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**A**fter conducting feasibility studies for two years, Petronas Nasional Bhd's board made the final investment decision (FID) on the Pengerang Integrated Complex (PIC) project in southeast Johor in April.

The national oil company is investing RM89 billion — about two-thirds of its cash pile — in the downstream petrochemical project that involves the building of a power plant, a regasification terminal and pipes to channel huge amounts of water and fuel.

Now, as Petronas starts the mammoth task of constructing the massive structures, all eyes in the global petrochemical industry are on it.

It is a gargantuan project, not only in terms of investment but also the number of construction and engineering contracts that will be awarded and jobs that will be created. Not surprisingly, everyone, from local companies to international engineering groups, wants a piece of the pie.

The PIC is the core of the Pengerang Integrated Petroleum Complex (PIPC), which comes under the purview of the Malaysia Petroleum Resources Corporation (MPRC).

The entire PIPIC project covers about 20,600 acres, which is almost double the size of Putrajaya. According to MPRC, one of the PIC's



# Petronas throws a curve ball

BY KATHY FONG, JOSE BARROCK AND FATIN RASYIQAH MUSTAZA

components — the Refinery and Petrochemical Integrated Development (RAPID) — needs 150 billion tonnes of structural steel and one million cu m of concrete. The amount of building materials required is enough to build 15 Eiffel Towers and six Twin Towers.

The PIC's 300,000 barrels per day refinery and petrochemical complex has a combined capacity to produce 7.7 million tonnes per annum of various grades of products, which is more than the combined production capacity of the complexes in Kerih and Gebeng.

When Prime Minister Datuk Seri Najib Razak first announced RAPID in May 2011, it was touted as a cornerstone of his Economic Transformation Programme that aimed to turn Malaysia into a high-income nation by 2020.

The fact of the matter is that the PIPIC could not have got off the ground without Petronas' participation.

"It is a Petronas initiative ... this was even before the government started the Economic Transformation Programme," says president and group CEO Tan Sri Shamsul Azhar Abbas when asked about speculation that the national oil company was directed to invest in the ETP project.

The long decision-making process plus rumours that the project might be shelved resulted in market talk that Petronas was dragging its feet on the investment.

Shamsul, however, explains that it is normal to take at least two years to make an FID on a project of such size. He adds the timing of the project would be just right, should things go according to plan. Petronas wants site possession ideally by November.

According to Shamsul, construction and engineering works on the site have to start between next year and 2016 and RAPID has to be ready by early 2019, at the latest, to catch the up cycle of the petrochemical industry.

When asked about the earnings forecast for the PIC, he says, "I am being measured; it's going to show in our bottom line. I can't go to the board and propose a project that's losing money ... it meets our hurdle rate in terms of economic returns. I can't tell you the profit figures, though."

Stressing the importance of economics, Shamsul admits that the suggestion that the petrochemical project might be aborted was just a tactical move.

"I wanted to send them [contractors] the message that at the end of the day, economics was important. You may see trucks levelling the land and so on but if there is no economics, I will abort the project or I will defer it to the next contracting cycle.

"There are windows [of opportunities] and you've got to hit the right window to catch the best possible price because at the end of the day, it will be reflected in your economics."

Shamsul explains that if the contract market is tight, all the contractors will submit bids with high prices. "So, the best time to call for bids is when the contractors are hungry. Then they will dive [bid lower]."

Rumours that RAPID would be aborted not only jolted the companies that were eyeing its contracts but also Najib. "But I told him not to worry, to leave it to us as we know what to do," recalls Shamsul.

His strategy worked. The national oil com-

pany has been receiving bids for the PIC that are about 30% lower than the original cost estimates.

"So, we read it well, our timing was good. We want the contractors to know that they can't take it for granted that Petronas will approve the project ... these tactics are part and parcel of business. You need to be crafty," remarks Shamsul.

Petronas has acquired 6,242 acres in Pengerang for the PIC project, including for RAPID and other infrastructure, such as a 1,220MW combined heat and power plant.

"If the project doesn't get off the ground, Petronas will be the largest landowner in Johor," laughs Shamsul.

But the man who took Petronas' helm in 2010 knows well that the project is viable — something that Malaysia, an oil-producing nation, should have. One only has to look across the Causeway, where not a single drop of crude oil is produced, to know how successful such a project can be.

But getting the project off the ground will be no easy task. Already, Petronas has been dragged into a suit on land acquisition. In early May, MPHB Capital Bhd filed a civil suit against the Johor government and Petronas, seeking the return of seven parcels that were compulsorily acquired for RAPID.

MPHB Capital's beef is that the state government had bought the parcels at 93 sen psf but sold them to Petronas at a much higher price of RM8 psf.

There have also been hiccups in relocating residents and cemeteries.

"It is not easy at all to relocate them [resi-

dents] plus the cemeteries ... anyway, the issues have been solved with only a few residents refusing to move and demanding high prices," says Shamsul. "On top of that, the court is taking its time in making a decision on the suit."

## Added cost

Petronas had initially estimated the investment cost of the PIC at RM60 billion, but it has increased by at least a third to RM89 billion. This is because the burden of building the infrastructure for the petrochemical park has fallen on the national oil company.

"Apart from RAPID, we now have to source for water elsewhere and build a pipe to channel it there as we need a lot of it for petrochemicals ... we also need to build a gas pipe and power plant to make sure we have enough energy to power the facilities there," explains Shamsul.

"Because of that, I said we have to build our own destiny there. It is part of our contribution to the country lah."

As at mid-March, site preparations and earthworks for RAPID were 80% complete. To date, apart from basic earthworks, Petronas has awarded MMC Corp Bhd's unit MMC Engineering Services Sdn Bhd and Siemens Malaysia Sdn Bhd the contract to build a co-generation plant in Pengerang.

"I'll be frank with you. When I announced the project, I was very aggressive in terms of getting it done in the shortest time frame. But to a certain extent, that can backfire. If you are in a hurry, there can be a lot of loading as you don't have time to come up with a full pricing structure," says Shamsul, who never wants to be held to ransom by the contractors. ■

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# 'Are we not interested in competence?'

Over the past few years, rumours have been rife that Petrolia National Bhd (Petronas) president and CEO Tan Sri Shamsul Azhar Abbas would be stepping down, making the rounds every few months. While the rumours have remained just that thus far, Shamsul, in a heartfelt exclusive interview with *The Edge*, talks about how difficult it has been, the challenges he faces and what Petronas' immediate plans are.

**The Edge: In your view, how is Petronas faring?**

Tan Sri Shamsul Azhar Abbas: We are now No 6 among oil companies in terms of production and profitability. That's not bad; we beat ConocoPhillips and we are on a par with Total. Our growth is faster than that of all the others. Even Shell and Chevron used to see us as a NOC [national oil company], but now they see us as an IOC [international oil company] and they are worried.

**We feel like a broken record, asking you again if it's true that you are stepping down. If it's not true, why do such rumours keep surfacing?**

It's so difficult to do an honest day's job. You spend a lot of time away from your true function [of running Petronas].

Our [Petronas'] results should speak for themselves ... they are very good. It's not just people outside [who are making things difficult but] also people in the government — the bureaucrats. Bureaucratic interference makes things difficult.

**But what is the issue?**

Part of Petronas' transformation included us being the new-model for the Malaysian corporate world in terms of professionalism. It's not so much that we don't want to be told by the government what to do and what not to do, but there has to be some amount of independence; our DNA is like that, less government interference, so we can act professionally.

At the same time, they [the government] want us to be like an IOC, comparable with the Shells and ExxonMobils of the world, so we try to be one. But Shell and ExxonMobil are not harassed by their governments; they don't have to put up with government interference.

**There's a lot of interference ...**

We are trying our best to protect the country ... I'm Malaysian. In the PDA (Petroleum Development Act), it is very clear — oil and gas belong to all Malaysians. It doesn't say oil and gas belong to the bumiputeras, it doesn't say that ... it says all Malaysians, so they can be in the government, they can be in the opposition, they can be wherever ... and we are the custodians.

It is *amanah* ... *dipertanggungjawabkan* ... the word *amanah* is very strong — as a Muslim, it would be a huge sin if I abused 'amanah'.

That is why I say our DNA is very different from that of other government-linked companies (GLCs). I dare not give any handouts ... from day one, I think you know, we adopted meritocracy.

Without meritocracy, we would have been just like any other GLC. Everything here is

competence based. I don't look at colour, I don't look at creed.

In 2010, we restructured the whole organisation, including the composition of the board ... I brought in new capable people. The talk was that I had got rid of all the government servants, brought in the non-Malays, opened up Petronas, which belongs to the Malays, to the non-Malays.

Are we not interested in competence? This is the predicament I am facing at this point in time.

There is a need for us to shape ourselves into a more professional organisation, but at the same time, I am being pulled back by politics, by interested parties, by parties with vested interests, by agendas that are outdated.

So far, as far as my boss [Prime Minister Datuk Seri Najib Razak] is concerned, there's not much interference, but from those around him, there is.

Can you imagine the problems I am facing?

**Do you have any inside stories to share?**

I'll be honest with you. Earlier, there were four [fabricators]: SapuraKencana in Lumut, Sime Darby, MMHE (Malaysia Marine and Heavy Engineering Holdings Bhd) and Brooke.

Pemandu (Performance Management Delivery Unit) said the businesses had to be consolidated, to be reduced to two or three ... that's the reason we bought over Sime's yard. Sime and MMHE are side by side, so we consolidated. Before that, Sime bought over Ramu-

nia, so all was consolidated under us.

Now, we have the old Ramunia and the new Ramunia, which is TH Heavy Engineering — which was until recently a PNI7 company. They got some assistance from us to get out of PNI7... fine.

Now, they want an allocation, but I said we don't do allocations anymore.

Then, there's Labuan (Shipyards) ... they wanted a fabrication licence. The government said, please help them as they have all the yard space. So, we gave them a licence with a condition that there will be bidding and that we will open up the tenders to the region. [But] after getting the licence, they wanted allocations. That was not in line with the conditions we had set.

There was a time, a couple of years ago, when we did a study on costs and we found that when we benchmarked the yards with those in Batam Island, Vietnam, Thailand and the Philippines, the cost of Malaysian yards was 35% more.

So, I introduced bidding.

And true enough, the costs fell and are now on a par with those of the regional yards ... so, obviously, the yard owners are not happy and they are complaining to the government, the vendors are complaining to the government.

But the fact is that they are not competitive. They expect Petronas to continue with allocations and continue to pay them 35% above market price ... I can't do that.

I'm a Malay too, I'm proud to be one ... you think I don't want to help my own people? Of course, I want to help them, but in the proper way, not through handouts and spoon-feeding. ■

There is a need for us to shape ourselves into a more professional organisation, but at the same time, I am being pulled back by politics, by interested parties, by parties with vested interests, by agendas that are outdated."

