

Production-sharing contract likely for new consortium

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The new consortium of companies involved in the oil and gas sector will likely undertake exploration and drilling work on the country's marginal fields under a production-sharing contract (PSC) as opposed to a concession-type agreement.

Though some observers in the market have speculated that the consortium may be granted a concession agreement (which are more favourable to the contractors) to carry out exploration, development and production activities, industry players believe the government will choose

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Likely consortium members

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to retain the existing arrangement it employs with foreign oil companies.

"It [the PSC arrangement] would be the easiest route to take as it would not involve any amendments to the Petroleum Development Act," an industry player explains. Oil and gas production in Malaysia is currently managed by Petronas through PSCs, as guided by the 1974 Petroleum Development Act (PDA).

If the new local consortium is granted a concession-type agreement, industry sources say Petronas' foreign partners operating in Malaysia are expected to lobby for similar concession agreements to develop marginal fields in their respective PSC acreages.

While the PDA gives ownership over petroleum resources and the exclusive rights to exploit these resources to Petronas, the PSC obligates its partners to provide financing and insulate Petronas from risks.

The first PSC was signed in 1976 with Esso Production Malaysia Inc, Sarawak Shell Bhd and Sabah Shell Petroleum Company. Prior to that, oil exploration and production in Malaysia was done under concession agreements that were signed between oil companies and state governments.

Concessions essentially grant the oil producer rights to explore and drill for a given period while the government collects a pre-determined fee, either by way of royalty or tax.

Under the PSC, oil companies will have to share their gross revenues with the federal government, the producing state government and Petronas for as long as oil is being drilled in any particular block.

PSCs state a contractual period for the management of oil field operations, allow producers to recover costs and divide profits among the various parties.

Existing PSC agreements with oil companies such as Shell and Esso require the producer to pay a 10 per cent royalty to the government — 5.0 per cent each to the state and federal governments. After charging 50 per cent of its gross revenues towards production costs, the remaining 40 per cent is split between

Petronas and the oil company.

"If the consortium were given an outright concession, it would open the doors for the big boys to come in and demand the same," another industry player explains.

He adds that while it is not impossible for the Act to be amended, Petronas is not likely to sit back and allow its dominance to be threatened.

Oil and gas-related stocks continued to ride the wave of exuberance last week as the market speculated which players would make up the second consortium.

Last Friday, theedgedaily.com reported that Ranhill Bhd had been invited to take the lead role in the consortium.

Ranhill's share price gained a whopping RM2.90 last week to end last Friday at RM7.70, as the market bet on its role in the oil and gas business.

Ranhill, through its subsidiary, Ranhill Worley Engineering, has said it aims to diversify and boost its earnings base by expanding its presence in the oil and gas industry.

Formed in 2001 via a joint-venture partnership with Australia's Worley Engineering Pte Ltd, Ranhill Worley has worked on oil and gas terminals in Nigeria, Pakistan and Thailand. It recently also built the MNLG3 "Slug-catcher" plant in Bintulu.

Others that have been named as participants in the consortium are Crest Petroleum and little known Jawala Corp Sdn Bhd, which is said to be owned by Sabahan Tan Sri Majid Khan.

Crest Petroleum also ended the week higher at RM13.50 on news of its participation. In its report on the oil and gas sector, UOB Kay Hian highlights Crest Petroleum as the only Malaysian company with offshore drilling assets.

On completion of its merger with Sapura Energy, Crest will become the largest bumiputera oil and gas service company in the country, the research house adds. The second national oil and gas consortium was proposed by Prime Minister Datuk Seri Dr Mahathir Mohamad in Budget 2004 on Sept 12. **E**