

FOREIGN INVESTORS' PARTICIPATION IN THE UPSTREAM SERVICE SECTOR FOR THE OIL & GAS (O&G) INDUSTRY IN MALAYSIA

Malaysia's oil and gas (O&G) sector has long been a cornerstone of the nation's economy, but the path forward for this industry is evolving. With the country's energy landscape shifting towards more challenging exploration and production environments — particularly in deepwater fields and mature oilfields — foreign expertise is becoming more essential than ever. The upstream service sector, which provides critical support for exploration, drilling, and development, offers substantial opportunities for international investors willing to bring their technological expertise, innovative solutions, and financial strength to the table.

While Malaysia has maintained a steady presence in global oil markets, the increasing complexity of offshore projects and the demand for sustainable practices are reshaping the dynamics of foreign involvement. This article explores how Malaysia's regulatory framework and partnership models create fertile ground for foreign investment, while also examining the challenges and opportunities unique to the country's upstream O&G sector.

Overview of the Malaysian O&G Industry

Malaysia's O&G industry is divided into two key segments: the upstream and downstream sectors. The upstream sector focuses on exploration, production, and development of oil and gas resources. The downstream sector involves refining, distribution, and commercialization of petroleum products. As of 2023, Malaysia is the second-largest producer of oil and gas in Southeast Asia, with a history of being an attractive destination for international oil companies due to its strategic location, strong regulatory framework, and government support.[1]

The upstream sector remains crucial for Malaysia. Malaysia's upstream oil and gas segment made substantial progress in 2023 as Petroliaam Nasional Berhad (PETRONAS) and petroleum arrangement contractors (PACs) recorded 21 exploration discoveries and two exploration-appraisal successes.[2] However, the sector is capital-intensive and

highly reliant on technology, making it essential for Malaysia to engage foreign investors who enhances the expertise and capital required for sustainable development.

Regulatory Framework for Foreign Investment

PETRONAS, our national and well-established oil and gas company, established under the Petroleum Development Act of 1974, is responsible for overseeing Malaysia's petroleum resources. In its role as a regulatory authority, PETRONAS advises the government on oil and gas policies, regulations, and incentives to promote a supportive environment for upstream investments. The management of the country's petroleum resources, from exploration to production, is carried out by Malaysia Petroleum Management (MPM), which acts on behalf of PETRONAS throughout the entire lifecycle of upstream oil and gas projects.[3]

In recent years, Malaysia has made strides to open its O&G sector to foreign participation, particularly in the upstream service segment, which includes drilling, seismic surveys, engineering, procurement, construction, installation, and commissioning (EPCIC) services

Foreign participation in Malaysia's O&G industry is facilitated through the **Production Sharing Contract (PSC)** system. Under this arrangement, international oil companies (IOCs) can collaborate with PETRONAS for the purpose of exploring, exploiting, winning and obtaining petroleum whether onshore or offshore of Malaysia.[4] While PETRONAS retains ownership of the resources, the IOCs bear the exploration risks and costs in exchange for a share of the production.

PETRONAS also encourages foreign investments via its annual Malaysian Bid Round (MBR) where it invites both local and foreign companies to bid for exploration blocks and discovered resource opportunities (DRO) clusters located in Malaysia. In 2023, PETRONAS awarded 7 PSCs for 6 exploration blocks and 1 DRO cluster, which was expected to garner more than RM1.3 billion worth of capital investment to the country in the form of exploration work activities.[5]

Through the Twelfth Malaysia Plan (2021-2025), the Malaysian government aims to increase high quality investments and to improve the sustainability of the energy sector by implementing a comprehensive national energy policy. This policy will bolster both the oil and gas and electricity ecosystems. Additionally, the government plans to capitalise on Malaysia's strategic geographic position and its strong economic relationships with China, India, and other Southeast Asian countries.[6]

Despite the relatively open policy, foreign investors must navigate Malaysia's regulatory framework, which includes requirements on local equity participation, licensing, and registration.

Key Legislation Affecting Foreign Investors:

1. **Petroleum Development Act 1974** – Under this Act, PETRONAS is granted full ownership,

along with exclusive rights, authority, privileges, and freedoms to explore and extract petroleum resources both onshore and offshore, in return for making payments to the Federal Government and the respective State Governments involved.

2. **Petroleum Regulations 1974** – Petroleum Regulations govern licensing and operational requirements for contractors, vendors, and service providers.

3. **Promotion of Investments Act 1986** – Provides incentives for foreign investments in certain sectors, including O&G, with tax breaks and allowances.

4. **Petroleum (Income Tax) Act 1967** – This Act imposes tax on the income derived by chargeable person from petroleum operations in Malaysia (including any incidental revenue to the petroleum operations).

Opportunities for Foreign Investors

1. Technology and Innovation

The upstream O&G sector is technologically intensive, especially in deep-water exploration, where Malaysia has found success and are set further to accelerate its efforts. This is evident when from 2021 to 2023, over 10 deepwater blocks were offered through the annual MBR.[7] Malaysia's increased focus on tapping into previously unexplored deep-water reserves aligns with its long-term objective of meeting oil and gas production targets.[8] Foreign investors with cutting-edge technological solutions are well-positioned to capitalise on the country's growing demand for advanced technologies to achieve its deep-water exploration goals.[9]

Additionally, Enhanced Oil Recovery (EOR) specialists are also highly sought after as EOR techniques are projected to increase production from underground reservoirs by as much as 50% and add approximately 166,00 barrels to Malaysia's daily oil productions.[10]

Malaysia's oil production will also increase by approximately 55,000 barrels a day through the development framework for small fields.[11] In October 2023, MBR+ was introduced by PETRONAS to complement the annual MBR by providing an additional avenue for investors to acquire and explore DROs and late-life assets in Malaysia through using information made available under the PETRONAS myPROdata portal.[12] Therefore, companies with innovative solutions for production in small fields will gain first-move advantages over their competition.

2. Risk Sharing and Partnerships

Malaysia's PSC model provides an attractive opportunity for foreign investors to share the risk and rewards of exploration activities. Foreign companies can also participate by forming strategic partnerships with Malaysian firms, enhancing local capacities and benefiting from shared knowledge.

Malaysia remains welcoming of global multinational corporations that are interested in investing in the oil and gas, services and equipment (OGSE) and encourages strategic

joint ventures and partnerships with domestic companies that have the capabilities and expertise they need for their Asian expansion plans.[13]

3. Engineering, Procurement, and Construction

The engineering, procurement, and construction (EPC) services in Malaysia's upstream sector offer immense growth opportunities for foreign investors. As exploration moves further offshore and into deepwater zones, foreign EPC contractors with expertise in complex engineering solutions are well-positioned to participate in major O&G projects.

The dynamic environment of Malaysia's O&G industry will benefit, inter alia, petroleum services companies, rig owners, offshore diving contractors, petroleum equipment manufacturers, spare parts suppliers, maintenance service providers and petroleum logistics service providers.[14] Opportunities in upstream activities are emerging for service providers and contractors that specialise in High CO₂, High Pressure/High Temperature, EOR, facilities rejuvenation, deepwater development and floating production system (FLNG).[15]

4. Green and Sustainable Technology

In November 2022, PETRONAS announced its Net Zero Carbon Emissions by 2050 (NZCE 2050) pathway to accelerate and advance its commitment towards achieving net zero future ambitions. To achieve its goals, PETRONAS allocated 20% of its capital expenditure for decarbonisation projects and expansion into cleaner energy solutions from 2022 to 2026.[16]

Since 2023, PETRONAS has made progress for advancement in carbon capture and storage (CCS) and are set to veil two projects that it believes will unlock significant investment and contribute to environmental goals.[17] This aligns with PETRONAS' aim to position Malaysia as a regional centre for CCS solutions that will foster collaborative partnerships.[18]

With PETRONAS placing an increasing importance on sustainability and environmental standards, offering opportunities for companies with expertise in green technologies and carbon management to enter the market.

Challenges for Foreign Investors

1. Local Content Requirements

Malaysia maintains stringent local content policies, which require foreign companies to ensure a certain level of local participation, either through appointing a Malaysian Company to act as its agent, forming joint ventures with Malaysian companies or opening a local branch of the company in Malaysia.[19]

Additionally, to obtain a license and the relevant approval from PETRONAS, there is a minimum *Bumiputera*[20] participation at equity, board of directors, management and

employee levels requirement that needs to be complied with. The *Bumiputera* requirement to hold a PETRONAS licence for upstream activities range varies depending on the type of services to be provided.[21] There are a very limited number of services that require no *Bumiputera* participation.[22]

While these requirements aim to promote local industries and talent, they can create complexities for foreign companies that are unfamiliar with Malaysia's regulatory landscape.

2. Licensing and Approvals

PETRONAS plays a central role in regulating foreign investors' participation in the O&G sector. All foreign entities wishing to engage in the upstream service sector must obtain licenses and approvals from PETRONAS. Foreign investors are required to comply with the PETRONAS Licensing and Registration General Guidelines and apply for the license via the PETRONAS License Management (PLMS) Online Platform.[23]

The approval process can be lengthy and requires compliance with a range of regulatory criteria, including financial standing, technical capability, and environmental management practices.

3. Market Competition

The O&G industry in Malaysia is highly competitive, with numerous international and domestic players operating in the upstream service sector. New entrants must compete with well-established multinational corporations and local service providers, making it essential for foreign investors to bring unique value propositions, such as proprietary technology or innovative services.

Conclusion

Malaysia's O&G upstream sector offers lucrative opportunities for foreign investors, particularly those with advanced technology, expertise in deepwater exploration, and environmentally sustainable practices. Despite the challenges, there is strong incentive to develop stranded oil and gas resources due to the continued rise in global oil and gas prices and the projected growth in domestic natural gas demand. These efforts also align with Malaysia's goal of reaching oil and gas production targets of two million barrels of oil equivalent per day by 2025 and beyond.[24] As Malaysia continues to be a key player in the global energy market, the upstream service sector will remain an attractive investment destination for foreign investors seeking long-term growth in Southeast Asia.

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