics across Texas will enjoy further economic benefits from lower prices offered by the new competitor. Hispanic consumers and businesses in the Upper Rio Grande region will purchase inputs from other parts of the state, thus generating subsequent indirect and induced gains.

The total annual impact of the ongoing activities of the new pipeline (from cost savings) on the Hispanic population of Texas are estimated to be: \$10.110 million in annual Personal Income; \$7.813 million in annual Wages and Salaries; \$9.249 million in annual Retail Sales; \$14.875 million in annual effective Purchasing Power, and 590 Permanent Jobs.

The third attachment to this report graphically presents these economic enhancements.

There are, thus, substantial economic gains which will accrue to the Hispanic residents of the state due to the new competitor's lowered gasoline and diesel prices. Texans are not the only US citizens to gain from the presence of a new competitor. New Mexico residents also stand to benefit.

#### ANNUAL ECONOMIC BENEFITS TO CONSUMERS IN THE ALBUQUERQUE METROPOLITAN AREA

Consumers in Albuquerque and Las Cruces are among New Mexico's residents most likely to feel an increase in economic activity from the new venture. The Albuquerque area will primarily benefit from the proposed pipeline through cost savings in gasoline and diesel products. At project maturity, the increase in local business activity generated by lower prices of refined products and the associated increase in consumer spending is expected to be: \$33.133 million in annual Total Expenditures; \$17.346 million in annual Gross Area Product; \$10.348 million in annual Personal Income; \$9.230 million in annual Retail Sales; and 581 Permanent Jobs.

These enhancements to local economic conditions permeate the entire area and positively affect virtually all segments of the population. The fourth graph following this report depicts these gains.

#### ANNUAL ECONOMIC BENEFITS TO CONSUMERS IN THE LAS CRUCES METROPOLITAN AREA

As in Albuquerque, the Las Cruces area will also derive its major gains from the proposed pipeline through savings accruing to purchasers of gasoline and diesel products.

The stimulus to the local economy resulting from lower prices of petroleum products and the corresponding enhancements to consumer spending is estimated at: \$9.308 million in annual Total Expenditures; \$4.704 million in annual Gross Area Product; \$2.840 million in annual Personal Income; \$2.667 million in annual Retail Sales; and 164 Permanent Jobs.

Again, these benefits, which are measured at project maturity, are enjoyed across a broad spectrum of industries and population cohorts. The fifth attached graph illustrates these enhancements.

#### ANNUAL ECONOMIC BENEFITS TO CONSUMERS IN THE STATE OF NEW MEXICO

The savings achieved in Las Cruces and Albuquerque yield spillover benefits to the entire state of New Mexico. The overall statewide gains from greater accessibility to more competitive gasoline prices in these two urban markets are projected to include: \$48.938 million in annual Total Expenditures; \$25.163 million in annual Gross Area Product;

\$14.469 million in annual Personal Income; \$12.370 million in annual Retail Sales; and 807 Permanent Jobs.

Assuming that a similar level of direct savings is available across the entire state, the aggregate incremental stimulus to business activity in New Mexico expands to: \$128.686 million in annual Total Expenditures; \$66.167 million in annual Gross State Product; \$38.048 million in annual Personal Income; \$32.529 million in annual Retail Sales; and 2,122 Permanent Jobs.

It is, thus, readily apparent that the consumers and producers of New Mexico have a substantial stake in the ongoing availability of gasoline at lower prices which is afforded by the new, competitive pipeline. Both sets of consumer benefits are illustrated in the graphs following this report.

#### SYNOPSIS

This testimony presents an evaluation of the contributions to consumers of a dynamic, new competitor in the Upper Rio Grande and New Mexico markets for gasoline and diesel sales. The results reveal impressive economic enhancements for the residents of the El Paso area, particularly among Hispanic residents. Substantial gains are also observed for retail customers in New Mexico. Conservative assumptions were used throughout the analysis; longterm effects, such as the greater competitiveness of a region for new industrial locations engendered by lower transportation costs, have not been factored into the analysis. Thus, this assessment should be viewed as a measure of the minimum benefits ensuing from the entrance of a new competitor. The findings clearly reveal that the pipeline is an imaginative endeavor which will be highly advantageous to the consumers it reaches.

Again, I appreciate the opportunity to participate in this process and look forward to ongoing involvement. As additional issues surface concerning the impacts of gasoline prices, I will continue to update our analysis.

If any of you have questions or need additional information, please feel free to let me know. I appreciate the work that all of you do on behalf of the citizens of the United States, and I wish you all the best with the many challenges you face.

#### RELATIVE ECONOMIC STABILITY OF BRUNEI DARUSSALAM AMONG ASIAN ECONOMICS

#### HON. EDOLPHUS TOWNS

OF NEW YORK

IN THE HOUSE OF REPRESENTATIVES

*Wednesday, October 7, 1998*

Mr. TOWNS. Mr. Speaker, I would like to bring to my colleagues' attention the attached article from *Euronmoney* October 1998, "Brunei Darussalam: The Abode of Peace."

#### BRUNEI DARUSSALAM: THE ABODE OF PEACE

Asia is caught in recession. No country in the region can expect to escape from at least part of the consequences of the turmoil that has swept Asian economies. That said, the Sultanate of Brunei Darussalam is better placed than most regional states to weather the challenges ahead.

With the August 1998 inauguration of HRH Prince Haji Al-Muhtadee Billah as Crown Prince and future 30th Sultan in a direct royal line that reaches back over 500 years, Negara Brunei Darussalam truly reaffirmed its position as "The Abode of Peace."

The spectacular and traditional ceremony held in the heart of the capital Bandar Seri

Begawan, a modern and forward-looking city, served to underline Brunei Darussalam's fortunate and enduring ability to combine the very best of the past with the very best of the new.

Brunei Darussalam has changed hugely with the flow of oil wealth, but His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah, his government and his people have all striven to maintain the traditional standards of the country.

On the resumption of independence in 1984, His Majesty the Sultan proclaimed the country a sovereign, democratic Sunni Moslem monarchy. From the 14th to the 16th centuries Brunei Darussalam was the centre of a substantial empire with strong trading links, which covered much of Borneo and the neighbouring islands. However, by the end of the 19th century the Sultanate had lost much of its territory and influence as the result of European colonial expansion throughout south-east Asia.

In these difficult circumstances, Brunei Darussalam agreed to become a British protectorate and in 1888 accepted a British resident who advised the Sultan on all matters except the Islamic faith and Malay custom.

The discovery of oil in the western part of the country 20 years later initiated a long period of economic development, which was accelerated when the first offshore discoveries were made in the 1960s and given a further boost by the increase in oil prices in the 1970s.

The Brunei Darussalam constitution was drawn up in 1959, at the same time that the Sultanate became self-governing, although the British maintained responsibility for the country's foreign affairs, security and defence.

In 1967, Sultan Haji Omar 'Ali Saifuddin Sa'adul Khari Waddien, who had reigned for 17 years, voluntarily abdicated in favour of his eldest son, His Majesty Sultan Haji Hassanal Bolkiah, who ascended the throne in 1968, becoming the 29th Sultan.

Since then, His Majesty the Sultan has built upon the foundations laid by his late father, HM Sultan Omar Ali Saifuddin, III, who is remembered as the architect of modern Brunei Darussalam. But the old Sultan never lost his links with his country's past. When he knew he was dying in 1986, he left his modern palace and returned to the old palace near the Kampong Ayer stilt village on the Brunei River, from which his family had first moved at the start of the century.

The 1979 Treaty of Friendship and Cooperation reinterpreted the long-standing relationship between Britain and Brunei Darussalam and paved the way for Brunei Darussalam to reassume full responsibility for its own destiny as an independent state in January 1, 1984.

Since that date, Brunei Darussalam has joined and supported the aims of all the principle international organizations. Upon independence, it joined the Association of South East Asian Nations (Asean). Most of Brunei's trade is conducted with the other members of Asean, with Singapore being the leading trading partner within the grouping. Participation within Asean projects has also given Brunei an interest in the economic development of the region.

In October 1991, the member states of Asean formally announced the establishment of the Asean Free Trade Area (Afta), which was to be implemented over a period of 15 years, later reduced to 10.

Brunei is also a member of Asia-Pacific Economic Cooperation (Apec) whose heads of government will be the guests of Brunei Darussalam during the Apec 2000 meeting, to be held in Bandar Seri Begawan.

Brunei Darussalam is also a member of the Islamic Development Bank, the World Bank and the International Monetary Fund.

In October 1993, the idea of a "growth quadrangle", encompassing Mindanao and Palawan (the Philippines), Sarawak, Labuan and Sabah (Malaysia), East and West Kalimantan and Sulawesi (Indonesia) and Brunei, was mooted, aiming to emulate the Singapore-Johore-Riau "growth triangle". At a meeting in Mindanao in November 1994, it was agreed to establish the "growth triangle" as the Brunei - Indonesia - Malaysia - Philippines - East Asean Growth Area (BIMP-EAGA). The area has since been expanded with the announcement of the incorporation of additional provinces in Indonesia, including North and South Kalimantan, Maluku Islands and Irian Jaya, in July 1996. It was also decided to locate the secretariat of the East Asean Business Council (EABC) in Brunei. The provision of an office and the pledge to fund one half of the secretariat's operating expenses on a three-year renewable basis, are seen as part of Brunei Darussalam's commitment towards the development of BIMP-EAGA.

Brunei Darussalam is on the northern coast of the island of Borneo. It covers an area of 5,765 square kilometres. Malays form the majority of the population with a Chinese minority. There are also small expatriate communities, particularly from Britain, the Netherlands, the United States and Australia.

Brunei Darussalam is divided into two parts by Sarawak, a part of eastern Malaysia. The western side of the country is made up of two main districts, Brunei-Muara, Tutong and Belait while the eastern side contains the Temburong district. The climate is tropical and the average daytime temperatures range between 26 degrees centigrade (80 degrees Fahrenheit) and 35C (95F), with the evenings generally being a little cooler.

The annual rainfall varies from 200 inches a year in the interior to 100 inches annually on the coast. Brunei Darussalam has 130 kilometres of coastline and over 85% of the population lives in the coastal area.

#### CAUTIOUS ECONOMIC MANAGEMENT

In 1997, GDP per head, in Brunei Darussalam measured at current prices was Br\$25,600 (\$14,712). After some years of gentle decline, between 1990 and 1997 GDP increased by an annual average of 2.2%. In 1997, Brunei's GDP, at current prices was estimated at Br\$8,051 million. The economy is based largely on wealth from natural gas and petroleum and from the Brunei Investment Agency managed funds of short and long-term assets.

The proportion of GDP contributed by the petroleum sector has however declined steadily from 83.7% in 1980 to 72.8% in 1985 to 62.9% in 1990 and 35.6% in 1997. Based on the current rate of production, Brunei Darussalam's petroleum and natural gas reserves are expected to last for another 20 and 30 years respectively.

The diversification of the economy into non-petroleum-related activities, which is expected to reduce income disparity (with wealth concentrated hitherto in the petroleum sector) remains a major challenge.

The proportion of GDP contributed by the non-oil sector has increased annually since 1986. Between 1990 and 1996, the GDP of the non-oil sector rose at an average of 5.7% per annum. In 1997 this relatively high growth continued, particularly in service-related areas.

The petroleum sector was adversely affected by depressed prices on the world oil market in the late 1980s. Export earnings from petroleum and natural gas declined by about Br\$9.7 billion in 1980 to Br\$3.6 billion in 1997, although the latter figure still represented 91.1% of the total export revenue.