

# Investing in the oil and gas sector in Malaysia



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Things are looking good for the oil and gas (O&G) industry in Malaysia this year. It started with the recent discovery of a sizeable amount of crude O&G in Miri, Sarawak by Petroliaam Nasional Berhad (Petronas), a government-linked company and JX Nippon Oil. According to reports, drilling tests showed a flow rate of 440 barrels of crude oil per day and 11.5 million standard cubic feet of gas per day. This onshore discovery is the first in 24 years. Added to that is the spillover effect of development seen last year, including the reported sizeable offshore discoveries in the Guang North Gasfield and the Tukau Timur East field in November, and improvement in charter rates which in the second week of January caused the value of offshore support vessel (OSV) contracts to touch RM1 billion (approx. US\$326,277,000). In 2012, a RM60 billion Refinery and Petrochemical Integrated Development (RAPID) project within the Pengerang Integrated Petroleum Complex, an O&G storage terminal in Johor and a Regasification Plant in Melaka were launched. It was also reported that the local O&G industry in Malaysia (including Petronas) is looking at investing RM183 billion in capital expenditure within next five years.

Since the discovery of oil in 1910, the Malaysian economy has steadily shifted its dependence to the O&G sector. According to the 2012 CIA World Factbook, Malaysia is ranked at number 28 of the oil producers in the world. The O&G industry contributes approximately 20 percent of Malaysia's Gross Domestic Product and by 2020, it is expected to generate RM 241 billion in Gross National Income. In 2012 alone, investments in O&G projects of up to US\$20 billion had been implemented.

The Malaysian Government has also played its part. The Malaysia Petroleum Resource Corporation, an agency established to drive the O&G sector, together with the Labuan Financial Services Authority, launched the GIFT programme to grant favourable tax rate and certain exemption of fees and income of professionals in Labuan International Commodity companies. In 2011, provisions on tax exemption and special treatment for income were introduced in the *Petroleum (Income Tax) Act 1967*. Prime

Minister Datuk Seri Najib Tun Razak also announced in the recent Budget 2013 several incentives which include:

- (a) a 100 percent income tax exemption for a period of 10 years, exemption of withholding tax and stamp duty on O&G public private partnership;
- (b) a 100 percent income tax exemption on statutory income for the first three years of operations for liquefied natural gas (LNG) trading companies; and
- (c) a reduction from 38 percent to 25 percent on the tax imposed on foreign companies investing in marginal fields.

As a measure of the importance of the O&G sector in Malaysia, local involvement is crucial. For that, foreign companies that are keen to enter Malaysia's O&G sector have to be licensed with Petronas either by way of appointment of a local company to be the exclusive agent or by incorporating a local joint-venture (JV) company with a local partner to perform business operations in Malaysia. The issuance of the license is based on the *Petroleum Development Act* and *Petroleum Regulations 1974*. The application must further comply with the requirements stipulated in the *Licensing and Registration General Guidelines* provided by Petronas, including establishing a local company or a professional body such as land surveyor or quantity surveyor, having a stable financial standing and ensuring sufficient Bumiputera participation from the shareholders level down to the employee level, based on the Standardised Work and Equipment Categories.

The presence of world renowned petrochemical companies like Shell and Exxon in Malaysia signifies the potential that the country has as an O&G investment location, not only for local but also foreign companies. Vast opportunities exist for companies to pierce their way into the industry especially with the initiatives undertaken by the government and the ever-expanding O&G sector. With the recent developments in the industry, it is hoped that it will help to boost Malaysia's economy to greater heights.

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