

David versus Goliath: The Sarawak-Petronas Dispute over Oil Revenues in Malaysia



Oil and gas are the financial backbone of Malaysia, with Sarawak contributing significantly to national revenue. – Bernama photo¹

A Long-Running Feud

It could be described as a case of David versus Goliath. For several years, a feud has been ongoing between Petronas, the national oil company of the federal government of Malaysia, and Petros, the smaller oil company established by the state government of Sarawak, which has rich offshore oil and gas reserves. At stake is the right to the proceeds of these significant reserves off the coast of Sarawak.

The long-running feud – with deep political and economic roots – rests on two fundamentally conflicting legal frameworks: (i) Sarawak's case that as per the Malaysia Agreement 1963 (MA63) which brought it into the federal union, land and minerals fall under state jurisdiction; and (ii) the federal case that the 1974 Petroleum Development Act (PDA 1974) that created Petronas granted it *exclusive* ownership, rights, and regulatory power for all petroleum resources in Malaysia.

In 2017 Sarawak set up Petros—a state oil and gas company—to manage the reserves on behalf of the state government. Tensions continued to simmer between Petros and Petronas, and in January 2026, Petronas filed a lawsuit in the Federal Court to challenge the legislative power of the Sarawak state assembly. A countersuit from Sarawak followed a month later questioning the federal oil laws themselves.

The Court is slated to hear the respective cases in early 2027. Until then, all protagonists know a lot is riding on which way the courts will decide. Even as the legal case plays out, Prime Minister Anwar Ibrahim has accelerated efforts to find a political agreement.

¹ Source: Phyllis Wong, "The question beneath the seabed," *Borneo Post Online*. March 1, 2026, <https://www.theborneopost.com/2026/03/01/the-question-beneath-the-seabed/>.

This case was written by Dr Gambhir Bhatta under the guidance of Ng Kok Hoe and Jean Chia, Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore and has been funded by the LKYSPP. The case is not intended to suggest correct or incorrect handling of the situation depicted nor as a primary source of data. It is meant solely for class discussion.

Introduction

Malaysia is the second-largest oil producer in Southeast Asia (after Indonesia), and the world's fifth-largest exporter of liquefied natural gas. Sarawak alone has over 60% of Malaysia's petroleum reserves. The core issue in the Sarawak-Petronas dispute is a constitutional and regulatory conflict over who has authority to control and market natural gas in the state of Sarawak. This feud takes on greater significance in light of the importance of the oil and gas sector in Malaysia's economy. While the share of the sector in the federal government's total revenue has declined over the years (from 41% in 2009 to a little over 18% in 2025),² it still serves as a key part of the national economy – petroleum income makes up 3% of gross domestic product but more importantly, half of all such income is contributed by dividends from Petronas.

Despite contributing substantially to the oil and gas sector in Malaysia, Sarawak currently only receives 5% of Malaysia's oil and gas revenue under PDA 1974. It is now demanding that this level be increased to 20%.³ Sarawak also argues that Petros – the state-owned energy company – under the state's Distribution of Gas Ordinance (2016) has exclusive rights as the state's gas aggregator.⁴ In addition, it stipulates that companies operating in Sarawak must comply with state licensing requirements. On the other hand, the federal government contends that Petronas – Malaysia's national oil company – derives its powers from the federal PDA 1974, which grants it *exclusive* nationwide authority over petroleum and gas resources.

The dispute, therefore, centres on whether federal or state law prevails in governing Sarawak's oil and gas sector, with major implications for resource ownership, revenue sharing, federal-state relations, and investor confidence in Malaysia's energy industry. Regardless of the financial implications of the dispute, it is widely regarded as Malaysia's most significant federal-state constitutional test since 1963.

To get a better appreciation of the issues, it is relevant to look into the background to this case at two levels: (i) the establishment of Malaysia and the constitutional and legal arrangements that structured it (ie, the political front); and (ii) the specific issue of the feud over oil and gas rights and the financial proceeds between the federal and state governments (ie, the economic front).

Establishment of the State of Malaysia

Malaya (then consisting of 11 states) gained its independence from Britain in 1959. Two years later, it was proposed that Sabah and Sarawak in the Borneo region and Singapore in the south also join the federation. In Sarawak, the proposal generated considerable debate largely centred on what joining the federation would mean for preservation of local autonomy, indigenous rights, religious and cultural diversity, and the like. Sarawak, Sabah and Singapore did agree to join the federation, which was formalised through the Malaysia Agreement 1963 (MA63) to form Malaysia.⁵

² See FMT Reporters, "Malaysia's petroleum revenue will drop to 18.3% of federal revenue next year," *Free Malaysia Today*. October 18, 2024, <https://www.freemalaysiatoday.com/category/nation/2024/10/18/malaysias-petroleum-revenue-will-drop-to-18-3-of-federal-revenue-next-year>.

³ Sarawak's claims (unmet, as yet) that it should receive 20% of oil and gas revenues is countered by Putrajaya that when MA63 was agreed upon, oil had not yet been found in Sarawak, and it was Petronas which developed the oil resources in the state. In any event, 20% is deemed too steep in light of prohibitive oil exploration costs.

⁴ An aggregator is an entity that consolidates production, supply, or demand from multiple producers and consumers and markets these collectively for scale and greater efficiency. This helps establish a single reliable supply system.

⁵ The Agreement was signed in London by the United Kingdom, the Federation of Malaya, Sarawak, Sabah, and Singapore on 9 July 1963. Sabah joined with conditions (known as the 20-point agreement), and Sarawak with an 18-point memorandum, both of which were meant to safeguard the autonomy of these two territories. In this regard, Sabah and Sarawak considered themselves equal partners to Malaya. However, this is not borne in MA63, where Article 1 clearly states: "The States of the Federation shall be: (i) the 11 states of Malaya; (ii) the Borneo States, namely Sabah and Sarawak; and (iii) the State of Singapore." So, clearly, MA63 does not speak of an equal partnership among the various states; it merely gave Sabah and Sarawak more entitlements than the other states in peninsular Malaya. This has important bearings on the Sarawak-Petronas feud.

Importance of Malaysia Agreement 1963 (MA63)

MA63 is a key element in this context because it serves as the constitutional foundation of Sarawak's autonomy claims. While it does not explicitly grant ownership of petroleum resources, it provides the historical and constitutional basis for arguments that Sarawak enjoys a special status within Malaysia, possesses greater autonomy than ordinary states, and should play a larger role in decisions affecting its territory, resources, and development.

The manner in which Sarawak (as well as Sabah) joined the federation is regarded by many to show their unique status as equal partners in the union rather than as subjugated areas.⁶ The formation of Malaysia in 1963 was not simply a territorial merger but a political compact with adequate constitutional safeguards provided for their entry. Indeed, many Sarawakians continue to regard MA63 as the constitutional compact that defines Sarawak's place within Malaysia.

The genesis of Sarawak's stance on the Sarawak-Petronas feud can be traced back to two key protections on state autonomy which it insisted on incorporating in MA63: greater control over land and certain natural resources; and safeguards against excessive centralisation by the federal government. More than six decades later, however, questions surrounding its autonomy, resource rights, fiscal powers, and constitutional status continue to feature in Malaysian politics. The current dispute is only the latest manifestation of long-standing tensions regarding the original terms under which Sarawak joined Malaysia.

The 1976 constitutional amendment, however, made it very clear that Sabah and Sarawak were two constituent states of Malaysia and not separate entities (thus downgrading their political status). This amendment went largely unchallenged at the time; it was passed with 130 votes in favour and only nine against in the federal Parliament. Most representatives from Sabah and Sarawak supported the bill largely because of political alignment with the ruling federal Barisan Nasional coalition government and the stated government objective of fostering national unity.

Relevant Political Context

For decades, Malaysia was ruled by the Barisan Nasional coalition, the largest constituent party of which was UMNO (United Malays National Organisation). During these times, Sarawak was considered close to the government in Kuala Lumpur which was more interested in strengthening the federation and so Sarawak did not receive the degree of attention it sought. It was only in 2018 when the dominance of Barisan Nasional in national politics ebbed dramatically⁷ that Sarawak became stronger in national political affairs since any political party or a coalition had to rely on it to form the government at federal level.

In 2019, the newly elected Mahathir government promised to give 20% oil royalties to Sarawak; a bill was tabled in Parliament to amend Article 1 (Section 2) of the Federal Constitution but it failed to achieve the needed two-thirds majority vote. In 2020 the Mahathir-led coalition government collapsed due to defections from the coalition. Horse-trading and fragile coalitions meant the East Malaysian states (Sabah and Sarawak) could play a kingmaker role. In 2022, Anwar Ibrahim became the prime minister of a grand coalition government of which the two East Malaysian states were key components.

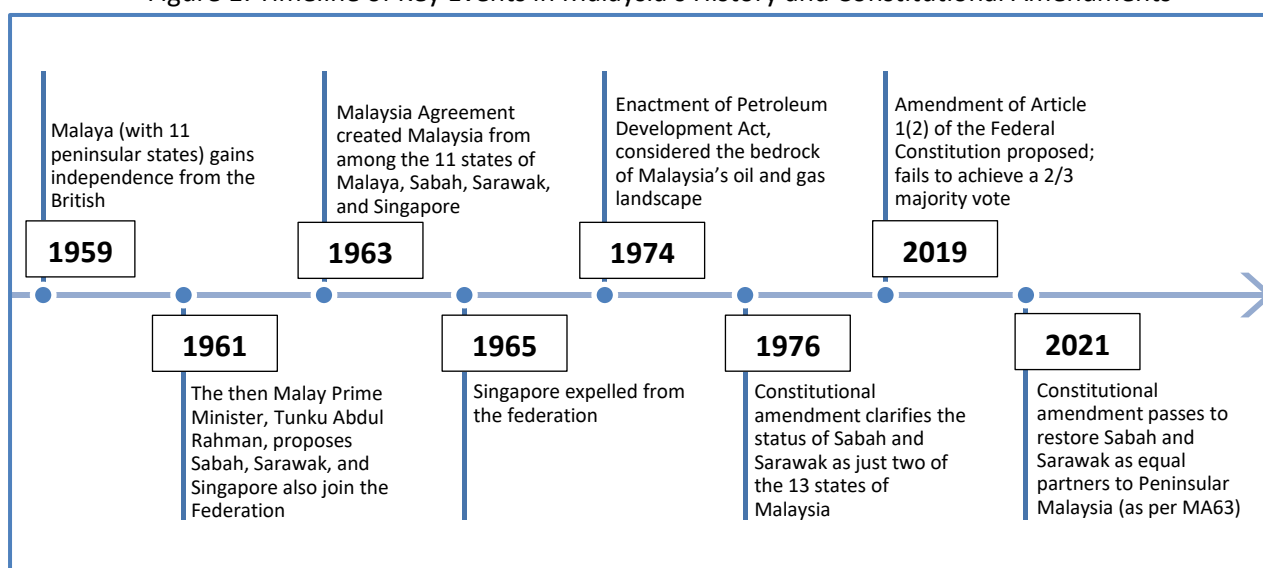
⁶ For an excellent analysis, students are encouraged to review Channel News Asia's video report on East Malaysia's push for autonomy ("Insight 2025/2026 – Why Sabah and Sarawak's Push for Rights and Funds Could Rock Malaysia," CNA. November 27, 2025, <https://www.channelnewsasia.com/watch/insight-20252026/why-sabah-and-sarawaks-push-rights-and-funds-could-rock-malaysia-5493401>).

⁷ The downfall of the once-powerful Barisan Nasional was a result of a combination of factors, including intense public backlash against massive corruption (such as the multibillion-dollar 1MDB [Malaysia Development Berhad] scandal); and rising living costs.

Sabah and Sarawak currently have a combined 25% seats in Parliament and have asked for it to be raised to 35%. After initially demurring, the federal cabinet in September 2026 agreed to review a proposal to raise their parliamentary representation to a one-third ratio. There is yet much homework to be done for this to pass, including securing a two-thirds majority constitutional amendment in Parliament.

A brief review of the historical timeline of the set-up of Malaysia, and issues therein, is in Figure 1. The year 1974 was when the PDA was enacted which established and gave considerable power to Petronas. Two years later, Sabah and Sarawak were deemed on par with the 11 Peninsular states further eroding their status as co-equal entities in the Malay federation. Efforts to remedy this were attempted in 2019 but the constitutional amendment failed; however, two years later, their original status as equal partners to Peninsular Malaysia was restored along the lines provided for in MA63. This is relevant history for this case.

Figure 1: Timeline of Key Events in Malaysia's History and Constitutional Amendments



Source: Author

Centrality of the Petroleum Development Act, 1974

The early federal-state relations belied the thorny issues that were to emerge later. Initial concerns in these relations were centred largely on national integration, security, and political stability. Yet, even as Sarawak retained many of its constitutional safeguards, federal authority gradually expanded over time, particularly in the strategic sectors such as petroleum, fiscal policy, and economic development.

If there was one instance that most represented the shift, it was the enactment in 1974 of the Petroleum Development Act (PDA) considered to be the bedrock of Malaysia's oil and gas landscape. The oil crisis of the early 1970s meant there was a strong push by countries to find ways to gain energy freedom. In Malaysia this manifested in the PDA 1974, which vested petroleum rights in Petroliaam Nasional Berhad (Petronas).⁸ The Act created a highly centralised system for managing Malaysia's oil and gas resources. While this was deemed the necessary course of action by the federal government in Kuala Lumpur, its over-reach in the states meant it was bound to face some pushback from states such as Sarawak.

PDA 1974, and other associated actions and arrangements of the federal government in response to the global energy crisis, provided significant revenues and helped build Petronas into one of the world's leading

⁸ Petronas is now the only Fortune Global 500 company (by total revenue) from Malaysia, ranking 194th in the world in 2025. It is top ranked as the most valuable oil and gas brand in ASEAN, and in the top five of the strongest global oil and gas brands (see Petronas, *Shaping the Next Era of Energy: Integrated Report, 2025*. Kuala Lumpur, p5).

national oil companies. However, Sarawak increasingly questioned whether the PDA was fully consistent with the state rights and constitutional arrangements established when Sarawak entered Malaysia.

The Emergency Proclamation and PDA

There is a twist here, however – one with strong implications for the legality of the Act itself. Subsequent contestation of PDA 1974 revolved around the environment in which the Act itself was framed, presented, and then approved by Parliament (see Box 1).

From the 2000s onward, Sarawak increasingly sought greater recognition of its constitutional status and of provisions it believed had been neglected or weakened over time. These were evident across three main areas: (i) fiscal issues whereby Sarawak pushed for not only a greater degree of fiscal transfers from the federal treasury but also larger shares of resource-derived revenues; (ii) pursuit of more administrative powers so that it could manage its own affairs with a greater degree of autonomy; and (iii) greater clarity on resource governance centred on the issue of constitutional recognition, primarily on whether Sarawak should be viewed as any ordinary state of Malaysia or a founding partner with constitutionally distinctive powers.

Sarawak's Claim

As per the PDA, Sarawak (and four other oil producing states in Malaysia) receives from Petronas a 5% oil royalty (based on gross revenues from the oil produced in the state); another 5% goes to the federal coffers, and the remaining 90% is retained by Petronas for further oil exploration and to meet other costs. However, Sarawak feels that the corporate taxes and dividends from Petronas ultimately benefit the federal government as the funds have been spent on advanced infrastructure in peninsular Malaysia at the expense of Sarawak.

Box 1: Petroleum Development Act, 1974 within the Ambit of the National Emergency

There is a school of thought that PDA 1974 was presented, and enacted, during a politically sensitive era under a national emergency framework, and, as such, the Act should not be valid. The argument made now is that the 1974 federal act should not – cannot – override original state rights guaranteed under the MA63, and the even more dated Sarawak Oil Mining Ordinance, 1958.

This is the background:

- Post racial riots, on 13 May 1969 an Emergency Proclamation was made which applied to all of Malaysia. Parliament was suspended and all of the country was placed under a caretaker government.
- Parliament was reconvened in 1970 but the Emergency Proclamation (including those that applied to Sarawak and Kelantan) was not lifted until 2011.
- It is argued that this effectively meant the Petroleum Development Bill was passed while the country was technically under a state of emergency, using emergency powers, and thus voiding the law.

Source: Aliman, Khairie H, "Cover Story: Why Sarawak questions the Petroleum Development Act," *The Edge Malaysia Weekly*. February 8, 2018, <https://theedgemaalaysia.com/article/cover-story-why-sarawak-questions-petroleum-development-act>.

In 2017, the Petroleum Sarawak Bhd (Petros) was set up to be Sarawak's wholly owned oil and gas company. In that vein, there is recognition of Petros's appointment as a gas aggregator under Sarawak's Distribution of Gas Ordinance 2016. Sarawak's general sentiment is that Petros should have equal standing with Petronas in terms of oil and gas activities in the state.

A related issue has to do with the pursuit of rights under the MA63 whereby the state's claim to its territorial waters should be 12 nautical miles (as any independent state could claim). However, as a state of the Malaysia federation (and further to the Territorial Sea Act 2012), the state's claim to fisheries, marine, and other resources can only be three nautical miles from the coastline.

Furthermore, the state's claim is that the PDA does not exclude application of other written laws, including the Oil Mining Ordinance 1958. It raises a critical question from Sarawak's perspective as the 1958

Ordinance regulates oil production, both onshore and offshore, within its territory. This has profound implication for the rights to oil deposits and rights of exploration since hydrocarbon deposits in Malaysian waters mostly occur beyond the three-nautical-mile line. Sarawak's argument is that as it signed an international treaty with the Federation of Malaya, its rights to 12 nautical miles of water are still valid.

The Federal Government's Argument

The federal government argues that while MA63 grants Sabah and Sarawak broader autonomy as founding partners of Malaysia, it does not contain any provisions governing the ownership, management, or regulation of oil and gas resources. It argues that PDA 1974 vests full ownership and exclusive rights nationwide (and onshore as well as offshore) to explore, produce, and manage petroleum in Petronas. The argument made is that state laws cannot override a federal statute regulating petroleum resources.

Petronas's objection to Sarawak's claims that Petros is the sole aggregator in Sarawak (and that any gas supplier, including Petronas, needs to obtain a state-issued licence) is to point out that Sarawak's Distribution of Gas Ordinance 2016 conflicts with the federal law (PDA 1974) and that it undermines its nationwide operational licences. It also creates regulatory fragmentation.

It further argues that the PDA has benefited Sarawak over the years, not only from the royalties but also from the spin-offs of the oil and gas industry. Sarawak houses some of Petronas's largest investments; indeed the Malaysia LNG plant in Bintulu, Sarawak, is one of the largest liquefied natural gas facilities in the world.

Broad Implication of the Sarawak-Petronas Dispute

At a broad level, this conflict needs to be seen as one rooted in Malaysia's federal framework, involving constitutional, statutory, political and legal dimensions.

1. *Constitutional and Legal Framework*: The dispute hinges on Malaysia's constitutional provisions dividing resource governance between federal and state authorities. At stake is the balancing of federal authority with state aspirations, particularly given how Sarawak joined the federation.
2. *Political Economy*: The conflict reflects broader federal-state tensions over resource control, with Sarawak pushing for greater economic autonomy. Political negotiations, such as the 2025 Joint Declaration,⁹ aim to resolve the impasse but highlight the complex interplay of law and politics.
3. *Law and Public Policy*: The implications are clear here for ascertaining how federal governance is practiced, and where and how parties to the feud can find a bilaterally useful (ie a "win-win") approach to managing feuds of this nature.
4. *Strategic Futures*: Most importantly, the Sarawak-Petronas feud is symptomatic of a lack of focus on strategically managing the future of one of Malaysia's key resources.
5. *Governance in real-world conditions* (policy windows, and political shifts). Even as the primacy of rules-based and institutional robustness of policies for sustained reforms is well accepted, the real-world aspects of governance are clear that policy solutions arise often because of political tailwinds and policy windows that suddenly emerge.

⁹ On May 21, 2025, Malaysian Prime Minister Ibrahim and Sarawak Premier Openg signed a landmark joint declaration in Kuala Lumpur. The agreement resolves a tense regulatory standoff over oil and gas distribution in Sarawak, establishing a framework for coexistence between federal and state legislation, as well as cooperation between Petronas and Petros.

The implications of the feud are that it threatens Malaysia's economic and institutional stability as it challenges the centralised model of resource governance.

Taking Cues from Elsewhere

In seeking to ascertain how similar issues are handled elsewhere, it is relevant to consider two jurisdictional examples that very closely resemble the issues in this case – (a) in the region (Indonesia: Central government versus Aceh, an autonomous provincial government); and (b) in North America (Canada: federal government versus the province of Newfoundland and Labrador).

The selection of these examples merits an explanation: (i) while Indonesia is a non-federal country, the issue at play there is the relationship between the Centre (ie, the national government) and Aceh, an autonomous region, hence closer in form to other provinces in a federal form of government; and (ii) Canada's case brings out results of coexistence and institutionalised compromise reached for mutual gain in the context of issues in federal versus provincial offshore control over resources.

Indonesia-Aceh: Tussle Between National Energy Law and Regional Autonomy Law

Aceh is Indonesia's westernmost province, located at the northern tip of Sumatra. Following Indonesian independence in 1945, Acehese leaders initially supported incorporation into the new Republic of Indonesia. Aceh was first included as part of North Sumatra but in 1959 Jakarta granted Aceh special provincial status and subsequently expanded its autonomy. Tensions with the central government over issues of self-governance, greater autonomy, and control over natural resources in the state led to a separatist insurgency movement, which only ended in 2005 with the Helsinki Peace Agreement.

Aceh is rich in oil, gas and other natural resources, and disputes over the distribution of resource revenues have historically been a major source of tension between Aceh and the central government in Jakarta. Although special autonomy provides Aceh with a larger share of resource revenues and fiscal transfers than other provinces, concerns remain regarding its level of economic development. Poverty and unemployment rates remain relatively high in Aceh compared to many other Indonesian provinces.¹⁰

From the mid-1970s until the 1980s, Aceh developed from being of little economic consequence to the fastest growing provincial economy in Indonesia as a result of the discovery of huge deposits of liquid natural gas and oil in the region. During the 1980s, Aceh contributed between US\$2 and \$3 billion annually to Indonesian national revenue. It was the fourth largest contributor after the provinces of Riau, West Papua and East Kalimantan. Aceh, however, only received about US\$82 million annually from Jakarta to fund its own economic development activities.¹¹

Current Issues and Friction Points

Aceh holds massive hydrocarbon wealth, with estimated potential resources reaching up to 1.4 billion barrels of oil and over 40 trillion cubic feet of natural gas when combining historical fields, newly discovered offshore blocks, and unexplored sub-basins. These are both onshore (such as the Arun Gas Fields) and offshore (such as the Andaman Deepwater Blocks). The latter have become Indonesia's most critical energy frontiers, hence Jakarta's need to have a very well-articulated and modulated relationship with Banda Aceh.

¹⁰ Data from the Central Bureau of Statistics in Indonesia shows that poverty rates in Aceh are among the 10 highest among all provinces in the country (Melynda Puspita, "Indonesia's 10 Provinces with the Highest Poverty Rates," *Tempo*, July 25, 2025. <https://en.tempo.co/read/2032584/indonesias-10-provinces-with-the-highest-poverty-rates>).

¹¹ Priyambudi Sulistiyanto, "Whither Aceh?" *Third World Quarterly*, 22, no. 3 (2001): 437-452, <https://doi.org/10.1080/01436590120061697>.

Key to the relationship between the two governments is the Aceh Oil and Gas Management Agency (*Badan Pengelola Migas Aceh*, BPMA),¹² established in 2015. It manages and oversees upstream oil and gas business activities in Aceh's land and maritime jurisdictions.

Disagreements between Indonesia and Aceh historically centred on unequal resource distribution, specifically Jakarta's exploitation of massive oil and gas reserves via state energy firms like Pertamina and Mobil Oil. Aceh's vast Arun natural gas field generated immense wealth, but little trickled down to local residents. Indeed, Aceh can be described as being resource-rich but income-poor.

Friction points between Aceh and Jakarta can be seen in, among others:

- *Overlapping regulatory authority* – While the BPMA was created to jointly manage local energy blocks, it frequently clashes with Jakarta's centralised regulations, eg when Jakarta pushes for centralised unilateral operator licensing, Aceh argues it violates the Helsinki agreement and erodes local autonomy.
- *Central budget delays and cuts* – The central government has enacted an aggressive fiscal austerity drive to support flagship national initiatives. This has meant delayed disbursements of revenue-sharing funds to local administrations in Aceh. As these funds make up over 70% of Aceh's entire provincial budget, the delays leave local governments struggling to pay for recurrent and capital expenditures.
- *Ongoing negotiations* – Debates continue over modern offshore blocks (such as the Andaman blocks), with local leaders pressing for greater direct control and economic value rather than passive revenue-sharing. Current oil and gas management regulations in Aceh operate under a dual-regulatory, joint-management framework that splits oversight between the central government and local provincial authorities. This structure aims to balance national energy sovereignty with Aceh's legal right to special autonomy. Current disputes are over contract transfer and regulatory control, and the courts have been asked to interpret interactions between national energy law and regional autonomy law.

Disagreements between Jakarta and Aceh regarding oil and gas management have now largely shifted toward joint oversight and revenue expansion rather than armed conflict. Recent agreements give BPMA expanded offshore authority, while Pertamina navigates national supply adjustments and asset transfers to local operators.

Canada: Offshore Oil Ownership

Among international cases, the Canada–Newfoundland and Labrador offshore oil dispute is probably one of the closest parallels to the Sarawak-Petronas dispute. Both involve resource-rich peripheral regions and offshore petroleum resources; and in both there were disputes over ownership and management authority. Revenue-sharing negotiations were also key.

Canada's Newfoundland and Labrador Province has an abundance of oil, natural gas, hydroelectricity and wind resources, as well as the potential to supply energy from other sources such as uranium, biomass,

¹² BPMA's genesis is in the 2005 Helsinki Memorandum of Understanding and Law No. 11 of 2006 on the Aceh Governance. It was designed to implement joint management of natural resources between the central government and Aceh. BPMA controls and supervises upstream oil and gas cooperation contracts, and coordinates offshore activities and permits, including expanded cooperation frameworks spanning 12 to 200 nautical miles offshore.

hydrogen, wave and tidal. On a per capita basis, Newfoundland and Labrador is the largest producer of electricity and one of the largest producers of petroleum in the world.¹³

The Canada case deals with this primary question: who regulates offshore oil – Ottawa (ie, the central government), or St John's (ie, the Newfoundland and Labrador province)? The similarity with the Sarawak-Petronas case is evident in the fact that while the federal government insists on the primacy of the national jurisdiction, the province demands control over offshore resources.

Friction Points

The Canadian dispute centred on who owns and controls the petroleum resources located offshore in the Atlantic Ocean. Before the issue was resolved in 1985, Newfoundland and Labrador argued that offshore petroleum resources should belong to the province because they were a natural extension of its territory and because ownership of provincial lands and minerals was protected when Newfoundland joined Canada in 1949. The federal government maintained that offshore resources fell under federal jurisdiction, relying on court precedents concerning offshore seabed ownership.

After years of conflict, the two governments negotiated the 1985 Atlantic Accord, which created a system of joint management of offshore oil and gas resources and revenue sharing. The Accord explicitly recognised Newfoundland and Labrador as the "principal beneficiary" of the offshore resources while preserving federal authority and national interests.

The 1985 Atlantic Accord covered the following:

- The Accord made the federal and provincial governments equal partners in the management of offshore developments through the Canada-Newfoundland and Labrador Offshore Petroleum Board. The core principle is that both governments jointly manage offshore petroleum resources through legislation and a shared regulatory institution.
- The Accord ensured that residents of the province would benefit from jobs and training opportunities, and developers had to give first priority to local businesses able to provide the goods and services needed for offshore projects.
- Although the offshore area remains under a joint regime, the province was granted the right to establish and collect resource revenues as if the resources were located on land within the province. This was a critical political compromise because it gave the province substantial fiscal benefits without requiring Ottawa to relinquish federal jurisdiction.

In the following years after the Accord was formalised, several issues surfaced including: (a) while both governments had significant influence (thus promoting legitimacy and buy-in), dual oversight often complicated decision-making and required extensive consultations between governments; and (b) critics also argued it did not achieve its fundamental purpose of making the province the principal beneficiary of the oil industry since any economic benefits from the oil proceeds were negated by a commensurate reduction in the equalization grant from Ottawa to the province. A subsequent 2005 Atlantic Accord amendment gave the province 100% protection from equalization clawbacks arising from offshore revenues.

It is evident from the Canada example that the greatest implementation challenge was not resource ownership itself, but sustaining agreement over how revenues, powers, and benefits could be shared over time as economic and political circumstances changed.

The Atlantic Accord explicitly sought to benefit both Canada as a whole and Newfoundland and Labrador, in particular. This enabled both the parties to see themselves as partners pursuing mutual gains rather than

¹³ See Newfoundland and Labrador, Energy and Mines, 2026, <https://www.gov.nl.ca/em/energy/>

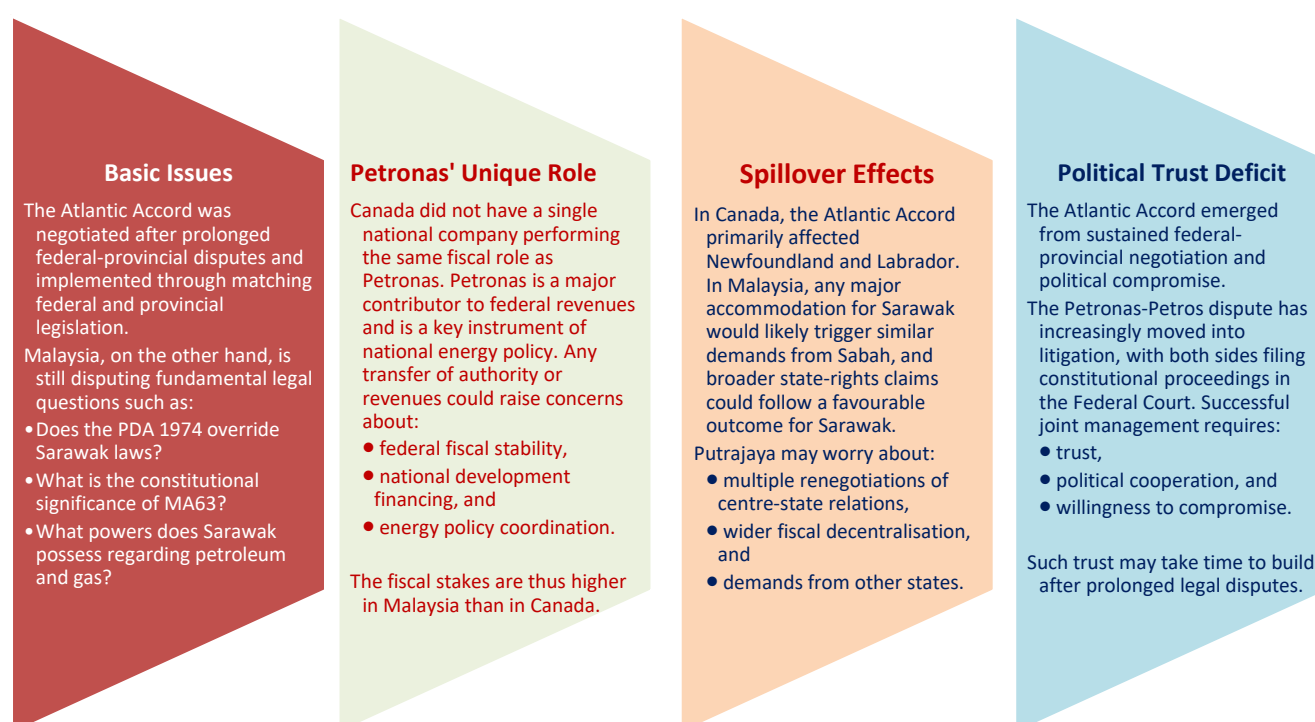
competitors dividing a fixed resource. This “building a shared narrative” is one of the most crucial tasks since it also leads to greater trust among the parties.

Limits to Cross-Jurisdictional Application

Extending the Canadian experience to those of Sarawak-Petronas, in terms of friction points related to federal-subnational resource disputes or other fiscal federalism cases, the Atlantic Accord demonstrates how these can be best addressed from a public policy perspective. The important political step was to frame resource governance as benefiting all parties as a “win-win” proposition.

While Canada’s case is illuminative of a “win-win” proposition, applying this to other jurisdictions has to be carefully considered. On-the-ground realities in Canada and Malaysia are starkly different. Adopting a similar model in Malaysia could face constitutional, fiscal, political and institutional challenges (see Figure 2).

Figure 2: Limits to Applicability from the Experiences of Canada



Source: Author

In summary, Canada offers a useful model for Malaysia but it will first need to resolve deeper constitutional questions before a Canadian-style cooperative framework could be successfully implemented to resolve the Sarawak-Petronas feud.

Real-World Governance Lens

One approach to consider these three situations (Malaysia, Aceh, and Canada) is to take into account governance under real-world conditions, rather than a structured approach to addressing governance and public policy issues. Governance in real-world conditions shifts theoretical policies into messy, adaptive practice.¹⁴ It shows that policy successes often rely on, for example: (i) practical stakeholder engagement,

¹⁴ In contrast, a structured and systemic approach to governance reforms ensures that policy solutions are derived from measured actions, robust engagement that is codified, and institutional certainty that enables future actions to be certain, thus inherently building credible commitment of all parties. Here, the focus is *not only on committing to such reforms, but to be seen to be so credibly committed*.

transparency, and continuous institutional learning over rigid control; (ii) informal relationships, unwritten rules, local networks, and hidden incentives that often overrule formal laws; and (iii) bounded rationality, ie leaders and citizens make choices with incomplete data and tight time frames.

In such situations, key strategies for success often rely on core realities of (a) *adaptive management* where solutions are based on new information as it becomes available; (b) *coalition building* that seeks to enlarge the scope of ownership of policy solutions; (c) *pragmatic transparency* which relies on open sharing of information to build public trust; and (d) *decentralised action* where local teams have the scope to respond as the situation on the ground necessitates.

By applying these real-world governance strategies, all protagonists have been actively working to turn a risky constitutional standoff into an adaptable, shared-value partnership. Indeed, high-level compromises in other areas have been accelerated,¹⁵ making a mutually acceptable out-of-court settlement possible given the goodwill that has been generated.

The genesis of a changed atmosphere in the relationship between Sarawak and Putrajaya could be seen in subsequent interactions between the state and federal governments. On 7 December 2020, for example, a joint statement by Petronas and Sarawak State Secretary¹⁶ announced a commercial settlement after having resolved their differences over the imposition of State Sales Tax on petroleum products as well as oil and gas matters. And in May 2025, Prime Minister Anwar Ibrahim declared that the government had reached an agreement with the Sarawak state government where both Petronas and Petros would jointly develop the country's oil and gas sector.

In reality however, the impasse between the two parties only worsened with Petronas heading to the courts first. By early 2026, two opposing legal suits were filed in the Federal Court by Petronas and Sarawak over hydrocarbon resource ownership.

This has significantly depressed sentiments over long-assumed understandings of federal power in Malaysia. These court filings (Petronas's in January and Sarawak's in February 2026) were said to represent not merely a corporate-regulatory dispute but the most serious federal constitutional test since Malaysia's formation in 1963.¹⁷ The Federal Court has scheduled a five-day hearing starting January 25, 2027 to hear the core constitutional petitions filed by both Petronas and the Sarawak government.

Possible Hoped-for Outcome

The situation is not yet a constitutional crisis but depending upon what the court will decide, it could well be one. The implications of the Sarawak-Petronas feud have wider implications for several legal, constitutional, economic and governance issues on ownership and control of oil and gas resources, federal versus state legislative authority, federal-state revenue sharing, and national economic risks that are played out when

¹⁵ For example, it was reported in September 2025 that in meetings of the Technical Committee under the MA63 Implementation Action Council, Putrajaya had agreed in principle to increasing parliamentary seats for Sabah and Sarawak; and it had also agreed to amend the Federal Constitution to allow Sabah and Sarawak governments to endorse the appointment of Judicial Commissioners in both states (see Bernama, "PM: Madani govt resolved most MA63 matters, to continue harmonious talks with Sabah, Sarawak," *The Star*, September 12, 2025 <https://www.thestar.com.my/news/nation/2025/09/12/madani-govt-resolved-most-ma63-matters-to-continue-harmonious-talks-with-sabah-sarawak-says-pm>).

¹⁶ Petronas, "Joint Statement by State Government of Sarawak and Petronas," December 7, 2020, Kuala Lumpur, <https://www.petronas.com/media/media-releases/joint-statement-state-government-sarawak-and-petronas>.

¹⁷ See Leslie Lopez, "Sarawak-Petronas lawsuits threaten to shake up balance of authority between Putrajaya and resource-rich states", CNA. March 3, 2026 <https://www.channelnewsasia.com/asia/malaysia-petronas-sarawak-federal-court-cases-oil-gas-anwar-5957156>. This has been described as being an "unprecedented legal showdown" which could change long-assumed understandings of federal power in Malaysia.

global investors are spooked by the uncertainties in the oil and gas sector. After all, the Sarawak-Petronas dispute also carries serious ramifications for the national economy with an annual gross domestic product of roughly US\$470 billion at stake. Also, losing any regulatory control over Sarawak – where 90% of Malaysia's liquefied natural gas is exported – would be devastating for Petronas.

For Prime Minister Anwar Ibrahim and his government, this feud represents a moment of reckoning of how Malaysia chooses to resolve profound federal questions through the law. That Prime Minister Anwar Ibrahim appears ready to accommodate and seek a negotiated pathway to Sarawak's legitimate petroleum aspirations gives hope for a long-term solution that provides the state with greater certainty over domestic gas supplies. It would also have implications for further cooperation between Petronas and Petros on Sarawak's domestic gas requirements and projects involving green energy, hydrogen and power generation.

Discussion Questions

1. Is the Sarawak-Petronas dispute primarily a legal-constitutional issue or is it more a political negotiation over power, identity, and fiscal resources?
2. What lessons in institutional design would you pick out from the experiences of Indonesia and Canada?
3. What criteria should policymakers use to determine a "fair" distribution of revenues from oil and gas resources between national and state (or provincial) governments?
4. If you were advising the Malaysian government, what institutional mechanism would you propose to resolve the Sarawak-Petronas dispute collaboratively and move away from a zero-sum game in public policy?
5. What can policymakers do when they are faced with the limits of structured and rules-bound modalities of addressing public policy issues? Give examples of real-world politics in how the federal government in Kuala Lumpur has engaged with Sarawak.