



**DETERMINANTS OF OIL AND GAS INDUSTRY'S
PERFORMANCE IN MALAYSIA**

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CHAPTER 1: INTRODUCTION

1.0 Introduction

The oil and gas industry is one of great importance to the world economy. The extra population, the rapid growth of energy economies, and other factors stimulated extended energy consumption and increase demand in the world energy market (Goncharuk, 2013). It is the biggest sector in the world which contributes to billion dollars globally each year with thousands of workers worldwide. As Inkpen and Ramaswamy (2017), in this industry, integrated oil companies (IOCs) has been the largest companies which including BP, Chevron, ExxonMobil, Royal Dutch Shell, and Total. According to Summit Dutta (2013), oil and gas industry consists of three section which are upstream, midstream and downstream.

According to Inkpen and Ramaswamy (2017), production in oil and gas industry takes a long-term period of process to drill and extract oil and gas. Therefore, the development phase could be involved pipelines, platforms, offices, roads, wells, housing and cease with the establishment of the complementary infrastructures that can be used to commencement production. The crude oil has limited value until it is refined into products such as gasoline, diesel, and jet fuel and the producers will sell the crude oil to the refiners.

Upstream refers to exploration and production (E&P) which involves the search for underwater and underground natural gas fields and crude oil fields and drilling into established wells to recover oil and gas (Dutta, 2013). Then, the raw materials obtain from upstream phase will be filtered by downstream which is refining crude oil and purifying natural gas.

Meanwhile, downstream is focusing in filtering the raw material that obtained from upstream. In this phase, the processes are including refining and purifying natural gas.

The prices for crude oil differ according to proposition delivery dates and the quality of the crude involved. Inkpen and Ramaswamy (2017) stated in their journal that the prices for this industry are benchmarking based on West Texas Intermediate (United States) and Brent (United Kingdom). The prices for upstream and downstream products are

1.1 Background of study

Malaysia is one of the world's significant oil and gas producers and is monopolized by Petroliam Nasional Berhad (Petronas) which conquer the entire country from Peninsular Malaysia to Sabah and Sarawak. According to Raynerdixon (2016), oil and industry gas in Malaysia first discovered in Sarawak in 1910 which has led to the beginning of the oil and gas industry in Malaysia and has attracted many foreign investors to invest in Malaysia. Thus, it had created many employment opportunities from around the world. Among the largest foreign oil companies that have large production volume are ExxonMobil, Dutch Royal Shell and Murphy Oil where Shell has the largest investor in Malaysia's oil and gas sector. There is also invested by other foreign oil and gas companies around the world. Petronas as the national representative in oil and gas industry in Malaysia, begin in 1974 and Malaysia has been categorized as the fifth largest in Asia-Pacific region (Malaysia Oil and Gas Industry Overview, 2013).

Petroleum concessions are granted by state governments which is the oil and gas companies have rights to explore and produce the resources. The companies in Malaysia also need to pay ten percent of royalties and the taxes to the government.

The industry converse the petroleum products, natural gas and petrochemicals which make Malaysia as the major exporter of the petrochemicals products. The products that has been produced in Malaysia are plastics, ethylene glycol, polyester fibers, film and latex paint, polyvinyl chloride (PVC), vinyl acetate, resins, ethanol, LPG, propylene oxide, propylene glycol and butylene (Petronas, 2016). Therefore, according to Candiah (2005), Malaysia has the potential of providing engineering services to the oil and gas industry. The services are including engineering design services, project management, construction supervision, quality assurance and control, contracting and procurement.

This industry also included the restraining of petroleum products which is the final step in the system of petroleum products. There are two activities which are petrol stations and the distribution of Liquefied Petroleum Gas (LPG) in cylinders. As for petrol station, it sells petrol namely RON 95, RON 97 and Diesel. While, LPG is a mixture of propane and butane that are used for cook and heat in homes that act as an important source of energy in industries (Origin, 2017).

However, in 2014 the price per barrel has falling by 60% has challenge the oil and gas companies, yet, Malaysia succeed in remaining as most synergy in oil and gas reserves.