

**Third OPEC International Seminar  
OPEC in a new energy era : challenges and opportunities**

Session Five : Petroleum and Sustainable Development  
Day Two – Wednesday 13 September 2006  
11.15 am – 1.00 p.m

**‘Oil for Development :  
The Experience of Malaysia’**

by

Nasarudin Md Idris  
Vice President  
Corporate Planning & Development Division  
PETRONAS

**12 – 13 September 2006,  
Hofburg Palace, Vienna, Austria**

Mr Chairman

Your Excellencies

Distinguished Guests

Ladies and Gentlemen,

## **1 Introduction - Oil Development vs. Oil for Development**

1.1 First of all, I would like to thank OPEC and the organisers for inviting me to speak before such a distinguished audience. It is indeed an honour . I have been asked to speak about "Oil for Development and the experience of Malaysia", an interesting topic indeed. Wherever oil is found, development and production would take place almost immediately. But whether oil development would benefit the people of the producer nation remains to be seen.

1.2 In Malaysia for example, oil development began as early as 1910 with the commercial exploitation of the Miri oilfield. This oilfield lasted until 1972, and produced more than 80 million barrels before it ceased operation. "Oil for development", however, began only in August 1974 with the birth of Petronas.

What is interesting about this topic is the fact that we are talking about oil, and development. Oil is a finite and depleting resource. On the other hand, whenever we talk about development, we always hope for something more sustainable and plan for the much longer term.

## **2 Oil is a national resource**

2.1 Oil is a national resource and the natural wealth of a country. In the wake of the global oil crisis in 1973, many producer nations began to assert greater control over their oil resource. Oil was no longer to be exploited to fuel only the needs of the industrialised world, but was seen

as a strategic resource that can fund the development of producer nations.

2.2 Malaysia was no exception. There were two strategic initiatives undertaken by the Government in 1974. Firstly, was to incorporate a national oil company i.e. Petronas, and secondly was to enact and pass the Petroleum Development Act in Parliament which effectively vested upon Petronas the entire concession to explore, develop and produce petroleum resources in the country.

### **3 The Malaysian Petroleum Development Act**

3.1 I must clarify that the Petroleum Development Act and the creation of Petronas was never designed to prohibit the participation of foreign companies. On the contrary, foreign companies have played an important role in the development of the oil industry in Malaysia and continue to play an important role until today.

3.2 The Petroleum Development Act basically provided the legal framework for us to streamline and consolidate an oil industry which was previously fragmented and unregulated. This provided for greater transparency for companies to operate in the industry, and has enabled us to attract significant foreign investments into the industry over the last 30 years.

3.3 I do not think we would have a booming oil industry in Malaysia today had we decided to go it alone. It is the cooperation amongst the Malaysian Government, Petronas, foreign oil companies, contractors, service providers and many others that had created a vibrant oil industry and spurred the economic development of Malaysia. It becomes part and parcel of the virtuous cycle for our national development agenda.

### **4 Oil for Development - the Malaysian model**

4.1 The Malaysian model of "oil for development" is somewhat unique. There are two key elements that make up the model.

Firstly, is the setting up of a national oil company i.e. Petronas. There is nothing special about this. In fact, Petronas was incorporated under the Malaysian Company's Act, like any other companies in Malaysia.

Secondly, is the Petroleum Development Act which vested upon Petronas the entire concession to explore, develop and produce petroleum resources in the country.

4.2 On the surface of it, it is difficult to see how these two elements can contribute to a successful model for development. Many would like to think that the Government had given away too much by vesting the entire concession upon Petronas. But this was not the case. To begin with, the Government is the sole shareholder of Petronas, and they had not given away anything. What they had done is merely to use Petronas as the policy instrument to streamline and consolidate the oil industry. The underlying strategy is to have one entity that is highly focused on the oil industry, and to ensure that there is an orderly exploitation of our petroleum resources so that the wealth and benefit of these resources are enjoyed not only by the current generation but also future generations.

4.3 There is another underlying strategy on why Petronas was chosen. The Government could have easily decided on a Ministry, a statutory body or some other government agency. But this would not provide the flexibility as a company would. Because Petronas is incorporated as a company, it has several advantages.

Firstly, it operates as a commercial enterprise which must be run along sound economic principles. It is free to diversify and expand its business and geography. Its mandate is not limited to the concession that it is endowed with. The concession is only a starting point.

Secondly, as a company, it has a clear governance structure, accountability and transparency. It helps to minimise political

interventions, thereby allowing Petronas to manage its business in a professional manner.

4.4 The Government, of course, is very interested on how Petronas would perform as a commercial enterprise. After all they had put in a seed capital of about US\$3 million to start off the company. Any investor would look forward to a decent return on their investment each year. The Government's investment in Petronas has paid handsome dividends. Over the last 32 years, they have received slightly more than US\$80 billion in the form of royalties, taxes, duties and dividends from Petronas. These monies go into the consolidated fund as any other income earned by the Government from other sectors of the economy. The Government would draw from this fund to finance its expenditure. For example, in the Ninth 5 year Malaysia Plan, launched early this year, about US\$53 billion have been allocated for development of physical infrastructure to spur economic growth. Undoubtedly, a sizeable portion of Government's funding for these projects will be derived from income drawn from the oil industry.

## **5 Petronas - growing with the nation**

5.1 Besides being a fairly large contributor to the Government's income, Petronas has also played a major role in the growth of the nation. One of the key strategic thrust of Petronas is to add value to our crude petroleum resources through forward integration downstream of the value chain.

5.2 For example, Malaysia used to be quite dependent on oil even for its power generation needs. But by the mid-80s Petronas began to construct and install a gas pipeline grid. Today, gas accounts for 70% of the power generation mix in the country. Gas is also used in other industries including fuel for motor vehicles. About US\$7 billion has been spent to harness our gas resources from the upstream and to create the downstream infrastructure to bring it to the market.

But this has been worth the while because gas is not only used as a clean and efficient source of energy, but is also used as feedstocks for our petrochemical ventures.

- 5.3 Today, we have a thriving petrochemical industry in Malaysia. More than US\$7.2 billion has been invested in this industry between Petronas and foreign multinationals. This include many common facilities and infrastructure invested by Petronas in order for a petrochemical industry to flourish.
- 5.4 These initiatives have made a positive impact on the Malaysian economy. The use of gas for example, lessens our dependence on oil. And the development of a petrochemical industry supports our local manufacturing industry, besides earning revenues from exports. But perhaps a more positive impact is the diversification of the Malaysian economy itself from what was largely agrarian in the early 70s to more manufacturing based, as it is today.

## **6 Human capacity development**

- 6.1 Diversification of the economy, however, is only part of the equation in the national development agenda. A more important aspect which is sometimes given less attention is in human capacity development.
- 6.2 The cornerstone of our success in Malaysia has been our ability to develop our human resource talents and capability. Petronas, for example, would not have been able to venture overseas had we not acquired the technical know how to operate in an industry which is capital intensive, technology oriented and highly challenging. Today, we have the licence to operate because we invested heavily in people right from the early days, sending them not only to schools and colleges but more importantly giving them the hands on experience working alongside our foreign partners who had been in the industry much longer than us.

6.3 With a pool of talented human resource, we were able to develop our own institutional capabilities and track record. This is certainly an investment that has paid off many times over.

## **7 Conclusion - is there an oil curse**

Ladies and Gentlemen,

7.1 In most places where oil is discovered, there is euphoria amongst the people of the land. Oil is seen as an answer for a nation to emerge from the shackles of poverty. However, the irony is that some countries remain poor despite the presence of oil, and it does not contribute to the well being of the people. Often, we hear of the term "the oil curse", and many parties are blamed for such a situation - foreign oil companies, national oil companies, government leaders, other sectors of the economy and many others.

7.2 Oil need not be a curse. On the contrary, it promises sustainability for all, but only if each and every one of us look deeper into our roles. In order for oil to feed into a virtuous cycle of national development requires strong political will and a responsible Government. But yet this is not enough. More attention should also be given to foster greater cooperation amongst Government, NOCs, IOCs, contractors, service providers and institutions of higher learning to create a vibrant oil industry that continues to contribute to the national development agenda.

7.3 Oil is a finite resource. We cannot change that fact. It is a gift from god for us to exploit and benefit from. How we would benefit from it, is our choice. Perhaps, Ladies and Gentlemen, we need to look beyond oil!

Thank you for your attention.