

CPPS Policy Factsheet: Oil and Gas

CPPS is pleased to bring to you its “**CPPS Policy Fact Sheet**” on the oil and gas industry. In this factsheet, we will look at perhaps the most important sector of the Malaysian economy and its relationship with both public and private sectors.

BACKGROUND

Crude oil and natural gas are two of Malaysia's most abundant resources. In a country rapidly industrialising and moving into the service sector, oil and gas, among a handful of primary resources, remain **significant contributors to the national economy**. The national oil corporation, Petronas, is one of the largest companies in the world, and a towering figure at home; a **significant portion of its revenues flow into the treasury**.

The sustainability of the petroleum industry in Malaysia is increasingly becoming an issue, with projections predicting **the country will become a net oil importer in a few years**. With petroleum contributing a **large chunk of federal revenue**, there are fears that the government is **too dependent** on oil and gas royalties. Rising global fuel prices have buoyed Petronas and government revenues, but also **put pressure on the government to cut fuel subsidies**, which are among the largest in the region.

Complicating matters is the government's **opacity in the oil and gas industry**; despite being completely state-owned, **Petronas does not report to Parliament**, and makes very limited information available about its operations and revenue. Several states with oil and gas reserves have also publicly raised **the issue of royalties**, saying they should be paid a larger share directly, rather than relying primarily on the federal government to funnel revenue back into the state.

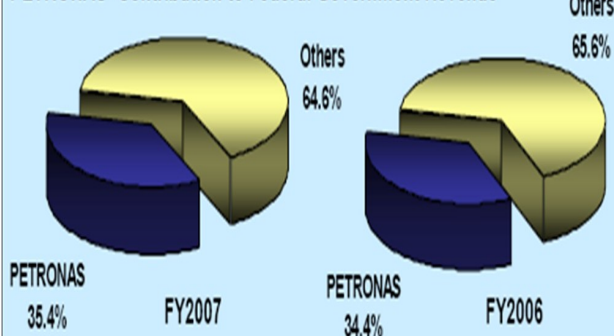


FLASH POINTS

- Oil and gas is a significant contributor to government revenue, comprising **more than 40% of federal revenue** annually.
- The main vehicle for developing the oil and gas industry is the state-owned **Petronas** corporation, which partners with international oil companies to explore and mine oil and gas fields.
- Petronas is also expanding its operations overseas; **foreign fields** contribute an increasing amount of Petronas revenue.
- Under the Petroleum Development Act 1974, **Petronas reports only to the Prime Minister**; much information about its business operations thus remains hidden from the public.
- Transparency International has ranked Petronas as a **low-performing international oil company** and middle-performing national oil company when it comes to revenue transparency.
- A substantial amount of revenue from oil and gas goes into **subsidising various petroleum products**, primarily petrol, diesel and natural gas.
- Some revenue — about RM100 million a year — goes into the **National Trust Fund**, or Kumpulan Wang Amanah Negara, for future savings and investment; the fund currently has **RM 3.8 billion** in the bank.
- The rest of the revenue is primarily spent on **development**, and allocated through the annual budget.
- Due to Malaysia's **heavy dependence** on oil and gas, some fear we may be subject to the “**resource curse**”. From 1960 to 1990, per capita incomes in resource-deficient countries grew two to three times faster than in resource-dependent countries.
- Pure subsidies for fuel **will not be sustainable** for much longer, especially in light of depleting oil and gas reserves. Worryingly, the National Trust Fund's RM3.8 billion is **unlikely to be enough** to sustain current rates of government expenditure once current reserves are exhausted.

Single largest contributor to Government revenue

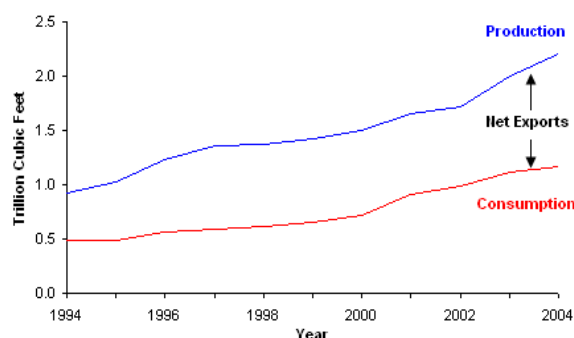
PETRONAS' Contribution to Federal Government Revenue



Source: Economic Report 2006/2007

***Note:**
Excludes 2nd interim dividend of RM6.0 billion and final dividend of RM10.0 billion for FY2007 and to be paid in FY2008

Malaysian Natural Gas Production and Consumption, 1990-2004



Source: EIA International Energy Annual 2004

Credit: US Energy Information Administration

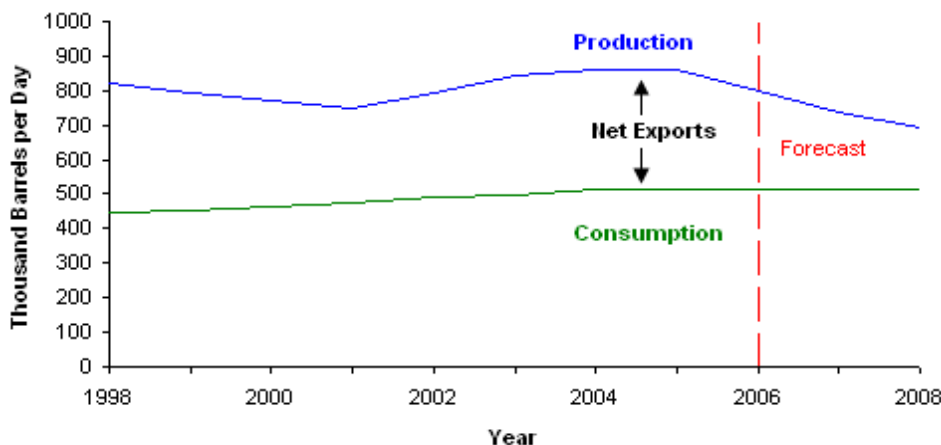
BASIC STATISTICS and FACTS

- The **main oil and gas firm is Petroleum Nasional Berhad (Petronas)**, a 100% state-owned corporation. Several other international oil companies such as ExxonMobil, Shell, BHP, etc. also have operations in Malaysia, in partnership with Petronas.
- **Petronas also operates internationally** in 32 other countries.
- Malaysia's **total reserves of oil and gas** as of 1 January 2008 stand at **20.13 billion barrels of oil equivalent (boe)**. In the last year **production averaged out at 1,673,500 boe per day**.
- Petronas also has an additional **6.24 billion boe of international reserves**, with production of 615,100 boe per day.
- At current rates, Petronas has estimated Malaysia will become a **net importer of oil by 2012**.
- At the end of the 2007 fiscal year, Petronas had earned **RM223.1 billion in revenue**. Of this money, Petronas paid **RM62.8 billion to the federal government**, and RM4.8 billion in royalties to the states of Terengganu, Sabah and Sarawak. These payments constituted **63.1% of Petronas revenue**.
- Petronas money comprised **44% of federal government revenue** in the previous year. Since inception Petronas has paid **RM403 billion to the government**, comprising more than half of all government revenue since the 3rd Malaysia Plan.
- In the 2007 fiscal year Petronas subsidised the gas sector to the tune of RM19.7 billion; the government's expenditure on petrol, diesel and gas **subsidies that year stood at RM16.2 billion**.
- The Kumpulan Wang Amanah Negara (National Trust Fund, or KWAN), primarily comprises Petronas funds earmarked for future investment; as of 2008, the fund has about **RM3.8 billion**, a paltry amount compared to other resource-rich countries such as Kazakhstan, whose trust fund has USD14.1 billion in the bank.

WHO ARE the PLAYERS

- **Petronas, the national oil and gas company**; responsible for development of the industry locally, and stewardship of the country's oil and gas resources. [Visit the official Petronas website.](#)
- **The Prime Minister's Office** receives reports from Petronas and is responsible for allocating oil and gas revenue through the annual budget.
- **Kumpulan Wang Amanah Negara** stores oil and gas funds allocated for future saving and investment by the Prime Minister.
- **International oil companies** which partner with Petronas: ExxonMobile, Shell, BHP, Caltex, Murphy Oil, Nippon Oil, Lundin Malaysia, Mitsubishi and Japex.

Malaysia's Oil Production and Consumption, 1990-2008*



Source: EIA International Energy Annual 2004;
Short-Term Energy Outlook (Feb 2007)

*2006 is estimate

Credit: US Energy Information Administration



MAPPING it OUT

- Oil and gas mining operations are based in the territories of three states: **Terengganu, Sabah and Sarawak**.
- Petronas partners with **foreign companies in 32 countries**, whose contribution to Petronas revenue is steadily growing.

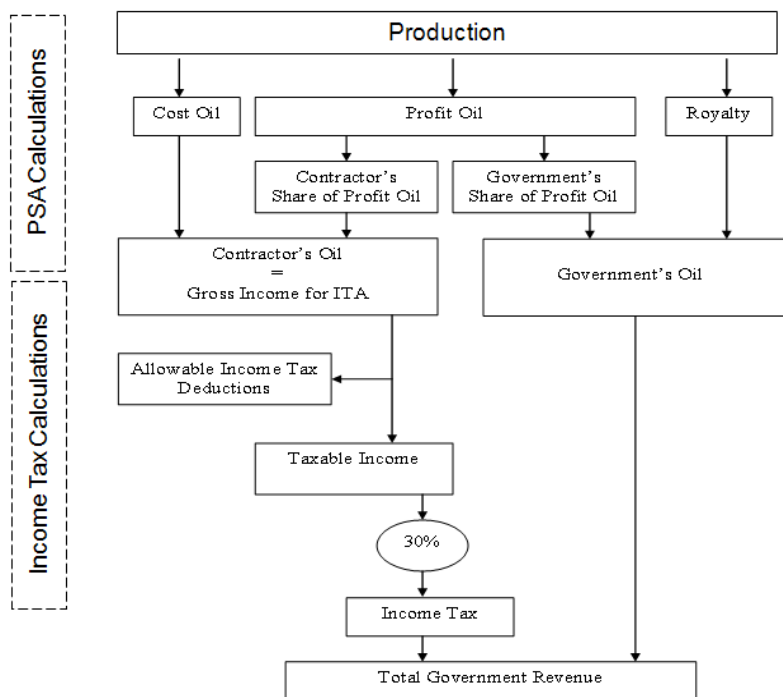
Petronas Foreign Operations:

- | | | |
|---------------------|----------------|------------------|
| • Algeria | • Indonesia | • Thailand |
| • Argentina | • Iran | • Timor Leste |
| • Australia | • Japan | • Turkmenistan |
| • Benin | • Mauritania | • United Kingdom |
| • Cambodia | • Morocco | • Uzbekistan |
| • Cameroon | • Mozambique | • Vietnam |
| • Chad | • Myanmar | |
| • China | • Nigeria | |
| • Cuba | • Pakistan | |
| • Egypt | • Philippines | |
| • Equatorial Guinea | • Russia | |
| • Ethiopia | • South Africa | |
| • India | • Sudan | |

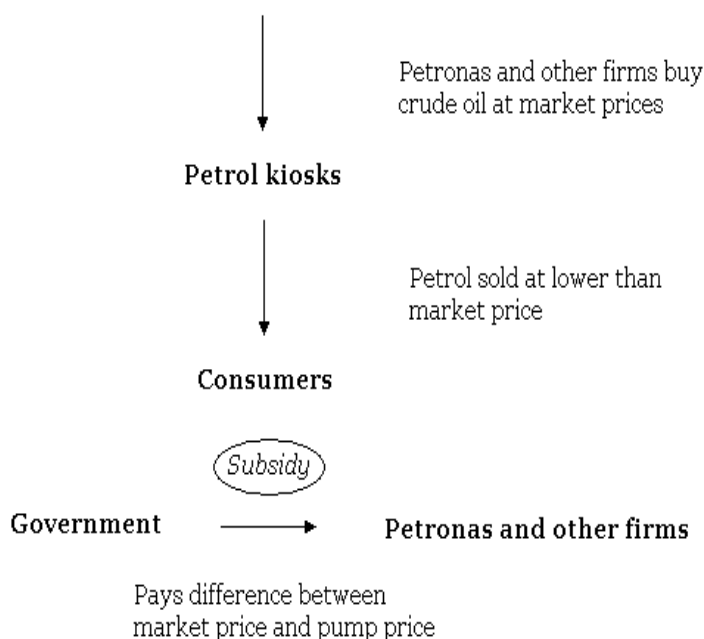
REVENUE TRANSPARENCY

- As **Petronas is accountable only to the Prime Minister**, its accounts are not public nor available to Parliament, rendering the state oil company's operations extremely opaque.
- As an international oil company, **Petronas has been rated as a low performer** on revenue transparency by Transparency International. According to the criteria, this means Petronas discloses its revenue only by geographical segmentation, with almost no additional relevant information, and that increased reporting in all areas of revenue transparency is necessary.
- As a national oil company, Petronas was rated as a middle performer, meaning it discloses relatively little about payments and anti-corruption programmes, and needs increased reporting on policy and management systems, as well as improved reporting on all areas of revenue transparency. For more, [see the full report](#).
- Malaysia **does not subscribe to the Extractive Industries Transparency Initiative (EITI)**, an initiative to get governments to release information on revenues received, and also to get oil and gas companies to publish information revenues paid to governments. Timor Leste is the only country in Asia Pacific subscribing to this initiative.
- For further information, see www.eitransparency.org and www.publishwhatyoupay.org.

**Chart: Production Sharing Contract
How Revenues are Split**



**Chart: Fuel Subsidies
How the Subsidy System Works**



POLICY RECOMMENDATIONS

- **Make disclosures within the extractive industry fully transparent:** All oil and gas companies operating in Malaysia especially Petronas (being the national oil company) should disclose all payments to the government. this should be disaggregated to show all types of payments (royalties, taxes, etc.) following international disclosure standards for transparency in company reporting.
- **Make fully transparent the revenue flows coming from foreign countries** in which Petronas operates, and the revenues being paid to foreign governments, as these may raise serious human rights concerns.
- Amend the Petroleum Development Act 1974 to **make Petronas reportable to Parliament** instead of to the Prime Minister. This would increase accountability of oil and gas revenues that form a tremendous amount of national budget. Large activities and investments should be tabled to Parliament.
- **Increase Parliamentary oversight of the Kumpulan Wang Amanah Negara** that absorbs RM100 million from Petronas accounts annually. Reports that are tabled to Parliament should be followed up on (the 2005 report is the latest available in the Parliament library).
- **Ensure that all information provided by the Government is watertight.** Profit, revenue, subsidy, and expenditure figures must be consistent across all Ministries and Government Departments.
- The **National Depletion Policy must be updated** in light of recent changes in the global oil market, highlighting steps taken to seek alternative sources of revenues for the sake of future generations.
- Have a **consistent subsidy scheme**, with detailed measures on addressing targeted low-income groups. This should be accompanied by thorough methodology, figures and calculations on how the scheme is configured.

PARTY POSITIONS

Barisan Nasional

- Supports weaning Malaysians from resource dependence by cutting subsidies
- Supports slow phasing out of current subsidies for Independent Power Producers (IPPs)
- Supports letting Petronas reinvest more of its profits, through subsidy reductions
- Prefers maintenance of status quo with respect to state royalties

Pakatan Rakyat

- Supports reduction in fuel prices by as much as 50 sen
- Demands immediate end to government protection of IPPs, which receive substantial subsidies at the expense of Petronas and Tenaga Nasional
- Supports greater transparency in Petronas accounting
- Supports giving more oil and gas royalties to the states