

Malaysia's Petronas moves ahead with Johor petrochemicals complex

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This month Malaysian national oil company (NOC) Petronas' board of directors approved a final investment decision (FID) for the Refinery and Petrochemical Integrated Development (RAPID) in the southern Malaysian state of Johor, following several delays to the project as a result of environmental and financial concerns. The FID will see the RAPID oil refinery commence operations in early 2019, two years later than was announced in August 2013 (see Malaysia: 1 August 2013:). The petrochemical complex will primarily focus on supplying specialty chemicals for pharmaceutical, consumer goods and automotive uses, while the 300,000 b/d naptha cracker-based refinery will produce ethylene, propylene, and C4 and C5 olefins, as well as gasoline and diesel that meet Euro 4 and 5 specifications. Construction of RAPID will cost USD16 billion, while associated facilities will cost USD11 billion.

Significance: Petronas' decision to proceed with the project, despite doubts about its commercial viability, comes as the NOC faces pressure to deliver on a major piece of infrastructure within the Malaysian government's Economic Transformation Programme (ETP). Earlier this year, Petronas CEO Shamsul Azhar Abbas warned that the NOC would not proceed with the project if it was found to be unprofitable, suggesting internal debate over the commercial viability of RAPID. In August 2013, Taiwanese refiner Kuokang Petrochemical Technology Company (KTPC) scrapped a plan to build a naptha-based petrochemical complex in Johor, which was set to rival Petronas' RAPID (see Malaysia: 19 August 2013:). KTPC claimed that cheap petrochemical products made in the US by shale gas ethane-based crackers had made Asian naptha-based refineries uncompetitive, except in the manufacturing of refinery products that cannot be produced from natural gas refineries (such as propylene, butadiene, BTX, and vehicle fuels). Moreover, Petronas' RAPID will come online at the same time as many other large refineries, pushing down the price of oil and petrochemical products and further dampening profit prospects. However, RAPID is key to the Malaysian government's vision of turning the country into a regional oil trading hub by building new oil terminals (including the Tanjung Bin terminal, which will service RAPID), storage facilities, and the RAPID complex. The government's plan seeks to capitalise on Johor's proximity to Singapore and existing oil trade routes, as well as Singapore's land shortage, which limits its ability to accommodate increasing trade flows. The government sees the RAPID refinery as essential to creating added value from these trade flows. As one of Malaysia's largest Greenfield developments, it will also provide a significant economic boost to the region. Although the government has shown considerable sensitivity to Petronas' need to increase profits – as evidenced by reforms last year that capped Petronas' annual government dividend at 30% of income, rather than the flat dividend of MYR30 billion (USD9.1 billion) previously – Petronas' decision to move ahead with RAPID reflects the NOC's mandate to support key projects of economic and political significance while also maintaining profitability.

SOURCE IHS Global Insight