

Federalism in the Context of Petroleum Resources in Malaysia

Hussain Yusri Bin Zawawi

Faculty of Law and International Relations Universiti Sultan Zainal Abidin

Email: hussainyusri@unisza.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJARBS/v13-i11/19478> DOI:10.6007/IJARBS/v13-i11/19478

Published Date: 22 November, 2023

Abstract

Oil is a primary economic asset that has a significant impact on the economic development of modern nations. Malaysia, as a country rich in natural oil and gas resources, has experienced rapid economic growth through oil production since the early discovery of these resources in Sarawak in 1910. Petronas, established in 1974, has played a crucial role in managing Malaysia's oil and gas resources. This study examines the history of oil production in Malaysian states rich in oil resources, such as Sabah, Sarawak, Terengganu, and Kelantan, which have made substantial contributions to the country's economic growth. The concept of federalism in the Malaysian context has played a vital role in securing petroleum resources. Federalism is a political system that grants power to both the central and state governments in managing resources and authority. The Malaysian Constitution clearly delineates the distribution of powers between the central and state governments, including the allocation of powers related to resources such as oil and gas. This provides an advantage to states that possess these resources, such as Terengganu, Kelantan, Sabah, and Sarawak. Furthermore, the Petroleum Development Act of 1974 grants exclusive authority to Petronas for the exploration and exploitation of petroleum in Malaysia. This act also specifies payments to be made to the relevant states as compensation for the rights and powers granted to Petronas. This has contributed to supporting the economic development of oil-producing states. Using qualitative research, this study elucidates the practice of federalism, which plays a crucial role in the management of oil resources in Malaysia by defining the allocation of powers between the central and state governments. This has helped ensure that states rich in oil resources can utilize the proceeds from these resources for better economic development.

Keywords: Federalism, Petroleum, Governments

Introduction

Oil is a main economic booster in modern time like today and plays a vital role in the economic development of a country. Due to that, a country which possesses natural oil resources would benefit greatly in terms of providing better infrastructures to its citizens. The production of oil and gas has been the forefront of Malaysia's economic growth ever since it was first

discovered and drilled in Sarawak in 1910. Thus, this leads to the formation of Petronas in 1974 which acts as a key player in managing oil and gas resources in Malaysia. This research has investigated the history of oil production in Malaysia especially in natural gas reservoir states such as Sabah, Sarawak, Terengganu and Kelantan which have all produced vast amount of petroleum products. Because of the rich natural resources, it had helped to foster Malaysia's growth as one of Asia's biggest oil producers and in the same time providing great opportunities to its oil resource states for better development.

Implementation of The Federalism Concept in Petroleum Resource Assurance In Malaysia

Federalism is a field of study in political science that has gained the attention of scholars after the Second World War ended in 1945. This is because the countries that have achieved independence have sought the format and formula of political system to be practiced. In addition, there are 24 countries out of 193 countries in the world that have adopted the political system of federalism with the total population of the world administered under the system of federalism comprising 45 percent of the total population of the world. Moreover, economic and historical factors are one of the reasons for the existence of government federalism, especially in the aspect of resource allocation and power formation for the benefit of a governing and authority. The formation of federalism is also balance between the central and state governments in a country, especially in terms of decision-making and public policy. In principle, the concept of federation or federalism formed is a process of relationship between the central-state government where the jurisdiction of the central government and the state government has been clearly stated. For example, in the practice of most other federal states such as the United States where states have been given autonomous powers to enable them to administer matters under their jurisdiction effectively and systematically. In Malaysia, the practice of federalism has been clearly stated through the distribution of power as found in the Ninth Schedule of the Malaysian Constitution which has divided the jurisdiction known as the Federal List, State List and Joint List.

In the context of the division of powers in Malaysia, Part VII of the Constitution states that the most important sources of revenue to the central government except land and forest revenue. The Malaysian Constitution also guarantees that state government revenue such as land, mines and forests described in Part VII will not be reduced as stipulated in the constitution (Nor Asiah Mohamad 2013: 28). Furthermore, the constitution has also provided for the state government to obtain import duties for minerals defined as mineral ores, metals and mineral oils as explained in Article 110 (3A) (Nor Asiah Mohamad 2013: 28). This allocation is an advantage to states that have such resources such as Perak, Terengganu, Kelantan, Sabah and Sarawak.

In addition, the Petroleum Development Act 1974 is an act that authorize the exploration and exploitation of petroleum either on the beach or offshore to the corporation, namely Petronas. In this act, the state grants ownership and rights, powers, freedoms and exclusive privileges to Petronas to control the conduct of consumption and development activities related to petroleum and its products (Malaysian Law Review Commissioner, Petroleum Development Act 2006: 5) . In return, Petronas will pay 5% of its oil revenue to the relevant states as stipulated in Section 4 of the Petroleum Development Act 1974 which is *"in return for ownership and rights, powers, freedoms and privileges vested in it under this Act, the Corporation shall make such payment of cash as may be agreed between the relevant parties to the Federal Government and any State Government"* (Commissioner of Law Review Malaysia Petroleum Development Act 2006: 7).

History of Petroleum Exploration in Sarawak, Malaysia

Sarawak is one of the states that has a lot of petroleum-based economic resources. In the history of oil exploration in Sarawak not only occurred during the formation of Malaysia in 1963 but the history of oil exploration has been undertaken for more than 100 years Sarawak since, under the administration of the Brooke family (Henry Longhurst 1957: 34-36)¹. This can be seen at the beginning of the first Sarawak government, James Brooke has emphasized the importance of "black gold" to be explored in the state. James Brooke has instructed his friend, a geologist named Hiram Williams, to do the first study on the existence of oil in Sarawak. In the same time, James Brooke through his good friend the famous botanist traveled to Sarawak around 1854 until 1862 who supported James Brooke to continue researching oil in Sarawak through his book *The Malay Archipelago* (Wallace 1869: 65). He said "*to coal mines in Sarawak: These coal mines puzzle the natives exceedingly, as they cannot understand the extensive and costly preparations for working coal, and cannot believe it is to be used only as fuel when wood is so abundant and so easily obtained.*"

Due to this, James Brooke cooperated with companies in Scotland and Singapore to manage oil exploration in Sarawak by establishing Borneo Company Limited around 1856 in London with main objective to manage trade resources in Sarawak efficiently and effectively². Next, Borneo Company Limited has successfully delivered its objective to manage Sarawak's mineral resources such as gold mining, antimony and oil resources. Therefore, all work related to mapping and land measurement was continued and enhanced by bringing in oil geologists from the British to Sarawak at that time (Henry Longhurst 1957: 40). The exploration of oil in Sarawak was intensified during the reign of Charles Brooke so that the oil was able to build many buildings that were designed like in Europe that can be seen in Kuching and part of Sarawak (Henry Longhurst 1957: 45).

During the reign and administration of Charles Brooke, there was an oil geologist, Dr. T. Posewitz who conducted the study and finally began exploring the oil wells in Miri City around 1892 (Mohammad Morshidi 2010: 8). According to a study made by (Mohammad Morshidi 2010: 9), he found that the people of Miri have actually carried out conventional excavation work before the intervention of the Brooke administration. This can be proven through a civil servant from the Sarawak government named Claude Champion Crespigni, who was the first Resident in Marudi district through his study written around 1882 and 1884 which stated that there are more than 18 oil wells dug manually by locals that should be considered. He stated "*the oil district near the mouth of the Miri River should be thoroughly searched and reported on.*" "*Earth oil*" was used by local people for lighting lamps, waterproofing boats, and medicinal purposes" (Petronas 1999: 22).

Although Crespigni had stated in his discovery of conventional oil wells in Miri in 1884, however he did not get much attention from Charles Brooke at that time until a friend of his, Dr Charles Hose began to serve as Resident in Baram district around 1884 until 1904 (Henry

¹. Brooke came to power in Sarawak after succeeded in helping Pengiran Raja Muda Hashim fight the insurgency by the people of Sarawak in 1841. The event opened the door for James Brooke to intervene in Sarawak politics on September 24, 1841 and at the same time appoints James Brooke as the ruler of Sarawak. He was awarded an area ranging from Tanjung Datu to Sungai Semarahan. For more information, please refer (Suffian Mansor 2013: 6)

² Borneo Company Limited was established in 1856 and was the oldest company based in East Malaysia in the state of Sarawak. For clarification and further information, please refer to (Joshua Chia 2007: 48).

Longhurst 1957). Dr Hose had agreed to Crespigni's study and his deep interest prompted him to seek permission from Charles Brooke to use all the mapping and research reports on oil in Miri to be sent to his colleagues in London around 1904. Next, after getting permission in the City of London and his efforts to get the attention of Mr. HN Benjamin, one of the largest shareholders of Anglo-Saxon Petroleum which is one of the subsidiaries of Royal Dutch / Shell Group, that influenced Charles Brooke on Dr Hose's advice to return to London in 1907 to discuss further actions and steps on oil exploration efforts in Miri (Henry Longhurst 1957: 25).

After an agreement was signed between the Sarawak government and Shell Group in 1907, oil exploration activities in Miri district became more widespread³. The first oil wells dug were in 1910 after Shell sent a Swiss geologist, Dr. Josef Theodore Erb through reports and mapping conducted and only then oil drilling activities began around July 1910. An oil well called the Grand Old Lady (Miri Well) was located in Canada Hill or present-day Miri district. The first oil wells in Sarawak were through Miri district using conventional methods from a Canadian oil engineer working with Shell and using a form of technological drilling equipment to obtain salt in China (Henry Longhurst 1957: 30). In addition, the method has successfully affected the drilling of oil well and the name Miri Well was called as Canada Hill or Canadian Hill taken in conjunction with the name of the engineer, Mr Mc Alphine a Canadian citizen. Based on the discovery of the first oil well in Miri has led to more exploration and search for oil resources in the Miri district.

Due to this, Shell Group established Sarawak Oilfield Limited which operates in Lutong, Miri in 1911 and the situation has further boosted the economy in Miri by hiring many skilled workers brought in from Singapore as well as giving locals the opportunity to explore these employment opportunities. In 1911, Miri successfully produced a total of 523 barrels of oil consisting of 5 oil wells that were explored. In 1913, a total of 8 new oil wells were explored in Miri and the situation has significantly produced 11,210 barrels thus making Sarawak state an oil exporter in the world at the time (Henry Longhurst 1957: 35). In 1914, Sarawak Shell built the first factory in Miri and used submarine pipeline starting from Tanjung Lobang to supply crude oil to offshore wells in Miri port. This is one of the histories created at that time by using the pipeline system of the world's seabed.

Subsequently, in 1925 when Sarawak was under the rule of Charles Vyner Brooke, the exploration of the oil industry in Sarawak was increasing gradually especially in 1929 and Miri had successfully produced 15,211 barrels of oil while in 1940 had achieved a target of 7 million barrels of oil (Henry Longhurst 1957: 38)⁴. At the same time, Miri City at that time was growing and was the busiest city with its growing population since 1930s, estimated at 15,000 people while 2/3 of that number were workers brought in from Singapore and British.

During Japanese rule in Sarawak, Charles Vyner Brooker and Sarawak army carried out "*bumi hangus*" activities on oil infrastructure and refineries in Lutong, Miri, causing many losses (Henry Longhurst 1957: 67). Despite the destruction of the oil infrastructure, Japan has

³ Royal Dutch Shell or known as Shell is a multinational oil and gas company based in the Netherlands and registered in the UK. For more information on the historical discussion above, please refer to (Shell Global 2017: 2)

⁴ Charles Vyner Brooke was the ruler of Sarawak who succeeded Charles Brooke and was the third and last King of Sarawak and was not interested in ruling the Sarawak administration. While in England, he handed over the administration of Sarawak to local officials and dignitaries. For more information, please refer to (Steven Runciman 1960: 179)

provided a group consisting of oil engineers or known as Kawaguchi Brigade has successfully repaired all the destruction of the oil industry in Miri by taking two months and set up a company called Nenryo Haikyu-Sho whose role is to take overseeing the administration of the oil industry in Miri (Henry Longhurst 1957: 68-69). At the same time during Japanese rule between 1944-1945, the Japanese army successfully produced 750,000 barrels of oil as a result of oil exploration in Miri (Henry Longhurst 1957: 70).

In 1945, Allied Army attack on the oil industry in Miri was so severe that Charles Vyner Brooke was unable to develop Sarawak and eventually handed over Sarawak to the British in 1946 (Henry Longhurst 1957: 72). Thus, British government tried to redevelop the oil industry in Sarawak after the effects of the Second World War 1945. During 1949, British government established the Geological Survey Department of British Territories in Borneo based in Kuching, aimed to help Sarawak revitalize the oil industry (Henry Longhurst 1957: 74). Therefore, in 1955 Sarawak has successfully reproduce oil resources and in 1957, Sarawak has begun to explore oil at offshore of Sarawak and facilitate economic stability in Sarawak at that time. As a result, the Miri oil field, which later had 642 wells, managed to produce 80 million barrels of oil in 1974 (Petronas 1986: 4).

Malaysia's first offshore oil field to produce oil was at Lutong Batat in Sarawak in June 1968 with a production rate of 3,000 barrels per day. According to records until 1973, 19 oil fields were found offshore of Malaysia and four of them were able to produce oil at a rate of 90,000 barrels a day (Ariffin 1992: 7). However, the events of the oil embargo on October 17, 1973 and the Iranian revolution in 1978 have caused the oil crisis in several countries and at the same time caused the increase in oil prices in the market⁵. Thus, there has been an awareness to re-evaluate the existing petroleum industry administration system and the need for government intervention has begun to be felt until the national petroleum company was established, to ensure that the country's petroleum resource exploitation policy is managed properly.

History of Petroleum Exploration In Sabah, Malaysia

In fact, Sabah is the second largest state in Malaysia which is rich in nature and economic resources based on petroleum oil resources. Petroleum resources in Sabah including petroleum licensing and royalties have been enshrined in Section 24 of the Sabah Land Ordinance (Chapter 68) which was passed in 1930 before the formation of Malaysia (Star Online, 17 September 2013). Based on the oil agreement in 1976 between Petronas and the Sabah state government has agreed that payment of five percent to the state government if there is petroleum found in the state waters. So, for the period 1 April 1975 until 31 December 1977, the Sabah State Government has received a payment rate of five percent which is RM 78,817,387 oil royalty payment from Petronas (Dewan Negara 19 April 1989: 992). Hence, the oil and gas sector continue to be one of the important contributing sectors to Sabah and as much as 30 per cent of the oil reserves are located off the coast of Sabah and excludes new oil reserves being explored in Sabah (Musa 2016: 3). In the MIDF Research study, the petroleum royalty contribution in Sabah is 21% or RM 774 million of the total revenue of the

⁵ The oil embargo occurred on October 17, 1973 until 1975 when oil prices were set by OPEC after the outbreak of war between the United States and Vietnam until OPEC members agreed to increase world oil prices to stabilize the US economy. For more information, please refer to (Business the Observer 2011)

Sabah State Government (Utusan Online, 26 April 2012). Apart from that, petroleum in Sabah is also the largest export contributor representing 35% of total exports in 2010 of 8.3 million tonnes of crude oil with a value of RM 15.4 billion compared to 28% in 2006 of 4.1 million tonnes with a value of RM 7.6 billion (Utusan Online, 26 April 2012). In 2012, Petronas reportedly invested RM 61 billion in the downstream and upstream sectors of oil in Sabah (Utusan Online, 26 April 2012). Plus, the economic growth set by five percent based on petroleum in Sabah recorded an increase from RM 750.9 million in 2008 to RM 975.3 million in 2013 with an increase of 30% in five years (Utusan Online, 29 April 2014).

Based on the importance of the Sabah petroleum to its economy, Petronas has invested in several mega projects that are expected to generate a total investment of about RM 18 billion for the development of Sabah Oil and Gas Terminal (SOGT) and RM 30.6 billion for the Sipitang Oil and Gas Industry Part (SOGIP) project and Ammonia Urea (SAMUR) project which is expected to be completed in November 2017 (Utusan Online, 26 April 2014). These initiatives are projects carried out under the Economic Transformation Program to stimulate oil production in the state of Sabah in line with the of the states's transformation progress. In addition, the development of the Sabah Oil and Gas Terminal (SOGT) in Kimanis and gas pipelines in Sabah-Sarawak which cost RM 5.4 billion as an example of the importance of the development of oil and gas infrastructure in Sabah (Utusan Online, 29 April 2012). Therefore, through this investment, apart from being able to change the state development landscape, it also provides employment and business opportunities as well as improving the quality of life of the people in Sabah (Berita Harian Online, 8 August 2016).

A marine exploitation study conducted in Sarawak in 1954 and in Sabah in 1955 has successfully lead to oil discovery in the Patricia and Temana fields in 1962 by Shell. As a result, the Patricia Field was not developed and the Temana Field began production in 1978 (Petronas 1986: 8). In 1965 to 1969 there were four oil companies namely Esso, Elf Aquitaine, Oceanic and Sabah Teiseki Oil Company which had signed an agreement between Sabah and Sarawak to carry out exploration activities at the offshore areas of the states (Ariffin 1992: 5)). In April 1968, the Esso and Conoco oil companies were offered to carry out oil exploration activities for the offshore areas of Peninsular Malaysia while in January 1971, Mobil signed a concession agreement for the offshore areas of Perak and Kedah but resubmitted the area as no traces of oil were found.

With this development, Malaysia established Petronas on 17 August 1974 which has acted as a government delegate to handle all affairs related to petroleum (Muslim 1992: 13). The main purpose of the establishment of Petronas is to ensure that the country's petroleum resources are managed in a planned structure and benefit the country and the people. On 1 October 1974, the Petroleum Development Act was passed by Parliament and the act empowered Petronas to handle the exploitation of the country's petroleum resources. At the same time, the act has also provided for the establishment of the National Petroleum Advisory Council and the Prime Minister's Department has formed the Petroleum Development Unit to assist in the establishment of the National Petroleum Advisory Council. Furthermore, there are several other policies that have been introduced such as the National Petroleum Policy 1975, National Energy Policy 1979, National Depreciation Policy 1980, Petroleum Act related to security measures 1984, Exclusive Economic Zone Act 1984 and Bumiputra Participation Plan Framework in the industry petroleum (Ariffin 1992: 6). Therefore, these policies were introduced to preserve and ensure the development of the petroleum industry which is beneficial to the country. The development of the Malaysian

petroleum industry peaked at the end of 1990 due to increased demand for petroleum products.

History of Petroleum Exploitation In Terengganu, Malaysia

The oil refineries in Terengganu were officially opened on 3 October 1983 which is located near Paka beach, Dungun in the state of Terengganu. The oil filter plant was launched on March 9, 1983 and in April 1984 produced the first manufactured material ie nafta was exported to Japan. In addition, the Terengganu Oil Refinery is Malaysia's first local oil refineries and is owned and operated by Petronas through its subsidiary Petronas Penapisan Terengganu Sdn Bhd. Furthermore, the Terengganu Oil Refinery Plant Complex was built with a cost of RM 260 million which serves to filter crude oil into output products to distribute and provide power to other nearby petroleum projects. The complex area is located on 66 hectares of Terengganu coastline, placed 106 km from south of Kuala Terengganu and has the capacity to process 30,000 barrels of oil per day (Petronas 1986: 8).

Terengganu's first petroleum was discovered on the coast of Terengganu in 1973 and bargaining RM 13 million. Then this figure increases year after year as in 1981 (RM188.94 million), 1983 (RM 5.19 million), 1984 (RM 4.19 million), 1981 1987 (RM 202 million), 1988 (RM 266.6 million), 1989 (RM 266.01 million), 1990 (RM 348.51 million), 1991 (RM 418.19 million) 1995 (RM 395.30 million), 1996 (RM 447.3 million), 1997 (RM 514.88 million), 1999 (RM 436 million), 1992 (RM 418.83 million) and in 2000 was RM 810 million (Mohammad Agus 2004: 87). In 2001 to 2004, total royalty estimated for Terengganu was RM14.7 billion from the federal government on the profitability of oil exploration in Terengganu waters for state development and infrastructure (Berita Online 2009). For the year 2004-2008, the amount of oil royalty for the Terengganu State Government was RM 7.364 billion and followed by 2011 RM 1.6 billion and in 2012 was RM2 billion (Utusan Online, December 11, 2012).

Starting in 1970, the oil and gas exploration industry through the Petroleum Corporation Berhad (PETRONAS) has been a major sponsor for Terengganu's economic growth (Nor Hayati 2011: 98-99). In addition, the contribution of petroleum to Terengganu's Gross Domestic Product (GDP) increased from RM8,171.5 million in 1990 to RM12,082.9 million in 1995. In 2005, this amount increased to RM16,821.2 million and RM 31,844.1 million in 2007 (Terengganu Planning Unit 2007: 5). Based on the achievement and economic development of the petroleum oil, there were various government establishments and agencies in the early 1990s in Terengganu such as the Public Institutes of Higher Learning (IPTA), Private Institutes of Higher Learning (IPTS), boarding schools and so on (Unit Perancang Terengganu 2007: 5).

As a government channel in generating industrial programs in Malaysia, Petronas has undertaken its responsibility as the governing body, advancing and adding value of petroleum resources for long-term strategy that would benefit the people and the country. The discovery of the oil well has made Kemaman a region that has achieved good economic growth since receiving oil royalty from Petronas in 1978, followed by the establishment of the Terengganu Crude Oil Terminal (TCOT) which began its task in November 1983 to support offshore oil production and oil refinery (Utusan Online, May 10, 2002). On the economic view, Petronas has successfully commenced offshore gas landing activities from Medan Duyong located 160 km off the coast of Kertih on April 14, 1984 (Utusan Online, 10 May 2002). This indicates that the gas-based and petroleum-based economy in Malaysia is systematically and professionally implemented. The wealth of these economic resources has made Kertih a

major city that is quite important in the development of the state and state economy due to its association with the petroleum industry.

In addition, Bandar Baru Kertih has also been developed on an area of 10 square kilometers and is the only petroleum-based city in Terengganu (Wan Ramli 2008). At the same time, the cost of setting up the new town provides RM 120 million covering 92 units of shop houses, apartments and financial institutions in line with the oil economy's development in the area (Wan Ramli 2008). Based on these economic interests, the fast-growing district with the establishment of the PETRONAS Petroleum Industry Complex (KIPP) is the largest petrochemical complex and population immigration due to high employment opportunities up to 30,000 people in 2008, compared to 20 years ago (Wan Ramli 2008). Hence, these plants and facilities are landmark located within an area of approximately 4,000 hectares in Kertih district.

History of Petroleum Exploitation in Kelantan, Malaysia

Kelantan began supplying oil since 2004 and demanded royalty payments in July 2009. Starting with the history of oil discovery in Kelantan, the Kelantan State Government has been demanding payment of petroleum oil revenue estimated between RM850 million and RM1 billion a year from the federal government under the Progress Act Petroleum 1974 with a rate of five per cent royalty. There are oil rigs found in Kelantan waters named after the Bunga Raya Platform, Cakerawala 1, 1A, 23 and Star Platform (Husam 2013). Hence, all platform names in Malay prove that this is a property of Malaysian companies as well as Kelantan, which entitled to claim the oil royalty. The agreement signed between the Chief Ministers of the Peninsular states in 1975 with the Petronas Chairman, YBM Tengku Razaleigh Hamzah is valid and Petronas is bound to the agreement. For the Kelantan State Government, the agreement was signed between Kelantan's current Chief Ministers Datuk Mohammad Nasir and Chairman of Petronas. Thus, the agreement has been set and stipulates that the federal government obligated to pay royalty revenue to the Kelantan State Government by five per cent per annum and paid twice a year (Mohd Salleh 1997: 23).

Historically, Kelantan's domestic waterway named as PM 301 and Block PM 302 is a fully owned petroleum oil and gas area by the Kelantan State Government without any overlap. This area covering 140 km of Kelantan coast with a total of RM 1.2 billion payable royalty to Kelantan began in 2013 until 2017. Moreover, Kelantan also succeeded in producing petroleum in PM 303 Block which is an overlap between Basin and Terengganu based on the 1987 maritime map with a total of RM 14.5 billion royalty to be given to Kelantan by the federal government under the five percent royalty agreement. At the same time, Kelantan has also succeeded in producing petroleum royalty in Malaysia and Thailand joint development territory (Joint Development Area-JDA) located within an area of approximately 7,250 square kilometers. The area was divided into 3 blocks within the overlapping watershed involving claims between Malaysia and Thailand. This joint development has resulted in a return of RM 1.9 billion revenue from 2005 to 2017 from five percent petroleum royalty agreement. Furthermore, the Kelantan State Government also succeeded in generating oil and gas royalty in Kelantan / Terengganu and Vietnam overlapping areas called PM 3 / CAA (Commercial Area Agreement), with a total of RM 1.9 billion based on agreed five percent of total petroleum. All payments are payable by the Government of Malaysia to Kelantan based on the Petroleum Development Act 1974.

Research Contribution

As a federal nation, Malaysia has divided its powers between the central and state governments, as stipulated by the Federal Constitution. This division is outlined in the Ninth Schedule of the Malaysian Federation regarding the allocation of powers between the central and state governments. In this regard, both the central and state governments have the authority to enact laws on matters within their respective lists, as described in the Ninth Schedule. However, the application of legislative powers differs slightly for the states of Sabah and Sarawak. This is evident in Articles 95B, 95C, and 95D of the Federal Constitution (Constitution of Malaysia 2009:100).

In terms of financial provisions, Part VII of the Constitution allocates the most significant revenue sources to the central government, except for revenue from land and forests. The Constitution of Malaysia also guarantees that state government revenue, such as land, mines, and forests, as outlined in Part VII, will not be reduced as provided in the Constitution (Nor Asiah Mohamad 2013:28). Furthermore, the Constitution also provides for state governments to receive import duties for minerals defined as metallic ores, metals, and mineral oils, as described in Article 110(3A) (Nor Asiah Mohamad 2013:28). This provision is an advantage for states that have such resources, such as Terengganu, Kelantan, Sabah, and Sarawak. Although the Petroleum Mining Act 1966 (Act 83) states that a state's rights only pertain to land on the mainland, Section 5 of the National Land Code 1965 (NLC) defines land on the mainland as including coastal areas and underwater regions under the state's territorial waters, as outlined in Section 40 of the NLC. It is clear here that the land referred to in the state list includes both mainland and sea areas.

In the context of federalism, any issues related to oil conflicts between the central and state governments can be resolved through good political cooperation, negotiations, and clear agreements. This is exemplified in the case of the Parti Bersatu Sabah (PBS), which agreed to join the Barisan Nasional in 1986 with the condition that all the demands in Article 20 of the constitution, as well as oil royalty distribution and borneonization, would be fulfilled by the central government. As previously explained, PBS, led by Datuk Pairin as the Chief Minister of Sabah, was not favored by the central government due to differing ideologies and political beliefs. However, through negotiations, the relationship between PBS and the central government became less tense and was accepted by the central government. For this reason, research suggests that if oil conflicts are resolved through political understanding for the development of the country and its people, such issues can be effectively resolved without resorting to legal proceedings in the courts.

Malaysia is a country rich in various natural resources with the potential for national development. This is evident through the discovery of petroleum resources in Sarawak, Sabah, Terengganu, and Kelantan, as described in the oil analysis above. Based on the development of this industry, Petronas was established in 1974 to act as the government's vehicle for managing all matters related to petroleum, and the profits from petroleum are distributed to the central government, state governments, and Petronas, as outlined in the Petroleum Development Act 1974. Economic and historical factors are among the reasons for the existence of a federal governance system, particularly in terms of resource allocation and the delegation of powers for the benefit of a government and its region. The formation of the federal system also serves as a balance between the central and state governments in a given country, particularly in decision-making and public policy aspects. In principle, the concept of federation or federalism formed represents a relationship between the central and state governments, where the areas of authority for both levels of government are clearly defined.

Research Interest

Based on the discovery of oil, Malaysia established Petronas on August 17, 1974, which has acted as the government's machinery to handle all matters related to petroleum (Muslim 1992:13). In this regard, the primary objective of establishing Petronas was to ensure that the country's petroleum resources are managed in a planned manner and benefit the nation and its people. On October 1, 1974, the Petroleum Development Act was passed by Parliament, granting Petronas the authority to oversee the exploitation of the country's petroleum resources. At the same time, the act also provided for the establishment of the National Petroleum Advisory Council, and the Prime Minister's Department formed the Petroleum Development Unit to assist in setting up the National Petroleum Advisory Council. Furthermore, several other policies were introduced, including the National Petroleum Policy of 1975, the National Energy Policy of 1979, the National Depreciation Policy of 1980, the Petroleum Acts related to safety measures in 1984, the Exclusive Economic Zone Act of 1984, and the Framework for Bumiputra Participation in the petroleum industry (Ariffin 1992:6). These policies were introduced to preserve and ensure the beneficial development of the petroleum industry for the country. The development of Malaysia's petroleum industry peaked in the late 1990s due to increased demand for petroleum products.

Conclusion

Oil resources are one of the main country's revenues which continues to be territory snatch and contributes to the main economic growth of a country. This is also supported by the intervention of foreign powers on oil resources in Sarawak in 1910 before the independence era. Based on the above discussion, oil resources are one of the main sources of government revenue that continues to contribute to economic growth in Malaysia. Therefore, the Petroleum Act 1974 has given the right to the central and state governments to obtain as much as 5% of the revenue that has been obtained for the development and welfare of the people. Therefore, the principle of federalism that has been implemented in Malaysia has benefited the state government to continue to develop the state based on the petroleum resources that have been obtained. In this regard, the impact of the history of oil resource exploration in Sarawak, Sabah, Terengganu, and Kelantan has brought results on the development and welfare of the people as discussed.

References

- Ariffin Samsuri. (1992). *Perkembangan industri petroleum dan sumbangannya kepada negara*. Kuala Lumpur: Universiti Teknologi Malaysia. Dewan Rakyat 15 November 1974
- Husam Musa. (2013). *Royalti: Amanah Dikhianati*. Kota Bharu: Jabatan Penerangan PAS
- Henry Longhurst. (1957). *The Borneo Story: The History of the First 100 Years of Trading in the Far East by the Borneo Company Limited*. California: Newman Neame.
- Muslim Ahmad. (1992). *National petroleum reserves and exploration developments activities in Malaysia*. Kuala Lumpur: Universiti Teknologi Malaysia
- Mohammad Morshidi. 2010. Paper Presentation: History of Oil in Sarawak. Sarawak: Technology College Sarawak.
- Mohd Salleh Abas. (1997). *Prinsip Perlembagaan Dan Pemerintahan Di Malaysia*. Kuala Lumpur: Dewan Bahasa dan Pustaka
- Mohammad Agus Yusoff. (2004). Politik Terengganu Selepas Pilihan Raya Umum 1999: dari royalti ke wang ihsan. *Jebat* (31) 87-107.

- Musa Hj Aman. (2016). Sektor minyak dan gas akan terus menjadi penyumbang penting kepada sektor ekonomi Sabah. Dalam <https://www.sayangsabah.com/sektor-minyak-dan-gas-akan-terus-menjadi-penyumbang-penting-kepada-ekonomi-sabah/> (online on 10 August 2017).
- Nor Asiah Mohamad. (2013). Kedudukan Tanah dan Sumber Hasil Menurut Perlembagaan Malaysia. *KANUN* (25) 1 22-42.
- Petronas. (1999). *The Petroleum Geology and Resources of Malaysia*. Kuala Lumpur: Petroleum Management Unit.
- Petronas. (1986). *Petronas dan Industri Petroleum Malaysia*. Kula Lumpur: Jabatan Hal Ehwal Awam
- Suruhanjaya Undang-Undang Malaysia. 2006. Akta Pelantar Benua 1966. Kuala Lumpur: Percetakan Nasioanal Malaysia BHD.
- Shell Global. (2017). Dalam <http://www.shell.com/about-us/who-we-are.html#vanity-aHR0cDovL3d3dy5zaGVsbC5jb20vZ2xvYmFsL2Fib3V0c2h1bGwvYXQtYS1nbGFuY2UuaHRtbA> (online on 17 August 2023)
- Utusan Online. (2002). Kompleks Institusi Petroleum Petronas Kertih-Nukleus perindustrian negara. Dalam http://ww1.utusan.com.my/utusan/info.asp?y=2002&dt=0510&pub=Utusan_Malaysia&sec=Laporan_Khas&pg=lk_05.htm (online on 9 August 2023).
- Utusan Online. (2012). Minyak, gas penyumbang utama ekonomi Sabah. Dalam http://ww1.utusan.com.my/utusan/Ekonomi/20120426/ek_04/Minyak-gas-penyumbang-utama-ekonomi-Sabah (online on 10 August 2023).
- Wallace. (1869). *The Malay Archipelago*. London: Macmillian and Co
- William Mangor. (2013). The Star Online. The federal government has stolen Sabah revenue. 17 September (4). Dalam <http://www.freemalaysiatoday.com/category/nation/2013/09/17/kerajaan-persekutuan-mencuri-hasil-sabah/> (online on 10 August 2023).
- Wan Ramli Wan Muhamad. (2008). Kertih Kawasan Terkaya Malaysia Kerana Minyak. Dalam http://ww1.utusan.com.my/utusan/info.asp?y=2008&dt=0408&pub=Utusan_Malaysia&sec=Timur&pg=wt_03.htm (online on 9 August 2023).