Knowledge is power

AEC chair sees smart shift in perception

The country has rebranded its image as a centre for advanced technology and channelled new investment (lured by a slate of incentives) into 12 strategic sectors, including energy, science, education, ICT, electronics and palm oil. Emerging growth areas like biotechnology, aviation and advanced electronics have taken off, while traditional industries have shifted to more knowledge-intensive activities.

The results have been positive. Growth of 6.2 per cent was registered in the first quarter of this year, driven by rising exports. Industrial output in the country has registered 15 consecutive months of positive growth and services are expected to expand by an average of 6 per cent over the next four years. These are clear signs of broad-based economic expansion and of the country’s emergence as a regional manufacturing and services powerhouse. Prime Minister Najib Razak’s re-election last year means that ETP reforms will continue to 2018, which, in turn, means that Malaysia is likely to have rising clout as trade within the new ASEAN economic bloc continues to grow. Its role as the AEC’s first chair in 2015 may indeed by a sign of things to come.

Reimagining energy

What will tomorrow’s energy look like?

The new complex will be the next regional downstream oil and gas industrial hub

HSE is the utmost priority, with a strong emphasis placed on asset integrity such as rejuvenation and major maintenance activities,” says President and Group CEO Tan Sri Dato’ Shamsul Azhar Abbas. “We have spent around £5.5 billion since 2011 and have allocated a further £3.6 billion for the next five years specifically for this purpose alone.”

He adds that Petronas has various corporate social investment programmes in place in education, training and environment. “While we aggressively expand our portfolios, we commit equally to building communities, providing job opportunities and ensuring the livelihood of the community that we operate our businesses in,” he says. Celebrating its 40th anniversary this year, Petronas is today a fully integrated global industry player with a network of operations in 36 countries. Indeed, the Financial Times has identified it as one of the new seven sisters: the most influential state-owned oil and gas companies outside the OECD. Headquartered in the iconic Petronas Twin Towers in Kuala Lumpur, Petronas has undergone a corporate restructuring befitting its status as Malaysia’s single largest economic driver. Since its formation, the company has contributed more than £120 billion to the state coffers – 45 per cent of the government’s budget is dependent on the company – and its growth as an international oil company (IOC).

“As the sole Malaysian company to be listed in the Global Fortune 500, we have continuously made various efforts in diversifying our portfolios and presence across regions. We are competing with the IOCs of the world; we have no other choice than to be at par with them just to get onto a level playing field. But somewhere along the way we also realised that being an IOC...”
A partnership designed to thrill

PETRONAS’ technical partnership with AMG, the high performance division of Mercedes Benz, has produced a new generation of fuel and lubricant products that are revolutionising fluid technologies and creating winning Formula One (F1) teams.

Since new race regulations were announced three years ago, Petronas’ fuel and lubricant engineers have worked hand in hand with AMG technical experts at centres in Brackley, Woking and Brackley to design highly efficient, customised fluids for Mercedes Benz’s F1 cars.

Toto Wolff, Executive Director of the Mercedes AMG-Petronas F1 Team, acknowledges that his former racing career has given him an advantage as a manager because he understands the mechanics of the business. He says, “If you know what is going on in a car and what the driver, the organisation and the engineers mean, it gives you an edge because you understand whether something is right or wrong. I can use this knowledge to understand if an organisation is functioning properly. It’s about risk analysis and risk assessment.”

He believes that the Mercedes AMG-Petronas partnership has produced a winning organisation. “In the last couple of years, we have managed to transform a team that was not competitive into one which finished second last year and was World Champion this year,” he says. “That was a big challenge, but we were very hungry. And we nurtured the motivation within the people here to achieve that.”

We had to ensure our governance and business conduct are of global standards.

Innovation and investment target Sabah’s old and new industries

DOING BUSINESS comes naturally in Sabah, Malaysia’s second-largest state perched on the mountainous and biodiverse northern point of the island of Borneo.

For generations, visitors from around the world have travelled here to uncover the mysterious hidden within Sabah’s diverse and pristine rainforests and to experience the exhilaration of conquering Malaysia’s highest peaks, including the 4,095-metre Mount Kinabalu.

Tourism continues to be a critical and developing foundation of Sabah’s economy, but it is the ease with which its people, comprised of more than 100 different ethnic groups, embrace partnerships and new ventures that is capturing the imagination of foreign investors and entrepreneurs.

The openness and ingenuity nurtured by island life has been instrumental in building a booming natural resource sector, including a world-leading palm oil industry, as well as a growing local portfolio of oil and gas production.

Now, that same spirit of invention is re-engineering the region’s economic future through education, training, research and innovation.

Sabah, which looks directly across the water to the Philippines, Vietnam and Hong Kong, could not have chosen a more promising moment to begin its emergence as a regional presence in Southeast Asia’s growing economy.

Just as the attention of the international community is turning toward the rollout of the Asian Economic Community (AEC) in 2015, Sabah’s sharp focus on fostering innovation is transforming the state’s industries and is creating new opportunities in ICT and green technologies.

Baring Asset Management recently released a report stating that a new economic zone will “deliver superior risk-adjusted returns for investors compared to other emerging markets.”

With a population of more than 3.5 million people within a country of 28 million, investors in Sabah will gain access to a massive pool of consumers, workers and resources as the AEC begins liberalising trade and growing the economies of its member countries.

Mr Azhar Abbas.

Petronas hopes to continue forming the strategic partnerships, such as its Formula One partnership with Mercedes-Benz, that have helped put Malaysia on the map. “We are a commercially driven company building the ecosystem for a better tomorrow. My vision for Petronas is for it to be the global partner of choice, with high standards of corporate governance and integrity,” concludes Mr Azhar Abbas.
are a way of life

If you want people who speak Mandarin, French, German, English... they are here

Future expansion

In June of 2012, Felda Global Ventures (FGV), the world’s third-biggest oil palm plantation operator, listed on the Malaysian bourse in what was the largest IPO in Asia that year, raising $3.3 billion. The following year, it used these funds to launch a global expansion that aims to see it become one of the top 10 agribusiness conglomerates in the world by 2020.

Group President and CEO Mohd Emir Mavani Abdullah says, “2013 was a landmark year for acquisitions and exploring new opportunities that are a strategic fit to our long-term growth targets. Armed with IPO proceeds, we began a disciplined and focused process of investing in our growth engines for the future.”

One of these growth engines is the company’s R&D arm, which has of late beenPOINTING TO GROWTH

FGV’s global expansion will only increase the company’s ability to power these developments. Today, with operations in more than 10 countries across four continents, FGV is looking at new opportunities to boost its upstream expansion in Africa’s tropical belt, as well as Myanmar, Cambodia and Papua New Guinea.

“FGV’s long-term prospects promise to be both exponential and spectacular, providing an opportunity for our shareholders to own a stake in what may well be the biggest growth story in corporate Malaysia,” says Mr Emir.

Asean academics

SABAH, poised to capitalise on its central location to become a hub for education, training institutions and partnerships in Asean. “Whenever we engage with potential foreign investors, including British institutions of higher education, we talk to them about looking at Sabah as a base for Asean. In fact we have been receiving quite a number of students from China, Brunei, the Philippines and Eastem Kalimantan,” says Dr Mohd Yaakub Haji Johari, CEO of the Sabah Economic Development and Investment Agency (SEDA). For many years, foreign investment in Malaysia’s education and training institutions was not an option, but this has changed as much of the country’s service sector has been liberalised. “Now foreign investors can have 100 per cent equity ownership in private education institutions. They can team up with a local partner or set up on their own,” says Dr Haji Johari.

Investors can also access a facilitation grant of up to 10 per cent of the total project cost under a framework targeting public-private joint ventures. At the University College Sabah Foundation, exciting new initiatives aim to address specific education and training needs, such as its new aviation school in development. The idea is to provide training and eventually maintenance, repair and overhaul facilities in Sabah that can cater to the need of the aviation industry in East Asia, which has one of the fastest growths in air traffic,” concludes Dr Haji Johari.
Happiness is paying your taxes

A paradigm shift in how people view tax obligations is boosting returns

Since Tan Sri Dr Mohd Shukor bin Hj. Mahfar became CEO/Director General of Malaysia’s Inland Revenue Board (IRBM) in 2011, things have changed in the tax department. Revenues are up and new customers are paying up with a smile. Voluntary compliance and employee satisfaction have formed the cornerstones of a new approach that is seeing big benefits for the Malaysian government.

Shortly after his appointment, Dr Shukor led the Public Finance Sector Reform that has since identified 70,000 new companies for registry, transformed the tax collection agency and reached new levels of compliance that increased the government’s coffers by an additional RM6.2 billion ($1.93 billion) last year alone. It is an easy sell. Malaysia has a goal of reaching developed country status by 2020 and the Economic Transformation Programme designed to get it there is highly visible. In short, paying your taxes in Malaysia is for a good cause. Getting the message out, however, and using the right tone, takes some finesse. Dr Shukor is managing wonderfully.

“We are now trying to leapfrog from a developing country to developed nation by 2020. This is easily discerned by the number of outstanding public projects being carried out. This development has to be financed by revenue,” comments the tax boss. “Our contribution is very significant and we want to ensure that the revenue that is needed is collected and delivered.”

Over the past three years, since Dr Shukor was appointed and the agency’s reform process set in motion, there has been a drastic shift in the amount of these revenues collected. In 2010, just RM86 billion was collected. By the following year, this had increased to RM109 billion.

Much of this success is due to a drastic shift in perception. Instead of an agency of enforcement, the IRBM, since Dr Shukor came onboard, has tried to promote voluntary compliance through the transformation of its own image to a more citizen-friendly one. After all, says Dr Shukor, paying your taxes is painful enough.

“At IRBM, we have changed our image. There are a lot of new changes being introduced. We are now friendly focused. It is our job to help taxpayers comply, so we help them to help us. We have changed our approach and we have changed our image. I want to build trust between the taxpayer and the tax authority. I do not want for us to be seen as being too tough. It is important to bring the regulator closer to the taxpayer,” he explains.

Dr Shukor introduced IRBM’s rebranding the same year he was appointed. Now, the tax authority’s public relations officers are referred to as customer care officers. They are instructed to inform citizens that they are there to assist them. They provide patient support to guide taxpayers through the complexities of a sophisticated tax regime. And they remind them of their responsibility to pay taxes.

“We really matters when you can see that the taxpayer knows their rights. To me it is very important that for compliance, enforcement of the law should be done without creating fear. We should also be seen efficient. If we portray an image of efficiency, the taxpayer will respect the system,” says IRBM’s CEO.

The agency’s efforts to improve efficiency include increasing the number of banks where taxes can be paid, the introduction of mobile filing to complement IRBM’s e-filing options and the launch of ‘pre-fill’ initiatives with public and private sector employees. Auto-reminders and follow-up phone calls from a new call centre have also been introduced and a customer relationship management division has been created. Finally, the agency has also turned to social media to capture the Generation Y and Z citizens in the country, who are beginning, or will begin soon, to pay income tax.

Dr Shukor acknowledges that his approach is not typical. He says his agency’s success rate is founded on the time and energy he has spent on creating a positive work atmosphere for his employees. “For the past three years after my appointment, I have emphasised the human aspect. I wanted to make people feel good at work. I focus on happiness, and being a chess player I strategise this happiness. We want our people to be happy about paying taxes to us; they know we are collecting taxes on behalf of the government and our government will back services for their wellbeing – reduce street crime, have a good education system, solid healthcare,” he says.

“That is why I said the first and foremost thing to do to put our house in order is to have people smile at work and have people smile when they pay their taxes. The mental shift on how people view taxes is key. Certainly it is our duty to collect taxes, but we want people to do it voluntarily by seeing the benefits of paying taxes in a community that we all form part of. And this happiness starts with our own organisation. We are different and we want others to see we are different.”

Tax incentives drive growth in new business areas

IRBM’s tax exemptions are offered to new companies with up to 100 per cent foreign capital setting up in government promoted sectors: high technology, biotechnology, green technology, ICT and R&D activities.

• Partial or full tax exemption: 5 or 10 years
• Investment tax allowance: rate of 60 or 100 per cent for a period of 5 or 10 years
• Research expenditure qualifies for double deduction
• Capital reinvestment on factory, machines and equipment for expansion of existing production capacity, modernisation or automation of the production facilities, or diversification into related fields, qualifies for 60 per cent reinvestment allowance

In 2010, RM86 billion was collected by the IRBM, but reforms increased this by more than 26 per cent to RM109 billion just one year later.

"We are different and we want others to see we are different”

Tan Sri Dr Mohd Shukor bin Hj. Mahfar, CEO/Director General of the Inland Revenue Board of Malaysia (IRBM)
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A sea change for Labuan

Diversity emerges as the territory flourishes

Is Labuan a land of opportunities? Datuk Rozman Bin Datuk Haji Isli, Chairman of the Labuan Corporation, certainly thinks so. He says this island territory 9.5 kilometres northwest of Borneo offers attractive incentives in its growth industries – oil and gas, international business finance and tourism – and is now promoting spillover sectors such as property and industrial development.

There is no doubt Labuan has much to offer, which bodes well for the corporation’s mission to see its continued development as an attractive destination for business and pleasure. It has, after all, been an international offshore financial centre since 1994 and a duty-free port since 1956. It is a centrally located transhipment hub in the East Asia Growth Area and boasts Malaysia’s only deep-water anchorage at the mouth of Brunei Bay. Furthermore, its unique blend of nature, culture and history gives it great tourism potential.

Its oil and gas sector is booming

Indeed, there are now more than 150 oil and gas companies on the island, thanks in part to new offshore findings, including foreign companies like Talisman and Halliburton, and local authorities are actively encouraging new exploration and production.

The next big step is an oil refinery, farm tanks, a marina city and a bridge connecting to the mainland

Datuk Rozman Bin Datuk Haji Isli, Chairman of the Labuan Corporation

Small island, huge potential

Labuan Island is one of Malaysia’s 3 Federal Territories. As a logistical hub for the booming upstream oil and gas industry, the island’s vibrant economy is also home to one of Asia’s strategic offshore financial centres. Located off the north coast of Borneo, Labuan is poised to become a transhipment hub with the only natural deep water bay in the region. The archipelago is now embracing tourism, offering travellers a magical blend of history, culture, nature and cuisine.
The amazing oil palm

A life-giving economic mainstay

There are old oils and new oils. There are oils that have been used for thousands of years, and some that have been used for less than a hundred. Traces of some oils have been found in ancient Egyptian tombs dating back about 5,000 years ago. Some were designed in labs in the 1930s. Palm oil, the world’s most popular edible oil, can be found as an ingredient in nearly 50 per cent of the products sold in our supermarkets, including food, cleaning agents, cosmetics and toiletries. Palm oil is also gaining traction as a reliable source for biotech.

Yet in recent years, the palm oil industry has taken a beating in the international press, where accusations of deforestation, unsustainable farming practices, and damage to native orangutan habitats have hampered what is one of Malaysia’s largest employers and economic mainstays – the industry contributes 10 per cent of the country’s total export earnings. Oil palm plantations are essentially reforestation activities. The cultivation of oil palm spread in the mid 70s and 80s as a result of the decline of the rubber industry in Malaysia. Since then, “the country has come to view it as one of its main sectors for revenue generation. It is one of the 12 national key economic areas promoted under the Economic Transformation Programme,” says Dr Yusof Basiron, CEO of the Malaysian Palm Oil Council, “and I believe it is ranked number two now, so it is very important in terms of priority for future development.”

Dr Basiron, who feels Malaysia’s oil palm industry has been unfairly singled out by critics, defends its excellent sustainability record. Oil palm produces more vegetable oil per hectare per year than any other crop and therefore requires the least area of land to produce the same tonnage of oil as produced by any competing oil crop. He argues that the global livestock industry has deforested 400 times more than the area that oil palm cultivation has, and that UN-FAO studies point to the commercial cultivation of crops like soybean as posing a much more significant deforestation threat. Oil World data also show that of the four major oil crops, soybean, sunflower, rapeseed and oil palm, soybean tops the list of land utilisation with a global planted area of 109.6 million ha. Indeed, Malaysia has dedicated 50 per cent of its land area to permanent forest conservation – a commitment made at the 1992 Rio Earth Summit which is still intact. The oil palm occupies about 16 per cent of the country’s land area. Malaysia’s oil palm industry has also established a fund for wildlife and biodiversity conservation, and Dr Basiron says that the orangutan population in East Malaysia is actually on the rise. Yet, in order to prove its sustainability, the industry has, in recent years, been forced to jump through certification hoops not demanded of others in order to protect its valuable export industry. And although Malaysian farmers have now certified over 50 per cent of their production, it has been a costly endeavour given that standards are often a moving goal post. In order to address the issue of this “free-for-all introduction of standards,” the Malaysian Palm Oil Council has proposed a set of national standards that will place the industry back in the driver’s seat, and help convince the world what Dr Basiron says Malaysia has always known – that “the Malaysian palm oil industry was developed with sustainability in mind right from the start, because we inherited the industry and technology from the British planters, who started this business. They wanted it to be as sustainable as possible. We have never faced any sustainability issues. But, of course, the question is, how do we prove this?”

We have never faced any sustainability issues

Dr Yusof Basiron, CEO of the Malaysian Palm Oil Council

The global livestock industry has deforested 400 times the area palm oil cultivation has affected and Malaysia has dedicated 50 per cent of its territory to preserving its permanent forests as part of its ongoing sustainability drive.

THE PLACE FOR BUSINESS, CULTURE AND NATURE

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SEDIA is a one-stop contact point for anyone looking to maximise the vast trade, investment and leisure potential of the Sabah Development Corridor, which includes:
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- Rich, fertile agricultural and marine resources
- Untapped oil, gas and energy opportunities
- Rich in cultural heritage with more than 30 ethnic groups
- Attractive incentives to investors especially in the promoted sectors namely tourism, agriculture, education, oil and gas as well as biotech

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