Fact Sheet Eight: Malaysia

Country overview

Population: 25,715,819 (July 2009 est.)

GDP: $386.6 billion (2008 est.)

Surface: 329,750 sq km

Oil was first drilled in Malaysia in 1910, although major production did not begin until 1975.

Structure of the oil sector

Petroleam Nasional Berhad (Petronas), the national oil company, controls most production and refinery activities. Oil is the single biggest creator of government revenues, and Petronas has exclusive ownership rights to all the exploration and production of oil in Malaysia.

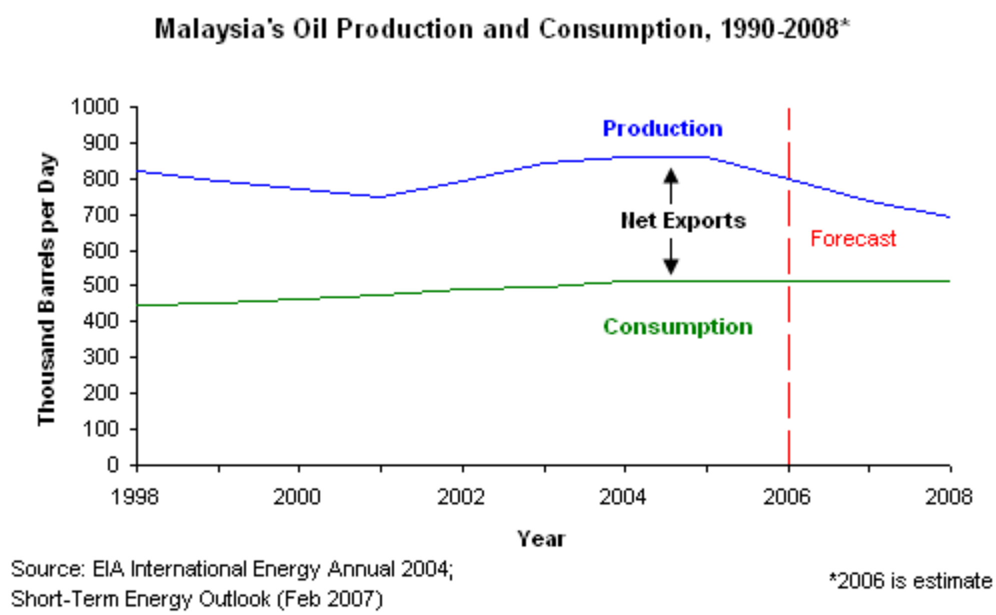
These exclusive rights to exploration and production mean that all international oil companies must enter into sharing agreements with Petronas if they wish to operate in Malaysia. Shell, Chevron and British Petroleum (BP) are each active in the country, though ExxonMobil is the largest company in terms of production volume.

Petronas also has interest in oil outside Malaysia, including in Sudan.

Oil production and processing

Production levels: Several new fields have come online in recent years in Malaysia, including the Kikeh block, the first deepwater oil discovery in Malaysia. The operator of the field, Murphy Oil, anticipated production of 120,000 bbl/d by the end of 2008. A deepwater field operated by Shell should begin production in 2010 and is projected to reach 150,000 bbl/d by 2011.

Despite these new fields, however, the Energy Information Agency (EIA) forecasted that Malaysian oil production would fall to 693,000 bbl/d in 2008, a 13% decrease from 2006 levels. In 2006, the Malaysian government similarly warned that the country could become a net importer of oil by 2009. This prediction looks likely to be overly pessimistic, but it reinforces the fact that Malaysia's oil production has already peaked.

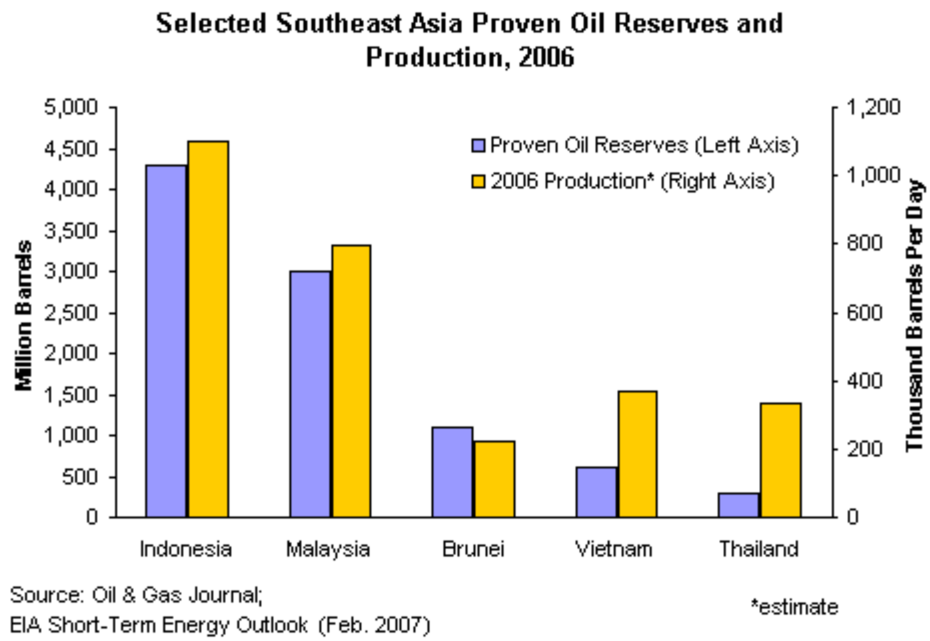


Oil Reserves: As of January 2008, Malaysia is estimated to have four billion barrels of oil reserves, down from a peak of 4.6 billion barrels in 1996, according to the Oil & Gas Journal (OGJ).

Major Refineries: Port Dickson-Shell (155,000), Melaka I (95,000), Melaka II (95,000), Kerteh-Petronas (40,000), Port Dickson-Esso (84,500), and Lutong-Shell (45,000).

According to the OGJ, Malaysia has an extensive refining capacity at six different facilities. Its total refining capacity is about 545,000 barrels a day. Three of these refineries are operated by Petronas, giving the government-owned company about 259,000 barrels a day of capacity. This strength in refining, in comparison to some of the other countries looked at in these handouts, is due to heavy investment over the last two decades. Malaysia, following a long period of dependence on Singapore's refineries, is now able to meet domestic demand.

Oil Exports: 546,300 bbl/day (2005). Only 3% of Malaysia's exports derived from oil in 2008. Malaysia has a diversified and growing economy, and while it is a net exporter of crude oil, in comparison to electronic good and palm oil, it is an export of lesser importance.



The politics of oil in Malaysia: revenue distribution

The 1974 Petroleum Development Act stipulates the following disbursement of the gross value of petroleum output: 5% of royalty to both the government of the producing state and the federal government; 20% for cost recovery and 21% for profits to the producer company; and 49% to Petronas. Section 9 of the Financial Procedures Act of 1957 also channels petroleum revenues into programs such as Program Mesra Rakyat (Befriend the People) and the Natural Disaster Fund, as well as educational, rural development and entrepreneurial programs.

Despite this clear formula, inter-ethnic tensions in Malaysia have been exacerbated by disparate distribution of petroleum revenues in the country over the years. Even with the revenues accrued from oil by the federal government, the incidence of poverty is high within the petroleum-producing states Terengganu, Sarawak and Sabah, indicating that the poor have been deprived of their share of petroleum revenues. The federal government accrues revenue from petroleum production through royalties, dividends from Petronas, income tax on producing companies, and export and excise duties, while state governments receive a share of royalties and grants from the federal government. Sarawak, one of the oil-producing states, did receive the largest portion of federal grants from 1991-1996, but another, Terengganu, filed suit against Petronas and the federal government in 2001 after the government ordered Petronas to forgo royalty payments to the state.

The politics of oil in Malaysia: conflict and human rights issues

Though protests have been more widespread in Thailand than Malaysia, Petronas has received criticism regarding a 350km gas pipeline that stretches from the Gulf of Thailand to Malaysia, passing through five coastal Thai villages on its route. Villagers of these areas are concerned about the negative impact the pipeline will have on their traditional fishing livelihoods, and are skeptical of the creation of jobs promised by the pipeline. In December 2002, over 1,000 people joined protests in Hatyai against the development of the Thai-Malaysia gas pipeline. The Thai government responded to the protest with brutal speed, injuring many, yet delayed the pipeline production process, asking Petronas for patience.

Petronas' activities in Sudan have also come under criticism. The Coalition for International Justice has criticized the involvement of international oil companies in Sudan, alleging that they have turned a blind eye to abuses of human rights carried out by the government during oil exploration and production.