

World Bank: Petronas' investments locally and abroad ensure sustainable oil wealth

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KUALA LUMPUR: National oil company, Petronas' investments domestically and abroad have ensured that oil wealth will be available for future generation, The World Bank said.

The World Bank in its Malaysia Economic Monitor report said Petronas have made significant investments domestically, both in upstream exploration and production as well as downstream industries.

"In addition, recognising the limited hydrocarbon reserves in Malaysia, Petronas has been a pioneer in direct investments abroad in order to extend the expected life of the company's production assets (and revenue) given the limited domestic resources," it said.

Among the investment destinations are Sudan, Chad, Iraq, and most recently in Canada.

In addition, The World Bank said Petronas had scaled up its domestic capital expenditure plans to address slowing production in domestic fields.

"Petronas has committed to spend about RM60 billion per year in 2012-2016, especially in developing new fields and enhancing recovery from old fields.

"Many of these projects are part of the Economic Transformation Programme, such as the Refinery and Petrochemical Integrated Development (Rapid) project in Iskandar Malaysia, as well as the construction of Sabah Oil and Gas Terminal and Sabah-Sarawak gas pipeline," it said.

The World Bank said the vertical diversification of the oil and gas (O&G) sector in the country was driven almost single-handedly by Petronas.

These included building refineries, liquefied natural gas liquefaction, petrochemical plants, fertiliser plants, shipping and retail trading.

"Petronas is now a multinational integrated O&G company, with its downstream business accounting for the largest share of revenue (41.3 per cent)."

In addition, it said the O&G sector resulted in the creation of local O&G services companies such as SapuraKencana Petroleum Bhd, Dialog Group Bhd and Bumi Armada Bhd.

Nevertheless, The World Bank said although Petronas was not technically a resource fund, in practice it has played a similar role including transferring wealth across generations or across time and stabilising through insulating the budget and economy from volatile commodity prices.



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“Although Petronas is generally not involved in allocating resources to socioeconomic projects, the company arguably fulfills (either partly or fully) the remaining characteristics,” it said.

It said from 1988 to 2012, the government had raised some RM231 billion in petroleum income tax from O&G production, RM333 billion in dividends and RM51.7 billion in royalty payments, which mostly came from Petronas.

For gas subsidies alone, it said Petronas had made a cumulative contribution of RM154.9 billion since 1997, with a large chunk of it going to the power sector.

However, The World Bank said while Petronas governance structure has in practice served the country well, a natural evolution would be for the company to increasingly focus on its role as a commercial entity and an independent regulator of the country's oil sector.

It said this would leave the role of de facto oil fund to Kumpulan Wang Amanah Negara, which was established in 1988, to ensure optimum utilisation of depleting natural resources and continuity in revenue streams for the country's future generation.

Entitled “Harnessing Natural Resources”, the report took into consideration discussions and comments from both public and private sectors as well as foreign institutions.

Among the parties involved were Economic Planning Unit in the Prime Minister's Department, Bank Negara Malaysia, Department of Statistics, Ministry of Finance, Ministry of International Trade and Industry, Petronas, Felda as well as academics from the Institute of Strategic and International Studies (Malaysia) and Singapore Management University.