

Is The Oil Royalty 5%, 20% Or 20% Of Profits?

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By MT Webmaster

The election promise was 20% Oil Royalty but now the government says that is too much

(The Star) – THE heated issue of 20% royalties for oil-producing states played out in Dewan Rakyat with the Pakatan Harapan Government confirming that this will be based on net profit. However, a Sarawakian MP said this was not enough.

Datuk Seri Azmin Ali said doubling the royalty percentage based on gross profit would have serious implications on both Petronas and the Federal Government's financial positions.

The Petroleum Development Act, he said, had to be amended for this to be calculated based on net profit.

Replying to Datuk Seri Madius Tangau (Upko – Tuaran), Azmin said currently, the royalty paid by Petronas was 10% on gross profit, divided equally between the Federal and the respective state governments.

“This 10% is calculated based on the gross value per barrel at market rate and has to be paid, regardless whether the oil and gas production is profitable..

“Based on the current situation, 70% of the value per barrel is cost recovery that must be funded and this cost increases yearly due to complexity and risks.

“After deducting 10% in royalty and 70% in cost recovery, the remaining profit is still taxable under the Petroleum Income Tax Act, which is 38% of the gross profit.

“Only the remainder is shared between Petronas and its contract partners,” said Azmin.

Discussion, he said, would however be held with the state governments involved for a consensus.

A special Cabinet committee comprising experts from oil-producing states, said Azmin, had six months to study and draw up recommendations agreeable to all involved, and to present these to Cabinet.

“They will also be tasked with monitoring its implementation to ensure that it is fair and transparent,” he said.

Both the Sarawak and Sabah Chief Ministers’ had stated that they were awaiting clarification on how the 20% royalties would be calculated.

Gabungan Parti Sarawak’s Batang Sadong MP Nancy, who is the former co-chairman of the steering committee on the devolution of powers, said the 20% oil royalty offer made by Pakatan was not sufficient.

“It should be more than 20% and should be based on gross profit. We want profit sharing,” she said.

Nancy also rejected claims that the Sarawak government had rejected any offer on the devolution of autonomy from the Pakatan Government.

“Discussions are still ongoing,” she said.

Earlier, Sarawak Pakatan chief and DAP’s Stampin MP Chong Chieng Jen told reporters that the state government had yet to accept the initial autonomy devolution offer from the Federal Government.

“They did not give a reason – just no response,” he said.

Pakatan, said Chong, had offered Sarawak 20% of gross profit from oil extracted within the state as royalties plus 50% of the tax collected in the state.

“In return, the state government would take up the responsibility and financial burden of its own Health and Education Ministries, including salaries of staff.

Chong said the additional 15% in oil royalties for the state from 5% currently would amount to about RM4.5bil to RM5bil a year while the collection from taxes would reach around RM3.5bil a year.

As a result, the total sum to be paid to Sarawak stood at RM8bil, he added.

In the Parliament lobby, Ayer Hitam MP Datuk Seri Dr Wee Ka Siong said Pakatan should just admit that it could not deliver on the oil royalty promise.

“The previous government had faced many demands to increase oil royalty but we had consistently raised the reality that this cannot be done.

“Today, Azmin’s statement is similar to what we have explained before. It involves high expenditure. It seems like they are simply redefining oil royalty and that should not be happening,” he said.

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